# Management's Discussion and Analysis

For the year 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE PERIOD ENDED DECEMBER 31, 2012

### DATED: FEBRUARY 7, 2013

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and twelve months ended December 31, 2012 compared to the same periods in 2011, and with the three months ended September 30, 2012. The MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

## BUSINESSES OF LIFECO

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

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

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

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The Europe segment comprises two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, London Life and their subsidiaries.

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

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

## BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's consolidated financial statements for the period ended December 31, 2012.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar expressions or negative versions thereof. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures, are also forward-looking statements. Forward-looking statements are based on expectations and projections about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, taxes, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out in this MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates" and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

### CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

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

## CONSOLIDATED OPERATING RESULTS

**Selected consolidated financial information**
(in Canadian $ millions, except for per share amounts)

| | As at or for the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits: | | | | | |
| Life insurance, guaranteed annuities and insured health products | **$ 4,827** | $ 4,940 | $ 4,334 | **$ 18,820** | $ 17,293 |
| Self-funded premium equivalents (ASO contracts) | **677** | 631 | 651 | **2,666** | 2,645 |
| Segregated funds deposits: | | | | | |
| Individual products | **2,072** | 1,490 | 1,829 | **6,557** | 7,345 |
| Group products | **2,216** | 1,681 | 1,777 | **7,262** | 6,117 |
| Proprietary mutual funds & institutional deposits | **6,880** | 6,779 | 5,624 | **24,496** | 28,888 |
| Total premiums and deposits | **16,672** | 15,521 | 14,215 | **59,801** | 62,288 |
| Fee and other income | **767** | 720 | 740 | **2,945** | 2,903 |
| Paid or credited to policyholders | **5,122** | 6,607 | 6,340 | **22,451** | 23,043 |
| Operating earnings - common shareholders | **493** | 520 | 500 | **1,955** | 1,898 |
| Net earnings - common shareholders | **353** | 520 | 624 | **1,815** | 2,022 |
| **Per common share** | | | | | |
| Operating earnings | **$ 0.520** | $ 0.547 | $ 0.528 | **$ 2.059** | $ 2.000 |
| Basic earnings | **0.373** | 0.547 | 0.657 | **1.912** | 2.129 |
| Dividends paid | **0.3075** | 0.3075 | 0.3075 | **1.2300** | 1.2300 |
| Book value | **13.18** | 13.01 | 12.61 | | |
| **Return on common shareholders' equity (trailing four quarters*)** | | | | | |
| Net operating earnings | **15.9 %** | 16.1 % | 16.6 % | | |
| Net earnings | **14.7 %** | 17.1 % | 17.6 % | | |
| Total assets | **$ 253,718** | $ 249,043 | $ 238,768 | | |
| Proprietary mutual funds and institutional net assets | **134,598** | 131,604 | 125,390 | | |
| Total assets under management | **388,316** | 380,647 | 364,158 | | |
| Other assets under administration | **157,455** | 151,604 | 137,807 | | |
| Total assets under administration | **$ 545,771** | $ 532,251 | $ 501,965 | | |
| Total equity | **$ 17,586** | $ 17,004 | $ 16,104 | | |

The Company uses operating earnings, a non-IFRS financial measure, which excludes the impact of certain litigation provisions described in note 30 to the Company's December 31, 2012 consolidated financial statements.

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

### LIFECO 2012 HIGHLIGHTS

- Total assets under administration (AUA) grew to nearly $546 billion, up 8.7% from December 31, 2011.
- Operating earnings grew to $1,955 million an increase of 3% from the previous year despite continued low interest rates and other challenging market conditions.
- The Company achieved a return on common shareholders' equity of 15.9% based on operating earnings, which continues to rank among the strongest in the financial services sector.

- During 2012, the credit ratings for Lifeco and its major operating subsidiaries were maintained by Fitch Ratings, AM Best Company, DBRS Limited, Moody's Investor Service and Standard & Poor's Rating Services. The Company continues to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record.
- Quarterly dividends on Lifeco's common shares remained unchanged during 2012, with payout ratios based on operating earnings steadily declining since 2009 to the current level of 59.7%.
- The company remained well capitalized despite the continuing low interest rate environment and volatility in equity markets. Lifeco's major Canadian operating subsidiary, the Great-West Life Assurance Company, reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) of 207% at December 31, 2012. This measure of capital strength remains at the upper end of Lifeco's target operating range.
- At December 31, 2012, Lifeco held cash and cash equivalents of approximately $0.5 billion at the holding company level which includes an intercompany loan repaid on January 15, 2013. As this cash is held at the holding company level, it is not reflected in the regulatory capital ratios of Lifeco's operating subsidiaries. It augments Lifeco's capital and liquidity position, thereby enhancing Lifeco's capability to take advantage of market opportunities.

Subsequent Event – Contingent Liability

The Ontario Superior Court of Justice released a decision on January 24, 2013, in regard to the involvement of the participating accounts of Great-West Lifeco subsidiaries London Life Insurance Company and The Great-West Life Assurance Company in the financing of the acquisition of London Insurance Group in 1997. This matter is more fully described in note 30 to the Company's consolidated financial statements. During the subsequent event period, the Company established an incremental provision of $140 million after-tax in the common shareholders account. The Company now holds $290 million in after-tax provisions for these legal proceedings.

## NET EARNINGS

Consolidated net earnings of Lifeco include the net earnings of The Great-West Life Assurance Company (Great-West) and its operating subsidiaries London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life); Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam), together with Lifeco's Corporate operating results.

Lifeco's net earnings attributable to common shareholders for the three-month period ended December 31, 2012 were $353 million compared to $624 million reported a year ago. On a per share basis, this represents $0.373 per common share ($0.372 diluted) for the fourth quarter of 2012 compared to $0.657 per common share ($0.651 diluted) a year ago. Fourth quarter 2012 results include the above litigation provision adjustment, which negatively impacted net earnings by $140 million. Fourth quarter 2011 results include the impact of litigation provisions which increased net earnings by $124 million.

For the twelve months ended December 31, 2012, Lifeco's net earnings attributable to common shareholders were $1,815 million compared to $2,022 million reported a year ago. On a per share basis, this represents $1.912 per common share ($1.900 diluted) for 2012 compared to $2.129 per common share ($2.112 diluted) a year ago.

## OPERATING EARNINGS

Operating earnings attributable to the common shareholder for the three months ended December 31, 2012, were $493 million compared to $500 million reported a year ago. On a per share basis, this represents $0.520 per common share ($0.518 diluted) for the fourth quarter of 2012 compared to $0.528 per common share ($0.523 diluted) a year ago.

Operating earnings attributable to the common shareholders for the twelve months ended December 31, 2012 were $1,955 million, compared to $1,898 million reported a year ago, an increase of 3%. On a per share basis, this represents $2.059 per common share ($2.046 diluted) for 2012 compared to $2.000 per common share ($1.984 diluted) a year ago.

Operating earnings, a non-IFRS measure, exclude the impact of the litigation provision adjustment of $140 million after-tax or $0.147 per common share in the fourth quarter of 2012 as well as the impact of litigation provisions which increased net earnings in the fourth quarter of 2011 by $124 million after-tax or $0.129 per common share.

| Net earnings - common shareholders | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011* | **Dec. 31 2012** | Dec. 31 2011* |
| **Canada** | | | | | |
| Individual Insurance | **$ 11** | $ 83 | $ 41 | **$ 187** | $ 293 |
| Wealth Management | **69** | 82 | 80 | **299** | 267 |
| Group Insurance | **136** | 119 | 101 | **439** | 375 |
| Canada Corporate | **47** | (3) | 22 | **115** | 51 |
| | **263** | 281 | 244 | **1,040** | 986 |
| **United States** | | | | | |
| Financial Services | **96** | 91 | 87 | **365** | 355 |
| Asset Management | **(19)** | (4) | (8) | **(40)** | 15 |
| U.S. Corporate | **-** | - | - | **-** | - |
| | **77** | 87 | 79 | **325** | 370 |
| **Europe** | | | | | |
| Insurance & Annuities | **92** | 104 | 117 | **410** | 445 |
| Reinsurance | **64** | 61 | 73 | **215** | 130 |
| Europe Corporate | **(4)** | - | (9) | **(7)** | (13) |
| | **152** | 165 | 181 | **618** | 562 |
| **Lifeco Corporate** | **1** | (13) | (4) | **(28)** | (20) |
| **Operating earnings** | **493** | 520 | 500 | **1,955** | 1,898 |
| Certain litigation provisions[1] | **(140)** | - | 124 | **(140)** | 124 |
| **Net earnings** | **$ 353** | $ 520 | $ 624 | **$ 1,815** | $ 2,022 |

1) Certain litigation provisions as noted in the Lifeco Corporate Operating Results section of the document.

* During 2012, the Company reallocated certain income tax and expense items initially recorded in Corporate sections to the business units of the respective segment to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

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

### Market Impacts

Interest Rate Environment

The interest rate environment in countries where the company operates remained challenging as rates were largely unchanged in the fourth quarter, having generally declined over the first nine months of 2012 through a tightening of credit spreads and modest reductions in government yields. During the fourth quarter, small increases in mid to longer dated government yields were generally offset by a further tightening of credit spreads. There were no material changes to margins for reinvestment risk in the fourth quarter. Over the full year, increased margins for future reinvestment risk caused a decrease in net earnings of $78 million, including $49 million in Canada in response to the declining long term yields, and $29 million in Europe.

Equity Markets
Equity markets started strongly in 2012, experienced weakness in the second quarter and had a good second half of the year. The major equity indices finished the year up 4.0% in Canada, up 13.4% in the United States, and up 5.8% in the United Kingdom. Comparing 2012 to 2011, the average equity market levels were higher in the United States and the United Kingdom and lower in Canada.

As equity markets strengthened in 2012, the Company experienced slightly better than expected asset-based fee income and decreased cost of guarantees of death, maturity, or income benefits on certain wealth management products offered by the Company. In the fourth quarter, the impact was immaterial relative to the Company's expectations. The fair value of the common stocks backing products with long-tail liabilities were generally consistent with the Company's expectations.

Foreign Currency
During 2012, foreign currency translation did not materially impact the Company's net earnings.

Credit Markets
During 2012, the Company's credit experience remained relatively stable even though credit ratings of many European and non-European financial institutions continued to experience downgrades and the global economic recovery continued to be slow.

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

| | For the three months ended December 31, 2012 | | | For the twelve months ended December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | **Impairment (charges)/ recoveries** | **Charges for future credit losses in insurance contract liabilities** | **Total** | **Impairment (charges)/ recoveries** | **Charges for future credit losses in insurance contract liabilities** | **Total** |
| Canada | $ 4 | $ (5) | $ (1) | $ 3 | $ (8) | $ (5) |
| United States | (2) | (5) | (7) | 17 | (5) | 12 |
| Europe | (7) | (22) | (29) | 7 | (34) | (27) |
| **Total** | **$ (5)** | **$ (32)** | **$ (37)** | **$ 27** | **$ (47)** | **$ (20)** |

In the fourth quarter of 2012, impairment activity negatively impacted common shareholders' net earnings by $5 million. Changes in credit ratings in the Company's bond portfolio resulted in a net increase in actuarial provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $32 million. In-quarter downgrade activity reflects rating agency downgrades of a number of financial institutions as well as certain holdings related to the U.K. hospitality industry.

For the twelve months ended December 31, 2012, the Company experienced net recoveries on impaired assets which positively impacted common shareholders' net earnings by $27 million. New impairments in-year were minimal with releases of actuarial provisions for future credit losses exceeding the actual impaired amount, thereby positively impacting common shareholders' net earnings by $5 million.

For the twelve months ended December 31, 2012 changes in credit ratings in the Company's bond portfolio resulted in a net increase in actuarial provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $47 million. Year-to-date downgrade activity reflects rating agency downgrades as discussed for the fourth quarter.

## PREMIUMS AND DEPOSITS AND SALES

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

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

**Premiums and deposits**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| **Canada** | | | | | |
| Individual Insurance | **$ 1,037** | $ 971 | $ 985 | **$ 3,926** | $ 3,673 |
| Wealth Management | **2,869** | 2,021 | 2,134 | **9,382** | 8,542 |
| Group Insurance | **1,880** | 1,860 | 1,812 | **7,453** | 7,166 |
| | **5,786** | 4,852 | 4,931 | **20,761** | 19,381 |
| **United States** | | | | | |
| Financial Services | **1,712** | 1,659 | 1,761 | **6,234** | 5,827 |
| Asset Management | **6,683** | 6,630 | 5,455 | **23,784** | 28,164 |
| | **8,395** | 8,289 | 7,216 | **30,018** | 33,991 |
| **Europe** | | | | | |
| Insurance & Annuities | **1,567** | 1,180 | 1,181 | **5,021** | 5,407 |
| Reinsurance | **924** | 1,200 | 887 | **4,001** | 3,509 |
| | **2,491** | 2,380 | 2,068 | **9,022** | 8,916 |
| **Total** | **$ 16,672** | $ 15,521 | $ 14,215 | **$ 59,801** | $ 62,288 |

**Sales**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Canada | **$ 2,678** | $ 2,022 | $ 2,301 | **$ 9,298** | $ 8,944 |
| United States | **9,533** | 9,071 | 8,890 | **33,512** | 36,834 |
| Europe | **1,289** | 866 | 881 | **3,738** | 4,144 |
| **Total** | **$ 13,500** | $ 11,959 | $ 12,072 | **$ 46,548** | $ 49,922 |

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

## NET INVESTMENT INCOME

| Net investment income | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Investment income earned (net of investment properties expenses) | **$ 1,357** | $ 1,402 | $ 1,348 | **$ 5,556** | $ 5,443 |
| Recovery (provision) of credit losses on loans and receivables | **(6)** | 15 | 2 | **9** | 13 |
| Net realized gains | **29** | 27 | 32 | **163** | 151 |
| Regular investment income | **1,380** | 1,444 | 1,382 | **5,728** | 5,607 |
| Investment expenses | **(19)** | (19) | (17) | **(75)** | (69) |
| Regular net investment income | **1,361** | 1,425 | 1,365 | **5,653** | 5,538 |
| Changes in fair value through profit or loss | **182** | 1,551 | 1,564 | **2,643** | 4,164 |
| **Net investment income** | **$ 1,543** | $ 2,976 | $ 2,929 | **$ 8,296** | $ 9,702 |

Net investment income in the fourth quarter of 2012, which includes changes in fair value through profit or loss, decreased by $1,386 million compared to the same period last year. The change in fair values in the fourth quarter of 2012 was an increase of $182 million compared to an increase of $1,564 million for the fourth quarter of 2011 reflecting a smaller decline in interest rates than the prior period. Investment properties fair values increased by $13 million in the fourth quarter of 2012 compared to $16 million in the fourth quarter of 2011. Continued strong real estate fundamentals resulted in increases in fair values in the Company's Canadian portfolio of $10 million and fair values on investment properties in its European portfolio were relatively stable increasing by $3 million.

Regular net investment income in the fourth quarter of 2012, which excludes changes in fair value through profit or loss, was consistent with the same period last year decreasing by $4 million. The impact of currency movement due to a strengthening Canadian dollar and lower fixed income yields driven by the continuing low interest rate environment resulted in a decrease to regular net investment income in 2012. Regular net investment income in the fourth quarter of 2011 was reduced by a provision for the settlement of litigation relating to the Company’s investment in a USA based private equity firm.

For the twelve months ended December 31, 2012 net investment income decreased by $1,406 million compared to the same period last year. The change in fair values for the twelve month period was an increase of $2,643 million in 2012 compared to an increase in fair values of $4,164 million in 2011. Interest rates declined at a slower pace in 2012 as compared to 2011 resulting in a smaller increase in bond investment fair values in 2012. This was somewhat offset by increasing stock fair values as equity markets rose in 2012. Investment properties fair values in the Canadian portfolio increased by $134 million and decreased by $30 million in the European portfolio in 2012 compared to increases of $102 million and $41 million, respectively, in 2011. The net increase represents 3% return on the total investment property portfolio in 2012 compared to 4% in 2011.

Regular net investment income increased by $115 million compared to the same period last year. Higher income from asset growth and the non-recurrence of the litigation provision previously mentioned above was partly offset by lower fixed income yields. Realized gains on available-for-sale securities were $126 million in 2012 compared to $124 million in 2011.

Net investment income in the fourth quarter of 2012 was lower by $1,433 million than the third quarter of 2012, primarily due to net increases in fair values of $182 million in the fourth quarter of 2012 compared to a net increase of $1,551 million in the previous quarter. The fair value of the Company’s bond investments increased less in the fourth quarter of 2012 as the tightening of corporate spreads was mostly offset by increasing government bond rates in the period. This compares to the third quarter of 2012 where both corporate spreads and government bond rates declined.

## FEE AND OTHER INCOME

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

**Fee and other income**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| **Canada** | | | | | |
| Segregated funds, mutual funds and other | **$ 246** | $ 235 | $ 231 | **$ 952** | $ 941 |
| ASO contracts | **37** | 36 | 35 | **149** | 147 |
| | **283** | 271 | 266 | **1,101** | 1,088 |
| **United States** | | | | | |
| Segregated funds, mutual funds and other | **314** | 304 | 304 | **1,226** | 1,232 |
| **Europe** | | | | | |
| Segregated funds, mutual funds and other | **170** | 145 | 170 | **618** | 583 |
| **Total fee and other income** | **$ 767** | $ 720 | $ 740 | **$ 2,945** | $ 2,903 |

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

## PAID OR CREDITED TO POLICYHOLDERS

**Paid or credited to policyholders**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Canada | **$ 2,171** | $ 2,733 | $ 3,255 | **$ 9,770** | $ 10,971 |
| United States | **1,163** | 1,246 | 956 | **4,437** | 4,229 |
| Europe | **1,788** | 2,628 | 2,129 | **8,244** | 7,843 |
| **Total** | **$ 5,122** | $ 6,607 | $ 6,340 | **$ 22,451** | $ 23,043 |

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

For the three months ended December 31, 2012, consolidated amounts paid or credited to policyholders were $5.1 billion, including $4.3 billion of policyholder benefit payments and an $852 million increase in contract liabilities. The decrease of $1.2 billion from the same period in 2011 consisted of a $1.3 billion contract liability decrease, largely driven by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe partially offset by a $71 million increase in benefit payments.

For the twelve months ended December 31, 2012 consolidated amounts paid or credited to policyholders were $22.5 billion, including $17.4 billion of policyholder benefit payments and a $5.1 billion increase in contract liabilities. The decrease of $592 million from the same period in 2011 consisted of a $1.2 billion contract liability decrease, largely driven by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe partially offset by a $613 million increase in benefit payments.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders decreased by $1.5 billion. The decrease consisted of a $1.5 billion of contract liability decrease, largely driven by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe partially offset by a $23 million increase in benefit payments.

## OTHER BENEFITS AND EXPENSES

| Other benefits and expenses | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Commissions | **$ 515** | $ 441 | $ 409 | **$ 1,781** | $ 1,548 |
| Operating and administrative expenses* | **642** | 653 | 640 | **2,572** | 2,448 |
| Premium taxes | **75** | 74 | 76 | **293** | 264 |
| Financing charges | **71** | 70 | 73 | **285** | 289 |
| Amortization of finite life intangible assets | **24** | 25 | 28 | **103** | 100 |
| **Total** | **$ 1,327** | $ 1,263 | $ 1,226 | **$ 5,034** | $ 4,649 |

* Operating and administrative expenses for the period ended December 31, 2011 exclude the impact of the participating account litigation.

Other benefits and expenses for the fourth quarter of 2012 increased by $101 million compared to the fourth quarter of 2011 primarily as a result of commissions related to increased sales and premiums in Canada and new life retrocession agreements in Europe.

Compared to the third quarter of 2012, other benefits and expenses increased by $64 million for the same reason as indicated in the in-quarter results above.

For the twelve months ended December 31, 2012, other benefits and expenses increased by $385 million compared to the full year 2011. The increase is mainly attributable to an increase in commissions as a result of increased sales and premiums in Canada and new life retrocession agreements in Europe. Higher operating expenses in Putnam also contributed to the increase. The Putnam operating expense increase primarily relates to the year-over-year changes in fair value adjustments to share-based compensation of $39 million.

## INCOME TAXES

The Company had an effective income tax rate of 14% for the fourth quarter of 2012 compared to 18% in the previous quarter and 19% in the fourth quarter of 2011. The effective income tax rates are generally lower than the Company’s statutory income tax rate of 26.5% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

The effective income tax rate for the fourth quarter of 2012 is lower than the same period last year due to a reduction in the statutory corporate income tax rates in Canada from 28% to 26.5%. The Company recorded $18 million of deferred income tax assets related to temporary differences and unused tax losses that were recognized during the fourth quarter of 2012. As a result, the Company’s effective income tax rate for the fourth quarter was reduced by 3%.

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

The fourth quarter effective income tax rate was lower than in the third quarter of 2012 due to a higher percentage of the Company's income in the fourth quarter of 2012 consisting of non-taxable investment income and income subject to lower rates of income tax in foreign jurisdictions. In addition, the Company recorded $18 million of deferred income tax assets related to temporary differences and unused tax losses that were recognized during the fourth quarter of 2012 which reduced the Company's effective income tax rate for the fourth quarter by 3%.

## CONSOLIDATED FINANCIAL POSITION

### ASSETS

**Assets under administration**

| | December 31, 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** |
| Other assets | **3,434** | **3,311** | **13,502** | **20,247** |
| Segregated funds net assets | **54,341** | **23,809** | **26,798** | **104,948** |
| **Total assets** | **121,334** | **57,563** | **74,821** | **253,718** |
| Proprietary mutual funds and institutional net assets | **3,585** | **131,013** | **-** | **134,598** |
| **Total assets under management** | **124,919** | **188,576** | **74,821** | **388,316** |
| Other assets under administration | **13,184** | **144,164** | **107** | **157,455** |
| **Total assets under administration** | **$ 138,103** | **$ 332,740** | **$ 74,928** | **$ 545,771** |

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

Total assets under administration at December 31, 2012 increased by $43.8 billion from December 31, 2011. Segregated funds increased by $8.4 billion and proprietary mutual funds and institutional net assets increased by $9.2 billion, primarily as a result of lower government bond rates and, to a lesser extent, higher U.S. equity market levels. Other assets under administration increased by $19.6 billion, primarily as a result of new plan sales and improved U.S. equity market levels. Invested assets increased by $5.4 billion primarily due to asset growth and an increase in bond fair values as a result of lower government bond rates.

## INVESTED ASSETS

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

**Invested asset distribution**

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | **Canada** | **United States** | **Europe** | **Total** | |
| Bonds | | | | | |
| Government & related | **$ 16,028** | **$ 5,655** | **$ 11,235** | **$ 32,918** | **27 %** |
| Corporate & other | **19,522** | **14,952** | **15,144** | **49,618** | **41** |
| Sub-total bonds | **35,550** | **20,607** | **26,379** | **82,536** | **68** |
| Mortgages | **11,908** | **3,060** | **2,907** | **17,875** | **15** |
| Stocks | **6,529** | **279** | **290** | **7,098** | **6** |
| Investment properties | **1,315** | **8** | **2,202** | **3,525** | **3** |
| Sub-total portfolio investments | **55,302** | **23,954** | **31,778** | **111,034** | **92** |
| Cash and cash equivalents | **671** | **250** | **974** | **1,895** | **2** |
| Loans to policyholders | **2,488** | **4,518** | **76** | **7,082** | **6** |
| **Total invested assets** | **$ 58,461** | **$ 28,722** | **$ 32,828** | **$ 120,011** | **100 %** |

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

At December 31, 2012 total invested assets were $120.0 billion, an increase of $5.4 billion from December 31, 2011 primarily due to asset growth and increases in bond fair values as a result of lower government bond rates. The distribution of assets has not changed significantly and remains heavily weighted to bonds and mortgages.

**Bond portfolio quality**

| | **December 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| AAA | **$ 29,302** | **35 %** | $ 29,612 | 38 % |
| AA | **13,463** | **16** | 12,894 | 17 |
| A | **23,767** | **29** | 22,066 | 28 |
| BBB | **14,662** | **18** | 12,399 | 16 |
| BB or lower | **1,342** | **2** | 1,102 | 1 |
| **Total** | **$ 82,536** | **100 %** | $ 78,073 | 100 % |

**Bond portfolio** – It is the Company's policy to acquire only investment grade bonds subject to prudent and well defined investment policies. The total bond portfolio, including short-term investments, was $82.5 billion or 68% of invested assets at December 31, 2012 and $78.1 billion or 68% at December 31, 2011. Federal, provincial and other government securities represented 40% of the bond portfolio compared to 41% in 2011. The overall quality of the bond portfolio remained high, with 98% of the portfolio rated investment grade and 80% rated A or higher.

Non-investment grade bonds in the portfolio are a result of downgrades subsequent to acquisition. At December 31, 2012 non-investment grade bonds were $1.3 billion or 1.6% of the bond portfolio compared to $1.1 billion or 1.4% of the bond portfolio at December 31, 2011. The net increase in non-investment grade bonds resulted from higher market values and net rating downgrades partly offset by repayments and dispositions.

***Holdings of Debt Securities of Governments***

| | Carrying Value by Rating - December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB & Lower | Total* | Amortized Cost* |
| Canada | $ 9,017 | $ 3,423 | $ 2,445 | $ - | $ - | $ 14,885 | $ 13,408 |
| U.K. | 9,082 | 903 | 147 | 498 | - | 10,630 | 9,572 |
| U.S. | 5,865 | 1,146 | 134 | 10 | - | 7,155 | 6,723 |
| | **23,964** | **5,472** | **2,726** | **508** | **-** | **32,670** | **29,703** |
| Portugal | - | - | - | - | 9 | 9 | 10 |
| Ireland | - | - | - | 68 | - | 68 | 66 |
| Italy | - | - | 17 | - | - | 17 | 20 |
| Greece | - | - | - | - | - | - | - |
| Spain | - | - | - | 19 | - | 19 | 22 |
| | **-** | **-** | **17** | **87** | **9** | **113** | **118** |
| Germany | 827 | 5 | - | - | - | 832 | 802 |
| France | 413 | 30 | - | - | - | 443 | 420 |
| Netherlands | 524 | - | - | - | - | 524 | 489 |
| Austria | 107 | - | - | - | - | 107 | 107 |
| Australia | 79 | - | - | - | - | 79 | 79 |
| Supranationals | 960 | - | - | - | - | 960 | 866 |
| All other (9 countries) | 410 | 64 | - | 20 | - | 494 | 474 |
| | **3,320** | **99** | **-** | **20** | **-** | **3,439** | **3,237** |
| **Total** | **$ 27,284** | **$ 5,571** | **$ 2,743** | **$ 615** | **$ 9** | **$ 36,222** | **$ 33,058** |

* Includes certain funds held by ceding insurers with a carrying value of $3,304 million and an amortized cost of $3,010 million.

At December 31, 2012, the Company held government and government related debt securities (including certain assets reported as funds held by ceding insurers) with an aggregate carrying value of $36.2 billion compared to $35.4 billion at December 31, 2011. Included in this portfolio are debt securities issued by Portugal, Ireland, Italy and Spain, with an aggregate carrying value of $113 million, down from $264 million at December 31, 2011 primarily as a result of dispositions. The Company does not hold any debt securities of the government of Greece.

### *Holdings of Debt Securities of Banks and Other Financial Institutions*

| | Carrying Value by Rating - December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB & Lower | Total* | Amortized Cost* |
| Canada | $ 59 | $ 287 | $ 1,015 | $ 316 | $ - | $ 1,677 | $ 1,573 |
| U.K. | 220 | 406 | 1,772 | 797 | 547 | 3,742 | 3,562 |
| U.S. | - | 1,530 | 1,943 | 708 | 10 | 4,191 | 3,816 |
| | **279** | **2,223** | **4,730** | **1,821** | **557** | **9,610** | **8,951** |
| Portugal | - | - | - | - | - | - | - |
| Ireland | - | - | - | 64 | 4 | 68 | 96 |
| Italy | - | - | 60 | 79 | - | 139 | 153 |
| Greece | - | - | - | - | - | - | - |
| Spain | 69 | - | 46 | 88 | - | 203 | 219 |
| | **69** | **-** | **106** | **231** | **4** | **410** | **468** |
| Germany | 1 | 62 | 59 | 1 | - | 123 | 116 |
| France | 74 | 96 | 232 | 175 | - | 577 | 563 |
| Netherlands | - | 198 | 178 | - | 52 | 428 | 410 |
| Australia | 114 | 263 | 122 | 76 | - | 575 | 552 |
| All other (12 institutions) | 17 | 86 | 287 | 129 | 13 | 532 | 502 |
| | **206** | **705** | **878** | **381** | **65** | **2,235** | **2,143** |
| **Total** | **$ 554** | **$ 2,928** | **$ 5,714** | **$ 2,433** | **$ 626** | **$ 12,255** | **$ 11,562** |

| | Carrying Value by Seniority - December 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Covered | Senior Debt | Subordinated Debt | Upper Tier Two | Capital Securities | Contingent Capital | Total* | Amortized Cost* |
| Canada | $ 65 | $ 966 | $ 276 | $ 81 | $ 289 | $ - | $ 1,677 | $ 1,573 |
| U.K. | 275 | 1,562 | 887 | 463 | 349 | 206 | 3,742 | 3,562 |
| U.S. | 351 | 2,751 | 896 | - | 193 | - | 4,191 | 3,816 |
| | **691** | **5,279** | **2,059** | **544** | **$ 831** | **206** | **9,610** | **8,951** |
| Portugal | - | - | - | - | - | - | - | - |
| Ireland | 64 | - | - | - | 4 | - | 68 | 96 |
| Italy | 31 | 29 | 17 | - | 62 | - | 139 | 153 |
| Greece | - | - | - | - | - | - | - | - |
| Spain | 74 | - | 56 | 35 | 38 | - | 203 | 219 |
| | **169** | **29** | **73** | **35** | **104** | **-** | **410** | **468** |
| Germany | 63 | 3 | 57 | - | - | - | 123 | 116 |
| France | 171 | 130 | 131 | 38 | 107 | - | 577 | 563 |
| Netherlands | - | 333 | 27 | 28 | 40 | - | 428 | 410 |
| Australia | 125 | 301 | 107 | - | 42 | - | 575 | 552 |
| All other (12 institutions) | 32 | 202 | 153 | 97 | 48 | - | 532 | 502 |
| | **391** | **969** | **475** | **163** | **237** | **-** | **2,235** | **2,143** |
| **Total** | **$ 1,251** | **$ 6,277** | **$ 2,607** | **$ 742** | **$ 1,172** | **$ 206** | **$ 12,255** | **$ 11,562** |

* Includes certain funds held by ceding insurers with a carrying value of $3,077 million and an amortized cost of $2,753 million.

At December 31, 2012, the Company held debt securities issued by banks and other financial institutions (including certain assets reported as funds held by ceding insurers) with an aggregate carrying value of $12.3 billion, compared to $10.9 billion at December 31, 2011. Included in this portfolio is $410 million of debt securities issued by banks and other financial institutions domiciled in Ireland, Italy and Spain, up from $408 million at December 31, 2011 as a result of increasing fair values mostly offset by dispositions. Of the Spanish holdings of $203 million, $184 million are Sterling-denominated bonds issued by U.K. domiciled Financial Services Authority (FSA) regulated subsidiaries of Spanish financial institutions. The Company does not have any holdings of banks and other financial institutions domiciled in Greece or Portugal.

At December 31, 2012, 95% of the $12.3 billion carrying value of debt securities invested in banks and other financial institutions was rated investment grade.

| **Mortgage portfolio** | **December 31, 2012** | | | | December 31, 2011 | |
|---|---|---|---|---|---|---|
| Mortgage loans by type | **Insured** | **Non-insured** | **Total** | | Total | |
| Single family residential | **$ 1,044** | **$ 632** | **$ 1,676** | **9 %** | $ 1,670 | 9 % |
| Multi-family residential | **2,389** | **1,969** | **4,358** | **25** | 4,326 | 25 |
| Commercial | **226** | **11,615** | **11,841** | **66** | 11,436 | 66 |
| **Total** | **$ 3,659** | **$ 14,216** | **$ 17,875** | **100 %** | $ 17,432 | 100 % |

| **Commercial mortgages** | **December 31, 2012** | | | | December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Canada** | **U.S.** | **Europe** | **Total** | Canada | U.S. | Europe | Total |
| Retail & shopping centres | **$ 3,239** | **$ 403** | **$ 1,247** | **$ 4,889** | $ 3,204 | $ 393 | $ 1,103 | $ 4,700 |
| Office buildings | **1,431** | **272** | **639** | **2,342** | 1,519 | 255 | 656 | 2,430 |
| Industrial | **1,848** | **1,301** | **444** | **3,593** | 1,907 | 1,243 | 265 | 3,415 |
| Other | **464** | **163** | **390** | **1,017** | 392 | 107 | 392 | 891 |
| **Total** | **$ 6,982** | **$ 2,139** | **$ 2,720** | **$ 11,841** | $ 7,022 | $ 1,998 | $ 2,416 | $ 11,436 |

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

The total mortgage portfolio was $17.9 billion or 15% of invested assets at December 31, 2012 compared to $17.4 billion or 15% of invested assets at December 31, 2011. Total insured loans were $3.7 billion or 20% of the mortgage portfolio.

| **Equity portfolio** | **December 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| Equity portfolio by type | | | | |
| Publicly traded stocks | **$ 6,398** | **60 %** | $ 5,928 | 60 % |
| Privately held equities (at cost) | **700** | **7** | 776 | 8 |
| Sub-total | **7,098** | **67 %** | 6,704 | 68 % |
| Investment properties | **3,525** | **33** | 3,201 | 32 |
| **Total** | **$ 10,623** | **100 %** | $ 9,905 | 100 % |

| **Investment properties** | **December 31, 2012** | | | | December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Canada** | **U.S.** | **Europe** | **Total** | Canada | U.S. | Europe | Total |
| Office buildings | **$ 730** | **$ 1** | **$ 484** | **$ 1,215** | $ 660 | $ - | $ 454 | $ 1,114 |
| Industrial | **137** | **-** | **480** | **617** | 127 | - | 465 | 592 |
| Retail | **199** | **2** | **961** | **1,162** | 82 | - | 933 | 1,015 |
| Other | **249** | **5** | **277** | **531** | 198 | 8 | 274 | 480 |
| **Total** | **$ 1,315** | **$ 8** | **$ 2,202** | **$ 3,525** | $ 1,067 | $ 8 | $ 2,126 | $ 3,201 |

**Equity portfolio** – The total equity portfolio was $10.6 billion or 9% of invested assets at December 31, 2012 compared to $9.9 billion or 9% of invested assets at December 31, 2011. The equity portfolio consists of public stocks, private equity and investment properties. Publicly traded stocks increased approximately $0.5 billion in 2012 due to stock purchases and net market value increases while privately held equities carried at cost declined as a result of dispositions. The increase in investment properties includes market value gains of $104 million in 2012 as well as net acquisitions.

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

| **Impaired investments** | **December 31, 2012** | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | **Gross amount** | **Impaired amount** | **Carrying amount** | Gross amount | Impaired amount | Carrying amount |
| **Impaired investments by type** (1) | | | | | | |
| Fair value through profit or loss | **$ 411** | **$ (46)** | **$ 365** | $ 462 | $ (172) | $ 290 |
| Available-for-sale | **33** | **(6)** | **27** | 80 | (29) | 51 |
| Loans and receivables | **62** | **(21)** | **41** | 71 | (36) | 35 |
| **Total** | **$ 506** | **$ (73)** | **$ 433** | $ 613 | $ (237) | $ 376 |

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

The gross amount of impaired investments totaled $506 million or 0.4% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2012 compared with $613 million or 0.5% at December 31, 2011, a net decrease of $107 million. Impaired investments decreased mostly as a result of dispositions and repayments of $208 million which were partly offset by in year impairments of $114 million.

The impaired amount at December 31, 2012 was $73 million compared to $237 million at December 31, 2011, a decrease of $164 million. The main contributors to the decrease were disposals of previously impaired investments and increases in the fair values of the remaining impaired investments.

***Provision for future credit losses***

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

At December 31, 2012, the total provision for future credit losses in insurance contract liabilities was $2,559 million compared to $2,500 million at December 31, 2011, an increase of $59 million which primarily reflects a combination of credit rating activity and normal business activity.

The aggregate of impairment provisions of $73 million ($237 million at December 31, 2011) and $2,559 million ($2,500 million at December 31, 2011) for future credit losses in insurance contract liabilities represents 2.4% of bond and mortgage assets at December 31, 2012 (2.6% at December 31, 2011).

### *Derivative Financial Instruments*

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in 2012. During the twelve month period ended December 31, 2012 the outstanding notional amount of derivative contracts increased by $1,724 million.

During the third quarter, the Company purchased equity put options with a December 31, 2012 notional amount of $849 million as a macro balance sheet credit hedge.

The Company’s exposure to credit risk, which reflects the current fair value of those instruments in a gain position, increased to $997 million at December 31, 2012 from $968 million at December 31, 2011.

### *Goodwill and intangible assets*

**Goodwill and intangible assets**

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| Goodwill | **$ 5,397** | $ 5,401 |
| Indefinite life intangible assets | **2,442** | 2,482 |
| Finite life intangible assets | **673** | 672 |
| **Total** | **$ 8,512** | $ 8,555 |

Goodwill and intangible assets have decreased by $43 million from December 31, 2011 due to changes in foreign exchange rates and the amortization of finite life intangibles, partially offset by additions of computer software.

The Company's goodwill and intangible assets relate primarily to its acquisitions of London Life, Canada Life and Putnam. IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and intangibles at least annually. There were no impairment charges in 2012 related to goodwill and intangible assets.

Refer to note 10 to the Company's annual consolidated financial statements for further detail of the Company's goodwill and intangible assets. Also refer to the “Summary of Critical Accounting Estimates” section of this document for details on impairment testing of these assets.

### Other general fund assets

**Other general fund assets**

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| Funds held by ceding insurers | **$ 10,537** | $ 9,923 |
| Other assets | **4,893** | 4,283 |
| Reinsurance assets | **2,064** | 2,061 |
| Deferred tax assets | **1,088** | 1,140 |
| Derivative financial instruments | **997** | 968 |
| Owner occupied properties | **514** | 491 |
| Fixed assets | **154** | 137 |
| **Total** | **$ 20,247** | $ 19,003 |

Total other general fund assets at December 31, 2012 were $20.2 billion, an increase of $1.2 billion from December 31, 2011. The increase is primarily due to a $614 million increase in funds held by ceding insurers and a $610 million increase in other assets.

The increase in funds held by ceding insurers is primarily as a result of increases in fair values of the underlying assets and currency movement.

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

**Investments on account of segregated fund policyholders**

| Segregated funds | December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| Stocks | **$ 69,254** | $ 63,885 | $ 64,468 |
| Bonds | **24,070** | 21,594 | 19,270 |
| Mortgage loans | **2,303** | 2,303 | 2,058 |
| Investment properties | **6,149** | 5,457 | 5,598 |
| Cash and other | **3,172** | 3,343 | 3,433 |
| **Total** | **$ 104,948** | $ 96,582 | $ 94,827 |
| Year-over-year growth | **9 %** | 2 % | |

Investments on account of segregated fund policyholders which are measured at market values, increased by $8.4 billion to $104.9 billion at December 31, 2012. The change resulted from net deposits of $2.0 billion, market value gains of $5.2 billion and net investment income reinvested of $1.2 billion.

## Proprietary mutual funds

| Proprietary mutual funds and institutional net assets | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **Mutual funds** | | |
| Blend equity | **$ 16,827** | $ 15,072 |
| Growth equity | **9,380** | 9,765 |
| Equity value | **13,518** | 13,067 |
| Fixed income | **25,658** | 25,795 |
| Money market | **129** | 146 |
| Great-West Financial Funds* | **3,967** | 3,087 |
| Sub-total | **69,479** | 66,932 |
| **Institutional accounts** | | |
| Equity | **36,831** | 29,828 |
| Fixed income | **28,288** | 28,630 |
| Sub-total | **65,119** | 58,458 |
| **Total proprietary mutual funds and institutional accounts** | **$ 134,598** | $ 125,390 |

* Excludes $569 million of assets wherein Putnam is the sub-advisor.

At December 31, 2012, total proprietary mutual funds and institutional accounts includes $131.0 billion at Putnam and Great-West Financial and $3.6 billion at Quadrus. Proprietary mutual funds and institutional accounts under management increased by $9.2 billion primarily as a result of a increase in equity markets of $14 billion, offset by the impact of negative currency movement of $3.7 billion and net outflows of $500 million.

## LIABILITIES

| Total liabilities | Dec. 31 2012 | Dec. 31 2011 |
|---|---|---|
| Insurance and investment contract liabilities | **$ 120,658** | $ 115,512 |
| Other general fund liabilities | **10,526** | 10,570 |
| Investment and insurance contracts on account of segregated fund policyholders | **104,948** | 96,582 |
| **Total** | **$ 236,132** | $ 222,664 |

Total liabilities increased by $13.5 billion to $236.1 billion at December 31, 2012, driven by increases in insurance and investment contract liabilities and investment and insurance contracts on account of segregated fund policyholders of $5.1 billion and $8.4 billion, respectively.

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

Insurance and investment contract liabilities increased by approximately $5.1 billion primarily due to the impact of new business and the decline in interest rates. Invested assets backing these liabilities are impacted in the same direction by changes in interest rates.

**Assets supporting insurance and investment contract liabilities**

| | Participating Account | Non-Participating | | | |
|---|---|---|---|---|---|
| | | Canada | United States | Europe | Total |
| **December 31, 2012** | | | | | |
| Bonds | **$ 17,999** | **$ 17,519** | **$ 14,280** | **$ 22,420** | **$ 72,218** |
| Mortgage loans | **7,131** | **4,428** | **2,464** | **2,827** | **16,850** |
| Stocks | **4,383** | **1,565** | **-** | **127** | **6,075** |
| Investment properties | **951** | **3** | **-** | **2,173** | **3,127** |
| Other assets | **7,570** | **3,768** | **612** | **10,438** | **22,388** |
| **Total assets** | **$ 38,034** | **$ 27,283** | **$ 17,356** | **$ 37,985** | **$ 120,658** |
| **Total insurance and investment contract liabilities** | **$ 38,034** | **$ 27,283** | **$ 17,356** | **$ 37,985** | **$ 120,658** |
| December 31, 2011 | | | | | |
| Bonds | $ 16,776 | $ 16,674 | $ 13,523 | $ 20,449 | $ 67,422 |
| Mortgage loans | 6,894 | 4,738 | 2,369 | 2,506 | 16,507 |
| Stocks | 4,040 | 1,329 | - | 119 | 5,488 |
| Investment properties | 529 | 20 | - | 2,092 | 2,641 |
| Other assets | 8,100 | 4,338 | 765 | 10,251 | 23,454 |
| Total assets | $ 36,339 | $ 27,099 | $ 16,657 | $ 35,417 | $ 115,512 |
| Total insurance and investment contract liabilities | $ 36,339 | $ 27,099 | $ 16,657 | $ 35,417 | $ 115,512 |

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

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

## Other general fund liabilities

**Other general fund liabilities**

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| Debentures and other debt instruments | **$ 4,283** | $ 4,313 |
| Other liabilities | **4,579** | 4,287 |
| Deferred income tax liabilities | **868** | 929 |
| Capital trust securities | **119** | 533 |
| Derivative financial instruments | **342** | 316 |
| Funds held under reinsurance contracts | **335** | 169 |
| Repurchase agreements | **-** | 23 |
| **Total** | **$ 10,526** | $ 10,570 |

Total other general fund liabilities at December 31, 2012 include a decrease of $414 million in capital trust securities, partially offset by an increase of $292 million in other liabilities.

The decrease in capital trust securities consists of the redemption $650 million of Canada Life Capital Securities - Series A (CLiCS - Series A) and Great-West Life Capital Trust Securities - Series A (GREATs) during the year, which included $238 million previously held by the Company as a long-term investment, and a $2 million increase in fair value during the year.

Other liabilities include current income taxes, accounts payable, pension and other post-retirement benefits, deferred income reserve, bank overdraft and other liability balances. Refer to note 17 to the Company's annual consolidated financial statements for a breakdown of the balances and to note 16 for details of the debentures and other debt instruments.

**Investment Guarantees Associated with Wealth Management Products**

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

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

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

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

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

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

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

For purposes of determining the required capital for these guarantees a Total Gross Calculated Requirement (TGCR) is determined and the required capital is equal to the TGCR less the policy liabilities held. The TGCR was $30 million at December 31, 2012 ($43 million at December 31, 2011). The Office of the Superintendent of Financial Institutions (OSFI) rules for the TGCR provide for a CTE98 level for cash flows within one year, CTE95 level for cash flows between one and five years, and between CTE90 level and CTE95 level for cash flows greater than five years. The TGCR is determined separately for business written on or after January 1, 2011, as this business is subject to more stringent rules and cannot be offset by business written prior to 2011. All Canadian business is valued using OSFI approved internal models or approved OSFI factors.

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

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

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

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

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

The GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2012, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $2,110 million ($1,256 million at December 31, 2011).

**Segregated funds guarantee exposure**

| | | December 31, 2012 | | | |
|---|---|---|---|---|---|
| | | Investment deficiency by benefit type | | | |
| | Market Value | Income | Maturity | Death | Total* |
| **Canada** | $ 24,192 | $ - | $ 29 | $ 181 | $ 181 |
| **United States** | 7,272 | - | - | 59 | 59 |
| **Europe** | | | | | |
| Insurance & Annuities | 2,709 | - | 39 | 40 | 40 |
| Reinsurance** | 956 | 552 | 1 | 31 | 584 |
| | **3,665** | **552** | **40** | **71** | **624** |
| **Total** | **$ 35,129** | **$ 552** | **$ 69** | **$ 311** | **$ 864** |

* 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.

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

The investment deficiency measures the point-in-time exposure to a trigger event (i.e. income election, maturity, or death) assuming it occurred on December 31, 2012. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees was approximately $8 million in-quarter and $40 million year-to-date, with the majority arising in the Europe segment.

# LIFECO CAPITAL STRUCTURE

## DEBENTURES AND OTHER DEBT INSTRUMENTS

Debentures and other debt instruments decreased by $30 million compared to 2011 primarily due to the amortization of financing costs during the year. Refer to note 16 to the Company's annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

At December 31, 2012, a Putnam subsidiary had a revolving credit facility agreement with a syndicate of banks for US$500 million. At December 31, 2012, it had drawn US$200 million (US$200 million at December 31, 2011) on this credit facility which expires June 17, 2013.

On October 18, 2012, the Company renewed a US$304 Putnam non-revolving term loan facility guaranteed by Lifeco for three years.

## CAPITAL TRUST SECURITIES

***Great-West Life Capital Trust Securities (GREATs)*** - During the year, Great-West Life Capital Trust (GWLCT) redeemed all of its outstanding $350 million principal amount GREATs at par. The Company previously held $116 million of these GREATs as long-term investments.

***Canada Life Capital Trust Securities (CLiCS)*** - During the year, Canada Life Capital Trust (CLCT), redeemed all of its outstanding $300 million principal amount CLiCS – Series A. Prior to the redemption, the Company held $122 million of these CLiCS – Series A as long-term investments. At December 31, 2012, the Company has outstanding $150 million principal amount Canada Life Capital Trust Securities – Series B (CLiCS – Series B) of which the Company holds $45 million of these securities as an investment ($44 million at December 31, 2011).

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

## EQUITY

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

Share capital outstanding at December 31, 2012 was $8,392 million, which comprises $5,848 million of common shares, $2,064 million of fixed rate First Preferred Shares, and $480 million of rate reset First Preferred Shares.

### Common shares

At December 31, 2012, the Company had 950,596,440 common shares outstanding with a stated value of $5,848 million compared to 949,764,141 common shares with a stated value of $5,828 million at December 31, 2011.

During the twelve months ended December 31, 2012, no common shares were purchased for cancellation pursuant to the Company’s Normal Course Issuer Bid. Under the Company’s Stock Option Plan, 832,299 shares were issued for total proceeds of $20 million or an average of $19.33 per share.

## Preferred shares

At December 31, 2012, the Company had nine series of fixed perpetual preferred shares and two series of rate reset perpetual preferred shares outstanding with aggregate stated values of $2,064 million and $480 million respectively. The terms and conditions of the preferred shares are set out in the table below:

| | Great-West Lifeco Inc. | | | | | |
|---|---|---|---|---|---|---|
| | Series F | Series G | Series H | Series I | Series J[1] | Series L |
| General Type | Fixed rate perpetual | Fixed rate perpetual | Fixed rate perpetual | Fixed Rate Perpetual | 5-Year Rate Reset | Fixed rate perpetual |
| Cumulative/Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative |
| Date Issued | Jul 10, 2003 | Sep 14, 2004 | Aug 12, 2005 | Apr 12, 2006 | Nov 27, 2008 | Oct 2, 2009 |
| Shares Outstanding | 7,740,032 | 12,000,000 | 12,000,000 | 12,000,000 | 9,200,000 | 6,800,000 |
| Amount Outstanding (Par) | $193,500,800 | $300,000,000 | $300,000,000 | $300,000,000 | $230,000,000 | $170,000,000 |
| Yield | 5.90% | 5.20% | 4.85% | 4.50% | 6.00% | 5.65% |
| Earliest Issuer Redemption Date | Sep 30, 2008 | Dec 31, 2009 | Sep 30, 2010 | Jun 30, 2011 | Dec 31, 2013 | Dec 31, 2014 |

| | Great-West Lifeco Inc. | | | | |
|---|---|---|---|---|---|
| | Series M | Series N[2] | Series P | Series Q | Series R |
| General Type | Fixed rate perpetual | 5-Year Rate Reset | Fixed rate perpetual | Fixed rate perpetual | Fixed rate perpetual |
| Cumulative/Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative |
| Date Issued | Mar 4, 2010 | Nov 23, 2010 | Feb 22, 2012 | Jul 6, 2012 | Oct 11, 2012 |
| Shares Outstanding | 6,000,000 | 10,000,000 | 10,000,000 | 8,000,000 | 8,000,000 |
| Amount Outstanding (Par) | $150,000,000 | $250,000,000 | $250,000,000 | $200,000,000 | $200,000,000 |
| Yield | 5.80% | 3.65% | 5.40% | 5.15% | 4.80% |
| Earliest Issuer Redemption Date | Mar 31, 2015 | Dec 31, 2015 | Mar 31, 2017 | Sep 30, 2017 | Dec 31, 2017 |

1) On December 31, 2013 and on December 31 every five years thereafter, the Lifeco Series J First Preferred Shares dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 3.07%. Lifeco has the right to redeem the Lifeco Series J First Preferred Shares, in whole or in part, on December 31, 2013 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series J First Preferred Share is convertible at the option of the holder on December 31, 2013 and on December 31 every five years thereafter into one Lifeco Series K First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

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

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

## 2012 activity

Unrealized foreign exchange losses on translation of the net investment in foreign operations for 2012 totaled $78 million and are recorded within accumulated other comprehensive loss included within equity.

On February 22, 2012, the Company issued 10,000,000, 5.40% non-cumulative fixed rate perpetual First Preferred Shares, Series P, for gross proceeds of $250 million, which closed on February 22, 2012.

On July 6, 2012, the Company issued 8,000,000, 5.15% non-cumulative fixed rate perpetual First Preferred Shares, Series Q, for gross proceeds of $200 million, which closed on July 6, 2012.

On October 11, 2012, the Company issued 8,000,000, 4.80% non-cumulative fixed rate perpetual First Preferred Shares, Series R, for gross proceeds of $200 million, which closed on October 11, 2012.

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.

### CAPITAL PERMANENCE - RATING AGENCY CONSIDERATIONS

The Company regards the Series F, G, H, I, L, M, P, Q and R preferred shares as part of its core or permanent capital. The Series F, G, H, I, L and M preferred shares have a replacement capital covenant, the Company only intends to redeem these shares with proceeds raised from new capital instruments representing equal or greater benefit than the shares currently outstanding. The Series P, Q and R preferred shares do not have a replacement capital covenant.

The Company regards the two series of subordinated debentures totaling $1,500 million issued by two subsidiary companies, Great-West Lifeco Finance (Delaware) LP and LPII, as comprising part of its core or permanent capital. As such the Company only intends to redeem the subordinated debentures prior to maturity with new capital instruments with a similar or more junior ranking security. The terms and conditions of the $1,000 million subordinated debentures due June 21, 2067 bear interest at a rate of 5.691% until 2017 and, thereafter at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured. The terms of the $500 million subordinated debentures due June 26, 2068 bear interest at a rate of 7.127% until 2018 and, thereafter, at a rate equal the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured.

### NON-CONTROLLING INTERESTS

The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries. Refer to note 19 to the Company's annual consolidated financial statements for further details.

**Non-controlling interests**

| | December 31 | |
|---|---|---|
| | **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 |
| | **$ 2,505** | $ 2,227 |
| **Non-controlling interests in subsidiaries** | **$ 5** | $ 3 |

## LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

### LIQUIDITY

The Company’s liquidity requirements are largely self-funded, with short-term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2012, Lifeco held cash and government short-term investments of $5.0 billion ($5.5 billion at December 31, 2011) and government bonds of $25.8 billion ($25.1 billion at December 31, 2011). The Company holds cash and cash equivalents at the Lifeco holding company level and Lifeco consolidated subsidiary companies. At December 31, 2012, the Company held cash and cash equivalents of approximately $0.5 billion at the Lifeco holding company level, which includes an intercompany loan repaid on January 15, 2013. In addition, the Company maintains sizable committed lines of credit with Canadian chartered banks for unanticipated liquidity needs if required.

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

**Liquid assets and other marketable securities**

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **Liquid assets** | | |
| Cash, treasury bills and certificates of deposits | **$ 4,992** | $ 5,468 |
| Government bonds | **25,792** | 25,051 |
| **Total liquid assets** | **30,784** | 30,519 |
| **Other marketable securities** | | |
| Corporate bonds | **32,548** | 32,738 |
| Common/Preferred shares (public) | **6,395** | 5,921 |
| Residential mortgages - insured | **3,433** | 3,667 |
| **Total** | **$ 73,160** | $ 72,845 |

**Cashable liability characteristics**

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| Surrenderable insurance and investment contract liabilities | | |
| At market value | **$ 14,483** | $ 14,101 |
| At book value | **35,721** | 33,867 |
| **Total** | **$ 50,204** | $ 47,968 |

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

The carrying value of the Company's liquid assets and other marketable securities is approximately $73.2 billion or 1.5 times the Company's expected total surrenderable insurance and investment contract liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

## CASH FLOWS

**Cash flows**

| | For the three months ended December 31 | | For the twelve months ended December 31 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Cash flows relating to the following activities:** | | | | |
| Operations | **$ 1,347** | $ 1,268 | **$ 4,722** | $ 4,844 |
| Financing | **(345)** | (291) | **(1,037)** | (1,245) |
| Investment | **(1,001)** | (827) | **(3,838)** | (3,407) |
| | **1** | 150 | **(153)** | 192 |
| Effects of changes in exchange rates on cash and cash equivalents | **23** | (48) | **(8)** | 24 |
| Increase (decrease) in cash and cash equivalents in the period | **24** | 102 | **(161)** | 216 |
| Cash and cash equivalents, beginning of period | **1,871** | 1,954 | **2,056** | 1,840 |
| Cash and cash equivalents, end of period | **$ 1,895** | $ 2,056 | **$ 1,895** | $ 2,056 |

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

In the fourth quarter, cash and cash equivalents increased by $24 million from September 30, 2012. Cash flows provided by operations during the fourth quarter of 2012 were $1,347 million, an increase of $79 million compared to the fourth quarter of 2011. For the three months ended December 31, 2012, cash flows were used by the Company to acquire an additional $1,001 million of investment assets; $324 million of cash was utilized to pay dividends to the preferred and common shareholders and $21 million was used for other financing activities. Other financing activities primarily include cash for the redemption of the capital trust securities of $231 million, partially offset by cash received from the issuance of preferred shares of $200 million.

For the twelve months ended December 31, 2012, cash and cash equivalents decreased by $161 million from December 31, 2011. Cash flows provided from operations were $4,722 million, a decrease of $122 million compared to 2011. In 2012, cash flows were used by the Company to acquire an additional $3,838 million of investment assets; $1,283 million of cash was utilized to pay dividends to the preferred and common shareholders and $246 million was received from other financing activities. Other financing activities primarily include cash received from the issuance of preferred shares of $650 million, partially offset by cash used for the redemption of capital trust securities of $409 million.

## COMMITMENTS/CONTRACTUAL OBLIGATIONS

**Commitments/contractual obligations**
At December 31, 2012

| | Payments due by period | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **1 year** | **2 years** | **3 years** | **4 years** | **5 years** | **Over 5 years** |
| 1) Debentures and other debt instruments | $ 4,312 | $ 296 | $ 1 | $ 301 | $ - | $ - | $ 3,714 |
| 2) Operating leases | | | | | | | |
| - office | 430 | 91 | 82 | 70 | 60 | 48 | 79 |
| - equipment | 15 | 8 | 5 | 2 | - | - | - |
| 3) Purchase obligations | 83 | 58 | 13 | 10 | 2 | - | - |
| 4) Credit-related arrangements | | | | | | | |
| (a) Contractual commitments | 516 | 470 | 46 | - | - | - | - |
| (b) Letters of credit | see note 4(b) below | | | | | | |
| 5) Pension contributions | 133 | 133 | - | - | - | - | - |
| **Total contractual obligations** | $ 5,489 | $ 1,056 | $ 147 | $ 383 | $ 62 | $ 48 | $ 3,793 |

1) Refer to note 7 of the Lifeco annual consolidated financial statements.
2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.
3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.
4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.
(b) Letters of credit (LOCs) are written commitments provided by a bank. The total amount of LOC facilities are US$3.0 billion of which US$2.7 billion are 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. The Company through certain of its subsidiaries has provided LOCs as follows:

***To external parties***

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts. On November 7, 2012, Great-West Life entered into an assumption and novation agreement with LRG to terminate a bank syndicated letter of credit facility providing U.S. $650 million in letters of credit capacity. Great-West Life subsequently entered into an amended and restated letter of credit and reimbursement agreement with the bank syndicate to obtain a letter of credit facility with U.S. $650 million in letters of credit capacity. Great-West Life and certain subsidiaries of the Company subsequently entered into reimbursement agreements whereby these certain subsidiaries can use Great-West Life's letter of credit facility. As at December 31, 2012, these subsidiaries used U.S. $525 million in letters of credit issued to Great-West Life under the facility including US$364 million issued by LRG subsidiaries to Canada Life, London Life or other LRG subsidiaries. The Company had issued under the previous LOC facility U.S. $479 million in letters of credit under the syndicated LOC facility as at December 31, 2011 including $259 million issued by LRG subsidiaries to London Life or other LRG subsidiaries. As part of the $325 million facility noted below, Canada Life has issued US$72 million to external parties to support reinsurance contracts.

As well, certain LRG subsidiaries as applicants have provided LOCs totaling US$9 million to external parties.

***To internal parties***

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

- US$1,141 million issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great West Life & Annuity Insurance Company of South Carolina. These are provided under a US$1.2 billion agreement with a third party financial institution maturing in 2027.
- US$70 million issued to Great West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit in respect thereof.

On December 31, 2012, the Company entered into an assumption and novation agreement with Canada Life to terminate a bank letter of credit facility providing U.S. $325 million in letters of credit capacity. Great-West Life subsequently entered into an amended and restated letter of credit and reimbursement agreement with the bank to obtain a letter of credit facility with U.S. $325 million in letters of credit capacity. Great-West Life and certain subsidiaries of the Company subsequently entered into reimbursement agreements whereby these certain subsidiaries can use Great-West Life's letter of credit facility.

Great-West Life and Canada Life as applicants have provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- US$647 million issued to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life International Re Limited.
- £116 million issued to Canada Life Ireland Holdings Limited (CLIHL), a subsidiary of Canada Life Limited (CLL), as beneficiary, to allow CLL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (U.K.) Limited.

As well, certain LRG subsidiaries as applicants have provided LOCs totaling US$3 million to London Life or other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the other subsidiaries.

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

## CAPITAL MANAGEMENT AND ADEQUACY

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

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

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

Great-West Life's MCCSR ratio at December 31, 2012 was 207% (204% at December 31, 2011). London Life's MCCSR ratio at December 31, 2012 was 243% (239% at December 31, 2011). Canada Life's MCCSR ratio at December 31, 2012 was 203% (204% at December 31, 2011). The MCCSR ratio does not take into account any impact from $0.5 billion of liquidity at the Lifeco holding company level.

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

Under OSFI's Advisory on Conversion to International Financial Reporting Standards by Federally Regulated Entities, the Company's federally regulated subsidiaries elected to phase in the impact of $636 million for the conversion to IFRS on capital for MCCSR regulatory reporting purposes over eight quarters which commenced January 1, 2011. As at December 31, 2012, the phase-in period has been completed. As a result of proposed future changes to the IFRS for measurement of insurance contract liabilities and the evolving nature of IFRS, there will likely be further regulatory capital and accounting changes, some of which may be significant.

OSFI 2013 MCCSR Guideline changes to lapse risk are expected to favourably impact the Great-West ratio by 3 to 4 percentage points in the first quarter of 2013. The impact of the transition to IAS19R - *Employee Benefits* is to be phased in over eight quarters for MCCSR regulatory reporting purposes beginning in the first quarter of 2013 and is expected to negatively impact the ratio by 1 to 1.5 percentage points per quarter.

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

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

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

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

### OSFI Regulatory Capital Initiatives

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

These initiatives are discussed in the 2012 OSFI Life Insurance Regulatory Framework. Within the Framework, there are three broad categories specific to regulatory capital amounts: the review of methodology used to determine capital requirements in connection with segregated fund guarantees; the review of the qualifying criteria and capital components of Available Capital and the new regime for calculating capital requirements relating to Credit, Market, Insurance and Operation risk. In tandem with these reviews, OSFI will consider the extent of diversification benefits and hedging credits to reflect in its new framework.

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

## CAPITAL ALLOCATION METHODOLOGY

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

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

| Return on Equity | Dec. 31 2012 | Sept. 30 2012 | Dec. 31 2011 |
|---|---|---|---|
| **Canada** | **21.7 %** | 21.6 % | 21.7 % |
| **U.S. Financial Services** [(1)] | **20.3 %** | 19.4 % | 20.7 % |
| **U.S. Asset Management (Putnam)** | **(2.4)%** | (1.7)% | 0.9 % |
| **Europe** | **17.3 %** | 18.7 % | 17.5 % |
| **Lifeco Corporate** [(2)] | **(5.8)%** | (8.2)% | (5.5)% |
| **Total Lifeco Net Earnings** | **14.7 %** | 17.1 % | 17.6 % |
| **Total Lifeco Operating Earnings** [(2)] | **15.9 %** | 16.1 % | 16.6 % |

(1) Includes U.S. Corporate.

(2) The Company uses operating earnings, a non-IFRS financial measure, which excludes the impact of certain provisions described in note 30 to the Company's December 31, 2012 consolidated financial statements.

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

The Company reported ROE based on net earnings of 14.7% compared to 17.6% at December 31, 2011. While the Company continues to maintain positive net earnings, the Company's capital growth outpaced net earnings which resulted in a decrease in ROE from December 31, 2011. The Company achieved a 15.9% ROE on operating earnings, which compares favourably with its long-term objective of 15.0%.

## RATINGS

Lifeco and its major operating subsidiaries receive strong ratings from the five rating agencies that rate the Company as set out below. The operating companies below have the same financial strength ratings from each rating agency, commonly known as a "fleet" rating which is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and Europe. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco. There were no rating changes to the Company's credit ratings during 2012.

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

## RISK MANAGEMENT AND CONTROL PRACTICES

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

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

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. The risks specifically associated with the Asset Management business are discussed in Operational Risks. It must be noted, however, that items included in the third or fourth categories, such as legal, rating, regulatory or reputational risks, may still represent significant risks notwithstanding the expectation that they may be less likely to be realized or may be of a lesser magnitude.

### *INSURANCE RISKS*

#### GENERAL

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

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

The Company also maintains a Corporate Actuarial Valuation Policy, also reviewed and approved by the Boards of Directors of the principal operating subsidiaries, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied uniformly across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

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

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

| Risk | Management of Risk |
|---|---|
| **Claims Mortality and Morbidity** | |
| Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company mis-estimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected. | Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.<br>Underwriting limits control the amount of risk exposure.<br>Underwriting practices control the selection of risks insured for consistency with claims expectations.<br>Underwriting policies have been developed to support the long-term sustainability of the business. The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to make provision for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions.<br>In general, the Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.<br>The Company manages large blocks of business which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period.<br>For some policies, cost of insurance charges could be increased if necessary to contractual maximums, if applicable.<br>Morbidity risk is mitigated through effective plan design and claims adjudication practices. |
| **Concentration** | |
| For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results. | Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company imposes single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive. |
| **Healthcare Cost Inflation** | |
| For Group healthcare products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs. | The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees, and through pricing that takes demographic and other trend factors into account. |

| | |
|---|---|
| **Longevity** | |
| Annuitants could live longer than was estimated by the Company. | Business is priced using prudent mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality.<br>In general, the Company sets and adheres to retention limits for longevity risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.<br>The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible. |
| **Policy Termination** | |
| Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products. | Business is priced using prudent policy termination assumptions which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary.<br>In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.<br>The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses.<br>Policyholder taxation rules in most jurisdictions encourage the retention of insurance coverage. |
| **Expense Management** | |
| Increases in operating expenses could reduce profit margins. | Expense management programs are regularly monitored to control unit costs and form a component of management incentive compensation plans. |
| **Interest Rate Pricing and Repricing** | |
| Products are priced and valued based on the investment returns available on the assets that support the insurance and investment contract liabilities. If actual investment returns are different from those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or insurance and investment contract liability requirements. Products with long-term cash flows and pricing guarantees carry more risk. | There is regular and ongoing communication between pricing, valuation and investment management. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty.<br>To measure the risk, the pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employ stochastic modelling of future investment returns. Risk exposures are monitored against defined thresholds with escalating actions required if outside the thresholds. |
| **Cash Flow Matching** | |
| Mismatches between asset and liability cash flows could reduce profit margins in unfavourable interest rate environments. | Margins on non-adjustable products are protected through matching of assets and liabilities within reasonable limits. Margins on adjustable products are protected through frequent monitoring of asset and liability positions. The valuation of both of these product types employs modelling using multiple scenarios of future interest rates, and prudent reserving including provisions for adverse deviations.<br>The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are selected and managed in relation to the liabilities in the segment. Changes in the fair value of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities. Changes in the fair value of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time, in accordance with investment policies. |

| Reinsurance Assumed | |
|---|---|
| The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly higher event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. If a claim occurs, it is likely to be very large. | The Company limits the total maximum claim amount under all contracts. The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken. |
| **Investment Guarantees** | |
| A significant decline in market values could increase the cost to the Company associated with segregated fund death, maturity, income and withdrawal guarantees. In addition, lower interest rates and increased policyholder utilization could increase the cost to the Company associated with general fund account guarantees, segregated fund income and withdrawal guarantees. | Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada and the U.S., all contribute to a significantly diverse profile of in-force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada and the U.S. to guarantees related to segregated funds.<br>The Company has implemented a hedging program for segregated funds with withdrawal guarantees. This program consists of entering into equity futures, currency forwards, interest rate futures and swaps to mitigate exposure to the movement in the cost of withdrawal guarantees due to changes in capital markets. |

## *INVESTMENT OR MARKET RISKS*

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

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

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

| Risk | Management of Risk |
| --- | --- |
| **Interest Rate Risk** | |
| Interest rate risk exists if the cash flows of the liabilities and those of the assets supporting these liabilities are not closely matched and interest rates change causing a difference in value between the assets and liabilities. | Interest rate risk is managed by investing in assets that are suitable for the products sold.<br>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.<br>For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved as any change in the fair market value of the liabilities will be offset by a similar change in the fair value of the assets.<br>For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. In the U.S., the Company regularly monitors market and liability developments and may execute from time-to-time risk reduction programs, such as hedging. For example, in the U.S. during 2012, the Company has implemented a hedging program to mitigate exposure to rapidly rising interest rates on certain life insurance and deferred annuity liabilities that could be reinitiated when prevailing low interest rates conditions change. |
| **Equity Market Risk** | |
| Given the volatility in equity markets, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long-term expectation of investment returns appropriate for this asset class.<br><br>Returns from equities backing a portion of the non-adjustable life and living benefits insurance contract liabilities may be insufficient. | The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and investment properties is managed to provide returns that are consistent with the requirements of the underlying segment.<br><br>The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long-term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for short-term income statement volatility and the balance between this volatility and long-term economic value. |

| **Credit Risk** | |
|---|---|
| The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations. | It is Company policy to acquire only investment grade assets and minimize undue concentration of assets in any single geographic area, industry and company.<br>Guidelines specify minimum and maximum limits for each asset class.<br>Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies.<br>These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.<br>Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.<br>Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process.<br>The Company regularly monitors investment markets and economic conditions and may execute from time-to-time risk reduction programs, such as hedging. For example, in Europe during 2012, the Company has implemented a hedging program to mitigate exposure to the potential severe deterioration of credit experience related to potential adverse developments in the Eurozone. |
| **Liquidity Risk** | |
| The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.<br><br>There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.<br><br>In the normal course of its Reinsurance business, the Company provides LOCs to other parties, or beneficiaries. A beneficiary will typically hold a LOC as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives it if was unable to renew existing LOCs at maturity. | The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets.<br><br>The Company carefully considers whether or not to enter into derivative arrangements on a collaterized or uncollaterized basis. Where the Company or its subsidiaries enter into collaterized arrangements, the Company periodically tests the availability of suitable collateral under stress scenarios.<br><br>Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOCs issued to the LOC beneficiaries for certain reinsurance treaties. |

| **Foreign Exchange Risk** | |
|---|---|
| The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the U.K., Isle of Man, Ireland and Germany in the Europe segment.<br>The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income (loss). Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.<br>A 1% appreciation (depreciation) of the average exchange rate of the Canadian dollar to the U.S. dollar, British pound and euro together would decrease (increase) operating earnings in 2012 by $10 million.<br>A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income (loss) of shareholders' equity by $80 million as at December 31, 2012. | Management, from time-to-time, utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.<br>The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.<br>Investments are normally denominated in the same currency as the liabilities they support.<br>Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liabilities using foreign exchange contracts. |
| **Derivative Instruments** | |
| There is a risk of loss if derivatives are used for inappropriate purposes. | Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes.<br>The Company's risk management process governing the use of derivative instruments requires that the Company act only as an end-user of derivative products, not as a market maker.<br>The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.<br>There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 2012. |

***OPERATIONAL RISKS***

Following are the significant operational risks associated with the business.

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

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

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

***OTHER RISKS***

Other risks not specifically identified elsewhere include:

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

| **Future Acquisitions** | |
|---|---|
| From time-to-time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco. | Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing products and services.<br><br>In its consideration of strategic acquisitions, the Company may determine it to be prudent to hold additional capital for contingencies that may arise during the integration period. |
| **Regulatory Control Functions** | |
| OSFI defines the Control Functions to include Risk Management, Compliance, Actuarial, Finance and Internal Audit. The Company operates a decentralized business and governance model. While this has the benefit of a streamlined decision making model based on local market conditions, it may under certain circumstances, create challenges with regard to aggregation, reporting, consistency and independence in Control Functions.<br>The Company recognizes the benefit of aggregating risk on a consistent basis across all of its business segments. The Company also acknowledges the importance of independent control functions and a consistent approach to these functions across all lines of business. | During 2012, the Company transitioned oversight of the Risk Function from the Executive Committee to a newly established Risk Committee of the Board of Directors.<br>The Company engaged outside advisors to assist in the recommendation and implementation of a plan for the Risk Function which the Company will be instituting over a three year period.<br>The Company also engaged a third party to review and assess the independence of the OSFI Control Functions and will implement the recommendations in 2013. |

| Legal and Regulatory Risk | |
|---|---|
| The Company and certain of its principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the U.S., the U.K. and other jurisdictions applicable to reporting issuers and to insurance companies and companies providing investment management and other financial services (including supervision by governmental authorities in the jurisdictions in which they carry on business). These requirements, which include capital adequacy, liquidity and solvency requirements, investment restrictions, restrictions on the sale and marketing of insurance and annuity products and on the business conduct of insurers, asset managers and investment advisors, are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. Regulators may reassess capital requirements from time-to-time and require additional capital to be held in various regulated subsidiaries.<br>As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company.<br>Potential regulatory changes in Canada include new guidance on capital requirements for segregated funds and other OSFI initiatives, as well as new capital requirements for European entities being reviewed by the European Commission (Solvency II).<br>The Company adopted International Financial Reporting Standards (IFRS) on January 1, 2011 which impacted the opening surplus and net earnings of the Company. As well, new IFRS guidance including a revised standard on Insurance Contracts is being developed that may increase insurance contract liabilities when introduced. | The Company monitors compliance with the legal, regulatory, accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.<br>The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.<br><br>One of the foreign operations is in discussion with its regulator regarding the admissibility of certain assets for the purpose of calculating such local regulatory requirements. |

| **Legal and Regulatory Risk (cont'd)** | |
|---|---|
| While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve and capital requirements which would increase earnings volatility and increase the risk of technical insolvency, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future.<br>The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects. | |
| **Reputational Risk** | |
| In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects.<br>These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation. | The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign off annually on their compliance with the Code of Business Conduct and Ethics. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation. |

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

| Pension Risk | |
|---|---|
| The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans; the costs of these defined benefit plans are dependent on a host of factors including discount rates, returns on plans assets, compensation costs, inflation risk, employee service life, government regulations, and variances between expected and actual actuarial results. In the event that the pension plan assets do not achieve sustained growth over time and potential negative impact of the cost factors above, the Company could have a significant increase in pension funding obligations and costs that could reduce cash flows and profit margins. In certain jurisdictions, recent changes and proposed reform to government regulations could have a significant impact on the plans. | Pension risk is managed by regular monitoring of the plans, pension regulations and other factors that could impact the expenses and cash flows of the Company.<br>The Company has a Pension Committee that provides oversight for the pension plans of the Company. Pension plan regulations are monitored on an ongoing basis to assess the impact of changes to government regulations on the status, funding requirements and financial results of the Company.<br>Plan assumptions are reviewed regularly both internally and by external advisors and updated as necessary to reflect the latest research on expected future trends. The pension plans and assumptions are subject to external audit on an annual basis. |

| **Environmental Risk** | |
|---|---|
| Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations. | The Company endeavours to respect the environment and to take a balanced and environmentally sustainable approach to conducting business.<br>The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its Board of Directors and are reviewed annually.<br>One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) created to ensure compliance with applicable environmental legislation and outline best practice guidelines and procedures in responsible management practices designed to protect and preserve the environment and provide oversight on environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third-party clients. The properties for which GWLRA provides property management services are also administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation, by laws, codes, policies and undertaking a leadership position with their clients and within the real estate industry. GWLRA carries out ongoing reviews of environmental objectives, programs, policies and procedures to ensure consistency, effectiveness, quality and application, and establishes and maintains best practices through corporate programs and initiatives and emphasizes environmental awareness among staff, service providers and clients.<br>To quantify efforts in sustainability GWLRA has developed a Corporate Social Responsibility Scorecard that reports on greenhouse gas emissions for their corporate and regional offices across Canada. Commercial assets under management are monitored nationally and measured for environmental performance, which includes GHG emissions, waste diversion and water; monitoring is carried out by a third-party environmental consultant. GWLRA's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices. The Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking.<br>For more information on the Company's environmental policies and initiatives, refer to the Public Accountability Statement available on the Canadian operating subsidiaries websites. The Company monitors relevant emerging issues, regulations and requirements through collaboration with its environmental and legal consultants. The Environmental Committee of GWLRA reviews policies and procedures on an annual basis and revises established policies and guidelines as required. |

# ACCOUNTING POLICIES

## SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

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

The significant accounting estimates include the following:

### *Fair Value Measurement*

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

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

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

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

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

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

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

Refer to note 8 to the Company's annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2012.

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

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

***Investment impairment***
Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating impairment.

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

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

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

The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use, which is generally calculated using the present value of estimated future cash flows expected to be generated.

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

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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

***Mortality*** – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Mortality improvement has been projected to occur for the next 25 years. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. A 2% increase in the best estimate assumption would cause a decrease in net earnings of approximately $208 million.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would cause a decrease in net earnings of approximately $274 million.

***Morbidity*** – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best estimate incidence assumptions for active life liabilities would cause a decrease in net earnings of approximately $188 million.

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

***Investment return*s** – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance and investment contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholder net earnings of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows.

- The effect of an immediate 1% parallel increase in the yield curve would be to decrease these insurance and investment contract liabilities by approximately $181 million, causing an increase in net earnings of approximately $121 million.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately $715 million, causing a decrease in net earnings of approximately $504 million.

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

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

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

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

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

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

***Expenses*** – Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would cause a decrease in net earnings of approximately $56 million.

***Policy termination*** – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited. A 10% adverse change in the best estimate policy termination assumption would cause a decrease in net earnings of approximately $473 million.

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

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

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

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

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

***Employee future benefits*** – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost of benefits through employee contributions. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. Effective January 1, 2013, both the Great-West Life Assurance Company Canadian Employees' Pension Plan and the London Life Staff Pension Plan added a defined contribution provision to their plans. All new hires after this date are eligible only for defined contribution benefits. This change 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. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Company's pension plans and other post-employment benefits refer to note 23 to the Company's 2012 annual consolidated financial statements.

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

**Significant assumptions - employee future benefits**
At December 31

| | Defined benefit pension plans | | Other post-employment benefits | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Weighted average assumptions used to determine benefit cost** | | | | |
| Discount rate | **5.1 %** | 5.5 % | **5.1 %** | 5.5 % |
| Expected long-term rate of return on plan assets | **5.7 %** | 6.1 % | **- %** | - % |
| Rate of compensation increase | **3.5 %** | 3.6 % | **- %** | - % |
| **Weighted average assumptions used to determine defined benefit obligation** | | | | |
| Discount rate | **4.4 %** | 5.1 % | **4.2 %** | 5.1 % |
| Rate of compensation increase | **3.1 %** | 3.5 % | **- %** | - % |

***Weighted average health care trend rates*** – In determining the expected cost of healthcare benefits, health care costs were assumed to increase by 6.5% in 2012 and gradually decrease to a level of 4.5% over 12 years. For 2012, the impact of a 1 percentage point change to assumed healthcare rates on the defined post-employment benefit obligation is an approximate $40 million ($41 million in 2011) increase for a 1 percentage point increase to rates and an approximate $33 million ($34 million in 2011) decrease for a 1 percentage point decrease to rates. Similarly, the impact on the post-employment current service cost and interest cost of a 1 percentage point increase to rates is an approximate $2 million ($2 million in 2011) increase and a 1 percentage point decrease to rates is an approximate $2 million ($2 million in 2011) decrease.

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

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

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

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

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

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

| **Impact of a change of 1.0% in significant assumptions** | **Defined benefit pension plans** | | **Other post-employment benefits** | |
|---|---|---|---|---|
| | **Obligation** | **Expense** | **Obligation** | **Expense** |
| **Discount rate** | | | | |
| Increase | (551) | (12) | (48) | 1 |
| Decrease | 705 | 16 | 59 | (1) |
| **Expected long-term rate of return on plan assets** | | | | |
| Increase | n/a | (31) | n/a | n/a |
| Decrease | n/a | 31 | n/a | n/a |
| **Rate of compensation increase** | | | | |
| Increase | 124 | 14 | - | - |
| Decrease | (109) | (12) | - | - |
| **Health care trend rate** | | | | |
| Increase | n/a | n/a | 40 | 2 |
| Decrease | n/a | n/a | (33) | (2) |

***Funding*** - The Company's subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans which are unfunded. The Company's funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company contributed $121 million ($123 million in 2011) to the pension plans and made benefit payments of $17 million ($17 million in 2011) for post-employment benefits. The Company expects to decrease contributions to its defined benefit pension plans by approximately $8 million in 2013.

**International Financial Reporting Standards** – The Company issued its first annual consolidated financial statements in compliance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2011.

Due to the evolving nature of IFRS, there are a number of IFRS changes that could impact the Company in the future. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations. In addition, the Company considers potential changes to financial reporting, disclosure controls and procedures, or information systems of the Company as a result of these IFRS changes.

IFRS that will change in the future and could impact the Company are set out in the following tables:

**Effective in 2013**

| Revised standard | Summary of Future Changes |
|---|---|
| IAS 19 - Employee Benefits | The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through other comprehensive income (OCI). As a result the net pension asset or liability will reflect the full funded status of the pension plan 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.<br><br>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 IFRS will be applied retroactively which is anticipated to decrease opening equity by approximately $400 million at January 1, 2012, with an additional decrease to opening equity of approximately $200 million at January 1, 2013.<br><br>For further information on the Company's employee benefit plans, please refer to note 23 to the December 31, 2012 consolidated financial statements. |

| | |
|---|---|
| IFRS 10 - Consolidated Financial Statements;<br>IFRS 11 - Joint Arrangements;<br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>In June 2012, the IASB 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.<br><br>The IASB 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 IFRS. |
| 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.<br><br>The standard relates primarily to disclosure and will not impact the financial results of the Company. |
| 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 OCI be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified.<br><br>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.<br><br>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 standard | Summary of Future Changes |
|---|---|
| IFRS 4 - Insurance Contracts | The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under the Canadian Asset Liability Method (CALM) and may cause significant volatility in the results of the Company. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.<br><br>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.<br><br>The Company will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; the Company continues to actively monitor developments in this area. |
| IFRS 9 - Financial Instruments | The 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.<br><br>The new standard also requires:<br>• embedded derivatives to be assessed for classification together with their financial asset host;<br>• an expected loss impairment method be used for financial assets; and<br>• amendments to the criteria for hedge accounting and measuring effectiveness<br><br>The full impact of IFRS 9, *Financial Instruments* on the Company will be evaluated after the remaining stages of the IASB's project to replace IAS 39, *Financial Instruments* impairment methodology, hedge accounting, and asset and liability offsetting are finalized. The Company continues to actively monitor developments in this area.<br><br>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 IASB issued an exposure draft proposing a new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist.<br><br>The full impact of adoption of the proposed changes will be determined once the final lease standard is issued. |
| IAS 18 - Revenue Recognition | The IASB issued a second exposure draft in November 2011 which proposed a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer.<br><br>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.<br><br>The Company is evaluating the impact this standard will have on the presentation of its financial statements. |

## *SEGMENTED OPERATING RESULTS*

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

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

## CANADA

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

### BUSINESS PROFILE

#### INDIVIDUAL INSURANCE

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

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

**WEALTH MANAGEMENT**

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

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

**GROUP INSURANCE**

In Canada, the Company offers effective benefit solutions for large and small employee groups. Through the Company's extensive network of Group sales offices and Sales and Marketing Centres located across the country, it distributes its products through financial security advisors, brokers, and consultants. The Company offers a wide range of products and services including Group Life, Accidental Death and Dismemberment, Disability, Health and Dental protection.

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

## MARKET OVERVIEW

### PRODUCTS AND SERVICES

**Individual Insurance**

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

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Manages largest portfolio of life insurance in Canada as measured by premium<br>• Pre-eminent provider of individual disability and critical illness insurance with 30% market share of in-force premium | ***Individual Life Insurance***<br>• Term Life<br>• Universal Life<br>• Participating Life<br><br>***Living Benefits***<br>• Disability<br>• Critical Illnesses | **Associated with:**<br>***Great-West Life Distribution***<br>• 1,758 Great-West Life financial security advisors<br>• 2,492 advisors associated with a number of intercorporate arrangements<br>• 6,375 independent brokers<br><br>***London Life Distribution***<br>• 3,476 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors<br><br>***Canada Life Distribution***<br>• 9,603 independent brokers associated with 56 Managing General Agencies (MGAs)<br>• 1,909 advisors associated with 17 national accounts<br>• 3,465 Investors Group consultants who actively sell Canada Life products<br>• 249 direct brokers and producer groups |

**Wealth Management**

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

The Company offers a wide range of segregated funds through its multiple distribution channels including 85 London Life Segregated funds to individual Freedom 55 Financial™ clients, 73 Canada Life segregated funds to individual Canada Life clients, 78 Great-West Life segregated funds to individual Great-West Life clients and 224 segregated funds to Envision Group Capital Accumulation Fund clients.

Quadrus offers 44 mutual funds under the Quadrus Group of Funds™ brand and over 3,500 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

| MARKET POSITION | PRODUCTS AND SERVICES | | DISTRIBUTION |
|---|---|---|---|
| • 26% market share of individual segregated funds<br>• 18% market share of group capital accumulation plans | **Group Retirement Services**<br>• Group Capital Accumulation Plans<br>  • Non-registered savings programs<br>  • Deferred profit sharing plans<br>  • Defined contribution pension plans<br>  • Group RRSPs & TFSAs<br>Invested in:<br>  • Segregated funds<br>  • Guaranteed investment options<br>  • Single company stock<br><br>• Retirement Income Plans<br>  • Payout annuities<br>  • Deferred annuities<br>  • Retirement income funds<br>  • Life income funds<br><br>• Investment management services only plans<br>Invested in:<br>  • Segregated Funds<br>  • Guaranteed Investment options<br>  • Securities | **Individual Retirement & Investment Services**<br>• Savings plans<br>  • Registered Retirement savings plans<br>  • Non-registered savings programs<br>  • TFSAs<br>Invested in:<br>  • Segregated funds<br>  • Mutual funds<br>  • Guaranteed investment options<br><br>• Retirement Income Plans<br>  • Segregated funds with GMWB rider<br>  • Retirement income funds<br>  • Life income funds<br>  • Payout annuities<br>  • Deferred annuities<br><br>• Residential mortgages<br>• Banking products | **Associated with:**<br>***Great-West Life Distribution***<br>• 1,758 Great-West Life financial security advisors<br>• 2,492 advisors associated with a number of intercorporate arrangements<br>• 6,375 independent brokers<br><br>***London Life Distribution***<br>• 3,476 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors<br><br>***Canada Life Distribution***<br>• 9,603 independent brokers associated with 56 Managing General Agencies (MGAs)<br>• 1,909 advisors associated with 17 national accounts<br>• 3,465 Investors Group consultants who actively sell Canada Life products<br>• 249 direct brokers and producer groups<br><br>**Quadrus Investment Services Ltd.** (also included in Great-West Life and London Life advisor counts):<br>• 3,813 investment representatives<br><br>**Group Retirement Services**<br>• Benefits Consultants, Brokers and Affiliated advisors (as above) |

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

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Employee benefits to over 30,000 plan sponsors<br>• 22% market share for employee/employer plans<br>• Leading market share for creditor plans | ***Life and Health***<br>• Life<br>• Disability<br>• Critical Illness<br>• Accidental death & dismemberment<br>• Dental<br>• Expatriate coverage<br>• Extended health care<br>***Creditor***<br>• Creditor life<br>• Creditor disability<br>• Creditor job loss<br>• Creditor critical illness | • 114 account managers and sales staff located in 17 Group Offices<br>• 101 Regional Employee Benefits Managers and Selectpac Specialists located in Sales and Marketing Centres |

## COMPETITIVE CONDITIONS

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

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

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

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

**Selected consolidated financial information - Canada**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits | **$ 5,786** | $ 4,852 | $ 4,931 | **$ 20,761** | $ 19,381 |
| Sales | **2,678** | 2,022 | 2,301 | **9,298** | 8,944 |
| Fee and other income | **283** | 271 | 266 | **1,101** | 1,088 |
| Net earnings - common shareholders | **263** | 281 | 244 | **1,040** | 986 |
| | | | | | |
| Total assets | **$ 121,334** | $ 119,485 | $ 114,538 | | |
| Proprietary mutual funds net assets | **3,585** | 3,523 | 3,318 | | |
| Total assets under management | **124,919** | 123,008 | 117,856 | | |
| Other assets under administration | **13,184** | 12,907 | 11,458 | | |
| **Total assets under administration** | **$ 138,103** | $ 135,915 | $ 129,314 | | |

**Net earnings - common shareholders**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011* |
| Individual Insurance | **$ 11** | $ 83 | $ 41 | **$ 187** | $ 293 |
| Wealth Management | **69** | 82 | 80 | **299** | 267 |
| Group Insurance | **136** | 119 | 101 | **439** | 375 |
| Corporate | **47** | (3) | 22 | **115** | 51 |
| Net earnings | **$ 263** | $ 281 | $ 244 | **$ 1,040** | $ 986 |

* During the year, the Company reallocated certain income tax items initially recorded in Canada Corporate to the various Canadian business units to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

## 2012 DEVELOPMENTS

- Net earnings for the twelve months ended were $1,040 million, up 5% over the same period last year. Net earnings attributable to common shareholders for the fourth quarter of 2012 were $263 million compared to $244 million for the fourth quarter of 2011.
- For the twelve months ended, sales were $9,298 million, up 4% over the same period last year. Sales in the fourth quarter of $2,678 million were up 16% compared to the fourth quarter of 2011.
- Premiums and deposits of $20,761 million for the twelve months ended, were 7% higher than the same period last year. Premiums and deposits of $5,786 million were 17% higher than the fourth quarter of 2011.
- The Quadrus U.S. and International Specialty Corporate Class Fund won a Lipper Award for its five-year performance. The fund was judged best in the global small/mid cap equity category for its strong and consistent performance over the past five years. In 2011, the same fund won the award for both its five-year and three-year performance.
- In May, Wealth Management launched a new high net worth retail segregated fund product for clients with a balance of $500,000 or more in retail savings accounts managed by Great-West Life. This product has lower and more flexible fees as well as enhanced reporting. It generated nearly $200 million in deposits in the first seven months, well above pre-launch targets.
- Low interest rates have reduced Individual Insurance profit margins putting upward pressure on prices. The prices of the Company's Individual Insurance non-participating product shelf are being actively managed and some of these prices were increased in 2012 to maintain adequate profit margins. The potential for future mortality gains on new life insurance sales has also been increased by retaining more mortality risk.
- Wealth Management introduced a new disclosure process and package for employees retiring or terminating from their group plans which will enable improved retention of assets into the NextStep™ plan.
- Innovative new approaches to prescription drug management were introduced to the market throughout 2012. These included enhanced handling of generic drugs, introduction of Health Case Management services for high cost drugs and a unique partnership with Costco for the delivery of cost effective prescriptions.
- Provider eClaims, the electronic payment system for service providers to Group plan members, was expanded significantly with the introduction of services to Massage Therapists and Naturopaths. Together with Chiropractors, Physiotherapists and Opticians, this network of registered providers now exceed 13,000.
- Mobile services were introduced to plan members in the spring of 2012 with the introduction of an iPhone app providing mobile access to our GroupNet for Plan Member web portal. Blackberry and Android apps were introduced later on in the year and to date, we have had over 40,000 downloads of these apps by our plan members.
- The Company continued its strong support in the important area of mental health in Canada through the Great-West Life Centre for Mental Health in the Workplace. In 2012, the Centre commissioned Ipsos Reid to conduct a survey of mental health in the workplace. This survey of over 6,000 Canadians is providing employers, mental health organizations and public health authorities valuable data and perspectives in this critical area. The Company was also an active supporter of the Mental Health Commission of Canada in its development of the National Standard of Canada on Psychological Health and Safety in the Workplace.

## BUSINESS UNITS - CANADA

### *INDIVIDUAL INSURANCE*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec.31 2012** | Sept. 30 2012 | Dec.31 2011 | **Dec.31 2012** | Dec.31 2011* |
| Premiums and deposits | **$ 1,037** | $ 971 | $ 985 | **$ 3,926** | $ 3,673 |
| Sales | **138** | 115 | 117 | **489** | 425 |
| Net earnings | **11** | 83 | 41 | **187** | 293 |

* During the year, the Company reallocated certain income tax items initially recorded in Canada Corporate to Individual Insurance to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

**Premiums and deposits**

Individual Insurance premiums increased by $52 million to $1,037 million compared to the same quarter last year. Individual Life premiums for the quarter increased by $49 million to $957 million compared to the same quarter last year, primarily due to a 6% increase in participating life premiums. Living Benefits premiums for the quarter increased by $3 million to $80 million compared to the same period last year.

For the twelve months ended December 31, 2012 Individual Insurance premiums increased by 7% to $3,926 million compared to the same period last year. Individual Life premiums increased by $239 million to $3,608 million compared to the same period last year. Living Benefits premiums increased by $14 million to $318 million compared to the same period last year.

Individual Insurance premiums increased by $66 million to $1,037 million compared to the previous quarter, primarily due to an 11% increase in participating life premiums due to the normal seasonality of life insurance sales.

**Sales**

For the quarter, Individual Life sales increased by $18 million to $124 million compared to the same quarter last year. The increase was driven by a 67% increase in universal life sales. Sales of Living Benefits of $14 million were $3 million higher than in the same quarter last year.

For the twelve months ended December 31, 2012, Individual Life sales increased by $61 million to $442 million compared to the same period last year, primarily due to a 25% increase in participating life sales. Sales of Living Benefits of $47 million were $3 million higher than in the same period last year.

Individual Life sales increased by $20 million to $124 million compared to the previous quarter. Living Benefits sales of $14 million were $3 million higher than in the previous quarter.

**Net earnings**

Net earnings for the quarter decreased by $30 million compared to the fourth quarter of 2011. This decrease was driven by a $14 million increase in new business strain on sales made prior to repricing earlier in the year to address low interest rates and a $25 million unfavourable decrease in investment and morbidity experience, partially offset by $15 million higher insurance contract liability basis changes.

For the twelve months ended December 31, 2012, net earnings decreased by $106 million compared to the same period last year. Year-over-year, the impact of insurance contract liability basis changes is $78 million lower compared to 2011, principally because in 2011 the Company adopted the revised Actuarial Standards of Practice for mortality improvements which resulted in a significant release for individual non-participating life insurance last year. The 2012 results also include a $40 million increase in new business strain and a $23 million reduction in mortality and morbidity experience gains, partially offset by a $32 million increase in investment and policyholder behaviour experience gains.

Net earnings decreased by $72 million compared to the previous quarter. This decrease is primarily due to a $40 million decrease in insurance contract liability basis changes and a $25 million reduction in investment and morbidity experience gains.

The net earnings attributable to the participating account was $206 million in the fourth quarter of 2012 compared to net earnings of $99 million in the fourth quarter of 2011. The fourth quarter net earnings include the impact of the revised litigation provision.

For the twelve months ended December 31, 2012, the net earnings attributable to the participating account was $269 million compared to net earnings of $108 million for the same period in 2011. For both periods, the results include the impact of insurance contract liability basis changes, and the results include the impact of the participating account litigation. Excluding these two items, 2012 net earnings also include lower new business strain compared to 2011, even with higher sales.

The net earnings attributable to the participating account increased by $133 million from the third quarter of 2012.

**OUTLOOK – INDIVIDUAL INSURANCE**

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

The Individual Insurance division delivered solid results in 2012 considering the challenging low interest environment. The Company's reputation for strength and stability, combined with prudent business practices as well as depth and breadth of our distribution channels positions the organization well for 2013 and beyond. We have reviewed our strategies and re-aligned aspects of our organization with the goal of achieving superior organic growth from profitable revenues.

In 2013, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach is beneficial to the maintenance and improvement of the persistency of existing business as well as helping advisors attract new clients to the organization. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors where appropriate.

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

The Company's diversified offering of Individual Insurance products including participating whole life, term, universal life, disability, and critical illness insurance, combined with a commitment to new business service will position it to continue to achieve market leading sales in 2013. The Company will continue to enhance its suite of product solutions and services, of which it is a leading provider and it will continue to focus on growing its business organically by constantly improving service to clients.

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

## *WEALTH MANAGEMENT*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec.31 2012** | Sept. 30 2012 | Dec.31 2011 | **Dec.31 2012** | Dec.31 2011* |
| Premiums and deposits | **$ 2,869** | $ 2,021 | $ 2,134 | **$ 9,382** | $ 8,542 |
| Sales | **2,386** | 1,825 | 2,026 | **8,286** | 7,983 |
| Fee and other income | **233** | 223 | 220 | **906** | 905 |
| Net earnings | **69** | 82 | 80 | **299** | 267 |

* During the year, the Company reallocated certain income tax items initially recorded in Canada Corporate to Wealth Management to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

**Premiums and deposits**

Premiums and deposits to proprietary retail investment funds for the fourth quarter increased by $140 million to $1,074 million compared to the same quarter last year. This increase is due to significant deposits to GMWB and high net worth products. Premiums and deposits to retail guaranteed interest rate and payout annuity products of $57 million were $16 million lower than the fourth quarter of 2011. This decrease was in part due to the lower long term interest rates as investors moved to more price sensitive, lower margin short term guarantees. Premiums and deposits to group retirement products of $1,738 million were $611 million higher compared to the same quarter last year. This result was driven by strong lump-sum transfers from new group capital accumulation plan clients.

For the twelve months ended December 31, 2012, premiums and deposits to proprietary retail investment funds increased by $41 million to $3,877 million compared to the same period last year driven by the strong fourth quarter. Premiums and deposits to retail guaranteed interest rate and payout annuity products were $230 million for the last twelve months of 2012, $173 million lower than in the same period last year. The decline in deposits to these products was primarily due to fewer clients electing for these interest sensitive products in the current low interest environment. Premiums and deposits to group retirement products increased by $972 million to $5,275 million compared to the same period last year, for the same reasons as noted for the in-quarter result above.

Premiums and deposits to proprietary retail investment funds increased by $209 million with retail guaranteed interest rate and payout annuity products increasing by $18 million compared to the previous quarter. Premiums to group retirement products increased by $621 million compared to the previous quarter. All of these increases are due to the same reasons as noted in the in-quarter results above as well as the normal cyclical increase in the fourth quarter.

**Sales**

Sales for the quarter increased by $360 million compared to the same quarter last year. Sales of proprietary retail investment funds increased by $216 million to $1,393 million compared to the same quarter last year due to a $57 million increase in GMWB sales and a $139 million increase in high net worth product sales. Sales of retail guaranteed interest rate and payout annuity products of $166 million were $33 million lower than in the same quarter last year for the same reasons as for premiums and deposits noted above. Sales of group retirement products of $581 million were $134 million higher than in the same quarter last year due to significant increases in group capital accumulation plan and investment only sales.

For the twelve months ended December 31, 2012, sales of proprietary retail investment funds increased by $131 million to $4,838 million compared to the same period last year. Sales of retail guaranteed interest rate and payout annuity products decreased by $213 million to $649 million compared to the same period last year for the same reason as noted for the quarter-over-quarter sales comparison above. Sales of group retirement products increased by $352 million to $1,897 million compared to the same period last year due to a significant increase in group capital accumulation plan sales.

Sales of proprietary retail investment funds increased by $311 million and sales of retail guaranteed interest rate and payout annuity products increased by $18 million compared to the previous quarter due to strong GMWB sales and the normal cyclical increase in the fourth quarter. Group retirement products sales increased by $175 million, for the same reasons as noted for the quarter over quarter premiums and deposits comparison.

**Fee and other income**

**Assets under administration**

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **Assets under management** | | |
| Individual Retirement & Investment Services | | |
| Risk-based products | **$ 6,983** | $ 7,278 |
| Segregated funds | **24,061** | 22,702 |
| Proprietary mutual funds | **3,585** | 3,318 |
| Group Retirement Services | | |
| Risk-based products | **6,677** | 6,788 |
| Segregated funds | **30,280** | 26,920 |
| | **$ 71,586** | $ 67,006 |
| **Other assets under administration (1)** | | |
| Individual Retirement & Investment Services | **4,572** | 4,140 |
| Group Retirement Services | **835** | 729 |
| **Total** | **$ 5,407** | $ 4,869 |
| **Summary by business/product** | | |
| Individual Retirement & Investment Services | **$ 39,201** | $ 37,438 |
| Group Retirement Services | **37,792** | 34,437 |
| **Total assets under administration** | **$ 76,993** | $ 71,875 |

(1) Includes mutual funds distributed by Quadrus Investment Services, stock purchase plans administered by London Life and portfolio assets managed by GLC Asset Management Group.

Fee income for the fourth quarter increased by $13 million or 6% from the same quarter in 2011. Higher average TSX equity index levels of 2.8% as well as higher real estate and fixed income values were partially offset by lower margins due to a shift of retail investment fund asset mix towards fixed income products and pricing pressure on group capital accumulation plans.

For the twelve months ended December 31, 2012, fee and other income increased by $1 million compared to the same period last year as lower Canadian equity market levels and fee margins were mostly offset by positive cash flows and performance of real estate and fixed income funds. The average TSX equity index in 2012 was 6.7% lower than last year.

Fee and other income increased by $10 million compared to the previous quarter due to the higher average equity market levels than in the third quarter of 2012.

**Net earnings**

Net earnings for the fourth quarter of 2012 decreased by $11 million compared to the same quarter last year. The decrease is primarily from lower insurance contract liability basis changes and higher operating expenses, partially offset by higher fee income and more favourable mortality experience.

For the twelve months ended December 31, 2012, net earnings increased by $32 million compared to the same period last year. This is primarily due to higher insurance contract liability basis changes, principally because in 2011 the Company adopted the revised Actuarial Standards of Practice for mortality improvements which resulted in a significant strengthening for payout annuities last year, partially offset by higher operating expenses and lower investment experience gains.

Net earnings decreased by $13 million compared to the previous quarter. The decrease reflects lower insurance contract liability basis changes.

**OUTLOOK – WEALTH MANAGEMENT**

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

The Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of Wealth Management's distribution channels positions the organization well for 2013 and beyond. Wealth Management's strategy and organization are focused on achieving superior organic growth in profitable revenues.

In 2013, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term investment success. This approach benefits the Company by improving existing asset retention and by helping advisors attract new client deposits to the organization. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors where appropriate.

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

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

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

## *GROUP INSURANCE*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011* |
| Premiums and deposits | **$ 1,880** | $ 1,860 | $ 1,812 | **$ 7,453** | $ 7,166 |
| Sales | **154** | 82 | 158 | **523** | 536 |
| Fee and other income | **37** | 36 | 35 | **149** | 147 |
| Net earnings | **136** | 119 | 101 | **439** | 375 |

* During the year, the Company reallocated certain income tax items initially recorded in Canada Corporate to Group Insurance to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

**Premiums and deposits**

Premiums and deposits for the fourth quarter of 2012 increased by $68 million to $1,880 million compared to the same period last year, primarily due to an increase in health and long term disability premiums.

For the twelve months ended December 31, 2012, premiums and deposits increased by $287 million to $7,453 million compared to the same period in 2011. Large case premiums and deposits increased by 6%.

Premiums and deposits increased by $20 million compared to the previous quarter.

**Sales**

For the fourth quarter of 2012, sales decreased by $4 million to $154 million compared to the same quarter last year. The decrease was due to lower sales in the small/mid-size case market and the creditor/direct marketing products partly offset by the higher sales in the large case market. Sales in the large case market can be highly variable from quarter-to-quarter.

For the twelve months ended December 31, 2012, sales decreased by $13 million to $523 million compared to the same period last year. The decrease was primarily due to lower sales in the small/mid-size case market.

Sales increased by $72 million to $154 million compared to the previous quarter due to increased sales in the small/mid size case and large case markets partly offset by lower sales in creditor/direct marketing products.

**Fee and other income**

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

Fee and other income for the quarter was $2 million higher when compared to the fourth quarter of 2011 mainly due to an increase in ASO premium equivalents.

For the twelve months ended December 31, 2012, fee and other income increased by $2 million compared to the same period last year mainly due to an increase in ASO premium equivalents.

Fee and other income for the quarter increased by $1 million compared to the previous quarter mainly due to the seasonality of ASO premium equivalents.

**Net earnings**
Net earnings for the fourth quarter of 2012 increased by $35 million compared to the same period last year, primarily due to favourable morbidity results and higher gains from insurance contract liability basis changes partly offset by lower investment gains and unfavourable mortality results.

For the twelve months ended December 31, 2012, net earnings of $439 million increased by $64 million compared to the same period last year. The increase was primarily due to higher gains from insurance contract liability basis changes, favourable morbidity results and higher investment gains. The increases were partly offset by lower expense gains.

Net earnings increased by $17 million when compared to the previous quarter primarily due to higher gains from insurance contract liability basis changes and higher expense gains. The increases were partly offset by unfavourable mortality and morbidity results, lower investment gains and favourable income tax adjustments recorded in the third quarter.

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

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

## *CANADA CORPORATE*
Canada Corporate consists of items not associated directly with or allocated to the Canadian business units. During the year, the Company reallocated certain income tax items initially recorded in Canada Corporate to the business units to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

Canada Corporate reported net earnings for the quarter of $47 million, compared to net earnings of $22 million in the fourth quarter of 2011. The increase in net earnings is due primarily to the release of provisions for certain Canadian retirement plans of $38 million as disclosed in note 30 of the Company's annual consolidated financial statements, partially offset by lower mark-to-market gains on investment properties of $11 million and investment losses of $5 million.

For the twelve months ended December 31, 2012, Canada Corporate reported net earnings of $115 million compared to $51 million for the same period in 2011. The increase in net earnings is primarily due to the release of provisions for certain Canadian retirement plans of $38 million noted above and higher income on surplus assets and lower operating costs.

Compared to the previous quarter, net earnings increased by $50 million primarily due to the release of provisions for certain Canadian retirement plans of $38 million noted above and lower income taxes.

## UNITED STATES

The United States operating results for Lifeco include the results of Great West Life & Annuity Insurance Company (Great-West Financial), Putnam Investments, LLC (Putnam), and the results of the insurance businesses in the United States branches of Great West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

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

### BUSINESS PROFILE

#### FINANCIAL SERVICES

Great-West Financial provides an array of financial security products, including employer-sponsored defined contribution retirement plans. Through relationships with government plan sponsors, the Company is one of the largest providers of services to state defined contribution plans, with 17 record-keeping and two investment only state clients as well as the government of Guam. It also provides annuity and life insurance products for individuals and businesses, as well as fund management, investment and advisory services. Through its FASCore subsidiary, it offers private label record-keeping and administrative services for other providers of defined contribution plans.

#### ASSET MANAGEMENT

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

## MARKET OVERVIEW

### PRODUCTS AND SERVICES

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

### FINANCIAL SERVICES

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Fourth largest defined contribution record-keeper in the country, providing services for 4,656,306 participant accounts and 27,343 plans<br>• 25% market share of state and local government deferred compensation plans (as of September 30, 2012)<br>• 36% market share of individual life insurance sold through the retail bank channel (as of September 30, 2012)<br>• 10% market share of business-owned life insurance purchased by financial institutions (as of September 30, 2012)<br>• Great-West Lifetime Funds are the 14th largest target date fund offering in the United States | • Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services<br>• Administrative and record-keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans<br>• Fund management, investment and advisory services<br>• Individual retirement accounts (IRAs), individual term and single premium life insurance, and individual annuity products<br>• Business-owned life insurance and executive benefits products | • Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks<br>• FASCore record-keeping and administrative services distributed through institutional clients<br>• Individual life and annuity products distributed through wholesale and retail sales force, banks, broker dealers and investment advisors<br>• IRAs available to individuals through service staff and the IRA website<br>• Business-owned life insurance and executive benefits products distributed through wholesalers and specialized consultants |

### ASSET MANAGEMENT

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • A Global asset manager with assets under management of US$128.3 billion as of December 31, 2012<br>• International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Asia and Australia and through a strategic distribution relationship in Japan | **Investment Management Products & Services**<br>• Individual retail investors - a family of open-end and closed-end mutual funds, college savings plans and variable annuity products<br>• Institutional investors - defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)<br>• Administrative and record-keeping services for defined contribution plans<br>• Alternative investment products across the fixed income, currency, quantitative and equity groups<br><br>**Administrative Services**<br>• Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services | **Individual Retail Investors**<br>• A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution plan services to their customers, which, in total, includes nearly 160,000 advisors<br>• Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents<br>• Retail distribution channels are supported by Putnam's sales and relationship management team<br>• Retirement plan sponsors and participants are supported by Putnam’s dedicated retirement plan professionals and through a relationship with FASCore.<br><br>**Institutional Investors**<br>• Supported by Putnam's dedicated account management, product management, and client service professionals<br>• Strategic relationships with several investment management firms outside of the U.S. |

## COMPETITIVE CONDITIONS

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

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

**Selected consolidated financial information - United States**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits | **$ 8,395** | $ 8,289 | $ 7,216 | **$ 30,018** | $ 33,991 |
| Sales | **9,533** | 9,071 | 8,890 | **33,512** | 36,834 |
| Fee and other income | **314** | 304 | 304 | **1,226** | 1,232 |
| Net earnings - common shareholders | **77** | 87 | 79 | **325** | 370 |
| Net earnings - common shareholders (US$) | **78** | 87 | 78 | **325** | 375 |

| | Dec. 31 2012 | Sept. 30 2012 | Dec. 31 2011 |
|---|---|---|---|
| Total assets | **$ 57,563** | $ 57,242 | $ 54,581 |
| Proprietary mutual funds and institutional net assets | **131,013** | 128,081 | 122,072 |
| Total assets under management | **188,576** | 185,323 | 176,653 |
| Other assets under administration | **144,164** | 138,595 | 126,247 |
| **Total assets under administration** | **$ 332,740** | $ 323,918 | $ 302,900 |

**Net earnings - common shareholders**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Financial services | **$ 96** | $ 91 | $ 87 | **$ 365** | $ 355 |
| Asset management | **(19)** | (4) | (8) | **(40)** | 15 |
| Corporate | **-** | - | - | **-** | - |
| | **$ 77** | $ 87 | $ 79 | **$ 325** | $ 370 |

**Net earnings - common shareholders** (US$ millions)

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011* | **Dec. 31 2012** | Dec. 31 2011* |
| Financial services | **$ 97** | $ 91 | $ 86 | **$ 365** | $ 359 |
| Asset management | **(19)** | (4) | (8) | **(40)** | 16 |
| Corporate | **-** | - | - | **-** | - |
| | **$ 78** | $ 87 | $ 78 | **$ 325** | $ 375 |

* During 2012, the Company reallocated certain income tax and expense items initially recorded in United States Corporate to Great-West Financial to improve alignment with revenues. The comparative figures reflect the revised allocations where applicable.

## BUSINESS UNITS – UNITED STATES

### TRANSLATION OF FOREIGN CURRENCY

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

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

## *FINANCIAL SERVICES*

### 2012 DEVELOPMENTS

- For the twelve months ended, sales were $9.7 billion, up 12% over the same period last year. Sales in the fourth quarter of 2012 were US$2.9 billion, compared to US$3.4 billion in the same period of 2011.
- Net earnings for the twelve months ended were US$365 million, up 2% from the same period last year. Net earnings for the fourth quarter of 2012 increased by US$11 million from the same period of 2011 primarily due to positive tax benefits.
- Premiums and deposits for the twelve months ended were US$6.2 billion, or 6% higher than in the same period last year. Premiums and deposits were US$1.7 billion for the fourth quarter of 2012, comparable with the same quarter last year.
- For the twelve months ended, fee and other income was US$495 million, an increase of US$20 million from the same period last year. Fee and other income in the fourth quarter of 2012 was US$129 million compared to US$119 million in the same period of 2011.
- Great-West Financial assets under management in its managed accounts now exceed US$6 billion.
- Great-West Lifetime Funds increased 89% from the previous year end to US$3.7 billion increasing the ranking to 14th largest for the target date fund offering in the United States.
- Great-West Financial's initiative to increase participant balances through educating and assisting plan participants with retirement account consolidation contributed to roll-ins to existing Retirement Services plans of US$916 million to Assets under Administration (AUA).

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011* | **Dec. 31 2012** | Dec. 31 2011* |
| Premiums and deposits | **$ 1,712** | $ 1,659 | $ 1,761 | **$ 6,234** | $ 5,827 |
| Sales | **2,850** | 2,441 | 3,435 | **9,728** | 8,670 |
| Fee and other income | **128** | 122 | 122 | **495** | 470 |
| Net earnings | **96** | 91 | 87 | **365** | 355 |
| | | | | | |
| Premiums and deposits (US$) | **$ 1,730** | $ 1,659 | $ 1,726 | **$ 6,238** | $ 5,874 |
| Sales (US$) | **2,878** | 2,441 | 3,368 | **9,736** | 8,702 |
| Fee and other income (US$) | **129** | 122 | 119 | **495** | 475 |
| Net earnings (US$) | **97** | 91 | 86 | **365** | 359 |

* During 2012, the Company reallocated certain income tax and expense items initially recorded in United States Corporate to Great-West Financial to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

**Premiums and deposits**

Premiums and deposits for the fourth quarter of 2012 increased by US$4 million compared to the fourth quarter of 2011.

For the twelve months ended December 31, 2012, premiums and deposits increased by US$364 million compared to the same period in 2011 due to an increase of US$213 million in Individual Markets and US$151 million in Retirement Services. The increase in Individual Markets was primarily related to higher sales in the retail bank and business-owned life insurance markets. The increase in Retirement Services was primarily related to a higher volume large 401(k) plan activity offset by lower volume large-plan sales in the public/non-profit market.

Compared to the previous quarter, premiums and deposits increased by US$71 million primarily due to increased

transfers of US$86 million from retail investment options to the general account in 401(k).

### Sales

For the fourth quarter, sales decreased by US$490 million compared to the fourth quarter of 2011 due to a decrease of US$558 million in Retirement Services offset by an increase of US$68 million in Individual Markets. The fourth quarter of 2011 reflected two large plan sales for the public/non-profit market which did not repeat in the fourth quarter of 2012. The Individual Retirement Account (IRA) business of Individual Markets increased by US$48 million or 91% compared to the same period last year due to the strategic initiative to increase awareness of the rollover product among terminated plan participants.

For the twelve months ended December 31, 2012, sales increased by US$1.0 billion compared to the same period of 2011 due to an increase of US$683 million in Retirement Services and US$351 million in Individual Markets. The 401(k) market experienced an increase of US$1.1 billion primarily due to an increase in the number and size of plan sales. The public/non-profit market experienced a decrease of US$462 million due to reduced large plan sales in 2012 compared to 2011. The retail bank market of Individual Markets increased US$168 million or 56% compared to the same period last year primarily due to the addition of several wholesalers and increased penetration of newer bank distribution relationships. The IRA business of Individual Markets increased by US$97 million or 50% compared to the same period last year due to the strategic initiative to increase awareness of the rollover product among terminated plan participants. The business-owned life insurance sales increased by US$64 million or 20% compared to the same period last year.

Sales increased by US$437 million compared to the previous quarter due to higher sales in the 401(k) market of US$519 million primarily due to a higher number of plan sales and higher sales activity in the large 401(k) market in the fourth quarter of 2012.

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

| | Change for the twelve months ended December 31 | | Total at December 31 | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **% Change** |
| **General account - fixed options** | | | | | |
| Public/Non-profit | **$ 201** | $ 68 | **$ 3,825** | $ 3,624 | 6 % |
| 401(k) | **645** | 606 | **5,561** | 4,916 | 13 % |
| | **$ 846** | $ 674 | **$ 9,386** | $ 8,540 | 10 % |
| **Segregated funds - variable options** | | | | | |
| Public/Non-profit | **$ 738** | $ 679 | **$ 10,226** | $ 9,488 | 8 % |
| 401(k) | **985** | (250) | **7,783** | 6,798 | 14 % |
| Institutional | **14** | - | **14** | - | - % |
| | **$ 1,737** | $ 429 | **$ 18,023** | $ 16,286 | 11 % |
| **Proprietary mutual funds** | | | | | |
| Public/Non-profit | **$ (31)** | $ (369) | **$ 341** | $ 372 | (8)% |
| 401(k) | **1,361** | 507 | **3,756** | 2,395 | 57 % |
| Institutional | **20** | 6 | **74** | 54 | 37 % |
| | **$ 1,350** | $ 144 | **$ 4,171** | $ 2,821 | 48 % |
| **Unaffiliated retail investment options & administrative services only** | | | | | |
| Public/Non-profit | **$ 7,376** | $ 430 | **$ 66,175** | $ 58,799 | 13 % |
| 401(k) | **5,815** | 222 | **28,374** | 22,559 | 26 % |
| Institutional | **10,615** | 2,149 | **52,627** | 42,012 | 25 % |
| | **$ 23,806** | $ 2,801 | **$ 147,176** | $ 123,370 | 19 % |

The 2012 increase in the general account is primarily due to 401(k) plan sales. The 2012 increase in segregated funds is primarily related to growth in the equity markets. The increase in the proprietary mutual funds is primarily due to 401(k) plan sales and growth in the equity markets in 2012. The unaffiliated retail investment options and administrative services only increased year-over-year primarily due to growth in the equity markets and 401(k) and institutional plan sales offset by institutional plan terminations.

**Fee and other income**

Fee and other income for the fourth quarter of 2012 increased by US$10 million compared to the fourth quarter of 2011 primarily due to increased average asset levels driven by higher average equity market levels and positive cash flows.

For the twelve months ended December 31, 2012, fee and other income increased by US$20 million compared to the same period last year, primarily due to increased average asset levels, driven by higher average equity market levels and positive cash flows.

Fee and other income increased by US$7 million compared to the previous quarter primarily due to higher Individual Markets fees due to business-owned life insurance sales and higher Retirement Services fees resulting from new institutional business.

**Net earnings**

Net earnings for the fourth quarter of 2012 increased by US$11 million compared to the fourth quarter of 2011 primarily due to increased income tax benefits of US$12 million in 2012.

For the twelve months ended December 31, 2012, net earnings increased by US$6 million compared to the same period in 2011 primarily due to an increase in the mortgage provision release of US$8 million, a reduction of reinvestment risk margins in the current year of US$7 million, and growth in the business partially offset by unfavourable mortality experience in the closed block related to an abnormally high number of claims.

Net earnings increased by US$6 million compared to the previous quarter primarily due to a prior year Internal Revenue Service (IRS) tax assessment of US$11 million in the third quarter of 2012 compared to positive income tax benefits of US$14 million in the fourth quarter of 2012. The third quarter also included US$10 million for a mortgage provision release while the fourth quarter reflects a lower increase in reinvestment risk margins of US$3 million.

**OUTLOOK – FINANCIAL SERVICES**

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

The launch of the Great-West Financial^SM brand and implementation of the nine key initiatives of the five-year strategic plan contributed to solid growth in 2012 and have laid the groundwork for continued growth.

A strong, unified brand is building additional brand recognition for all business segments and will make customer retention and sales more efficient and effective.

New tools that improved sales, employees' productivity and a distribution agreement with Bank of America Merrill Lynch helped increase 401(k) plan sales in 2012. They are expected to further contribute to sales growth in the 401(k) segment. The U.S. Conference of Mayors, representing 4,000 municipalities with US$6 billion in retirement plan assets, selected Great-West Financial as its preferred retirement plan provider, creating a high-potential channel for new government market business. In addition, Great-West Financial launched a new group variable annuity product to be distributed by American Funds for the institutional business.

Service initiatives are instrumental to 401(k) client retention. The service model launched in 2012 will enhance service to advisors, plan sponsors and participants, by providing consistency, timely resolutions and proactive responses. More than 1,800 employees are now using the new customer relationship management system, which integrates information into a common view for all client-facing departments to better serve plan sponsors and partners.

In addition, Great-West Financial is rolling out a suite of services that fill retirement readiness needs for plan sponsors and participants. The suite includes fiduciary services and a plan report card for sponsors and the Retirement Income Control Panel online calculator and estimates of monthly retirement income on quarterly statements for participants.

Two retail retirement income products that were introduced in 2012 address the growing demand for guaranteed lifetime income options. New selling agreements with five distribution partners will expand the reach of these products to financial institutions market customers. The community bank market produced solid 2012 growth in business-owned life insurance thanks to expansion of the distribution base. Gains in distributor market share are anticipated to continue this momentum.

Full implementation of the systems architecture plan for administering the retail bank and executive benefits markets brings flexibility, enhanced reporting capabilities, streamlined processes, and cost efficiencies, positioning Great-West Financial for future success on strategic plan objectives.

The IRA initiative to increase asset retention through rollovers by terminated group plan participants and the initiative to increase participant balances through roll-ins to existing plans gained momentum in 2012 and are expected to continue growth in AUA in the future.

The Great-West Lifetime Funds rose to the 14th largest target date fund offering in the U.S., with US$3.7 billion in assets at December 31, 2012, and maintained their ranking of 10th in net flows among target date fund families in 2012. The Great-West Lifetime Funds and the Great-West SecureFoundation Funds, which offer guaranteed lifetime income within defined contribution plans, are expected to continue contributing to growth of AUM.

## *ASSET MANAGEMENT*

### 2012 DEVELOPMENTS

- Putnam's ending assets under management of US$128 billion increased US$12 billion compared to the same period a year ago primarily due to improved financial markets.
- Putnam's total net asset flows for the twelve months ended December 31, 2012 decreased by US$2 billion compared to the same period last year primarily from strong sales in the first half of 2011 and continued caution being exercised by equity investors due to market volatility during 2012.
- For the twelve months ended December 31, 2012, net earnings decreased by US$56 million compared to the prior year. 2012 net earnings reflect a year-over-year US$31 million increase in share-based compensation expense.
- Putnam was recognized for its strong investment performance in 2012 as four Putnam mutual funds: Putnam Global Income Trust, Putnam U.S. Government Income Trust, Putnam Income Fund and Putnam Massachusetts Tax Exempt Income Fund received 2012 Lipper Fund Awards for their consistent, strong risk-adjusted performance relative to peers for periods of three years or more. Additionally, in 2012, approximately 75% of Putnam's funds were above the Lipper median, and on a three year basis 65% of funds were above the Lipper median.
- During 2012, Putnam continued its initiative of building its presence in strategic markets within Asia by opening a representative office in Beijing, its first office in China. The office will represent Putnam's capabilities in building and managing relationships with governmental and private institutions across China, and will assess intermediate and long-term business opportunities in the quickly developing financial sector in China.
- Putnam received a DALBAR Service Award for providing outstanding service to shareholders of its mutual funds for the 23rd consecutive year.

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits | **$ 6,683** | $ 6,630 | $ 5,455 | **$ 23,784** | $ 28,164 |
| Fee and other income | | | | | |
| Investment management fees | **136** | 132 | 128 | **528** | 530 |
| Performance fees | **4** | 1 | 1 | **13** | 22 |
| Service fees | **35** | 36 | 38 | **142** | 149 |
| Underwriting & distribution fees | **11** | 13 | 15 | **48** | 61 |
| Fee and other income | **186** | 182 | 182 | **731** | 762 |
| Net earnings (loss) | **(19)** | (4) | (8) | **(40)** | 15 |
| | | | | | |
| Premiums and deposits (US$) | **$ 6,750** | $ 6,630 | $ 5,348 | **$ 23,804** | $ 28,514 |
| Fee and other income (US$) | | | | | |
| Investment management fees (US$) | **137** | 132 | 126 | **529** | 536 |
| Performance fees (US$) | **4** | 1 | 1 | **13** | 22 |
| Service fees (US$) | **36** | 36 | 37 | **142** | 150 |
| Underwriting & distribution fees (US$) | **11** | 13 | 14 | **47** | 62 |
| Fee and other income (US$) | **188** | 182 | 178 | **731** | 770 |
| Net earnings (loss) (US$) | **(19)** | (4) | (8) | **(40)** | 16 |

**Premiums and deposits**
Premiums and deposits increased by US$1.4 billion compared to the same period in 2011 as result of stronger overall institutional sales of US$1.1 billion and mutual fund sales of US$300 million in the fourth quarter of 2012.

For the twelve months ended December 31, 2012, premiums and deposits decreased by US$4.7 billion compared to the same period in 2011 primarily due to strong overall sales in the first half of 2011 and continued caution exercised by equity investors in 2012 due to market volatility.

Premiums and deposits increased by US$120 million compared to the previous quarter largely due to an increase in mutual fund sales of US$407 million in the current quarter, partially offset by a reduction in institutional sales of US$287 million. The previous quarter institutional sales included one large mandate of US$1.4 billion.

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

Putnam's average AUM for the fourth quarter of 2012 increased $10.0 billion compared to the same period in 2011, as a 16% increase in the average S&P 500 was partially offset by net asset outflows. As a result, fee and other income for the fourth quarter of 2012 increased by US$10 million compared to the same period in 2011, primarily due to an increase in investment management fees from the higher average AUM and an increase in performance fees, partially offset by lower distribution fees due to reduced sales of certain deferred sales charge share classes.

For the twelve months ended December 31, 2012, fee and other income decreased by US$39 million compared to the same period last year. This was primarily due to a decrease in distribution fees from reduced sales, lower performance fees on institutional accounts, and a decrease in service fees from fewer shareholder accounts. Although average AUM improved slightly, investment management fees decreased due to a change in asset mix.

Fee and other income increased by US$6 million compared to the previous quarter, primarily due to an increase in investment management fees from the higher average AUM and higher performance fees due to the seasonality in which these fees are earned, partially offset by a reduction in realized gains on investments.

**Net earnings**
Net earnings for the fourth quarter decreased by US$11 million compared with the same period last year due to an increase in share-based compensation expense of US$17 million. Operating expenses were US$13 million higher in quarter largely due to timing of incentive compensation accruals related to investment performance. These expense increases were partially offset by US$10 million of higher fee income and higher income tax benefits of US$6 million.

For the twelve months ended December 31, 2012, net earnings decreased by US$56 million compared to the prior year. 2012 net earnings reflect a year-over-year US$31 million increase in share-based compensation expense. Fee income was down by US$39 million compared to 2011 which was offset by lower expenses of US$26 million, higher market gains on seed capital portfolios of US$13 million and higher income tax benefits of US$9 million. Releases of legal provisions during 2012 were US$16 million compared to US$57 million during 2011.

Net earnings decreased by US$15 million compared with the previous quarter due to higher operating expenses of US$14 million and an increase in share-based compensation expense of US$10 million. This was partially offset by higher fee revenue and income tax benefits in the current quarter.

## ASSETS UNDER MANAGEMENT

**Assets under management**
(US$ millions)

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Beginning assets | **$ 126,935** | $ 119,708 | $ 113,871 | **$ 116,652** | $ 121,213 |
| Sales (includes dividends reinvested) | **6,750** | 6,630 | 5,348 | **23,804** | 28,514 |
| Redemptions | **(6,901)** | (6,028) | (7,160) | **(25,593)** | (28,331) |
| Net asset flows | **(151)** | 602 | (1,812) | **(1,789)** | 183 |
| Impact of market/performance | **1,545** | 6,625 | 4,593 | **13,466** | (4,744) |
| Ending assets | **$ 128,329** | $ 126,935 | $ 116,652 | **$ 128,329** | $ 116,652 |
| Average assets under management | **$ 127,125** | $ 123,012 | $ 117,077 | **$ 123,259** | $ 123,005 |

Average AUM for the three months ended December 31, 2012 was US$127 billion, comprising mutual funds of US$62 billion and institutional accounts of US$65 billion. Average AUM increased by US$10.0 billion compared to the three months ended December 31, 2011 primarily due to the impact of positive market performance during the year, partially offset by cumulative net asset outflows.

Average AUM for the twelve months ended December 31, 2012 increased by US$254 million compared to the twelve months ended December 31, 2011 due to the same reasons as in the quarter comparison. While average AUM was comparable for these periods, ending AUM increased by US$11.7 billion compared to the twelve months ended December 31, 2011 primarily due to market performance.

Average AUM increased by US$4.1 billion compared to the previous quarter primarily due to the impact of positive market performance.

### OUTLOOK – ASSET MANAGEMENT

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

In 2013, Putnam will continue to drive growth and market share through new sales and asset retention in all markets it serves including, Global Institutional, PanAgora (Putnam's quantitative institutional manager), Domestic Retail, Defined Contribution, and Registered Investment Advisors, while maintaining its industry-recognized reputation for service excellence.

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

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

Innovation will remain a powerful differentiator for Putnam in 2013, as the firm expects to introduce new product offerings, service features, and operational functions, while strengthening its corporate and business/product brand image with a wide range of key constituents. Further, Putnam intends continue to invest in technology in order to scale its business model more cost effectively.

### *UNITED STATES CORPORATE*

United States Corporate consists of items not associated directly with or allocated to the United States business units. During the period ended December 31, 2012, the Company reallocated certain income tax and expense items initially recorded in United States Corporate to Great-West Financial to improve the alignment with revenues. The comparative figures reflect the revised allocations where applicable.

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

## EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance. Insurance & Annuities consists of operations in the U.K., Isle of Man, Ireland and Germany which offer protection and wealth management products including payout annuities, conducted through Canada Life and its subsidiaries. Reinsurance operates primarily in the U.S., Barbados and Ireland, and is conducted through Canada Life, London Life and their subsidiaries.

### TRANSLATION OF FOREIGN CURRENCY

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

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

### BUSINESS PROFILE

#### INSURANCE & ANNUITIES

The international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a focused portfolio of protection, wealth management, retirement products and related services in the U.K., Isle of Man, Ireland and Germany.

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

The core products offered in Ireland are individual insurance, savings, pension products and lifetime guaranteed minimum withdrawal benefit products. These products are distributed through independent brokers and Ireland's direct sales force.

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

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

## REINSURANCE

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

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

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

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

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

## MARKET OVERVIEW

### PRODUCTS AND SERVICES

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

### INSURANCE & ANNUITIES

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| **U.K. and Isle of Man**<br>• Among the top 20 of life insurance companies operating in the U.K.<br>• The market leader of the group life market, with 29% share<br>• Second in the group income protection market with 21% share<br>• Among the top offshore life companies selling into the U.K. market, with 14% market share<br>• Among the top insurers in payout annuities, with 6% market share<br>• Among the top ten in the onshore unit-linked single premium bond market with a 7% market share<br>**Ireland**<br>• 5% of Irish life assurance and pension market<br>• Among the top seven insurers by new business market share<br>**Germany**<br>• One of the top two insurers in the independent intermediary unit-linked market<br>• Among the top six in the overall unit-linked market | **Wealth Management**<br>• Payout annuities, including enhanced annuities<br>• Pensions, including guaranteed deferred annuity<br>• Savings<br>• Variable annuity GMWB products<br>**Group Insurance**<br>• Life insurance<br>• Income protection (disability)<br>• Critical illness<br>**Individual Insurance**<br>• Life insurance<br>• Disability<br>• Critical illness | **U.K. and Isle of Man**<br>• IFAs<br>• Private banks<br>• Employee benefit consultants<br>**Ireland**<br>• Independent brokers<br>• Direct sales force<br>**Germany**<br>• Independent brokers<br>• Multi-tied agents |

## REINSURANCE

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

## COMPETITIVE CONDITIONS

**United Kingdom and Isle of Man**

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

**Ireland**

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

Due to ongoing challenging economic conditions the market continued to see depressed new business levels, with aggressive pricing for available business resulting in larger companies maintaining a significant share. In addition, with limited new money being invested by consumers, much of the market's new business is funds being switched from one product provider to another.

**Germany**

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

Despite positive economic growth in 2012 within the life and pensions market, consumers continued their reluctance to invest in long-term pension products, in particular, equity based and unit-linked products due to market volatility.

**Reinsurance**

In the U.S. life reinsurance market, the demand for capital relief solutions eased in 2012 from recent years because of the recovery of the financial markets and increased competition from the re-entry of banks into that market. Lower life insurance sales since the onset of the financial crisis and higher retention by clients have led to reduced volumes of traditional life reinsurance. The Company's financial strength and ability to offer both capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, although delayed, Solvency II still tops the regulatory landscape and while interest in capital relief transactions remains high, very few companies are willing to commit to long-term transactions before the regulations are finalized. Demand for longevity reinsurance remains strong in Europe, however there are now more reinsurers participating in this market.

Property insurers/reinsurers saw fewer major catastrophes in 2012 in contrast to 2011. Although the 2012 Atlantic hurricane season was tied for the third most active on record, there was only one event, Hurricane Sandy that had a material impact on the U.S. New competitors and non-traditional solutions continue to present challenges in the sector.

**Selected consolidated financial information - Europe**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits | **$ 2,491** | $ 2,380 | $ 2,068 | **$ 9,022** | $ 8,916 |
| Sales | **1,289** | 866 | 881 | **3,738** | 4,144 |
| Fee and other income | **170** | 145 | 170 | **618** | 583 |
| Net earnings - common shareholders | **152** | 165 | 181 | **618** | 562 |
| Total assets | **$ 74,821** | $ 72,316 | $ 69,649 | | |
| Other assets under administration | **107** | 102 | 102 | | |
| **Total assets under administration** | **$ 74,928** | $ 72,418 | $ 69,751 | | |

**Net earnings - common shareholders**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Insurance & Annuities | **$ 92** | $ 104 | $ 117 | **$ 410** | $ 445 |
| Reinsurance | **64** | 61 | 73 | **215** | 130 |
| Europe Corporate | **(4)** | - | (9) | **(7)** | (13) |
| | **$ 152** | $ 165 | $ 181 | **$ 618** | $ 562 |

## 2012 DEVELOPMENTS

- Net earnings for the twelve month ended December 31, 2012 increased by $56 million, up 10% from the same period last year. The 2011 results included catastrophe provisions of $84 million relating to the earthquake events in Japan and New Zealand. For the twelve months ended December 31, 2012 fee and other income of $618 million was 6% higher than the same period last year.
- Sales for the twelve months ended December 31, 2012 were $3.7 billion, compared to $4.1 billion in 2011 reflecting the general market slowdown, however, sales in Insurance & Annuities for the fourth quarter of 2012 were $1.3 billion, up 46% compared to the same period of 2011.
- The Investments Life and Pensions Moneyfacts 2012 awards in the U.K., named Canada Life “Best Tax and Estate Planning Solutions Provider” for the second year in a row and “Best Group protection Provider” for the fourth consecutive year.
- In the U.K., Canada Life retained its Financial Adviser Service Award (5 stars) for the Investment category for the fourth year running and Financial Adviser Service Award (4 stars) for Life and Pensions for the third year running.
- At the Irish Pensions Awards 2012, Canada Life received the Innovation Award in recognition of the introduction of the first variable annuity product to the Irish market and its fund management company, Setanta Asset Management, received the Equities Manager of the Year Award for the strength of its investment performance and associated dedicated value process.
- During the third quarter, Canada Life's Reinsurance Division entered into retrocession agreements with a U.K. domiciled insurance company covering closed blocks of approximately 1.2 million bank distributed protection policies in Spain and approximately 575,000 bank distributed protection policies in Portugal. The average sum assured of the retroceded policies is approximately €27,000 per policy and the annualized premium associated with the underlying policies is approximately €185 million. The level of premiums will decline over time as the underlying policies lapse.

## BUSINESS UNITS – EUROPE

### *INSURANCE & ANNUITIES*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits | **$ 1,567** | $ 1,180 | $ 1,181 | **$ 5,021** | $ 5,407 |
| Sales | **1,289** | 866 | 881 | **3,738** | 4,144 |
| Fee and other income | **149** | 133 | 157 | **560** | 540 |
| Net earnings | **92** | 104 | 117 | **410** | 445 |

**Premiums and deposits**

Premiums and deposits for the fourth quarter increased by $386 million compared to the same quarter last year, primarily due to strong sales of U.K. payout annuities and from sales of single premium savings products in the Isle of Man partially offset by currency movement.

For the twelve months ended December 31, 2012, premiums and deposits decreased by 7% compared to the same period in 2011, primarily due to the sales decline in single premium savings products in the U.K. and Isle of Man. Lower sales of the guaranteed variable annuity product in Germany and currency movement also contributed to the decline. These reductions are partly offset by the sales growth of payout annuities in the U.K. and the guaranteed variable annuity product in Ireland.

Premiums and deposits increased by 33% compared to the previous quarter mainly due to the sales increase in single premium savings products in both the U.K. and Isle of Man, the seasonal increase of pension sales in Ireland and Germany as well as currency movement.

**Sales**

Sales increased by $408 million compared to the same quarter last year due to $245 million increased sales of U.K. payout annuities and $132 million higher sales of single premium savings products in the Isle of Man reflecting the normal fluctuations in the number of large cases.

For the twelve months ended December 31, 2012, sales decreased by $406 million compared to the same period last year, due mainly to a $835 million decline in single premium savings products in both the U.K. and Isle of Man reflecting the general market slowdown and fluctuations in the number of large cases. In addition, lower sales of the guaranteed variable annuity product in Germany contributed to the decline. These reductions are partly offset by $479 million increased sales of payout annuities in the U.K. and growth of the guaranteed variable annuity product in Ireland.

Sales increased by $423 million from the previous quarter primarily due to $352 million higher sales of single premium savings products in both the U.K. and Isle of Man. Increased pension sales in Ireland and Germany due to seasonal fluctuations also contributed to the growth.

**Fee and other income**

Fee and other income decreased by $8 million compared to the same quarter last year due mainly to timing of fee income recognition in Ireland during 2011 partly offset by higher surrender fees in the U.K. The changes in the pattern of sales and surrenders on certain shorter term single premium investment products can cause the surrender fees to significantly fluctuate from quarter-to-quarter.

For the twelve months ended December 31, 2012, fee and other income increased by $20 million compared to the same period last year due mainly to higher surrender charges and sales mix variation in the U.K. In addition, higher average assets under management in Germany contributed to the growth.

Fee and other income increased by $16 million compared to the previous quarter due mainly to higher surrender fees in the U.K.

**Net earnings**

Net earnings for the fourth quarter of 2012 decreased by $25 million compared to the same quarter last year. The decrease is due to net benefit of basis and other reserve changes of $60 million in 2011 compared to $8 million net reserve strengthening in 2012. Lower morbidity gains in group insurance of $8 million and income tax adjustments of $11 million also contributed to the decrease. Partly offsetting these decreases were positive contributions from better investment trading experience of $44 million, new business gains of $11 million and surrender gains of $8 million.

For the twelve months ended December 31, 2012, net earnings decreased by $35 million compared to the same period last year. The 2011 results included a $44 million positive impact arising from changes in valuation methodology of insurance contract liability reserves backed by investment properties and the net benefit of other reserve changes of $104 million. In 2012, the strengthening of reinvestment risk margins and other reserve changes reduced net earnings by $19 million. Higher corporate income tax charges also contributed to the decrease. Positive contributions to in-period net earnings were a $104 million increase in investment gains, improved U.K. group insurance mortality results and higher new business gains of $26 million.

Net earnings were $92 million in the fourth quarter, a decrease of $12 million from the third quarter. The net impact of reserve strengthening was $8 million in the fourth quarter while third quarter results included $24 million of interest margin reserve reductions and a $6 million benefit of other reserve changes. Higher corporate income tax charges of $17 million also contributed to the decrease. Partly offsetting these decreases were positive contributions from better investment experience of $45 million.

**OUTLOOK – INSURANCE & ANNUITIES**

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

In the regulatory environment, the European Court of Justice has prohibited the use of gender as a factor in the pricing of individual protection products and annuities from December 2012; however, the change is not expected to materially impact the size or profitability of annuities in 2013 and beyond.

***United Kingdom/Isle of Man*** – The outlook for payout annuities in 2013 anticipates that as markets stabilize it will provide investment opportunities to support the Company's annuity new business sales strategy.

Canada Life continues to be a key player in the single premium investment market place and has strengthened its market share in onshore bonds. It will continue to develop a presence in both the offshore and onshore segments, including the introduction of a targeted range of new collective/mutual funds. The company’s distribution strategy will remain focused on IFAs.

The distribution regulatory environment will change following the introduction of the FSAs new Retail Distribution Review regime on December 31, 2012. It is expected that there will be some disruption to the market over 2013 which could impact sales levels as IFA firms adapt to the move from a commission-based compensation model to charging their clients directly for the advice given. IFAs will remain the key distribution focus and the Company will concentrate its efforts in strengthening relationships with IFAs in 2013 in helping them to meet these changes. Canada Life is well placed in transitioning effectively and, once investor confidence returns, to take full advantage of economic recovery.

The outlook for the group risk operation remains cautious as the Company expects market conditions to remain weak. The group risk operation, while well positioned, operates in a mature and competitive market whose size and attractiveness is influenced by the general economic climate for business in the U.K.

Overall, the progress made in the last few years establishing strong niche market positions in our chosen sectors, using an efficient cost base and prudent financial management, gives the Company a sound base on which to grow. The Company is well positioned for any difficulties.

***Ireland*** – The economic situation in Ireland is improving, with a return to positive GDP growth from 2011 led by a strong export sector in the small and open Irish economy. The Irish Government has achieved its fiscal correction and borrowing targets under the European Union/European Central Bank/IMF programme. In the December 2012 Irish Government budget, it was affirmed that Government support for income tax relief for pensions contributions would continue therefore maintaining fiscal support for this important product line.

Despite these positive indicators, unemployment remains high at 15%. Domestic consumer confidence remains weak as consumers adjust to higher taxes and personal debt restructuring. As a result, new business demand is expected to remain weak; the short-term outlook for demand in the life and pensions market remains soft. Canada Life’s focus will be to promote areas of competitive advantage and to continue to achieve efficiency improvements.

***Germany*** – The outlook for the German operation is positive and the Company expects continued growth in assets under management growth in 2013. The fundamental economic indicators for Germany are positive although higher levels of sales growth may be delayed in the short-term. The delay stems from the uncertainty surrounding the current European debt crisis which, when resolved, should lead to a return of German investor confidence.

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

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

## *REINSURANCE*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2012** | Sept. 30 2012 | Dec. 31 2011 | **Dec. 31 2012** | Dec. 31 2011 |
| Premiums and deposits | **$ 924** | $ 1,200 | $ 887 | **$ 4,001** | $ 3,509 |
| Fee and other income | **21** | 12 | 13 | **58** | 43 |
| Net earnings | **64** | 61 | 73 | **215** | 130 |

**Premiums and deposits**

Premiums and deposits for the fourth quarter of 2012 increased by $37 million compared to last year primarily due to the favourable impact of new life retrocession agreements in Europe partly offset by currency movement.

For the twelve months ended December 31, 2012, premiums and deposits increased by $492 million compared to the same period last year due to new life retrocession agreements in Europe, higher volumes in the life businesses and currency movement.

Premiums and deposits decreased by $276 million compared to the previous quarter primarily due to the new life retrocession agreements in Europe and higher volumes in the life businesses during the third quarter.

**Fee and other income**

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

Fee and other income increased by $8 million compared to the same quarter last year and by $9 million compared to the previous quarter due to the recapture of a reinsurance contract and higher volumes.

For the twelve months ended December 31, 2012, fee and other income increased by $15 million compared to the same period last year primarily due to the same reasons as the in-quarter change.

**Net earnings**
Net earnings for the fourth quarter of 2012 decreased by $9 million compared to the same period last year. Positive contributions to in period earnings include the impact of new life retrocession agreements in Europe of $14 million and favourable changes to interest margin reserves of $13 million. Negative impacts in the fourth quarter of 2012 were basis changes of $29 million, claims in the annuity business of $6 million and net other reserve changes of $2 million. Included in the fourth quarter results are provisions for claims resulting from Hurricane Sandy of $10 million offset by releases driven by positive developments of 2011 catastrophe claims.

For the twelve months ended December 31, 2012, net earnings increased by $85 million compared to the same period last year. The 2011 results include catastrophe provisions of $84 million relating to earthquake events in Japan and New Zealand while the 2012 results include provisions for claims resulting from Hurricane Sandy of $10 million offset by releases driven by positive developments of 2011 catastrophe claims. Other positive contributions to period net earnings include the conclusion on certain income tax matters positively impacting net earnings by $25 million, favourable new business gains of $38 million and favourable changes to interest margins of $11 million. Partly offsetting these increases were other net reserve strengthening of $12 million, basis change impacts of $42 million and other net tax adjustments of $11 million.

Net earnings for the fourth quarter of 2012 increased by $3 million compared to the previous quarter. Positive contributions to net earnings growth include the favourable net basis changes of $20 million and the impact of recaptured reinsurance treaties of $5 million. Partly offsetting these increases were lower benefit of changes to interest margin reserves of $13 million and $10 million lower gains from new life retrocession business.

Included in the fourth quarter results are provisions for claims resulting from Hurricane Sandy of $10 million offset by releases driven by positive developments of 2011 catastrophe claims.

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

The U.S. life reinsurance industry is expected remain stable in 2013. There are new regulatory rules affecting the calculation of statutory reserves (principle-based reserve rule), the establishment of captives to fund redundant reserves and the collateral needed for non-licensed entities which will affect the types of insurance products sold and the reinsurance needs over the next few years. Underlying insurance sales will continue to stay at their current level if the U.S. economy does not demonstrate a significant recovery.

In Europe, although delayed, Solvency II is still expected to be a driver of the business in 2013 and beyond. The Reinsurance operation is preparing to help European clients and other affiliated companies meet the potential capital challenges and business opportunities coming out of these regulatory changes.

Despite significant catastrophe losses in New Zealand and Japan in 2011, and Hurricane Sandy in 2012, the short-term increase in pricing has started to flatten out and will likely turn softer in the worldwide property retrocession market in 2013.

Traditional retrocession sellers have become increasingly reluctant to provide worldwide coverage to clients with a growing shift towards named territories. Hedge fund capacity, side-car vehicles, collateralized covers and catastrophe bond issuance continues to grow and buyer demand is under downward pressure due to increasing client retentions. The primary focus for 2013 will look to move further away from the exposure risk, continue to utilize the most recent U.S. modeling updates from Risk Management Solutions (RMS) and control geographic exposures while limiting the anticipated impact on margins.

### *EUROPE CORPORATE*

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

Europe Corporate had a net loss of $4 million for the three months ended December 31, 2012 compared to a net loss of $9 million for the same period in 2011.

For the twelve months ended December 31, 2012, Europe Corporate reported a net loss of $7 million compared to a net loss of $13 million for the same period in 2011. The improvement in the quarter and full year results was primarily due to the smaller impact of reserve adjustments in the legacy international operations.

Europe Corporate had a net loss of $4 million for the three months ended December 31, 2012 compared to nil earnings in the third quarter. The decrease is mainly due to $2 million lower results in the legacy international operations due to reserve strengthening.

## LIFECO CORPORATE OPERATING RESULTS

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

For the three months ended December 31, 2012, Lifeco Corporate had a net loss of $139 million compared to net earnings of $120 million in the fourth quarter of 2011. Included in Lifeco Corporate net earnings were litigation provisions of $140 million in 2012 and net litigation provision releases of $124 million in 2011. Fourth quarter 2012 results include a decrease in reserves for uncertain tax positions (UTP) which positively impacted net earnings by $20 million, partly offset by the impact of mark-to-market losses related to a macro balance sheet credit hedge of $8 million.

For the twelve months ended December 31, 2012, Lifeco Corporate had a net loss of $168 million compared to net earnings of $104 million for the same period in 2011. Excluding the provisions noted above, the net loss decreased $8 million primarily due to the impact of the UTP noted above of $20 million, offset by the mark-to-market losses recorded related to a macro balance sheet credit hedge of $12 million.

The net loss in Lifeco Corporate increased by $126 million compared to the previous quarter. Excluding the impact of the above noted provision, net earnings were up $12 million, primarily due to positive impact of the UTP noted above in the fourth quarter.

## *OTHER INFORMATION*

### SELECTED ANNUAL INFORMATION

| (in $ millions, except per share amounts) | Years ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **Total revenue** | **$ 30,061** | $ 29,898 | $ 30,103 |
| **Net earnings - common shareholders** | | | |
| Operating earnings | **$ 1,955** | $ 1,898 | $ 1,819 |
| Net earnings | **1,815** | 2,022 | 1,615 |
| **Net earnings per common share** | | | |
| Operating | **$ 2.059** | $ 2.000 | $ 1.920 |
| Basic | **1.912** | 2.129 | 1.704 |
| Diluted | **1.900** | 2.112 | 1.695 |
| **Total assets** | | | |
| Total assets | **$ 253,718** | $ 238,768 | $ 229,421 |
| Proprietary mutual funds and institutional net assets | **134,598** | 125,390 | 126,053 |
| | **388,316** | 364,158 | 355,474 |
| Other assets under administration | **157,455** | 137,807 | 131,528 |
| Total assets under administration | **545,771** | 501,965 | 487,002 |
| **Total liabilities** | **$ 236,132** | $ 222,664 | $ 214,605 |
| **Dividends paid per share** | | | |
| Series D First Preferred (1) | **$ -** | $ - | $ 0.29375 |
| Series F First Preferred | **1.4750** | 1.4750 | 1.4750 |
| Series G First Preferred | **1.3000** | 1.3000 | 1.3000 |
| Series H First Preferred | **1.21252** | 1.21252 | 1.21252 |
| Series I First Preferred | **1.1250** | 1.1250 | 1.1250 |
| Series J First Preferred | **1.50000** | 1.50000 | 1.50000 |
| Series L First Preferred | **1.41250** | 1.41250 | 1.41250 |
| Series M First Preferred (2) | **1.450** | 1.450 | 1.19377 |
| Series N First Preferred (3) | **0.91250** | 1.004375 | - |
| Series P First Preferred (4) | **1.152120** | - | - |
| Series Q First Preferred (5) | **0.625235** | - | - |
| Series R First Preferred (6) | **0.26630** | - | - |
| Common | **1.230** | 1.230 | 1.230 |

(1) The Series D First Preferred Shares were redeemed on March 31, 2010.
(2) The Series M First Preferred Shares were issued on March 4, 2010. The first dividend payment was made on June 30, 2010 in the amount of $0.46877 per share. Regular quarterly dividends were $0.36250 per share.
(3) The Series N First Preferred Shares were issued on November 23, 2010. The first dividend payment was made on March 31, 2011 in the amount of $0.32 per share. Regular quarterly dividends were $0.228125 per share.
(4) The Series P First Preferred Shares were issued on February 22, 2012. The first dividend payment was made on June 30, 2012 in the amount of $0.477120 per share. Regular quarterly dividends were $0.337500 per share.
(5) The Series Q First Preferred shares were issued on July 6, 2012. The first dividend payment was made on September 30, 2012 in the amount of $0.303360 per share. Regular quarterly dividends were $0.321875 per share.
(6) The Series R First Preferred shares were issued on October 11, 2012. The first dividend payment was made on December 31, 2012 in the amount of $0.266300 per share. Regular quarterly dividends are $0.30000 per share.

## QUARTERLY FINANCIAL INFORMATION

**Quarterly financial information**
(in $ millions, except per share amounts)

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Total revenue** | **$ 7,137** | $ 8,636 | $ 7,792 | $ 6,496 | $ 8,003 | $ 8,506 | $ 7,134 | $ 6,255 |
| **Common Shareholders Net earnings** | | | | | | | | |
| Total | **353** | 520 | 491 | 451 | 624 | 457 | 526 | 415 |
| Basic - per share | **0.373** | 0.547 | 0.517 | 0.475 | 0.657 | 0.481 | 0.553 | 0.438 |
| Diluted - per share | **0.372** | 0.543 | 0.513 | 0.472 | 0.651 | 0.478 | 0.550 | 0.436 |
| **Operating earnings[(1)]** | | | | | | | | |
| Total | **493** | 520 | 491 | 451 | 500 | 457 | 526 | 415 |
| Basic - per share | **0.520** | 0.547 | 0.517 | 0.475 | 0.528 | 0.481 | 0.553 | 0.438 |
| Diluted - per share | **0.518** | 0.543 | 0.513 | 0.472 | 0.523 | 0.478 | 0.550 | 0.436 |

(1) Operating earnings are presented as a non-IFRS financial measure of earnings performance before certain other items that management considers to be of a non-recurring nature. Refer to the "Cautionary Note Regarding Non-IFRS Financial Measures" section of this document.

Lifeco's consolidated net earnings attributable to common shareholders were $353 million for the fourth quarter of 2012 compared to $624 million reported a year ago. On a per share basis, this represents $0.373 per common share ($0.372 diluted) for the fourth quarter of 2012 compared to $0.657 per common share ($0.651 diluted) a year ago.

Total revenue for the fourth quarter of 2012 was $7,137 million and comprises premium income of $4,827 million, regular net investment income of $1,361 million, a positive change in fair value through profit or loss on investment assets of $182 million, and fee and other income of $767 million. Total revenue for the fourth quarter of 2011 was $8,003 million, including premium income of $4,334 million, regular net investment income of $1,365 million, a positive change in fair value through profit or loss on investment assets of $1,564 million and fee and other income of $740 million.

## DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2012 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2012 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting during the twelve month period ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## TRANSACTIONS WITH RELATED PARTIES

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

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

At December 31, 2012 the Company held $41 million ($39 million in 2011) of debentures issued by IGM.

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

## TRANSLATION OF FOREIGN CURRENCY

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

| Translation of foreign currency<br>Period ended | **Dec. 31 2012** | Sept. 30 2012 | June 30 2012 | Mar. 31 2012 | Dec. 31 2011 | Sept. 30 2011 | June 30 2011 | Mar. 31 2011 |
|---|---|---|---|---|---|---|---|---|
| **United States dollar** | | | | | | | | |
| Balance sheet | **$0.99** | $0.98 | $1.02 | $1.00 | $1.02 | $1.04 | $0.96 | $0.97 |
| Income and expenses | **$0.99** | $1.00 | $1.01 | $1.00 | $1.02 | $0.98 | $0.97 | $0.99 |
| **British pound** | | | | | | | | |
| Balance sheet | **$1.62** | $1.59 | $1.60 | $1.60 | $1.58 | $1.62 | $1.55 | $1.56 |
| Income and expenses | **$1.59** | $1.57 | $1.60 | $1.57 | $1.61 | $1.58 | $1.58 | $1.58 |
| **Euro** | | | | | | | | |
| Balance sheet | **$1.31** | $1.26 | $1.29 | $1.33 | $1.32 | $1.40 | $1.40 | $1.38 |
| Income and expenses | **$1.29** | $1.24 | $1.30 | $1.31 | $1.38 | $1.38 | $1.39 | $1.35 |

## MUTUAL FUNDS DEPOSITS AND ASO PREMIUM EQUIVALENTS (ASO CONTRACTS)

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

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