Deep **Roots** | Broad **Reach** | Enduring **Strength**

GREAT-WEST LIFECO INC.

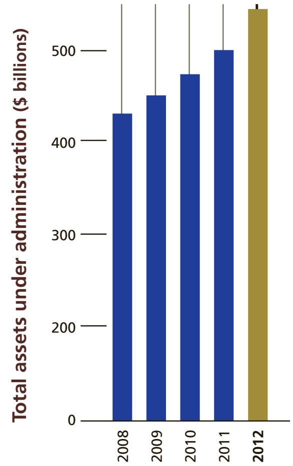
Annual Report **2012**

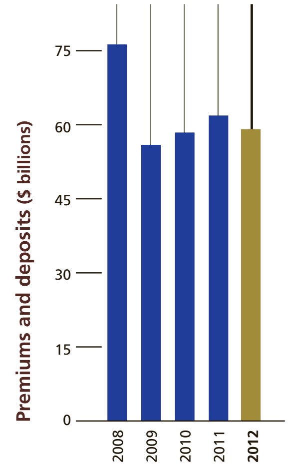
TABLE OF CONTENTS

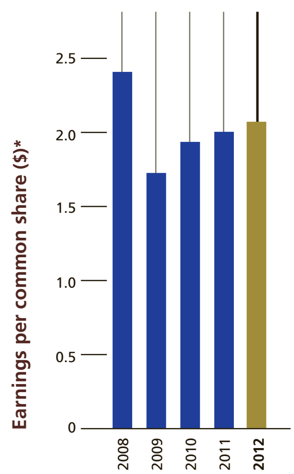
Readers are referred to the cautionary notes regarding forward-looking information and non-IFRS financial measures on page 6 of this report.

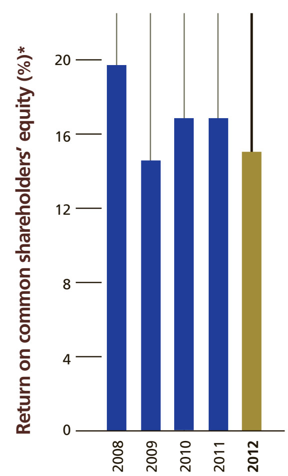
Our cover features the image of a giant Sequoia from California, United States. Strong and majestic, it symbolizes Great-West Lifeco's distinguished history, international reach through its diverse businesses, and enduring strength.

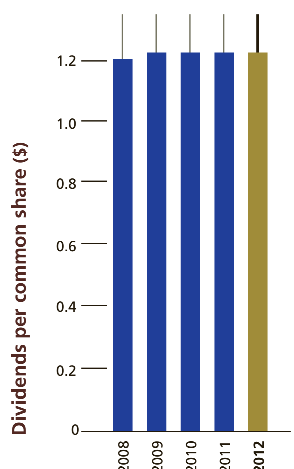
KEY PERFORMANCE MEASURES

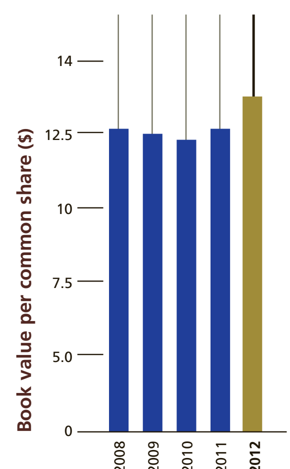












2008 to 2009 Key Performance Measures reported on a previous CGAAP basis
**Information is presented on an operating earnings basis, a non-IFRS financial measure*

DIRECTORS' REPORT TO SHAREHOLDERS

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO

Great-West Lifeco's financial condition continues to be very solid as a result of its continued strong performance in 2012. The Corporation delivered superior results compared to peer companies in its industry due to strong organic growth of premiums and deposits, and solid investment performance, despite challenging market conditions.

Performance measures

Operating earnings attributable to common shareholders were $2.0 billion, or $2.059 per share, compared to $1.9 billion or $2.000 per share in 2011.

Lifeco's return on equity (ROE) of 15.9% on operating earnings and 14.7% on net earnings for the twelve months ended December 31, 2012 continued to rank among the strongest in the financial services sector.

The quarterly dividend on Lifeco's common shares remained unchanged in 2012.

Other measures of Lifeco's performance in 2012 include:

- Premiums and deposits were $59.8 billion, compared to $62.3 billion in 2011.
- General fund and segregated fund assets increased from $238.8 billion to $253.7 billion in 2012.
- Total assets under administration at December 31, 2012 were $546 billion, compared to approximately $502 billion twelve months ago.

Financial strength

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

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 207% on a consolidated basis 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, which includes an intercompany loan repaid on January 15, 2013. As this cash is held at Lifeco, 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.

Lifeco has a high quality bond portfolio, with 98% rated investment grade at December 31, 2012.

Diversified across Canada, the United States and Europe

Canada

In Canada, Lifeco's companies maintained leading market positions in their individual and group businesses, and experienced strong organic growth. This was achieved by focusing on three broad goals in 2012: improving products and services for clients and advisors, maintaining strong financial discipline, and improving tools, information and processes to enable greater productivity and effectiveness.

Group retirement services business recorded strong growth, group insurance business continued to experience excellent persistency, and individual segregated fund and mutual fund businesses maintained positive net cash flows. Individual insurance sales in Canada increased 15% and sales of proprietary retail investment funds increased 2.8% year over year.

In the group insurance marketplace, Great-West Life continues to focus on developing increasingly sophisticated and innovative means to help employers build effective responses to benefit plan needs. A prime example is DrugSolutions, introduced in 2012. By working with major pharmacy companies and national retail chains, Great-West Life is able to offer options that help employers control plan costs while maintaining important benefits for plan members, including access to potentially expensive but vital drug therapies.

In 2012, Great-West Life also continued to expand convenient and efficient service technologies. Great-West Life extended the Provider eClaims network it pioneered to additional provider groups and launched its innovative app for the GroupNet plan member portal. Plan members can now access personalized coverage information, locate service providers and submit claims on their mobile devices. In 2013, Great-West Life will launch an imaging system in its disability claims organization that will make it faster and easier for staff to collaborate on case management and consult with specialists, with the added benefit of eliminating much of the paper used in the company's offices today.

COMPANY PROFILE

Great-West Lifeco Inc. (TSX:GWO) is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Great-West Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company, London Life Insurance Company, The Canada Life Assurance Company, Great-West Life & Annuity Insurance Company and Putnam Investments, LLC. Great-West Lifeco and its companies have $546 billion* in assets under administration, and are members of the Power Financial Corporation group of companies.

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

**Assets as of December 31, 2012*

Service capabilities also played a decisive role in acquiring a major new creditor insurance case, effective January 1, 2013. Lifeco expects this case to add significant growth to Lifeco's creditor business in 2013 and strengthen its leading market share position.

The Canadian operations offer group retirement and savings plans that are tailored to the unique needs of small, medium and large businesses and organizations. Group capital accumulation plans are a core business for Great-West Life and education for plan members is an ongoing priority. Great-West Life expanded and enhanced its retirement education tools in a range of formats, including videos, online resources and print materials to help plan members at any age and stage of retirement planning.

In the retail investment business, the companies launched additional tax-efficient corporate class funds and introduced very competitive pricing options for the high-net-worth market.

Great-West Life continues to offer an important perspective on pension reform to help ensure Canadians save adequately and effectively for their retirement. The federal government's framework for Pooled Registered Pension Plans is an important development in helping working Canadians save for retirement.

Together, Lifeco's subsidiaries Great-West Life, London Life and Canada Life remain Canada's number one provider of individual insurance solutions. From term, universal and participating life insurance to individual disability and critical illness insurance, their broad range of products gives advisors choice and flexibility in meeting clients' diverse individual needs. Lifeco's Canadian subsidiaries are the leading provider in Canada of participating life insurance and continue to focus on excellence in managing and growing the participating business. Within Lifeco's group of companies participating products have been continuously offered since 1847 and policyholder dividends have been paid every year. With 70 years' experience in the individual disability insurance market, Lifeco's Canadian subsidiaries are leading providers of individual disability and critical illness insurance in Canada.

In Individual Insurance, the companies continued to improve service to advisors and customers. Various interest sensitive products were re-priced to reflect the low interest rate environment.

The Canadian operations continued to focus on strengthening sales and marketing support throughout 2012, both in the exclusive and independent distribution channels. These important relationships with advisors support the very strong persistency of Lifeco's business, provide a strategic advantage for Lifeco and contribute to strong market share across Lifeco's multiple lines of business.

United States – Great-West Financial

In 2012, a single brand identity, Great-West Financial, was introduced across all lines of business. The clarity of one brand with a focused and well-positioned message is helping build name recognition and creating stronger brand equity in all Great-West Financial markets, to further augment growth.

Diverse products, expanded partnerships, enhanced tools and a new brand identity all contributed to Great-West Financial's solid growth in 2012. 401(k) plan sales increased 14%, business-owned life insurance sales were up 20% and single premium life insurance sales jumped 56% year over year.

The nine business initiatives that make up an aggressive five-year strategic plan were implemented. These projects include strategies to increase sales, improve retention and boost assets under management.

Great-West Financial launched two retail retirement income products, securing selling agreements with five distribution partners. Individual Retirement Account sales grew 50%, largely through asset rollovers by terminated group plan participants. Meanwhile, an initiative to increase participant account balances boosted roll-ins to existing plans US$916 million year over year.

New tools equipped 401(k) sales employees to enhance their effectiveness with advisors, third-party administrators, and prospects. These tools increased the productivity of the sales team. In an independent survey of advisors, Great-West Financial was voted No. 1 in best value for price according to Plan Adviser magazine.

To enhance clients' experience and ultimately increase retention, service functions were re-engineered to speed client responsiveness. A new client relationship management system was rolled out, which provides a 360-degree view of Great-West Financial's clients and enables the client experience to be advanced.

Managed account program assets were up 28% to US$6.2 billion. The Great-West Lifetime Funds grew 89% in 2012 to US$3.7 billion in assets, and became the 14th largest target date fund offering in the U.S.

United States – Putnam

Putnam's assets under management ended 2012 at US$128 billion, reflecting favorable market conditions and positive sales momentum at PanAgora, Putnam's quantitative institutional manager, and in several key product offerings, including Putnam Spectrum Funds, Short Duration Income Fund and Dynamic Risk Allocation Fund.

In 2012, Putnam continued its focus on investment performance and innovation. Four of Putnam's fixed-income funds received Lipper Fund Awards for long-term performance excellence. Putnam's financial advisor website was ranked the industry's best by researcher kasina, and the FundVisualizer analytical tool received an award from the Mutual Fund Education Alliance, as well as from Money Management Executive, in conjunction with National Investment Company Service Association.

In the retirement market, Putnam announced a personalized health cost estimator, which is expected to become a standard feature of its 401(k) participant experience in 2013. Putnam also saw significant growth in new retirement plans on its record-keeping platform and strong investment-only sales.

Executive Management

Canada

Paul A. Mahon
President and COO
Canada

United States

Mitchell T. G. Graye
President and CEO
Great-West Financial

Robert L. Reynolds
President and CEO
Putnam Investments

Europe

Arshil Jamal
President and COO
Europe

Europe

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

As a result of its continued focus on credit and expense controls, Lifeco's European operations were in a strong position coming into 2012, and this focus was maintained throughout the year.

In the U.K., the company is facing a period of change with legislation affecting distribution (prohibiting commission for advice and certain product design features) and Europe-wide legislation on pricing (aimed at eliminating differential pricing by gender), although the proposed implementation of the Solvency II rules has been delayed. Premium volumes grew in the annuity business but sales in onshore and Isle of Man wealth management products were challenged by difficult market conditions. In the company's group insurance business, overall in force premium levels were maintained although the general economic and market conditions adversely affected sales.

In Ireland, sales of the Guaranteed Minimum Withdrawal Benefit (GMWB) product performed well after Canada Life became the first company to offer this product in the domestic Irish market. Canada Life received the Irish Pensions award for innovation for the successful launch of the product. Sales to intermediaries performed well in 2012 due to the new GMWB product, a widening of fund offerings and strong investment performance on core fund offerings. Sales in the direct sales channel were impacted by lower agent numbers and a further fall in the new business market.

In Germany, Canada Life operates in the independent broker market and is one of the leading insurers for guaranteed unit-linked products in the broker segment. Income protection and retirement savings products were enhanced during 2012, and the company's serious illness and GMWB products retained their status as the leading products in their categories in a recent poll of insurance intermediaries. Results of a recent survey of insurance intermediaries indicate an improved rating for Canada Life, particularly in the targeted areas of products, broker support and technology. The sales environment was challenging during much of 2012 for unit-linked providers, although there was sales growth in the last months of 2012 in advance of the introduction of gender neutral pricing.

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

Strong results for reinsurance in 2012 reflect continued robust demand for structured life reinsurance in the U.S. and longevity reinsurance in Europe. Lifeco continues to monitor the global reinsurance markets for potential business opportunities.

Corporate social responsibility

Responsible and ethical management has long been an intrinsic value of Great-West Lifeco and is essential to long-term profitability and value creation.

In addition to meeting the ethical standards set out in Lifeco's Code of Conduct, Lifeco strives to:

- Support and respect the protection of internationally proclaimed human rights;
- Meet its responsibilities to minimize its environmental impact; and
- Make a positive contribution in the communities where Great-West Lifeco and its companies are established.

Board of Directors

At Great-West Lifeco's 2012 Annual Meeting of Shareholders it was announced that David Graves and Philip Ryan would retire from the Corporation's Board of Directors after serving for a number of years. Mr. Graves had been a Director of the Corporation since May 2007 and was a member of the Conduct Review and Compensation Committees. Mr. Ryan had been a Director of the Corporation since May 2008 and was a member of the Executive Committee.

At the Annual Meeting two new individuals were elected to the Board of Directors, namely Jerome Selitto and Gregory Tretiak. Mr. Selitto was formerly Director and President and Chief Executive Officer of PHH Corporation, a leading outsource provider of mortgage and fleet management services. Mr. Tretiak is currently Executive Vice-President and Chief Financial Officer of Power Corporation of Canada and Power Financial Corporation.

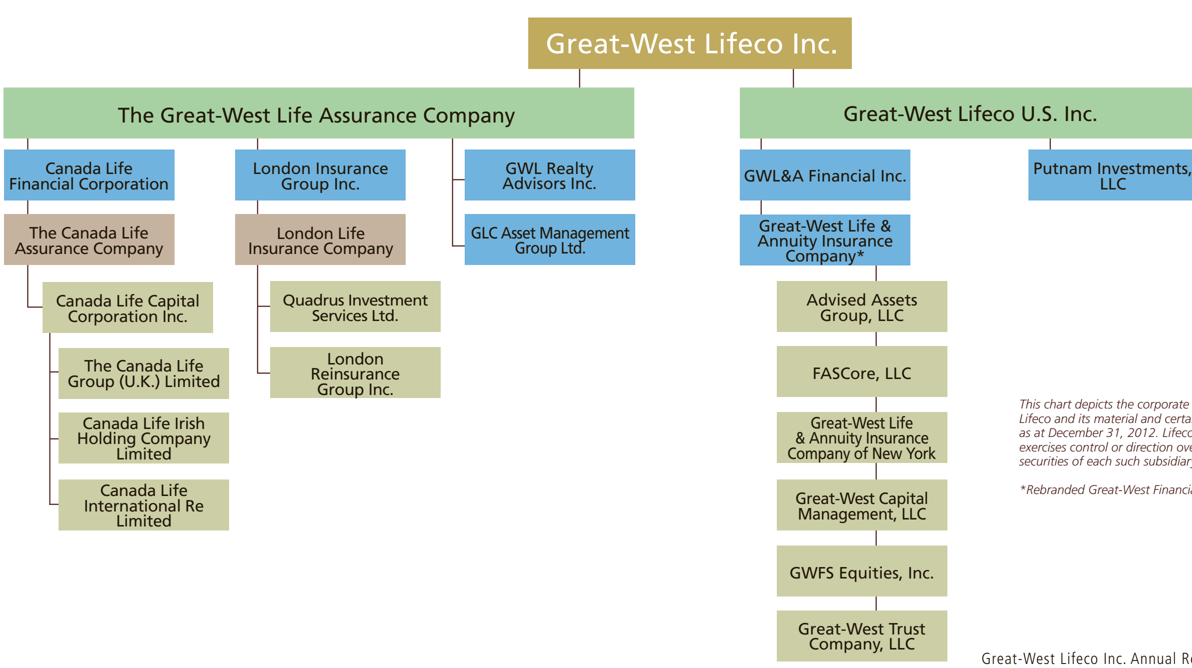
At the Corporation's Board of Directors meeting in August, it was announced that Jerry Nickerson would retire following a longstanding tenure as a member of the Board. Mr. Nickerson became a Director of the Corporation in May 1986. He served as Chairman of the Audit Committee from 1994 to 2009. In addition to serving as a member of the Audit Committee, Mr. Nickerson was also a member of the Corporation's Executive Committee. At that same meeting, Mr. James Singh was appointed to the Board of Directors. Mr. Singh was formerly Executive Vice-President and Chief Financial Officer of Nestlé S.A. until his retirement in 2012.

Through their participation on the Board and various Board Committees, Messrs. Graves, Ryan and Nickerson made a valuable contribution to the affairs of the Corporation, and we thank them sincerely for their years of service.

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

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO



This chart depicts the corporate relationships among Lifeco and its material and certain other subsidiaries as at December 31, 2012. Lifeco beneficially owns, or exercises control or direction over, 100% of the voting securities of each such subsidiary.

**Rebranded Great-West Financial in 2012*

Business Overview

Operating Regions	Major Brands	Products and Services	Distribution Channels
	**Great-West Life** **London Life** **Canada Life** **Freedom 55 Financial** **Quadrus Investment Services Ltd.**	• **Life, disability and critical illness insurance** for individuals, business owners and families • **Retirement savings and income plans** for individuals and groups, including segregated fund policies and payout annuities, as well as proprietary and third-party mutual funds through Quadrus Investment Services Ltd. • **Fund management, investment and advisory services** through GWL Realty Advisors Inc. and GLC Asset Management Group Ltd. • **Comprehensive benefit solutions** for small, medium and large employer groups. Includes traditional benefit programs and services, sophisticated drug plan management options under DrugSolutions, plus specialty services such as, employee assistance plans, Best Doctors™ medical referral services and online services including plan administration, eClaims, and Health SolutionsPlus, Canada's first VISA® payment card for healthcare spending accounts • **Creditor insurance**, including life, disability, job loss and critical illness coverage • **Life, health, accident and critical illness insurance** for members of affinity groups	• **Gold Key** financial security advisors associated with Great-West Life • **Freedom 55 Financial**™ and **Wealth & Estate Planning Group** financial security advisors associated with London Life • Independent advisors associated with **managing general agencies** that distribute Canada Life products and services • **National accounts**, including Investors Group, that distribute Canada Life products and services • Great-West Life group insurance and retirement sales and service staff in offices across Canada that support **independent advisors, brokers and benefit consultants** distributing our group products
	**Great-West Financial℠** **Great-West Retirement Services** **FASCore** **Advised Assets Group** **Great-West Funds** **Great-West Trust Company**	• **Employer-sponsored defined contribution plans**, enrollment services, communication materials, investment options and education services • **Administrative and record-keeping services** for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans • **Fund management, investment and advisory services** • **Individual retirement accounts (IRAs)**, individual term and single premium life insurance and individual annuity products • **Business-owned life insurance and executive benefits products**	• Retirement services products distributed to plan sponsors through **brokers, consultants, advisors, third-party administrators and banks** • FASCore record-keeping and administrative services distributed through **institutional clients** • Individual life and annuity products distributed through **wholesale and retail sales force, banks, broker dealers, and investment advisors** • IRAs available to individuals through **service staff and the IRA website** • Business-owned life insurance and executive benefits products distributed through **wholesalers and specialized consultants**
	Putnam	• **A global asset management firm offering mutual funds**, institutional portfolios, college savings plans, 401(k)s, IRAs, and other retirement plans • **Investment capabilities include fixed income**, equities – both U.S. and global – absolute return and global asset allocation	• Services the global institutional, domestic retail, defined contribution, and registered investment advisor markets
	PanAgora Asset Management	• Active portfolio management and research capabilities utilizing quantitative investment techniques. Offers a broad range of strategies spanning regions, risk levels and asset classes, including equity, fixed income, currency, global macro, multi-asset and alternative investment approaches	• Institutional investors • Sub-advisory
  	**Canada Life**	**Protection and wealth management products and related services in the United Kingdom, Isle of Man, Ireland and Germany:** • Individual life, disability and critical illness insurance • Group life, income protection and critical illness insurance • Pensions, savings and payout annuities • Fund Management through Setanta Asset Managers and Canada Life Asset Management Ltd.	**U.K. and Isle of Man** • Independent financial advisors • Employee benefit consultants **Ireland** • Independent brokers and direct sales force **Germany** • Independent brokers and multi-tied agents
	**Canada Life Reinsurance** **London Reinsurance Group**	**Reinsurance and retrocession business primarily in the United States and European markets:** • Life – yearly renewable term, co-insurance and modified co-insurance • Property and casualty – catastrophe retrocession • Longevity and annuity reinsurance	**Reinsurance** • Independent reinsurance brokers • Direct placements

Market Position*	Corporate Social Responsibility
• Serves the financial security needs of more than 12 million Canadians • 33% market share of individual life insurance measured by premium (excluding excess premium) [3] • 22% market share of individual living benefits measured by premium [3] • 26% market share of individual segregated funds [4] • 22% market share of group insurance [1] • 18% market share of group capital accumulation plan assets, serving 1.2 million member accounts *as at June 30, 2012 (Benefits Canada 2011 CAP report data)* • Leading market share for creditor insurance revenue premium [4]	• Commitment to responsible management sets framework for treating clients with fairness and respect and maintaining financial integrity • Goals to inspire healthy living and help Canadians plan their financial futures drive development of new products and services that give our customers greater control and more information • As an Imagine Caring Company, contributed $11.9 million in 2012 to hundreds of charitable organizations across Canada, addressing national, regional and local issues to build stronger communities. The Great-West Life Centre for Mental Health in the Workplace is a leading source of free, practical ideas designed to help employers with the prevention, intervention and management of workplace mental health issues • Reducing environmental footprint through use of electronic media (in place of paper) and other environmentally responsible solutions • Real estate investment subsidiary, GWL Realty Advisors, in managing hundreds of properties for Great-West Life and other clients, achieves strong environmental performance through sustainability initiatives to reduce energy and water consumption, promote recycling, and increase waste diversion. Achievements are a result of prudent capital investments and support from clients, tenants and residents
• Fourth largest defined contribution record-keeper in the country, providing services for 4.7 million participant accounts and 27,343 plans • 25% market share in state and local government deferred compensation plans • 36% market share of individual life insurance sold through the retail bank channel [3] • 10% market share of business-owned life insurance purchased by financial institutions [3] • Great-West Lifetime Funds are the 14th largest target date fund offering in the United States	• Dedicated to core values of partnership, integrity and commitment, which guide the company's conduct and its relationships with its partners and customers • Supports financial literacy education through grants to selected teachers, school districts and non-profit organizations in Colorado • Sponsors fundraising events of selected nonprofits in Colorado through major community sponsorships • Matches employees' eligible financial donations, fund-raising efforts and volunteer time in their communities through employee matching programs • Reduces its impact on the environment through water and energy saving programs, recycling and compost collection, and electronic document delivery initiatives
• Approximately 4.5 million shareholders and retirement plan participants and nearly 150 institutional client accounts around the world • Nearly 160,000 advisors distribute Putnam products • Provides services to over 275 defined contribution plans	• Believes that environmental, social and governance issues are important factors in the performance of investment securities • Considers environmental, social and governance factors in analyzing the potential future value of securities, and pursues ethical corporate governance through proxy voting
• Serves over 125 institutional investors, including many of the world's top 300 plans	• Committed to high fiduciary and governance standards and to acting in an environmentally responsible manner
U.K. and Isle of Man • Among the top 20 life insurance companies operating in the U.K. [1] • Market leader of the group life market, with 29% share [1] • Second in the group income protection market with 21% share [1] • Among the top offshore life companies in the U.K. market, with 14% market share [3] • Among the top insurers in payout annuities, with 6% market share [3] • Among the top ten in the onshore unit-linked single premium bond market, with 7% market share [3] **Ireland** • 5% of Irish life assurance market [3] • Among the top seven insurers by new business market share [2] **Germany** • One of the top two insurers in the independent intermediary unit-linked market [2] • Among the top six in the overall unit-linked market [3]	**U.K. and Isle of Man** • Relationships with local schools where actuarial and accounting staff coach math students and work opportunities are provided • A number of local charities supported by staff fundraising events • Commitment to reducing any negative environmental impact, encourage employees and use environmentally-conscious suppliers and contractors for a positive impact **Ireland** • Staff events supporting local charities including among others Down Syndrome Centre, Alzheimer Society, National Breast Cancer Society and Temple Street Children's Hospital **Germany** • Supported local and national charities including among others German Cancer Aid, German Stroke Aid and children's hospices • Reduced paper output through the establishment of a secure electronic repository for brokers
Reinsurance • Among top ten life reinsurers in the U.S. by assumed business [1] • Niche positions in property and casualty and annuity business	**Reinsurance** • Local charities supported by staff fundraising events in all reinsurance locations • Supported various charities including the Alzheimer's Society and Autism charities, and a local children's hospital

** [1] as at December 31, 2011 [2] as at June 30, 2012 [3] as at September 30, 2012 [4] as at December 31, 2012*

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 Dec. 31 2012	Sept. 30 2012	Dec. 31 2011	For the twelve months ended 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 shareholders 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**

	Covered	Senior Debt	Subordinated Debt	Upper Tier Two	Capital Securities	Contingent Capital	Total*	Amortized Cost*
	Carrying Value by Seniority – December 31, 2012							
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

Mortgage loans by type	December 31, 2012 Insured	Non-insured	Total		December 31, 2011 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 Canada	U.S.	Europe	Total	December 31, 2011 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

Equity portfolio by type	**December 31, 2012**		December 31, 2011	
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 of $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

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 million 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 to 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

		Payments due by period						
At December 31, 2012		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. Underwriting limits control the amount of risk exposure. Underwriting practices control the selection of risks insured for consistency with claims expectations. Underwriting policies have been developed to support the long-term sustainability of the business. The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to make provision for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions. In general, the Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company manages large blocks of business which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, cost of insurance charges could be increased if necessary to contractual maximums, if applicable. Morbidity risk is mitigated through effective plan design and claims adjudication practices.
Concentration	
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. In general, the Company sets and adheres to retention limits for longevity risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.
Policy Termination	
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. In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses. Policyholder taxation rules in most jurisdictions encourage the retention of insurance coverage.

Expense Management	
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. 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. 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. 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. Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved as any change in the fair market value of the liabilities will be offset by a similar change in the fair value of the assets. For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. In the U.S., the Company 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. Returns from equities backing a portion of the non-adjustable life and living benefits insurance contract liabilities may be insufficient.	The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and investment properties is managed to provide returns that are consistent with the requirements of the underlying segment. The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long-term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for short-term income statement volatility and the balance between this volatility and long-term economic value.
Credit Risk	
The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.	It is Company policy to acquire only investment grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies. These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators. Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process. 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.	The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets.
There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.	The Company carefully considers whether or not to enter into derivative arrangements on a collaterized or uncollaterized basis. Where the Company or its subsidiaries enter into collaterized arrangements, the Company periodically tests the availability of suitable collateral under stress scenarios.
In the normal course of its Reinsurance business, the Company provides LOCs to other parties, or beneficiaries. A beneficiary will typically hold a LOC as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives it if was unable to renew existing LOCs at maturity.	Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOCs issued to the LOC beneficiaries for certain reinsurance treaties.
Foreign Exchange Risk	
The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the U.K., Isle of Man, Ireland and Germany in the Europe segment. The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income (loss). Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted. A 1% appreciation (depreciation) of the average exchange rate of the Canadian dollar to the U.S. dollar, British pound and euro together would decrease (increase) operating earnings in 2012 by $10 million. A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income (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. The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results. Investments are normally denominated in the same currency as the liabilities they support. Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liabilities using foreign exchange contracts.
Derivative Instruments	
There is a risk of loss if derivatives are used for inappropriate purposes.	Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes. The Company's risk management process governing the use of derivative instruments requires that the Company act only as an end-user of derivative products, not as a market maker. The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars. There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 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. 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. 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. 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. 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. 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. 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. 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. 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. 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.	The Company monitors compliance with the legal, regulatory, accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive. The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

Legal and Regulatory Risk (cont'd)	
As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company. Potential regulatory changes in Canada include new guidance on capital requirements for segregated funds and other OSFI initiatives, as well as new capital requirements for European entities being reviewed by the European Commission (Solvency II). The Company adopted International Financial Reporting Standards (IFRS) on January 1, 2011 which impacted the opening surplus and net earnings of the Company. As well, new IFRS guidance including a revised standard on Insurance Contracts is being developed that may increase insurance contract liabilities when introduced. While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve and capital requirements which would increase earnings volatility and increase the risk of technical insolvency, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future. The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such are from time-to-time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects.	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.
Reputational Risk	
In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects. These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.	The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign off annually on their compliance with the Code of Business Conduct and Ethics. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.
Reinsurance	
Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance ceded, which is undertaken primarily to mitigate against assumed insurance risks, and financial reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to pledge amounts of collateral or deposit amounts with counterparties in certain reinsurance transactions according to contractual terms. These arrangements could require additional requirements in the future depending on regulatory and market developments. While there are significant uncertainties in these developments and the associated impact on the financial position of the Company, these may impact the Company's financial flexibility.	The Company accounts for all reinsurance transactions in accordance with IFRS. In some cases, IFRS may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputation or other risks depending on future events. The Company maintains a Corporate Reinsurance Ceded Risk Management policy which is reviewed and approved by the operating subsidiaries. Annually, the 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. The Company has a Pension Committee that provides oversight for the pension plans of the Company. Pension plan regulations are monitored on an ongoing basis to assess the impact of changes to government regulations on the status, funding requirements and financial results of the Company. Plan assumptions are reviewed regularly both internally and by external advisors and updated as necessary to reflect the latest research on expected future trends. The pension plans and assumptions are subject to external audit on an annual basis.
Environmental Risk	
Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.	The Company endeavours to respect the environment and to take a balanced and environmentally sustainable approach to conducting business. The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its Board of Directors and are reviewed annually. One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) created to ensure compliance with applicable environmental legislation and outline best practice guidelines and procedures in responsible management practices designed to protect and preserve the environment and provide oversight on environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third party clients. The properties for which GWLRA provides property management services are also administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation, by-laws, codes, policies and undertaking a leadership position with their clients and within the real estate industry. GWLRA carries out ongoing reviews of environmental objectives, programs, policies and procedures to ensure consistency, effectiveness, quality and application, and establishes and maintains best practices through corporate programs and initiatives and emphasizes environmental awareness among staff, service providers and clients. To quantify efforts in sustainability GWLRA has developed a Corporate Social Responsibility Scorecard that reports on greenhouse gas emissions for their corporate and regional offices across Canada. Commercial assets under management are monitored nationally and measured for environmental performance, which includes GHG emissions, waste diversion and water; monitoring is carried out by a third party environmental consultant. GWLRA's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices. The Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking. For more information on the Company's environmental policies and initiatives, refer to the Public Accountability Statement available on the Canadian operating subsidiaries websites. The Company monitors relevant emerging issues, regulations and requirements through collaboration with its environmental and legal consultants. The Environmental Committee of GWLRA reviews policies and procedures on an annual basis and revises established policies and guidelines as required.

ACCOUNTING POLICIES

Summary Of Critical Accounting Estimates

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

The significant accounting estimates include the following:

Fair Value Measurement

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

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

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

> Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
>
> Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability.

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

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

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

- The effect of an immediate 1% parallel increase in the yield curve would be to decrease these insurance and investment contract liabilities by approximately $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 options – There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally speaking, we assume that an informed policyholder will utilize an option whenever it is clearly in their best interests to do so.

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

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

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

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

Employee future benefits – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost of benefits through employee contributions. 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

	Defined benefit pension plans		Other post-employment benefits	
At December 31	**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. 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. 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; IFRS 11 – Joint Arrangements; IFRS 12 – Disclosure of Interests in Other Entities	Effective January 1, 2013, the Company plans to adopt IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interest in Other Entities* for the presentation and preparation of its consolidated financial statements. IFRS 10, *Consolidated Financial Statements* uses consolidation principles based on a revised definition of control. The definition of control is dependent on the power of the investor to direct the activities of the investee, the ability of the investor to derive variable benefits from its holdings in the investee, and a direct link between the power to direct activities and receive benefits. IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation for accounting for the interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures. IFRS 12, *Disclosure of Interests in Other Entities* proposes new disclosure requirements for the interest an entity has in subsidiaries, joint arrangements, associates, and structured entities. The standard requires enhanced disclosure including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented within the financial statements. In June 2012, the 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. 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. 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. This revised standard relates only to presentation and will not impact the financial results of the Company.
IFRS 7 – Financial Instruments: Disclosure	Effective January 1, 2013, the Company will adopt the guidance in the amendments to IFRS 7, *Financial Instruments*. The amended standard introduces financial instrument disclosures related to rights of offset and related arrangements under master netting agreements. This revised standard relates only to disclosure and will not impact the financial results of the Company.

Proposed to be effective subsequent to 2013

Revised 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. Since the release of the exposure draft, there have been discussions within the insurance industry and between accounting standard setters globally recommending significant proposed changes to the 2010 exposure draft. At this time no new standard has been either re-exposed or released. The Company will continue to measure insurance contract liabilities using 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. The new standard also requires: • embedded derivatives to be assessed for classification together with their financial asset host; • an expected loss impairment method be used for financial assets; and • amendments to the criteria for hedge accounting and measuring effectiveness. The full impact of IFRS 9, *Financial Instruments* on the Company will be evaluated after the remaining stages of the 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. 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. 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. The full impact of adoption of the proposed changes will be determined once the final revenue recognition standard is issued, which is targeted for release in 2013.
IAS 32 – Financial Instruments: Presentation	Effective January 1, 2014, the Company will adopt the guidance in the amendments to IAS 32, *Financial Instruments: Presentation*. The amended standard clarifies the requirements for offsetting financial assets and financial liabilities. The Company is evaluating the impact this standard will have on the presentation of its financial statements.

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

PRODUCTS AND SERVICES

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

Living Benefits
- Disability
- Critical Illness

DISTRIBUTION

Associated with:

Great-West Life Distribution
- 1,758 Great-West Life financial security advisors
- 2,492 advisors associated with a number of intercorporate arrangements
- 6,375 independent brokers

London Life Distribution
- 3,476 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors

Canada Life Distribution
- 9,603 independent brokers associated with 56 Managing General Agencies (MGAs)
- 1,909 advisors associated with 17 national accounts
- 3,465 Investors Group consultants who actively sell Canada Life products
- 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
- 26% market share of individual segregated funds
- 18% market share of group capital accumulation plans

Products and Services

Group Retirement Services
- Group Capital Accumulation Plans
  - Non-registered savings programs
  - Deferred profit sharing plans
  - Defined contribution pension plans
  - Group RRSPs & TFSAs

  Invested in:
  - Segregated funds
  - Guaranteed investment options
  - Single company stock
- Retirement Income Plans
  - Payout annuities
  - Deferred annuities
  - Retirement income funds
  - Life income funds
- Investment management services only plans

  Invested in:
  - Segregated funds
  - Guaranteed investment options
  - Securities

Individual Retirement & Investment Services
- Savings plans
  - Registered retirement savings plans
  - Non-registered savings programs
  - TFSAs

  Invested in:
  - Segregated funds
  - Mutual funds
  - Guaranteed investment options
- Retirement Income Plans
  - Segregated funds with GMWB rider
  - Retirement income funds
  - Life income funds
  - Payout annuities
  - Deferred annuities
- Residential mortgages
- Banking products

Distribution

Associated with:

Great-West Life Distribution
- 1,758 Great-West Life financial security advisors
- 2,492 advisors associated with a number of intercorporate arrangements
- 6,375 independent brokers

London Life Distribution
- 3,476 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors

Canada Life Distribution
- 9,603 independent brokers associated with 56 Managing General Agencies (MGAs)
- 1,909 advisors associated with 17 national accounts
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- 249 direct brokers and producer groups

Quadrus Investment Services Ltd.
(also included in Great-West Life and London Life advisor counts):
- 3,813 investment representatives

Group Retirement Services
- 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
- Employee benefits to over 30,000 plan sponsors
- 22% market share for employee/employer plans
- Leading market share for creditor plans

Products and Services

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

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

Distribution
- 114 account managers and sales staff located in 17 Group Offices
- 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

- Fourth largest defined contribution record-keeper in the country, providing services for 4,656,306 participant accounts and 27,343 plans
- 25% market share of state and local government deferred compensation plans (as of September 30, 2012)
- 36% market share of individual life insurance sold through the retail bank channel (as of September 30, 2012)
- 10% market share of business-owned life insurance purchased by financial institutions (as of September 30, 2012)
- Great-West Lifetime Funds are the 14th largest target date fund offering in the United States

Products and Services

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and record-keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual retirement accounts (IRAs), individual term and single premium life insurance, and individual annuity products
- Business-owned life insurance and executive benefits products

Distribution

- Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks
- FASCore record-keeping and administrative services distributed through institutional clients
- Individual life and annuity products distributed through wholesale and retail sales force, banks, broker dealers and investment advisors
- IRAs available to individuals through service staff and the IRA website
- Business-owned life insurance and executive benefits products distributed through wholesalers and specialized consultants

Asset Management

Market Position

- A Global asset manager with assets under management of US$128.3 billion as of December 31, 2012
- 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

Products and Services

Investment Management Products & Services

- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Administrative and record-keeping services for defined contribution plans
- Alternative investment products across the fixed income, currency, quantitative and equity groups

Administrative Services

- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

Distribution

Individual Retail Investors

- A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution plan services to their customers, which, in total, includes nearly 160,000 advisors
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team
- Retirement plan sponsors and participants are supported by Putnam's dedicated retirement plan professionals and through a relationship with FASCore

Institutional Investors

- Supported by Putnam's dedicated account management, product management, and client service professionals
- Strategic relationships with several investment management firms outside of the U.S.

Competitive Conditions

Financial Services

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

Asset Management

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

Selected consolidated financial information – United States

	For the three months ended			For the twelve months ended	
	Dec. 31 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$)	**78**	87	78	**325**	375
Total assets	**$ 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

	Change for the twelve months ended December 31		Total at December 31		
(US$ millions)	**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℠ 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 a 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

	For the three months ended			For the twelve months ended	
	Dec. 31	Sept. 30	Dec. 31	**Dec. 31**	Dec. 31
(US$ millions)	**2012**	2012	2011	**2012**	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 to continue to invest in technology in order to scale its business model more cost effectively.

UNITED STATES CORPORATE

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

U.K. and Isle of Man

- Among the top 20 of life insurance companies operating in the U.K.
- The market leader of the group life market, with 29% share
- Second in the group income protection market with 21% share
- Among the top offshore life companies selling into the U.K. market, with 14% market share
- Among the top insurers in payout annuities, with 6% market share
- Among the top ten in the onshore unit-linked single premium bond market with a 7% market share

Ireland

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

Germany

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

Insurance & Annuities (cont'd)

Products and Services

Wealth Management

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

Group Insurance

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

Individual Insurance

- Life insurance
- Disability
- Critical illness

Distribution

U.K. and Isle of Man

- IFAs
- Private banks
- Employee benefit consultants

Ireland

- Independent brokers
- Direct sales force

Germany

- Independent brokers
- Multi-tied agents

Reinsurance

Market Position

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

Products and Services

Life

- Yearly renewable term
- Co-insurance
- Modified co-insurance
- Capital Relief Solutions

Property & Casualty

- Catastrophe retrocession

Annuity

- Payout annuity
- Fixed annuity

Distribution

- Independent reinsurance brokers
- Direct placements

Competitive Conditions

United Kingdom and Isle of Man

In the United Kingdom, the Company holds strong positions in several 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 to 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

	2012				2011			
(in $ millions, except per share amounts)	**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

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.

FINANCIAL REPORTING RESPONSIBILITY

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

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

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

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

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

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

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

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

D. Allen Loney
President and
Chief Executive Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

February 7, 2013

CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian $ millions except per share amounts)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian $ millions)

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

CONSOLIDATED BALANCE SHEETS

(in Canadian $ millions)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian $ millions)

	December 31, 2012					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	**$ 7,722**	**$ 58**	**$ 6,327**	**$ (233)**	**$ 2,230**	**$ 16,104**
Net earnings	**–**	**–**	**1,930**	**–**	**278**	**2,208**
Other comprehensive loss	**–**	**–**	**–**	**(97)**	**(4)**	**(101)**
	7,722	**58**	**8,257**	**(330)**	**2,504**	**18,211**
Share issue costs (note 20)	**–**	**–**	**(14)**	**–**	**–**	**(14)**
Reallocation from participating account to shareholder account in London Life (note 19)	**–**	**–**	**(6)**	**–**	**6**	**–**
Dividends to shareholders						
Preferred shares (note 20)	**–**	**–**	**(115)**	**–**	**–**	**(115)**
Common shareholders (note 24)	**–**	**–**	**(1,168)**	**–**	**–**	**(1,168)**
Shares issued under stock option plan (note 20)	**20**	**–**	**–**	**–**	**–**	**20**
Issuance of preferred shares (note 20)	**650**	**–**	**–**	**–**	**–**	**650**
Share-based payments	**–**	**2**	**–**	**–**	**–**	**2**
Balance, end of year	**$ 8,392**	**$ 60**	**$ 6,954**	**$ (330)**	**$ 2,510**	**$ 17,586**

	December 31, 2011					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 7,699	$ 55	$ 5,474	$ (459)	$ 2,047	$ 14,816
Net earnings	–	–	2,118	–	121	2,239
Other comprehensive income	–	–	–	226	62	288
	7,699	55	7,592	(233)	2,230	17,343
Dividends to shareholders						
Preferred shares (note 20)	–	–	(96)	–	–	(96)
Common shareholders (note 24)	–	–	(1,169)	–	–	(1,169)
Shares issued under stock option plan (note 20)	26	–	–	–	–	26
Surrender of preferred shares	(3)	–	–	–	–	(3)
Share-based payments	–	3	–	–	–	3
Balance, end of year	$ 7,722	$ 58	$ 6,327	$ (233)	$ 2,230	$ 16,104

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian $ millions)

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

(in Canadian $ millions except per share amounts)

1. Corporate Information

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

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

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

2. Basis of Presentation and Summary of Accounting Policies

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company as at and for the year ended December 31, 2012 with comparatives for December 31, 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses and profits or losses, including dividends resulting from intra-group transactions, are eliminated on consolidation.

Use of Estimates and Assumptions

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

Significant Judgments

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

The annual results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The estimation of insurance and investment contract liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available.

The significant accounting policies are as follows:

(a) Portfolio Investments

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its fair value through profit or loss and available for sale portfolios.

Mortgages and Bonds – Loans and Receivables

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

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

Investment Properties

Fair values for investment properties are determined using independent qualified appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price must be taken into consideration when evaluating impairment.

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

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

(b) Transaction Costs

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

(c) Cash and Cash Equivalents

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

(d) Trading Account Assets

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

(e) Financial Liabilities

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

(f) Derivative Financial Instruments

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

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

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

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

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

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

Derivatives not designated as hedges for accounting purposes

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

Fair value hedges

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

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

Cash flow hedges

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

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

Net investment hedges

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

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

(g) Embedded Derivatives

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

(h) Foreign Currency Translation

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

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

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

(i) Loans to Policyholders

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

(j) Reinsurance Contracts

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

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

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

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

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

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

(l) Goodwill and Intangible Assets

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

Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of software, customer contracts, distribution channels, property leases and technology. These finite life intangible assets are amortized over their estimated useful lives, typically ranging between 5 and 30 years.

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

Impairment Testing

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

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

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

(m) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured.

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

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

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

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

(n) Owner Occupied Properties and Fixed Assets

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

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

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

(o) Deferred Acquisition Costs

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

(p) Segregated Funds

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

(q) Insurance and Investment Contract Liabilities

Contract Classification

The Company's products are classified at contract inception, for accounting purposes, as insurance contracts or investment contracts depending on the existence of significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown.

When significant insurance risk exists, the contract is accounted for as an insurance contract in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Refer to note 14 for discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement*. The Company has not classified any contracts as investment contracts with discretionary participating features.

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

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

Measurement

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

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

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

(r) Deferred Income Reserves

Included in other liabilities are deferred income reserves relating to investment contract liabilities. These are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

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

(s) Income Taxes

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

Current Income Tax

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

Deferred Income Tax

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

(t) Policyholder Benefits

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

(u) Repurchase Agreements

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

(v) Pension Plans and Other Post-Employment Benefits

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

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

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

(w) Share Capital and Surplus

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

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

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

Non-controlling interests in subsidiaries represents the proportion of equity that is attributable to minority shareholders.

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

(x) Share-Based Payments

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

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

(y) Earnings Per Common Share

Earnings per common share is calculated using net earnings after preferred share dividends and the weighted average number of common shares outstanding. Diluted earnings per share is calculated by adjusting common shareholders' net income and the weighted average number of common shares outstanding for the effects of all potential dilutive common shares assuming that all convertible instruments are converted and outstanding options are exercised (see note 24).

(z) Leases

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

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

(aa) Operating Segments

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

(ab) Comparative Figures

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

3. Future Accounting Policies

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

Effective in 2013

Revised/New Standard	Summary of Future Changes
IAS 19 – *Employee Benefits*	The International Accounting Standards Board published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through other comprehensive income. As a result the net pension asset or liability will reflect the funded status of the pension plans on the Consolidated Balance Sheets. Under the revised IAS 19, *Employee Benefits* the expected return on plan assets is no longer applied to the fair value of the assets to calculate the benefit cost. The revised IAS 19 requires the same discount rate be applied to measure the benefit obligation and to the plan assets to determine the net interest expense (income). This discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Further, the revised standard includes changes to how the defined benefit obligation and the fair value of the plan assets and the components of the pension expense would be presented and disclosed within the financial statements of an entity. The Company will continue to use the corridor method until January 1, 2013 when the revised standard for employee benefits becomes effective. In accordance with the transitional provisions in IAS 19, this change in International Financial Reporting Standards will be applied retroactively which is anticipated to decrease opening equity by approximately $400 at January 1, 2012, with an additional decrease to opening equity of approximately $200 at January 1, 2013. For further information on the Company's employee benefit plans, please refer to note 23.
IFRS 10 – *Consolidated Financial Statements;* IFRS 11 – *Joint Arrangements;* IFRS 12 – *Disclosure of Interests in Other Entities*	Effective January 1, 2013, the Company plans to adopt IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interest in Other Entities* for the presentation and preparation of its consolidated financial statements. IFRS 10, *Consolidated Financial Statements* uses consolidation principles based on a revised definition of control. The definition of control is dependent on the power of the investor to direct the activities of the investee, the ability of the investor to derive variable benefits from its holdings in the investee, and a direct link between the power to direct activities and receive benefits. IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation for accounting for the interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures. IFRS 12, *Disclosure of Interests in Other Entities* proposes new disclosure requirements for the interest an entity has in subsidiaries, joint arrangements, associates, and structured entities. The standard requires enhanced disclosure including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented within the financial statements. In June 2012, the International Accounting Standards Board released amendments clarifying the transitional guidance offered in IFRS 10 as well as providing additional transitional relief in IFRS 10, IFRS 11, and IFRS 12 limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Company continues to evaluate the impact of the above standards on its consolidation procedures and disclosure in preparation of the January 1, 2013 effective date and does not anticipate it will have a material impact. The International Accounting Standards Board issued amendments to IFRS 10 and IFRS 12 in October 2012 that introduced an exception from consolidation for the controlled entities of investment entities. The Company continues to review the financial reporting of the segregated funds for the risk of policyholders presented within the Company's financial statements to determine whether it would be different than the current reporting under International Financial Reporting Standards.
IFRS 13 – *Fair Value Measurement*	Effective January 1, 2013, the Company will adopt the guidance of IFRS 13, *Fair Value Measurement* which seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard relates primarily to disclosure and will not impact the financial results of the Company.
IAS 1 – *Presentation of Financial Statements*	Effective January 1, 2013, the Company will adopt the guidance in the amended IAS 1, *Presentation of Financial Statements*. The amended standard includes requirements that other comprehensive income be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. This revised standard relates only to presentation and will not impact the financial results of the Company.
IFRS 7 – *Financial Instruments: Disclosure*	Effective January 1, 2013, the Company will adopt the guidance in the amendments to IFRS 7, *Financial Instruments*. The amended standard introduces financial instrument disclosures related to rights of offset and related arrangements under master netting agreements. This revised standard relates only to disclosure and will not impact the financial results of the Company.

Proposed to be effective subsequent to 2013

Revised/New Standard	Summary of Future Changes
IFRS 4 – *Insurance Contracts*	The International Accounting Standards Board issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under the Canadian Asset Liability Method and may cause significant volatility in the results of the Company. The exposure draft also proposes changes to the presentation and disclosure within the financial statements. Since the release of the exposure draft, there have been discussions within the insurance industry and between accounting standard setters globally recommending significant proposed changes to the 2010 exposure draft. At this time no new standard has been either re-exposed or released. The Company will continue to measure insurance contract liabilities using the Canadian Asset Liability Method until such time when a new International Financial Reporting Standard for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; the Company continues to actively monitor developments in this area.
IFRS 9 – *Financial Instruments*	The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables. The new standard also requires: • embedded derivatives to be assessed for classification together with their financial asset host; • an expected loss impairment method be used for financial assets; and • amendments to the criteria for hedge accounting and measuring effectiveness The full impact of IFRS 9, *Financial Instruments* on the Company will be evaluated after the remaining stages of the International Accounting Standards Board's project to replace IAS 39, *Financial Instruments* impairment methodology, hedge accounting, and asset and liability offsetting are finalized. The Company continues to actively monitor developments in this area. The current timetable for adoption of IFRS 9 is for the annual period beginning January 1, 2015, however, the Company continues to monitor this standard in conjunction with the developments to IFRS 4.
IAS 17 – *Leases*	The International Accounting Standards Board issued an exposure draft proposing a new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist. The full impact of adoption of the proposed changes will be determined once the final lease standard is issued.
IAS 18 – *Revenue Recognition*	The International Accounting Standards Board issued a second exposure draft in November 2011 which proposed a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. The full impact of adoption of the proposed changes will be determined once the final revenue recognition standard is issued, which is targeted for release in 2013.
IAS 32 – *Financial Instruments: Presentation*	Effective January 1, 2014, the Company will adopt the guidance in the amendments to IAS 32, *Financial Instruments: Presentation*. The amended standard clarifies the requirements for offsetting financial assets and financial liabilities. The Company is evaluating the impact this standard will have on the presentation of its financial statements.

4. Cash and Cash Equivalents

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

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

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

5. Portfolio Investments

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

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

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

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

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

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

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

(c) Stocks include the Company's investment, held through Great-West Life, in an affiliated company, IGM, a member of the Power Financial group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,203,061 shares of IGM at December 31, 2012 (9,203,309 at December 31, 2011) representing a 3.62% ownership interest (3.57% at December 31, 2011). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of IGM by Power Financial, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances, significant intercompany transactions and services agreements that influence the financial and operating policies of both companies.

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

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

IGM's financial information as at December 31, 2012 can be obtained in its publicly available information.

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

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

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

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

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

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

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

5. Portfolio Investments (cont'd)

(e) Net investment income comprises the following:

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

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

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

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

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

(g) Transferred Financial Assets

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

6. Funds Held by Ceding Insurers

Included in funds held by ceding insurers of $10,537 at December 31, 2012 ($9,923 at December 31, 2011) is an agreement with Standard Life Assurance Limited (Standard Life). During 2008, Canada Life International Re Limited (CLIRE), the Company's indirect wholly-owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit. These amounts on deposit are included in funds held by ceding insurers on the Consolidated Balance Sheets. Income and expenses arising from the agreement are included in net investment income on the Consolidated Statements of Earnings.

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

(a) Carrying values and estimated fair values:

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

6. Funds Held by Ceding Insurers (cont'd)

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

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

(c) Asset quality

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

7. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks.

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

(a) Credit Risk

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

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

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.

- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Board of Directors or the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

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

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

(1) Includes $9,951 ($9,411 at December 31, 2011) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (see note 6).
(2) Includes items such as current income taxes receivable and miscellaneous other assets of the Company (see note 12).

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has $25 of collateral received as at December 31, 2012 ($21 of collateral received as at December 31, 2011) relating to derivative assets.

7. Financial Instruments Risk Management (cont'd)

(ii) Concentration of Credit Risk

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

The following provides details of the carrying value of bonds by issuer, industry sector and geographic distribution:

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

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

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

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

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

(iii) Asset Quality

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

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

(iv) Loans Past Due, But Not Impaired

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

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

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

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

7. Financial Instruments Risk Management (cont'd)

(b) Liquidity Risk

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

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 70% (approximately 72% in 2011) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.
- Management monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or the capital markets. The Company maintains a $200 committed line of credit with a Canadian chartered bank. As well, Putnam LLC maintains a U.S. $500 revolving credit agreement with a consortium of banks and on October 18, 2012, the Company renewed a U.S. $304 Putnam LLC non-revolving term loan facility, guaranteed by Lifeco, for three years (see note 16).

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

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 4,312	$ 296	$ 1	$ 301	$ –	$ –	$ 3,714
Capital trust securities (1)	150	–	–	–	–	–	150
Purchase obligations	83	58	13	10	2	–	–
Pension contributions	133	133	–	–	–	–	–
Total	$ 4,678	$ 487	$ 14	$ 311	$ 2	$ –	$ 3,864

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

(c) Market Risk

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

Caution Related to Risk Sensitivities

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

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

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

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with International Financial Reporting Standards, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted. The following policies and procedures are in place to mitigate the Company's exposure to currency risk:

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

(ii) Interest Rate Risk

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

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

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.18% (0.19% in 2011). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

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

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

7. Financial Instruments Risk Management (cont'd)

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

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

(iii) Equity Risk

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

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $22 causing an increase in net earnings of approximately $18. A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $128 causing a decrease in net earnings of approximately $96.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $443 causing an increase in net earnings of approximately $342. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $492 causing a decrease in net earnings of approximately $376.

(iv) Segregated Funds Guarantee Exposure

The Company offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the fair values of the investment funds. A significant decline in the fair value of these funds could increase the Company's liability exposure for providing these guarantees. The Company's exposure to these guarantees at the balance sheet date was:

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

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

*A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2012 and December 31, 2011.

8. Financial Instruments Fair Value Measurement

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

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange traded equity securities, exchange traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

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

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

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

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

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

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

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

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

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

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

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

9. Invested Assets on Deposit for Reinsurance Agreements

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

10. Goodwill and Intangible Assets

(a) Goodwill

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

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

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

	2012	2011
Balance, beginning of year	**$ 917**	$ 890
Changes in foreign exchange rates	**(27)**	27
Balance, end of year	**$ 890**	$ 917

(b) Intangible Assets

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

(i) Indefinite life intangible assets:

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

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

10. Goodwill and Intangible Assets (cont'd)

(ii) Finite life intangible assets:

	2012					
	Customer contract related	Distribution channels	Technology	Property leases	Software	Total
Amortization period range	**10–20 years**	**30 years**	**5 years**	**5 years**	**5–10 years**	
Weighted average remaining amortization period	**12 years**	**21 years**	**–**	**–**	**–**	
Amortization method	**Straight-line**	**Straight-line**	**Straight-line**	**Straight-line**	**Straight-line**	
Cost						
Balance, beginning of year	**$ 571**	**$ 100**	**$ 12**	**$ 13**	**$ 468**	**$ 1,164**
Acquisitions	**–**	**–**	**–**	**–**	**86**	**86**
Disposals	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Changes in foreign exchange rates	**(7)**	**3**	**–**	**–**	**(3)**	**(7)**
Other	**–**	**–**	**–**	**–**	**27**	**27**
Balance, end of year	**$ 564**	**$ 103**	**$ 12**	**$ 13**	**$ 567**	**$ 1,259**
Accumulated amortization and impairment						
Balance, beginning of year	**$ (204)**	**$ (29)**	**$ (10)**	**$ (12)**	**$ (237)**	**$ (492)**
Disposals	**–**	**–**	**–**	**–**	**9**	**9**
Amortization	**(31)**	**(5)**	**(2)**	**(1)**	**(64)**	**(103)**
Balance, end of year	**$ (235)**	**$ (34)**	**$ (12)**	**$ (13)**	**$ (292)**	**$ (586)**
Net carrying amount	**$ 329**	**$ 69**	**$ –**	**$ –**	**$ 275**	**$ 673**

	2011					
	Customer contract related	Distribution channels	Technology	Property leases	Software	Total
Amortization period range	10–20 years	30 years	5 years	5 years	5–10 years	
Weighted average remaining amortization period	12 years	22 years	1 year	1 year	–	
Amortization method	Straight-line	Straight-line	Straight-line	Straight-line	Straight-line	
Cost						
Balance, beginning of year	$ 564	$ 100	$ 12	$ 13	$ 378	$ 1,067
Acquisitions	–	–	–	–	31	31
Changes in foreign exchange rates	7	–	–	–	5	12
Other	–	–	–	–	54	54
Balance, end of year	$ 571	$ 100	$ 12	$ 13	$ 468	$ 1,164
Accumulated amortization and impairment						
Balance, beginning of year	$ (169)	$ (24)	$ (8)	$ (9)	$ (189)	$ (399)
Impairment	–	–	–	–	(4)	(4)
Changes in foreign exchange rates	(1)	(1)	–	–	(3)	(5)
Other	–	–	–	–	13	13
Amortization	(34)	(4)	(2)	(3)	(54)	(97)
Balance, end of year	$ (204)	$ (29)	$ (10)	$ (12)	$ (237)	$ (492)
Net carrying amount	$ 367	$ 71	$ 2	$ 1	$ 231	$ 672

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

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

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

(d) Recoverable Amount

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

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

- Risk adjusted discount rates used for the calculation of present value are based on the Company's weighted average cost of capital.
- Economic assumptions are based on market yields on risk-free interest rates at the end of each reporting period.
- Terminal growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth and range between 0.0% and 3.0%, depending on the nature of the business.

11. Owner Occupied Properties and Fixed Assets

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

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

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

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

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

12. Other Assets

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

(1) Includes bonds of $225 and stocks of $88 at December 31, 2012 (bonds of $80 and stocks of $127 at December 31, 2011).
(2) Includes miscellaneous and sundry other assets of the Company.

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

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

13. Segregated Funds

(a) Investments on account of segregated fund policyholders

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

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

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

14. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

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

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

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

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

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

	2011		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	$ 26,470	$ (50)	$ 26,520
United States	8,639	18	8,621
Europe	1,230	–	1,230
Non-participating			
Canada	27,099	919	26,180
United States	16,657	276	16,381
Europe	35,417	898	34,519
Total	$ 115,512	$ 2,061	$ 113,451

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

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

	2011					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	$ 11,862	$ 6,686	$ 3,864	$ 507	$ 3,551	$ 26,470
United States	4,059	152	–	–	4,428	8,639
Europe	855	56	176	22	121	1,230
Non-participating liabilities						
Canada	16,674	4,738	1,329	20	4,338	27,099
United States	13,523	2,369	–	–	765	16,657
Europe	20,449	2,506	119	2,092	10,251	35,417
Other	6,563	484	–	6	100,099	107,152
Total equity	4,088	441	1,216	554	9,805	16,104
Total carrying value	$ 78,073	$ 17,432	$ 6,704	$ 3,201	$ 133,358	$ 238,768
Fair value	$ 79,114	$ 18,662	$ 6,772	$ 3,201	$ 133,358	$ 241,107

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

14. Insurance and Investment Contract Liabilities (cont'd)

(c) Change in insurance contract liabilities

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

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

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

	2011		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$ 34,398	$ 25	$ 34,373
Crown Ancillary reclassification	(89)	–	(89)
Impact of new business	133	–	133
Normal change in force	1,719	(14)	1,733
Management action and changes in assumptions	(139)	(45)	(94)
Impact of foreign exchange rate changes	281	2	279
Balance, end of year	$ 36,303	$ (32)	$ 36,335

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	$ 73,007	$ 2,508	$ 70,499	$ 104,872
Crown Ancillary reclassification	89	–	89	–
Impact of new business	3,088	(329)	3,417	3,550
Normal change in force	1,910	476	1,434	3,167
Management action and changes in assumptions	(806)	(583)	(223)	(317)
Impact of foreign exchange rate changes	1,139	21	1,118	1,397
Balance, end of year	$ 78,427	$ 2,093	$ 76,334	$ 112,669

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

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

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

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

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

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

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

In 2011, the major contributors to the increase in net insurance contract liabilities were the impact of new business ($3,550 increase) and the normal change in the in force business ($3,167 increase) primarily due to the change in fair value.

Net non-participating insurance contract liabilities decreased by $223 in 2011 due to management actions and assumption changes including a $68 decrease in Canada, a $132 decrease in Europe and a $23 decrease in the United States.

The Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to future mortality improvement in insurance contract liabilities for life insurance and annuities. The resulting decrease in net non-participating insurance contract liabilities for life insurance was $446 including a $182 decrease in Canada, a $242 decrease in Europe (primarily reinsurance) and a $22 decrease in the United States. The resulting change in net insurance contract liabilities for annuities was a $47 increase including a $53 increase in Canada, a $58 decrease in Europe and a $52 increase in the United States.

The remaining increase in Canada was primarily due to increased provisions for policyholder behavior in Individual Insurance ($172 increase), provisions for asset liability matching ($147 increase), updated base annuity mortality ($43 increase) and a reclassification from miscellaneous liabilities ($29 increase) partially offset by updated expenses and taxes ($137 decrease), updated morbidity assumptions ($101 decrease), updated base life insurance mortality ($38 decrease), modeling refinements across the Canadian Segment ($40 decrease) and reinsurance related management actions ($16 decrease).

The remaining increase in Europe was primarily due to increased provisions for policyholder behavior in reinsurance ($227 increase), updated base life insurance mortality ($50 increase) and updated morbidity assumptions ($15 increase) partially offset by modeling refinements in the U.K. and Reinsurance Segments ($69 decrease), updated base annuity mortality ($42 decrease), and reduced provisions for asset liability matching ($16 decrease).

The remaining decrease in the United States was primarily due to updated base annuity mortality ($28 decrease) and updated base life insurance mortality ($23 decrease).

Net participating insurance contract liabilities decreased by $94 in 2011 due to management actions and assumption changes. The decrease was primarily due to decreases in the provision for future policyholder dividends ($1,556 decrease), modeling refinements in Canada ($256 decrease), improved Individual Life mortality ($256 decrease including $27 from the Standards of Practice revision) and updated expenses and taxes ($15 decrease) partially offset by lower investment returns ($1,952 increase), and increased provisions for policyholder behavior ($40 increase).

14. Insurance and Investment Contract Liabilities (cont'd)

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

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

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

(e) Canadian universal life embedded derivatives

The Company bifurcated the index linked component of the universal life contracts as this embedded derivative is not closely related to the insurance host and is not itself an insurance contract. The forward contracts are contractual agreements in which the policyholder is entitled to the performance of the underlying index. The policyholder may select one or more indices from a list of major indices.

(f) Actuarial assumptions

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

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

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. The actuarial standards were amended to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumptions be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and casualty reinsurance

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

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 7 (c)).

Expenses

Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided the Company's persistency assumption for these products as the Company's own experience is very limited.

Utilization of elective policy options

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

Policyholder dividends and adjustable policy features

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

(g) Risk management

(i) Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns.

As an insurance company, Lifeco is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of the Company's underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following provides information about the Company's insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Company's liability associated with these contracts.

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

14. Insurance and Investment Contract Liabilities (cont'd)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by geographic region is described below.

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

(ii) Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

15. Financing Charges

Financing charges consist of the following:

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

16. Debentures and Other Debt Instruments

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Short term				
Commercial paper and other short term debt instruments with interest rates from .27% to .35% (.20% to .39% at December 31, 2011)	$ 97	$ 97	$ 100	$ 100
Revolving credit facility with interest equal to LIBOR plus 1.00% or U.S. Prime Rate Loan (U.S. $200)	198	198	204	204
Total short term	295	295	304	304
Long term				
Operating:				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	2	2	3	3
Capital:				
Lifeco				
6.14% Debentures due March 21, 2018, unsecured	199	234	199	229
6.74% Debentures due November 24, 2031, unsecured	191	256	190	237
6.67% Debentures due March 21, 2033, unsecured	397	512	397	472
5.998% Debentures due November 16, 2039, unsecured	342	431	343	383
4.65% Debentures due August 13, 2020, unsecured	498	557	497	522
	1,627	1,990	1,626	1,843
Canada Life				
6.40% Subordinated debentures due December 11, 2028, unsecured	100	117	100	115
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	170	176	175	170
Great-West Life & Annuity Insurance Capital, LP II				
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (U.S. $300)	296	307	310	298
Putnam Acquisition Financing LLC				
Term note due October 18, 2015, unsecured, bearing an interest rate of LIBOR plus 0.75% (U.S. $304)	301	301	304	308
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	995	1,097	994	1,028
Great-West Lifeco Finance (Delaware) LP II				
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	497	592	497	550
Total long term	3,988	4,582	4,009	4,315
Total	$ 4,283	$ 4,877	$ 4,313	$ 4,619

17. Other Liabilities

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

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

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

18. Capital Trust Securities

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

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

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

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

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

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

19. Non-Controlling Interests

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

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

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

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

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

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

Non-controlling interests in subsidiaries includes non-controlling interests in Putnam LLC controlled investments in institutional portfolio funds, hedge funds, Putnam LLC sponsored mutual funds and PanAgora Asset Management Inc.

19. Non-Controlling Interests (cont'd)

(c) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam LLC, Great-West Financial and their subsidiaries reflected in other comprehensive income are as follows:

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

20. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares,

Unlimited Common Shares with no par value

Issued and outstanding and fully paid

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

Preferred Shares

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

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

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

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share. During 2011, the Company recognized the surrender of 153,825 Series F First Preferred Shares with a carrying value of $3.

The Series G, 5.20% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before December 31, 2013, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series H, 4.85% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before September 30, 2014, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series I, 4.50% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before June 30, 2015, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series L, 5.65% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after December 31, 2014 for $25 per share plus a premium if the shares are redeemed before December 31, 2018, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series M, 5.80% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after March 31, 2015 for $25 per share plus a premium if redeemed prior to March 31, 2019, together in each case with all declared and unpaid dividends to but excluding the date of redemption, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series J, 6.00% Non-Cumulative 5-Year Rate Reset First Preferred Shares are redeemable at the option of the Company on December 31, 2013 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series J share conditions, each Series J share is convertible into one Series K First Preferred Share at the option of the holders on December 31, 2013 and on December 31 every five years thereafter.

The Series N, 3.65% Non-Cumulative 5 Year Rate Reset First Preferred Shares are redeemable at the option of the Company on December 31, 2015 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O First Preferred Share at the option of the holders on December 31, 2015 and on December 31 every five years thereafter.

Common Shares

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

21. Capital Management

(a) Policies and Objectives

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

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

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

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

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

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

(b) Regulatory Capital

In Canada, Office of the Superintendent of Financial Institutions Canada has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements. For this purpose, various additions or deductions from capital are mandated by the guidelines issued by Office of the Superintendent of Financial Institutions Canada. The following table provides a summary of the Minimum Continuing Capital and Surplus Requirements information and ratios for Great-West Life:

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

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

In the United Kingdom, Canada Life Limited (CLL) is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Financial Services Authority Handbook. The capital requirements are set prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2012, CLL complied with the minimum capital resource requirements in the United Kingdom.

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

22. Share-Based Payments

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

During 2012, 2,138,100 options were granted (1,666,100 options were granted during 2011). The weighted average fair value of options granted during 2012 was $3.17 per option ($4.39 per option in 2011). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2012: dividend yield 5.31%, expected volatility 24.01%, risk-free interest rate 1.66%, and expected life of 7 years.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. Options vest over a period of up to eight years. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following summarizes the status of, and changes in, options outstanding and the weighted average exercise price:

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

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

Compensation expense due to transactions accounted for as equity-settled share-based payments of $6 after-tax in 2012 ($6 after-tax in 2011) arising from transactions in which the services received did not qualify for recognition as an asset, has been recognized in the Consolidated Statements of Earnings.

The entity measured the compensation for the Directors' services based on fair value when measuring the services received in the deferred share unit plan.

22. Share-Based Payments (cont'd)

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

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

(b) In order to promote a greater alignment of interest between Directors and the shareholders of the Company, Great-West Life, Great-West Financial, and Putnam LLC have established voluntary Deferred Share Unit Plans and/or mandatory Deferred Share Unit Plans (the "Voluntary DSU Plans" and the "Mandatory DSU Plans" respectively) in which the Directors of the Company participate. Under the Mandatory DSU Plans, each Director who is a resident of Canada or the United States receives \$50,000 of his or her annual retainer in the form of Deferred Share Units. Under the Voluntary DSU Plans, each Director may elect to receive the balance of his or her annual retainer (including Board Committee fees) and his or her attendance fees entirely in the form of Deferred Share Units, entirely in cash, or equally in cash and Deferred Share Units. In both cases the number of Deferred Share Units granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per Common Share on the Toronto Stock Exchange for the last five trading days of the preceding fiscal quarter (such weighted average trading price being the "value of a Deferred Share Unit"). Directors receive additional Deferred Share Units in respect of dividends payable on the Common Shares based on the value of a Deferred Share Unit at that time. Deferred Share Units are generally redeemable at the time that an individual ceases to be a Director by a lump sum cash payment, based on the value of the Deferred Share Units on the date of redemption. This amount is fully taxable as income in the year in which it is received. In 2012, \$2 in directors fees were used to acquire Deferred Share Units (\$2 in 2011).

(c) Effective September 25, 2007, Putnam LLC sponsored the Putnam Investments, LLC Equity Incentive Plan. Under the terms of the Equity Incentive Plan, Putnam LLC is authorized to grant or sell Class B Shares of Putnam LLC (the Putnam Class B Shares), subject to certain restrictions and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam LLC at fair value at the time of the award. Fair value is determined under the valuation methodology outlined in the Equity Incentive Plan. Awards vest over a period of up to five years and are specified in the individual's award letter. Holders of Putnam Class B Shares are not entitled to vote other than in respect of certain matters in regards to the Equity Incentive Plan and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the Equity Incentive Plan is limited to 10,000,000. The share-based payments awarded under the Equity Incentive Plan are cash-settled and included within other liabilities on the Consolidated Balance Sheets.

The Company uses the fair-value based method to account for restricted Class B shares and options on Class B shares granted to employees under the Equity Incentive Plan. The fair-value of restricted Class B shares and options on Class B shares is determined on each grant date. During 2012, Putnam LLC granted 1,789,000 (1,189,169 in 2011) restricted Class B common shares and no options in 2012 or 2011 to certain members of senior management and key employees.

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

(d) Certain employees of PanAgora, a subsidiary of Putnam LLC, are eligible to participate in the PanAgora Management Equity Plan under which Class C Shares of PanAgora and options and stock appreciation rights on Class C Shares of PanAgora may be issued. Holders of PanAgora Class C Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of PanAgora Class C Shares may not exceed twenty percent of the equity of PanAgora on a fully exercised and converted basis.

Class C shares are treated as cash-settled liabilities on the Consolidated Balance Sheets within share-based compensation payable. The fair value of the shares is estimated quarterly and valued on an annual basis by an independent valuation expert.

Compensation expense recorded for the year ended December 31, 2012 related to restricted Class C Shares and stock appreciation rights was $18 in 2012 ($7 in 2011) and is included as a component of operating expenses in the Consolidated Statements of Earnings. At December 31, 2012, the carrying value and intrinsic value of the Class C Share and stock appreciation rights liability is $37 ($22 in 2011).

23. Pension Plans and Other Post-Employment Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost of benefits through employee contributions. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to operating expenses.

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

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. The amount of some of the post-employment benefits other than pensions depends on future cost escalation. These post-employment benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-employment non-pension benefits is charged to operating expenses.

Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year fair value of plan assets and defined benefit obligation are amortized over the expected average remaining working lives of the employee/advisor group.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

The overall expected rate of return on plan assets for the year is determined based on long-term market expectations prevailing at the beginning of the year for each asset class, weighted by portfolio allocation, less an allowance in respect of all expenses expected to be charged to the fund. Anticipated future long-term performance of individual asset categories is considered, reflecting management's best estimates of expected future inflation and expected real yields on fixed income securities and equities. Since the prior year-end there have been no changes in the method used to determine the overall expected rate of return.

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

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

23. Pension Plans and Other Post-Employment Benefits (cont'd)

The following reflects the financial position of the Company's contributory and non-contributory defined benefit plans:

(a) Plan Assets, Benefit Obligation and Funded Status

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

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

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

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

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

	Defined benefit pension plans	
	2012	2011
Equity securities	**51%**	46%
Debt securities	**38%**	41%
Real estate	**5%**	4%
Cash and cash equivalents	**6%**	9%
Total	**100%**	100%

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds managed by subsidiaries of the Company in the Consolidated Balance Sheets of $1,523 ($1,430 in 2011). Plan assets do not include any property occupied or other assets used by the Company.

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

	Defined benefit pension plans		Other post-employment benefits	
	2012	2011	**2012**	2011
To determine benefit cost:				
Discount rate	**5.1%**	5.5%	**5.1%**	5.5%
Expected rate of return on plan assets, during the year	**5.7%**	6.1%	**–**	–
Expected rate of compensation increase	**3.5%**	3.6%	**–**	–
Future pension increases	**2.0%**	2.2%	**–**	–
To determine defined benefit obligation:				
Discount rate	**4.4%**	5.1%	**4.2%**	5.1%
Rate of compensation increase	**3.1%**	3.5%	**–**	–
Future pension increases	**1.9%**	2.0%	**–**	–
% of defined benefit obligation subject to future pension increases	**38.0%**	39.0%	**–**	–
Medical cost trend rates:				
Initial medical cost trend rate			**6.5%**	6.7%
Ultimate medical cost trend rate			**4.5%**	4.5%
Year ultimate trend rate is reached			**2024**	2024

23. Pension Plans and Other Post-Employment Benefits (cont'd)

(e) Impact of Changes to Assumed Medical Cost Trend Rates – Other Post Employment Benefits

	1% increase		1% decrease	
	2012	2011	**2012**	2011
Impact on defined benefit obligation	**$ 40**	$ 41	**$ (33)**	$ (34)
Impact on current service cost and interest cost	**$ 2**	$ 2	**$ (2)**	$ (2)

(f) Summary of Funded Status and Experience Adjustments:

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

24. Earnings per Common Share

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

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

25. Accumulated Other Comprehensive Income (Loss)

	2012					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	**Unrealized gains (losses) on available for sale assets**	**Unrealized gains (losses) on cash flow hedges**	**Total**	**Non-controlling interest**	**Shareholders**
Balance, beginning of year	**$ (365)**	**$ 223**	**$ (13)**	**$ (155)**	**$ (78)**	**$ (233)**
Other comprehensive income (loss)	**(78)**	**(39)**	**16**	**(101)**	**3**	**(98)**
Income tax	**–**	**6**	**(6)**	**–**	**1**	**1**
	(78)	**(33)**	**10**	**(101)**	**4**	**(97)**
Balance, end of year	**$ (443)**	**$ 190**	**$ (3)**	**$ (256)**	**$ (74)**	**$ (330)**

	2011					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholders
Balance, beginning of year	$ (572)	$ 129	$ –	$ (443)	$ (16)	$ (459)
Other comprehensive income (loss)	206	114	(22)	298	(84)	214
Income tax	1	(20)	9	(10)	22	12
	207	94	(13)	288	(62)	226
Balance, end of year	$ (365)	$ 223	$ (13)	$ (155)	$ (78)	$ (233)

26. Related Party Transactions

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

(a) Principal subsidiaries

The financial statements of the Company include the operations of the following subsidiaries:

Company	Incorporated in	Primary business operation	% Held
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.00%
London Life Insurance Company	Canada	Insurance and wealth management	100.00%
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.00%
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.00%
Putnam Investments LLC	United States	Financial services	95.56%

26. Related Party Transactions (cont'd)

(b) Transactions with related parties included in the consolidated financial statements

In the normal course of business, Great-West Life and Putnam LLC enter into various transactions with related companies which include providing insurance benefits and sub-advisory services to other companies within the Power Financial group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM and its subsidiaries, a member of the Power Financial group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

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

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

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

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

There were no significant outstanding loans or guarantees at the Balance Sheets date and no loans or guarantees issued during 2012 or 2011. There were no provisions for uncollectible amounts from related parties during 2012 and 2011.

(c) Key management compensation

Key management personnel constitutes those individuals that have the authority and responsibility for planning, directing and controlling the activities of Lifeco, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers.

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

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

27. Income Taxes

(a) Income tax receivable (payable)

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

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

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

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

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

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

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

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

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

27. Income Taxes (cont'd)

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

(iv) Tax recorded in equity

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

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

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

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

28. Operating and Administrative Expenses

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

(1) Other reflects adjustment for court decision on November 3, 2011 that any monies to be reallocated to the participating accounts will be dealt with in accordance with the companies participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members.

29. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 7 illustrates the credit quality of the Company's exposure to counterparties. As at December 31, 2012, the Company received assets of $25 ($21 in 2011) as collateral for derivative contracts from counterparties and pledged assets of $101 ($45 in 2011) as collateral for derivative contracts to counterparties.

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

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by the Office of the Superintendent of Financial Institutions Canada. The factors prescribed by the Office of the Superintendent of Financial Institutions Canada for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of maximum credit risk and the potential future credit exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the Office of the Superintendent of Financial Institutions Canada.

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

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

29. Derivative Financial Instruments (cont'd)

	2011				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 55	$ –	$ –	$ –	$ –
Futures – short	5	–	–	–	–
Swaps	2,649	357	23	370	38
Options purchased	1,107	54	7	54	5
	3,816	411	30	424	43
Foreign exchange contracts					
Forward contracts	224	–	3	3	–
Cross-currency swaps	7,745	557	540	1,093	73
	7,969	557	543	1,096	73
Other derivative contracts					
Equity contracts	58	–	4	4	–
Futures – long	7	–	–	–	–
Futures – short	148	–	–	–	–
	213	–	4	4	–
Total	$ 11,998	$ 968	$ 577	$ 1,524	$ 116

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

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

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

	2011				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1 – 5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 55	$ –	$ –	$ 55	$ –
Futures – short	5	–	–	5	–
Swaps	404	1,025	1,087	2,516	316
Options purchased	233	760	114	1,107	53
	697	1,785	1,201	3,683	369
Foreign exchange contracts					
Forward contracts	224	–	–	224	(1)
Cross-currency swaps	43	1,540	4,662	6,245	314
	267	1,540	4,662	6,469	313
Other derivative contracts					
Equity contracts	40	18	–	58	(16)
Futures – long	7	–	–	7	–
Futures – short	146	2	–	148	(1)
	193	20	–	213	(17)
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	31	31	11
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(22)
Fair value hedges					
Interest rate contracts					
Swaps	–	10	92	102	(2)
Total	$ 1,157	$ 3,355	$ 7,486	$ 11,998	$ 652

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

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities and insurance and investment contract liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities.

The ineffective portion of the cash flow hedges during 2012 and the anticipated net gains (losses) reclassified out of accumulated other comprehensive income within the next twelve months is $2. The maximum time frame for which variable cash flows are hedged is 32 years.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage potential credit risk impact of significant declines in certain equity markets.

30. Legal Provisions, Contingent Liabilities and Subsequent Event

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

A subsidiary of the Company has declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plan. In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of $97 after-tax established by the Company's subsidiaries in the third quarter, 2007 have been reduced to $34 after-tax. Actual results could differ from these estimates.

The Court of Appeal for Ontario released a decision on November 3, 2011 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of LIG in 1997 (the "Appeal Decision"). The Appeal Decision ruled the Companies achieved substantial success and required that there be adjustments to the original trial judgment regarding amounts which were to be reallocated to the participating accounts going forward. Any monies to be reallocated to the participating accounts will be dealt with in accordance with the companies' participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members. On May 24, 2012, the Supreme Court of Canada dismissed the plaintiff's application for leave to appeal the Appeal Decision. The Appeal Decision directed the parties back to the trial judge to work out the remaining issues. On January 24, 2013 the Ontario Superior Court of Justice released a decision ordering that $285 be reallocated to the participating account surplus. The Company will be appealing that decision.

During the fourth quarter of 2011, in response to the Appeal Decision, the Company re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholders net earnings in 2011 by $223 after-tax.

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

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

In connection with the acquisition of its subsidiary Putnam LLC, the Company has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam LLC. Putnam LLC continues to have potential liability for these matters in the event the indemnity is not honoured. The Company expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on the consolidated financial position of the Company.

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

Subsidiaries of the Company have an investment in a USA based private equity partnership wherein a dispute arose over the terms of the partnership agreement. The Company established a provision in the fourth quarter of 2011 for $99 after-tax. The dispute was resolved on January 10, 2012 and as a result, the Company no longer holds the provision.

31. Commitments

(a) Letters of Credit

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

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

(b) Investment Commitments

Commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions were $516 as at December 31, 2012 ($675 as at December 31, 2011). At December 31, 2012, $470 mature within 1 year ($555 at December 31, 2011) and $46 mature in 1 – 2 years ($79 at December 31, 2011) and no commitments mature over 2 years ($41 in 2 – 3 years at December 31, 2011).

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

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

32. Segmented Information

The major reportable segments of the Company are Canada, United States, Europe and Lifeco Corporate. These segments reflect the Company's management structure and internal financial reporting and are aligned to its geographic operations. Each of these segments operates in the financial services industry and the revenues from these segments are derived principally from life, health and disability insurance, annuity products, investment management services, savings products and life, property and casualty, accident and health reinsurance. Business activities that are not associated with the specific business units are attributed to the Lifeco Corporate segment.

Transactions between operating segments occur at market terms and conditions and have been eliminated upon consolidation.

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

(a) Consolidated Net Earnings

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

32. Segmented Information (cont'd)

	2011				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 9,285	$ 3,126	$ 4,882	$ –	$ 17,293
Net investment income					
Regular net investment income	2,470	1,311	1,891	(134)	5,538
Changes in fair value through profit or loss	1,853	454	1,857	–	4,164
Total net investment income	4,323	1,765	3,748	(134)	9,702
Fee and other income	1,088	1,232	583	–	2,903
Total income	14,696	6,123	9,213	(134)	29,898
Benefits and expenses:					
Paid or credited to policyholders	10,971	4,229	7,843	–	23,043
Other	2,207	1,240	586	(271)	3,762
Financing charges	136	134	18	1	289
Amortization of finite life intangible assets	41	46	13	–	100
Earnings before income taxes	1,341	474	753	136	2,704
Income taxes	252	98	96	19	465
Net earnings before non-controlling interests	1,089	376	657	117	2,239
Non-controlling interests	108	(1)	14	–	121
Net earnings	981	377	643	117	2,118
Preferred share dividends	73	–	23	–	96
Net earnings before capital allocation	908	377	620	117	2,022
Impact of capital allocation	78	(7)	(58)	(13)	–
Net earnings – common shareholders	$ 986	$ 370	$ 562	$ 104	$ 2,022

(b) Consolidated Total Assets

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

	2011			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 56,374	$ 27,403	$ 30,851	$ 114,628
Goodwill and intangible assets	5,089	1,769	1,697	8,555
Investments on account of segregated fund policyholders	49,622	22,359	24,601	96,582
Other assets	3,453	3,050	12,500	19,003
Total	$ 114,538	$ 54,581	$ 69,649	$ 238,768

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Great-West Lifeco Inc.

We have audited the accompanying consolidated financial statements of Great-West Lifeco Inc., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Great-West Lifeco Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

Winnipeg, Manitoba
February 7, 2013

SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not an International Financial Reporting Standards (IFRS) measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of IFRS net earnings. It provides an analysis of the difference between actual net earnings and expected net earnings based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on In-Force Business

This component represents the portion of the consolidated net earnings on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net earnings of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net earnings resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Lifeco's sources of earnings are shown below for 2012 and 2011.

Sources of Earnings

(in Canadian $ millions)

	Shareholder net earnings				
For year to date at December 31, 2012	Canada	United States	Europe	Lifeco Corporate	Total
Expected profit on in-force business	$ 978	$ 348	$ 490	$ (17)	$ 1,799
Impact of new business	(56)	–	33	–	(23)
Experience gains and losses	214	(14)	218	(3)	415
Management actions and changes in assumptions	147	58	(98)	–	107
Other	–	–	–	–	–
Earnings on surplus	75	125	112	(21)	291
Net earnings before tax	1,358	517	755	(41)	2,589
Taxes	(239)	(152)	(115)	27	(479)
Net earnings before non-controlling interests	1,119	365	640	(14)	2,110
Non-controlling interests	–	–	–	–	–
Net earnings – shareholders	1,119	365	640	(14)	2,110
Preferred share dividends	(79)	–	(22)	(14)	(115)
Net earnings – common shareholders before adjustments	1,040	365	618	(28)	1,995
Putnam after tax	–	(40)	–	–	(40)
Adjustments after tax	–	–	–	(140)	(140)
Net earnings – common shareholders	$ 1,040	$ 325	$ 618	$ (168)	$ 1,815

Sources of Earnings
(in Canadian $ millions)

	Shareholder net earnings				
For year to date at December 31, 2011	Canada	United States	Europe	Lifeco Corporate	Total
Expected profit on in-force business	$ 1,067	$ 342	$ 485	$ (21)	$ 1,873
Impact of new business	1	–	(9)	–	(8)
Experience gains and losses	(5)	(12)	(79)	1	(95)
Management actions and changes in assumptions	136	52	164	–	352
Other	–	–	–	–	–
Earnings on surplus	90	114	120	1	325
Net earnings before tax	1,289	496	681	(19)	2,447
Taxes	(230)	(141)	(96)	(1)	(468)
Net earnings before non-controlling interests	1,059	355	585	(20)	1,979
Non-controlling interests	–	–	–	–	–
Net earnings – shareholders	1,059	355	585	(20)	1,979
Preferred share dividends	(73)	–	(23)	–	(96)
Net earnings – common shareholders before adjustments	986	355	562	(20)	1,883
Putnam after tax	–	15	–	–	15
Adjustments after tax	–	–	–	124	124
Net earnings – common shareholders	$ 986	$ 370	$ 562	$ 104	$ 2,022

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 69% of pre-tax earnings in 2012. The expected profit on in-force business of $1,799 in 2012 was $74 lower than the 2011 level. A significant contributor to the decrease in expected profits year over year was the higher pension expense and impact of equity markets going into the year in Canada. The increase in expected profit in Europe is largely due to surrender gains on savings products and improved equity market conditions (in the latter part of the year) in Europe.

New business issued in 2012 led to a loss of $23 at issue, largely due to increased strain on insurance sales in Canada offset by new business in Reinsurance (in particular, the Santander/Abbey Life deal "Sella").

Experience gains in 2012 were primarily due to favourable investment, mortality and longevity experience in Canada and Europe partially offset by unfavourable policyholder behavior experience in Canada and U.S. Experience losses in 2011 were primarily due to unfavourable expense, morbidity and policyholder behavior experience partially offset by favourable mortality and investment experience.

In 2012 management actions and changes in assumptions contributed $107 to pre-tax earnings. The assumption changes and management actions consisted of $(98) in Europe, $58 in U.S. and $147 in Canada. The most significant contributors to the Canada amount were $79 due to improved individual life mortality, $75 due to updated expenses and taxes, $71 due to model refinements across the Canadian segment, $21 due to updated longevity, $9 due to improved group insurance morbidity, $(66) due to increased provisions for asset and mismatch risk, and $(41) due to increased provisions for policyholder behavior in Individual Insurance. The most significant contributors to the Europe amount were $358 due to updated longevity, $85 due to improved life mortality, $(348) due to strengthened longevity improvement, $(109) due to increased provisions for policyholder behavior, $(35) due to expenses and taxes, $(32) due to model refinements, $(15) due to increased provisions for asset and mismatch risk and $(3) for strengthened morbidity. The most significant contributors to the U.S. amount were $33 due to improved life mortality, $18 due to decreased provisions for asset and mismatch risk, $3 due to updated longevity and $3 due to reduced provisions for policyholder behavior.

In 2011 the Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to the future mortality improvement in insurance contract liabilities for life insurance and annuities. The resulting increase to pre-tax earnings was $425 including $182 for life insurance and a decrease to earnings of $(53) for annuities in Canada; an increase of $242 for life insurance and $58 for annuities in Europe; an increase to earnings of $48 for life insurance and a decrease of $(52) for annuities in the U.S.

Other management actions and changes in assumptions contributed $(73) to pre-tax earnings, including $7 in Canada, $(136) in Europe and $56 in U.S. The most significant contributors to the Canada amount were $137 due to updated expenses and taxes, $101 updated morbidity assumptions, $38 updated base life insurance mortality, $40 due to model refinements across the Canadian segment, $12 due to reinsurance related management actions, $(172) due to increased provisions for policyholder behavior in Individual Insurance, $(104) due to increased provisions for asset and mismatch risk and $(43) due to updated base annuity mortality. The most significant contributors to the Europe amount were $101 due to model refinements, particularly in Reinsurance, $42 due to updated base annuity mortality, $16 due to reduced provisions for asset and mismatch risk, $(227) due to increased provisions for policyholder behavior in Reinsurance, $(50) due to updated base life insurance mortality and $(15) due to updated morbidity assumptions. The most significant contributors to the U.S. amount were $28 due to updated base annuity mortality and $23 due to updated base life insurance mortality.

Earnings on surplus decreased by $34 in 2012 compared to 2011.

FIVE YEAR SUMMARY

(in Canadian $ millions except per share amounts)	**2012**	2011	2010	2009*	2008*
At December 31					
Total assets under administration	**$ 545,771**	$ 501,965	$ 487,002	$ 458,575	$ 441,959
For the Year Ended December 31					
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	**$ 18,820**	$ 17,293	$ 17,748	$ 18,033	$ 30,007
Self-funded premium equivalents (Administrative services only contracts)	**2,666**	2,645	2,575	2,499	2,410
Segregated funds deposits:					
Individual products	**6,557**	7,345	7,284	6,229	7,825
Group products	**7,262**	6,117	6,790	8,470	5,524
Proprietary mutual funds and institutional deposits	**24,496**	28,888	24,654	21,507	30,693
Total premiums and deposits	**$ 59,801**	$ 62,288	$ 59,051	$ 56,738	$ 76,459
Condensed Statements of Earnings					
Income					
Premium income	**$ 18,820**	$ 17,293	$ 17,748	$ 18,033	$ 30,007
Net investment income					
Regular net investment income	**5,653**	5,538	5,709	6,179	5,962
Changes in fair value through profit or loss	**2,643**	4,164	3,825	3,490	(5,161)
Total net investment income	**8,296**	9,702	9,534	9,669	801
Fee and other income	**2,945**	2,903	2,821	2,839	3,124
Total income	**30,061**	29,898	30,103	30,541	33,932
Benefits and expenses					
Paid or credited to policyholders	**22,451**	23,043	23,225	23,809	26,774
Other	**4,931**	4,051	4,822	4,563	4,452
Amortization of finite life intangible assets	**103**	100	92	89	83
Restructuring costs	**–**	–	–	–	70
Intangible and goodwill impairment	**–**	–	–	–	2,178
Earnings from continuing operations before income taxes	**2,576**	2,704	1,964	2,080	375
Income taxes	**368**	465	256	345	(278)
Net earnings from continuing operations before non-controlling interests	**2,208**	2,239	1,708	1,735	653
Non-controlling interests	**278**	121	7	36	(108)
Net earnings from continuing operations	**1,930**	2,118	1,701	1,699	761
Net earnings from discontinued operations	**–**	–	–	–	692
Net earnings – shareholders	**1,930**	2,118	1,701	1,699	1,453
Preferred share dividends	**115**	96	86	72	57
Net earnings – common shareholders	**$ 1,815**	$ 2,022	$ 1,615	$ 1,627	$ 1,396
Earnings per common share	**$ 1.912**	$ 2.129	$ 1.704	$ 1.722	$ 1.560
Return on common shareholders' equity	**14.7%**	17.6%	14.8%	13.8%	12.7%
Book value per common share	**$ 13.18**	$ 12.61	$ 11.46	$ 12.17	$ 12.61
Dividends to common shareholders – per share	**$ 1.2300**	$ 1.2300	$ 1.2300	$ 1.2300	$ 1.2000

* The years 2008 and 2009 are presented on a previous CGAAP basis.

DIRECTORS AND OFFICERS

As of December 31, 2012

BOARD OF DIRECTORS

Raymond L. McFeetors [2, 3, 4, 6]
Chairman of the Board of the Corporation
Vice-Chairman,
Power Financial Corporation

George S. Bain [1, 5]
Corporate Director

Marcel R. Coutu [2, 3, 4, 6]
President and Chief Executive Officer,
Canadian Oil Sands Limited

André Desmarais, O.C., O.Q. [2, 3, 4, 6]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q. [2, 3, 4, 6]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Michael L. Hepher [1, 2, 3, 6]
Corporate Director

Chaviva M. Hošek, O.C., Ph.D., LL.D. [1, 5]
President Emeritus
The Canadian Institute for Advanced Research

D. Allen Loney, FIA, FCIA [3, 6]
President and Chief Executive Officer
of the Corporation,
The Great-West Life Assurance Company,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company

David A. Nield [2, 4, 5]
Corporate Director

R. Jeffrey Orr [2, 3, 4, 6]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Henri-Paul Rousseau, Ph.D. [3, 6]
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Raymond Royer, O.C., O.Q., CPA, FCA [1]
Corporate Director

T. Timothy Ryan, Jr. [2, 3, 6]
President and Chief Executive Officer,
Securities Industry and
Financial Markets Association

Jerome J. Selitto
Corporate Director

James M. Singh, CMA [1]
Corporate Director

Emőke J.E. Szathmáry, C.M., O.M., Ph.D.
President Emeritus,
University of Manitoba

Gregory D. Tretiak [3, 6]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

Brian E. Walsh [2, 3, 4, 6]
Chairman and Chief Investment Officer,
Saguenay Strathmore Capital, LLC

James W. Burns, O.C., O.M.
Director Emeritus

The Honourable
Paul Desmarais, P.C., C.C.
Director Emeritus

1 member of the Audit Committee
2 member of the Compensation Committee
3 member of the Executive Committee
4 member of the Governance and Nominating Committee
5 member of the Conduct Review Committee
6 member of the Risk Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

Arshil Jamal
President and Chief Operating Officer,
Europe

Paul A. Mahon
President and Chief Operating Officer,
Canada

Mitchell T.G. Graye
President and Chief Executive Officer,
Great-West Life & Annuity
Insurance Company

Andrew D. Brands
Senior Vice-President, General Counsel,
Canada and Europe

S. Mark Corbett
Executive Vice-President and
Chief Investment Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Garry MacNicholas
Senior Vice-President,
Capital Management

Laurie A. Speers
Vice-President and Corporate Secretary

SHAREHOLDER INFORMATION

Registered Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

Stock Exchange Listings

Symbol: GWO

The following shares are listed on the Toronto Stock Exchange: Common Shares (**GWO**); Non-Cumulative First Preferred Shares Series F (**GWO.PR.F**), Series G (**GWO.PR.G**), Series H (**GWO.PR.H**), Series I (**GWO.PR.I**), Series L (**GWO.PR.L**), Series M (**GWO.PR.M**), Series P (**GWO.PR.P**), Series Q (**GWO.PR.Q**), Series R (**GWO.PR.R**); and Non-Cumulative 5-Year Reset First Preferred Shares Series J (**GWO.PR.J**) and Series N (**GWO.PR.N**).

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Lifeco Inc. is **Computershare Investor Services Inc.**

In Canada, the Common Shares and Non-Cumulative First Preferred Shares, Series F are transferable at the following locations:

Canadian Offices	Computershare Investor Services Inc. 9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1 6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8 1500 University Street, Suite 700, Montréal, Québec, Canada H3A 3S8 2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9 Phone: 1-888-284-9137 (toll free in North America), 514-982-9557 (direct dial)

The Non-Cumulative First Preferred Shares, Series G, H, I, J, L, M, N, P, Q and R are only transferable at the Toronto Office of Computershare Investor Services Inc.

Internationally, the Common Shares and Non-Cumulative First Preferred Shares, Series F are also transferable at the following locations:

United States Office	Computershare Trust Company, N.A. 350 Indiana Street, Suite 800 Golden, Colorado, United States 80401 Phone: 1-888-284-9137 (toll free in North America)
United Kingdom Office	Computershare Investor Services PLC P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, United Kingdom Phone: 44 0870 702 0003
Ireland Office	Computershare Investor Services (Ireland) Limited P.O. Box 954, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland Phone: 353 1 216 3100

Shareholders wishing to contact the transfer agent by email can do so at GWO@computershare.com.

Dividends

Common Shares and First Preferred Shares Series F, G, H, I, J, L, M, N, P, Q and R – Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of each quarter.

Investor Information

For financial information about Great-West Lifeco Inc. please contact:

Canada Operations Senior Vice-President and Chief Financial Officer, Canada 204-946-8396

United States Operations Senior Vice-President and Controller 303-737-4015

Europe Operations Senior Vice-President and Chief Financial Officer, Europe 44 1707 423198

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit **www.greatwestlifeco.com**.

Common Share Investment Data

	Market price per common share ($)			Dividend	Dividend	Dividend
	High	Low	Close	paid ($)	payout ratio*	yield**
2012	**25.01**	**19.82**	**24.35**	**1.23**	**59.7%**	**5.5%**
2011	27.77	19.17	20.40	1.23	57.8%	5.2%
2010	29.17	23.73	26.40	1.23	70.4%	4.7%
2009	27.01	11.35	26.88	1.23	71.4%	6.4%
2008	35.29	19.49	20.70	1.20	76.9%	4.4%
2007	37.58	32.50	35.57	1.06	46.0%	3.0%
2006	34.39	27.16	33.80	0.9275	44.1%	3.0%
2005	30.70	26.01	30.70	0.81	41.4%	2.9%

* Ratio based on IFRS basic earnings in 2010 and 2011 and the previous CGAAP basic earnings for 2009 and prior.
** Dividends as per cent of average high and low market price.

GREAT-WEST
LIFECO INC.

A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™

Conserving for our future

Great-West Lifeco recognizes the importance of environmental responsibility and takes a balanced and sustainable approach to conducting business.

To help reduce our environmental footprint, annual meeting materials for our group of companies, including annual reports and management proxy circulars, have been printed on 30 per cent post-consumer recycled fibre.

Domtar EarthChoice® papers are Forest Stewardship Council™ (FSC®) and Rainforest Alliance Certified™. Using this paper has helped save:

288	**134,623**	**129**	**9,012**	**24,822**
Trees	Gallons of waste water	Millions BTU net energy	Pounds of solid waste	Pounds of greenhouse gases

** Environmental impact estimates for savings pertaining to the use of post-consumer recycled fibre are based on the Environmental Paper Network calculator.*

When you finish reading this report, please consider recycling it. You may also download an electronic copy at www.greatwestlifeco.com.

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