

KL29439

009163/20

THE
Great-West Life
ASSURANCE  COMPANY



Annual Report 2011

WEDNESDAY



A36 *A1739BMG* #260
18/04/2012
COMPANIES HOUSE

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and similar expressions or negative versions thereof. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, taxes, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, changes in accounting policies and the effect of applying future accounting policy changes including future policy changes required under International Financial Reporting Standards (IFRS), unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates" in the Company's 2011 Annual Management's Discussion and Analysis, 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 report 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.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of the Company, which are the basis for data presented in this report, have been prepared in accordance with IFRS and are presented in millions of Canadian dollars unless otherwise indicated.

CORPORATE PROFILE

Great-West Life is a leading Canadian insurer, with interests in life insurance, health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions and serve the financial security needs of more than 12 million people

Great-West Life's products include a wide range of investment, savings and retirement income plans, payout annuities, as well as life, disability, critical illness and health insurance for individuals and families. These products and services are distributed through a diverse network of 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

For large and small businesses and organizations, Great-West Life offers a variety of group benefit plan solutions featuring options such as life, healthcare, dental care, critical illness, disability and wellness, international benefits plans, plus convenient online services. The Company also offers group retirement and savings plans that are tailored to the unique needs of businesses and organizations. These products and services are distributed through financial security advisors associated with our companies, as well as independent advisors, brokers and consultants.

In Europe, Great-West Life has operations in the United Kingdom, Isle of Man, Ireland and Germany through Canada Life. Canada Life provides individuals and their families with a broad range of insurance and wealth management products. These include payout annuities, investments and group insurance in the United Kingdom, savings and individual insurance in the Isle of Man, individual insurance and savings, and pension products in Ireland, and fund-based pensions, critical illness and disability insurance in Germany.

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

Great-West Life has \$204 billion* in consolidated assets under administration and is a subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.

For more information on Great-West Life, including current ratings, visit www.greatwestlife.com

*as of December 31, 2011

Table of Contents

1	Corporate Profile	8	Consolidated Balance Sheets	75	Participating Account Financial Disclosure
2	Directors' Report	9	Consolidated Statements of Changes in Equity	76	Participating Account Management Policy
4	Financial Highlights	10	Consolidated Statements of Cash Flows	77	Sources of Earnings
5	Financial Reporting Responsibility	11	Notes to Consolidated Financial Statements	78	Subsidiaries of The Great West Life Assurance Company
	Consolidated Financial Statements	74	Independent Auditor's Report	79	Five Year Summary
6	Consolidated Statements of Earnings	74	Appointed Actuary's Report	80	Directors and Officers
7	Consolidated Statements of Comprehensive Income	75	Participating Policyholder Dividend Policy	81	Policyholder and Shareholder Information

DIRECTORS' REPORT

In 2011 Great-West Life and its subsidiaries in Canada and Europe continued to deliver strong performance. Our conservative investment practices and disciplined approach to introducing new products and managing expenses have served us well over the long term and position us well for organic growth.

Performance measures

Measures of Great-West Life's performance in 2011 include

- Premiums and deposits remained strong, at \$28.3 billion
- In Canada, mutual fund net deposits to the *Quadrus Group of Funds*™ at 5.2% of opening assets outpaced the mutual fund industry, which had 1.9% net sales
- Common shareholder operating earnings of \$1.8 billion, a non-IFRS financial measure, were 11.6% higher than in 2010
- General account assets were \$114.7 billion, an increase of 6% over 2010
- Segregated fund net assets increased 1% from December 31, 2010
- Policyholder dividends were \$1.1 billion compared to \$1.0 billion the prior year
- Net earnings in the participating accounts after policyholder dividends was \$117 million

The Company's capital position remains very strong. Great-West Life reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 204% at December 31, 2011, compared to 203% at December 31, 2010. This measure of capital strength remains at the upper end of our target operating range. It does not include any benefit from the approximately \$0.6 billion of net proceeds from capital transactions held by its parent, Great-West Lifeco.

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

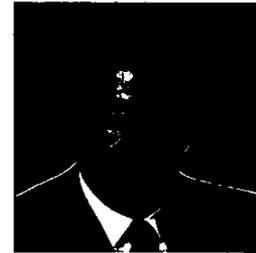
Canada – products and distribution

In Canada, Great-West Life, together with London Life and Canada Life, maintained leading market positions in our individual and group businesses. Our continued focus on prudent product and service enhancements, diversified distribution and operating efficiencies continue to position us for solid organic growth.

We continued to see strong sustained performance in our Canadian businesses. Our individual insurance business grew slightly faster than the market, our group retirement services business recorded solid growth, our group insurance business continued to experience strong persistency, and our individual segregated fund and mutual fund businesses maintained positive net cash flows.



Raymond L. McFeeters



D. Allen Loney

Individual businesses

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

Together, 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, our broad range of products gives advisors choice and flexibility in meeting clients' diverse individual needs. Our companies are the leading provider of participating life insurance and continue to focus on excellence in managing and growing our participating business. Within our group of companies participating products have been continuously offered since 1847 and policyholder dividends have been paid every year. With over 65 years' experience in the individual disability insurance market, Great-West Life, together with Canada Life, is a leading provider of individual disability and critical illness insurance in Canada.

Great-West Life, London Life and Canada Life offer a broad choice of investment, savings and income products. These include segregated funds, as well as mutual funds offered through Quadrus Investment Services Ltd., a mutual fund dealer affiliated with Great-West Life.

Group businesses

In 2011, Great-West Life continued to use technology to enhance services and deepen our relationship with our customers. We were the first in the industry to offer text message notifications for plan members on their health and dental claims, and to launch an iPhone application *DrugHub*™ – a virtual medicine cabinet to help people manage their prescription drugs. We significantly expanded our *Provider eClaims* service. The number of physiotherapy, chiropractic, massage and vision care providers who can submit claims electronically on behalf of their patients more than doubled during the year to over 9,000.

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

Group capital accumulation plans are a core business for Great-West Life and education for plan members is an ongoing priority. We expanded and enhanced our 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.

Our group retirement and savings plans are tailored to the unique needs of small, medium and large businesses and organizations.

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

Europe

In Europe, Great-West Life, through its subsidiary Canada Life, has operations in the United Kingdom, Isle of Man, Ireland and Germany.

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

In the U.K., we continued to grow premium volumes, especially in our Isle of Man product range, despite economic challenges which adversely affected our group insurance business. Sales of payout annuities were very strong in the early part of 2011, though competitive pressures and a lack of quality investment opportunities resulted in slower sales throughout the rest of the year.

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. Despite challenging market conditions for unit linked providers, our retirement savings product sales, and in particular sales of our market leading Guaranteed Minimum Withdrawal Benefit (GMWB) product, showed strong growth in 2011. Our serious illness and GMWB products retained their status as the leading products in their categories in a recent poll of insurance intermediaries.

In Ireland, Canada Life became the first company to launch a guaranteed variable annuity product, and also launched a new Income Opportunities Fund, managed by Setanta Asset Management, the group's asset manager in Ireland.

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

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

Giving back to our communities

As an organization and as individuals, we are proud to contribute to the development of stronger communities. As an Imagine Caring Company, the financial and volunteer support we provide to hundreds of charitable, non-profit and community-based organizations is aimed at meeting a high standard of corporate citizenship.

Key to our approach is the engagement of staff and distribution associates, whose efforts embody our commitment to responsible corporate citizenship.

Board of Directors

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



Raymond L. McFeetors
Chairman of the Board



D. Allen Loney
President and
Chief Executive Officer

FINANCIAL HIGHLIGHTS *(unaudited)*

(in Canadian \$ millions except per share amounts)	As at or for the three months ended			For the twelve months ended	
	December 31 2011	September 30 2011	December 31 2010	December 31 2011	December 31 2010
Premiums and deposits					
Life insurance, guaranteed annuities and insured health products	\$ 3,521	\$ 3,433	\$ 3,716	\$ 14,173	\$ 14,550
Self funded premium equivalents (ASO contracts)	651	660	654	2,645	2,575
Segregated funds deposits					
Individual products	1,743	1,940	1,983	7,146	6,643
Group products	922	835	920	3,615	3,744
Proprietary mutual funds deposits	169	149	164	724	616
Total premiums and deposits	7,006	7,017	7,437	28,303	28,128
Fee and other income	437	409	401	1,673	1,575
Paid or credited to policyholders	5,327	5,489	2,811	18,962	18,862
Operating earnings – common shareholder	546	441	336	1,825	1,635
Summary of net earnings attributable to					
Participating account	105	7	(17)	117	(10)
Preferred shareholders	–	–	–	–	7
Common shareholder	670	441	336	1,949	1,346
Per common share					
Operating earnings	\$ 258.43	\$ 208.22	\$ 159.18	\$ 862.30	\$ 781.11
Basic earnings	316.60	208.22	159.18	920.47	642.94
Dividends paid	140.06	131.60	–	540.46	415.44
Book value	5,627.00	5,510.00	5,184.00		
Total assets	\$ 188,942	\$ 186,618	\$ 182,256		
Proprietary mutual funds net assets	3,318	3,179	3,272		
Total assets under management	192,260	189,797	185,528		
Other assets under administration	11,560	11,344	11,762		
Total assets under administration	\$ 203,820	\$ 201,141	\$ 197,290		
Participating account surplus	\$ 2,216	\$ 2,100	\$ 2,038		
Shareholders' equity	11,913	11,664	10,974		
Total equity	\$ 14,129	\$ 13,764	\$ 13,012		

The Company uses operating earnings a non-IFRS financial measure which excludes the impact of litigation provisions in note 29 to the Company's annual consolidated financial statements

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards (IFRS) for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. 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 its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with IFRS, including the requirements of the Office of the Superintendent of Financial Institutions Canada.

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, including the requirements of the Office of the Superintendent of Financial Institutions Canada.

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 non-management 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 external and internal auditors and to the Appointed Actuary.

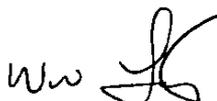
The Board of Directors of the Company, pursuant to the *Insurance Companies Act* (Canada), appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary

- 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.
- Annually analyzes the financial condition of the Company and prepares a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the Company, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders and 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 its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with IFRS.



D. Allen Loney
President and
Chief Executive Officer



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

February 9, 2012

CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian \$ millions except per share amounts)

For the years ended December 31

2011 2010

	2011	2010
Income		
Premium income		
Gross premiums written	\$ 16,979	\$ 17,296
Ceded premiums	(2,806)	(2,746)
Total net premiums	14,173	14,550
Net investment income (note 5)		
Regular net investment income	4,352	4,511
Changes in fair value through profit or loss	3,795	3,197
Total net investment income	8,147	7,708
Fee and other income	1,673	1,575
	23,993	23,833
Benefits and expenses		
Policyholder benefits		
Insurance and investment contracts		
Gross	14,517	15,104
Ceded	(1,472)	(2,042)
	13,045	13,062
Policyholder dividends and experience refunds	1,224	1,261
Change in insurance and investment contract liabilities	4,693	4,539
Total paid or credited to policyholders	18,962	18,862
Commissions	1,335	1,270
Operating and administrative expenses (note 27)	919	1,818
Premium taxes	235	227
Financing charges (note 15)	79	74
Amortization of finite life intangible assets	54	47
Earnings before income taxes	2,409	1,535
Income taxes (note 26)	343	185
Net earnings before non-controlling interests	2,066	1,350
Attributable to non-controlling interests	–	7
Net earnings	2,066	1,343
Net earnings (loss) – participating account (note 19)	117	(10)
Net earnings – shareholders	1,949	1,353
Preferred share dividends	–	7
Net earnings – common shareholder	\$ 1,949	\$ 1,346
Earnings per common share	\$ 920.47	\$ 642.94

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian \$ millions)

For the years ended December 31

	2011	2010
Net earnings	\$ 2,066	\$ 1,343
Other comprehensive income (loss)		
Unrealized foreign exchange gains (losses) on translation of foreign operations	82	(368)
Income tax (expense) benefit	1	-
Unrealized gains (losses) on available for sale assets	218	99
Income tax (expense) benefit	(47)	(19)
Realized (gains) losses on available for sale assets	(81)	(59)
Income tax expense (benefit)	18	10
	<u>191</u>	<u>(337)</u>
Comprehensive income	\$ 2,257	\$ 1,006

CONSOLIDATED BALANCE SHEETS

(in Canadian \$ millions)

	December 31 2011	December 31 2010	January 1 2010
Assets			
Cash and cash equivalents (note 4)	\$ 1,855	\$ 1,557	\$ 3,030
Bonds (note 5)	60,481	55,001	50,183
Mortgage loans (note 5)	14,849	14,393	15,033
Stocks (note 5)	6,384	6,265	5,904
Investment properties (note 5)	3,198	2,953	2,609
Loans to policyholders	2,858	2,808	2,786
	89,625	82,977	79,545
Funds held by ceding insurers (note 6)	9,923	9,856	10,984
Goodwill (note 10)	5,267	5,267	5,270
Intangible assets (note 10)	1,511	1,515	1,538
Derivative financial instruments (note 28)	927	930	693
Owner occupied properties (note 11)	357	310	291
Fixed assets (note 11)	97	85	91
Reinsurance assets (note 14)	4,046	4,433	4,889
Other assets (note 12)	2,935	3,226	3,068
Deferred tax assets (note 26)	31	19	63
Segregated funds for the risk of unitholders (note 13)	74,223	73,638	67,805
Total assets	\$ 188,942	\$ 182,256	\$ 174,237
Liabilities			
Insurance contract liabilities (note 14)	\$ 94,111	\$ 88,929	\$ 87,446
Investment contract liabilities (note 14)	746	764	820
Debentures and other debt instruments (note 16)	303	304	305
Funds held under reinsurance contracts	630	582	758
Derivative financial instruments (note 28)	273	148	188
Other liabilities (note 17)	2,937	3,371	2,686
Deferred tax liabilities (note 26)	796	621	557
Repurchase agreements	23	114	17
Capital trust securities (note 18)	771	773	778
Investment and insurance contracts on account of unitholders (note 13)	74,223	73,638	67,805
Total liabilities	174,813	169,244	161,360
Equity			
Participating account surplus (note 19)	2,216	2,038	2,040
Non-controlling interests	-	-	147
Shareholders' equity			
Share capital (note 20)			
Preferred shares	1	1	158
Common shares	6,426	6,426	6,116
Accumulated surplus	5,418	4,613	4,140
Accumulated other comprehensive income (loss)	(150)	(280)	65
Contributed surplus	218	214	211
Total equity	14,129	13,012	12,877
Total liabilities and equity	\$ 188,942	\$ 182,256	\$ 174,237

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian \$ millions)

	December 31, 2011							
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 6,427	\$ 214	\$ 4,613	\$ (280)	\$ 10,974	\$ -	\$ 2,038	\$ 13,012
Net earnings	-	-	1,949	-	1,949	-	117	2,066
Other comprehensive income (loss)	-	-	-	130	130	-	61	191
	6,427	214	6,562	(150)	13,053	-	2,216	15,269
Dividends to common shareholder	-	-	(1,144)	-	(1,144)	-	-	(1,144)
Share based payments	-	4	-	-	4	-	-	4
Balance, end of year	\$ 6,427	\$ 218	\$ 5,418	\$ (150)	\$ 11,913	\$ -	\$ 2,216	\$ 14,129
	December 31, 2010							
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 6,274	\$ 211	\$ 4,140	\$ 65	\$ 10,690	\$ 147	\$ 2,040	\$ 12,877
Net earnings	-	-	1,353	-	1,353	-	(10)	1,343
Other comprehensive income (loss)	-	-	-	(345)	(345)	-	8	(337)
	6,274	211	5,493	(280)	11,698	147	2,038	13,883
Redemption of preferred shares in subsidiary	-	-	(5)	-	(5)	(147)	-	(152)
Redemption of Series O preferred shares	(157)	-	-	-	(157)	-	-	(157)
Issue common shares to parent	310	-	-	-	310	-	-	310
Dividends to shareholders								
Preferred shareholders	-	-	(7)	-	(7)	-	-	(7)
Common shareholder	-	-	(868)	-	(868)	-	-	(868)
Share based payments	-	3	-	-	3	-	-	3
Balance, end of year	\$ 6,427	\$ 214	\$ 4,613	\$ (280)	\$ 10,974	\$ -	\$ 2,038	\$ 13,012

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian \$ millions)

For the years ended December 31

	2011	2010
Operations		
Earnings before income taxes	\$ 2,409	\$ 1,535
Income taxes paid, net of refunds received	197	75
Adjustments		
Change in insurance and investment contract liabilities	4,378	4,653
Change in funds held by ceding insurers	478	679
Change in funds held under reinsurance contracts	25	(121)
Change in deferred acquisition costs	(15)	(49)
Change in reinsurance assets	464	241
Changes in fair value through profit or loss	(3,795)	(3,197)
Other	(554)	816
Cash flows from operations	<u>3,587</u>	<u>4,632</u>
Financing Activities		
Issue of common shares to parent	-	310
Redemption of preferred shares	-	(157)
Redemption of preferred shares in subsidiary	-	(150)
Repayment of debentures and other debt instruments	(1)	(1)
Dividends paid on common shares	(1,144)	(868)
Dividends paid on preferred shares	-	(7)
	<u>(1,145)</u>	<u>(873)</u>
Investment Activities		
Bond sales and maturities	13,606	13,718
Mortgage loan repayments	1,660	1,939
Stock sales	2,227	2,238
Investment property sales	70	16
Change in loans to policyholders	(38)	(46)
Investment in bonds	(14,760)	(18,894)
Investment in mortgage loans	(2,098)	(1,581)
Investment in stocks	(2,619)	(2,046)
Investment in investment properties	(209)	(376)
	<u>(2,161)</u>	<u>(5,032)</u>
Effect of changes in exchange rates on cash and cash equivalents	17	(200)
Increase (decrease) in cash and cash equivalents	298	(1,473)
Cash and cash equivalents, beginning of year	1,557	3,030
Cash and cash equivalents, end of year	<u>\$ 1,855</u>	<u>\$ 1,557</u>
Supplementary cash flow information		
Interest income received	\$ 3,749	\$ 3,754
Interest paid	\$ 81	\$ 76
Dividend income received	\$ 181	\$ 174

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian \$ millions except per share amounts)

1 Corporate Information

The Great-West Life Assurance Company (Great-West Life or the Company) is incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Great-West Life is wholly-owned by Great-West Lifeco Inc (Lifeco).

Great-West Life is a leading Canadian insurer, with interests in the life and health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe through its major subsidiaries London Insurance Group Inc (LIG), Canada Life Financial Corporation (CLFC), GLC Asset Management Ltd and GWL Realty Advisors Inc.

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

2 Basis of Presentation and Summary of Accounting Policies

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

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

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

Basis of Consolidation

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

Critical Estimates and Judgments

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

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

The significant accounting policies are as follows:

(a) Portfolio Investments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

Mortgages and Bonds – Loans and Receivables

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

Investment Properties

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

Impairment

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

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

(b) Transaction Costs

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

(c) Cash and Cash Equivalents

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

(d) 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.

(e) 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 28 as prescribed by the Office of the Superintendent of Financial Institutions of Canada (OSFI).

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 to net investment income.

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

Cash flow hedges

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

The Company currently has no derivatives designated as cash flow hedges.

Net investment hedges

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

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

(f) Embedded Derivatives

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

(g) Foreign Currency Translation

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

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

(h) 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.

(i) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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) Goodwill and Intangible Assets

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

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

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

Impairment Testing

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

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

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

(l) Revenue Recognition

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(m) Fixed Assets and Owner Occupied Properties

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

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

(n) Other Assets

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

(o) Segregated Funds for the Risk of Unitholders

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

(p) Insurance and Investment Contract Liabilities

Contract Classification

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

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

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

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

Measurement

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

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

(q) Deferred Income Reserves

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

(r) Participating Account

The shareholder portion of participating earnings represents, as restricted by law, a portion of net earnings before policyholder dividends of the participating account, \$91 in 2011 (\$47 in 2010). The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. \$55 of shareholder surplus (\$51 in 2010) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

The Canada Life Assurance Company (Canada Life) participating account comprises two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net earnings.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 of seed capital was transferred from shareholder surplus to the participating account. The seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. \$15 (US\$15) of seed capital remains to be repaid.

(s) Income Taxes

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

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

Current Income Tax

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

Deferred Income Tax

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

(t) Policyholder Benefits

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

(u) Repurchase Agreements

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

(v) Pension Plans and Other Post-Employment Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its 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 and its 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 service (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.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(x) Share Based Payments

Lifeco has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates. 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.

(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 of 2,117,015 in 2011 (2,093,861 in 2010).

(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 the participating and shareholder operations of the Company. Within these segments the major business units are Individual Insurance, Wealth Management, Group Insurance, Europe, Corporate, and Participating Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe segment. The Corporate segment represents activities and transactions that are not directly attributable to the measurement of the operating segments of the Company.

3 Reconciliations of IFRS Equity and Comprehensive Income

Application of IFRS-1

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

These are the first annual consolidated financial statements prepared in accordance with IFRS, with the 2010 comparatives restated accordingly. Prior to the adoption of IFRS, the consolidated financial statements were prepared in accordance with the previous CGAAP. The effects of the transition to IFRS as of January 1, 2010 on the financial position, financial performance and cash flows for the periods presented are as follows:

Reconciliations of Previous CGAAP to IFRS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reconciliation of consolidated equity from the previous CGAAP to IFRS

		Date of transition to IFRS January 1, 2010	Comparative period reported under CGAAP December 31, 2010
Total surplus under the previous CGAAP		\$ 13,268	\$ 13,550
2010 year to date IFRS equity adjustments			
Impact on shareholder surplus		–	(579)
Impact on participating account surplus		–	41
Net Impact of IFRS on equity		–	(538)
Beginning surplus restated under IFRS		13,268	13,012
IFRS 1 optional elections/exemptions			
Employee benefits cumulative unamortized actuarial gains and losses	a	(220)	–
Cumulative translation losses of foreign operations – shareholder	b	(1,091)	–
Redesignation of financial assets	c	(88)	–
Fair value as deemed cost of owner occupied properties	d	21	–
IFRS adjustments			
Measurement of investment properties and owner occupied properties	f	119	1
Derecognition of deferred net realized gains	g	104	(12)
Unamortized vested past service costs and other employment benefits	h	120	(10)
Uncertain income tax provisions	i	(230)	(22)
DAC and DIR on investment contracts	j	(471)	18
Other adjustments	k	(6)	1
Income tax effect of the above adjustments	l	45	(8)
Total IFRS adjustment to shareholder account		(1,697)	(32)
Adjustment related to participating account surplus in subsidiaries	k	(41)	9
Total IFRS adjustment		(1,738)	(23)
		11,530	12,989
Accumulated other comprehensive income			
Cumulative translation losses of foreign operations – shareholder	b	1,091	44
Redesignation of financial assets	c	88	(16)
Tax impact on redesignation of financial assets	c	(20)	4
Total adjustment to accumulated other comprehensive income		1,159	32
Total adjustment to shareholders' equity at transition to IFRS		(579)	9
Total share capital and shareholders' equity under IFRS		12,689	13,021
Reclassification of non-controlling interests for IFRS presentation	u	147	–
Cumulative translation losses of foreign operations – participating account surplus	b	(26)	–
Cumulative translation losses of foreign operations – participating account surplus	b	26	–
Total IFRS adjustment to participating account surplus	k	41	(9)
Total adjustment to participating account surplus and non-controlling interests		188	(9)
Total equity		\$ 12,877	\$ 13,012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comparative period
reported under CGAAP
for the year ended
December 31, 2010

Total comprehensive income under the previous CGAAP		\$ 1,006
Adjustments for		
Measurement adjustment for owner occupied and investment properties	f	1
Derecognition of deferred net realized gains	g	(12)
		(11)
Unamortized vested past service costs and other employment benefits	h	(10)
Uncertain tax provisions	i	(22)
Change in recognition of DAC on investment contracts		71
Change in recognition of DIR on investment contracts		(53)
	j	18
Other adjustments	k	1
Total impact on operating earnings before tax and OCI		(24)
Income tax effect related to the above	l	(8)
Total after-tax adjustments to net earnings		(32)
Other comprehensive income		
Cumulative translation gains (losses) of foreign operations	b	44
Redesignation of financial assets	c	(16)
Tax impact on redesignation of financial assets	c	4
Total after-tax adjustments to comprehensive income		32
Total IFRS comprehensive income		\$ 1,006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

(in Canadian \$ millions) December 31	Comparative period reported under CGAAP December 31, 2009	Conversion adjustments		Presentation and reclassification adjustments	Date of transition to IFRS January 1 2010	
Assets						
Cash and cash equivalents	\$ 3,030	\$ -		\$ -		\$ 3,030
Bonds	50,183	-		-		50,183
Mortgage loans	15,033	-		-		15,033
Stocks	5,904	-		-		5,904
Investment properties	2,964	(85)	f	(270)	p	2,609
Loans to policyholders	2,786	-		-		2,786
Funds held by ceding insurers	10,839	-		145	q	10,984
Goodwill	5,270	-		-		5,270
Intangible assets	1,538	-		-		1,538
Derivative financial instruments	693	-		-		693
Owner occupied properties	-	21	d	270	p	291
Fixed assets	91	-	d	-	p	91
Reinsurance assets	-	-		4,889	q	4,889
Other assets	2,686	(65)	h	447	r	3,068
Deferred tax assets	67	(4)	o	-		63
Segregated funds for the risk of unitholders	-	-		67,805	t	67,805
Total assets	\$ 101,084	\$ (133)		\$ 73,286		\$ 174,237
Liabilities						
Insurance contract liabilities	\$ 82,996	\$ (66)	f,g,i,s	\$ 4,516	q	\$ 87,446
Investment contract liabilities	-	-		820	q,r	820
Debentures and other debt instruments	305	-		-		305
Funds held under reinsurance contracts	613	-		145	q	758
Derivative financial instruments	188	-		-		188
Other liabilities	2,042	644	a,h,i,j,l	-		2,686
Deferred tax liabilities	603	(46)	o	-		557
Repurchase agreements	17	-		-		17
Deferred net realized gains	127	(127)	g	-		-
Capital trust securities	778	-		-		778
Non-controlling interests	147	-		(147)	u	-
Investment and insurance contracts on account of unitholders	-	-		67,805	t	67,805
Total liabilities	87,816	405		73,139		161,360
Equity						
Participating account surplus						
Accumulated surplus	2,016	41	k	(26)	b	2,031
AOCI (L)	(17)	-		26	b	9
Non-controlling interests	-	-		147	u	147
Share capital						
Preferred shares	158	-		-		158
Common shares	6,116	-		-		6,116
Shareholder surplus						
Accumulated surplus	5,852	(1,712)		-		4,140
AOCI (L)	(1,068)	1,133	b,c,k	-		65
Contributed surplus	211	-		-		211
Total equity	13,268	(538)*		147		12,877
Total liabilities and equity	\$ 101,084	\$ (133)		\$ 73,286		\$ 174,237

* Total impact on equity of \$(538) consists of \$41 impact on participating account and impact on non participating of \$(579)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of Cash Flows

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

IFRS 1 First-time Adoption of IFRS Optional Exemptions

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

(a) Employee Benefits Cumulative Unamortized Actuarial Gains and Losses

The Company has elected to apply the exemption available to recognize all cumulative unamortized actuarial gains and losses of the Company's defined benefit plans in equity upon transition to IFRS. This adjustment, referred to as the 'fresh start adjustment', decreased total equity by \$220 before tax (decrease of \$193 to shareholder accumulated surplus and \$27 to participating account surplus). Subsequent to transition, the Company will continue to use the corridor approach available under the present IAS 19, *Employee Benefits* standard for deferring recognition of actuarial gains and losses that reside within the corridor.

(b) Cumulative Translation Losses of Foreign Operations

The Company has elected to reset its cumulative translation adjustment (CTA) account for all foreign operations to zero as of January 1, 2010. Future gains or losses on disposal of any foreign operation will therefore exclude translation differences that arose before January 1, 2010. The balance of the cumulative loss to be reclassified from AOCI to shareholder accumulated surplus at January 1, 2010 is approximately \$1,091 and the balance reclassified within participating account surplus is \$26 at January 1, 2010. As a result of the foreign exchange revaluation of the transitional IFRS adjustments the total impact to CTA was an increase of \$44 for the year ended December 31, 2010.

(c) Redesignation of Financial Assets

The Company has elected to redesignate certain non-participating available for sale financial assets to the fair value through profit or loss classification and certain financial assets classified as held for trading under the previous CGAAP to available for sale. The redesignation will have no overall impact on the Company's opening equity at transition but will result in a reclassification within equity of \$88 before tax (\$68 after-tax) between accumulated surplus and AOCI (a decrease of \$90 related to shareholder accumulated surplus and an increase of \$2 related to participating account surplus). For the year ended December 31, 2010, the redesignation decreased net earnings by \$12, net of tax.

The financial assets carried at fair value in December 31, 2009 CGAAP consolidated financial statements and at transition to IFRS are as follows:

	Fair value January 1, 2010	Unrealized gains reclassified to AOCI January 1, 2010
Financial assets redesignated to fair value through profit or loss	\$ 269	\$ 15
Financial assets redesignated to available for sale	\$ 254	\$ 73

(d) Fair Value as Deemed Cost for Owner Occupied Properties

The Company has elected to measure owner occupied properties at fair value as their deemed cost at the January 1, 2010 transition date which has resulted in an increase to equity of \$21 before tax (increases of \$19 to shareholder accumulated surplus and \$2 to participating account surplus). Subsequent to this date, owner occupied properties will be carried at amortized cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Business Combinations

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

Changes in Accounting Policies Mandatory at Conversion to IFRS

Measurement and Recognition Differences

(f) Measurement of Investment Properties and Owner Occupied Properties

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

(g) Derecognition of Deferred Net Realized Gains

Under the previous CGAAP, net realized gains and losses associated with the sale of real estate were deferred and included in deferred net realized gains on the Consolidated Balance Sheets. These deferred net realized gains and losses were amortized to income at a rate of 3% per quarter on a declining balance basis. Under IFRS, gains and losses associated with the sale of investment properties are immediately recognized in income and consequently the balance of the unrecognized net deferred realized gains was recognized in equity at transition. This recognition change has increased equity at January 1, 2010 by \$104 before tax (increase of \$41 in shareholder accumulated surplus and \$63 in participating account surplus) and decreased net earnings by \$12 for the year ended December 31, 2010.

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

Previous CGAAP and IFRS differ in their treatment of other employee benefits including the timing of recognition of unamortized vested past service costs and certain service awards. The change in recognition for these vested past service costs and other employee benefits under IFRS has increased equity at January 1, 2010 by \$120 before tax (increased by \$102 in shareholder accumulated surplus and \$18 in participating account surplus) and decreased net earnings before tax by \$10 for the year ended December 31, 2010.

(i) Uncertain Income Tax Provisions

The difference in the recognition and measurement of uncertain income tax provisions between the previous CGAAP and IFRS has decreased equity at January 1, 2010 by \$230 (decreased by \$221 in shareholder accumulated surplus and \$9 in participating account surplus) and decreased net earnings by \$22 for the year ended December 31, 2010.

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

Under the previous CGAAP, DAC relating to policyholder liabilities were deferred in policy liabilities and amortized into consolidated net earnings over the anticipated period of benefit. Under IFRS, DAC on policyholder liabilities reclassified as investment contract liabilities are no longer deferred and amortized into earnings over the anticipated period of benefit but rather recognized through earnings in the period incurred for those costs not incremental to issuing the contract. In addition to DAC, DIR related to fee income on investment contracts will also be deferred and recognized over the term of the contract. The change in measurement for both DAC and DIR has decreased equity at January 1, 2010 by \$114 and \$357 before tax and increased net earnings by \$18 for the year ended December 31, 2010.

(k) Other Adjustments

In addition to the items described above, several other items required adjustments due to the transition from the previous CGAAP to IFRS which resulted in measurement changes. The adjustments resulted in a decrease to opening equity at January 1, 2010 of \$6 and an increase to net earnings of \$1 for the year ended December 31, 2010.

Also included in the above adjustments is the related impact of the IFRS adjustments attributed to the participating account surplus. The total impact to the participating account resulted in an increase of \$41 at transition and a decrease of \$9 for the year ended December 31, 2010.

(l) Tax Impact of IFRS Adjustments

The tax effect of the above adjustments, excluding the uncertain tax provisions, is an increase to income tax liabilities of \$45 at transition (an increase of \$56 to shareholder accumulated surplus and a decrease of \$11 to participating account surplus) and a decrease of \$8 for the year ended December 31, 2010

(m) Goodwill and Intangible Asset Measurement and Impairment Testing

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

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

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

(n) Recognition of Contingent Liabilities

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

(o) Recognition of Deferred Tax Assets

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

Presentation and Classification Differences

(p) Presentation of Real Estate Properties

Properties classified as real estate under the previous CGAAP are reclassified to investment properties of \$2,609 and owner occupied properties of \$270 in the Consolidated Balance Sheets under IFRS.

(q) Presentation of Reinsurance Accounts

Reinsurance accounts will be presented on a gross basis on the Consolidated Balance Sheets totaling \$4,889 of reinsurance assets with an offsetting increase to insurance and investment contract liabilities with no impact to equity. Funds withheld asset and liability accounts have also been adjusted for gross presentation of \$145. Gross presentation of the reinsurance revenue and expenses is also required within the Consolidated Statements of Earnings.

(r) Reclassification of Deferred Acquisition Costs

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(s) **Presentation of Insurance and Investment Contract Liabilities**

Under the previous CGAAP, all policyholder related liabilities are classified as actuarial liabilities and valued using CALM. Under IFRS 4, contracts are classified and measured depending on the existence of significant insurance risk. If significant insurance risk exists, the contract is classified as an insurance contract and IFRS permits the Company to continue with measuring insurance contract liabilities using CALM. If significant insurance risk does not exist, then the contract is classified as an investment contract and measured at either fair value or amortized cost. The change in reclassification has had no impact on equity at January 1, 2010 or consolidated earnings and comprehensive income at December 31, 2011.

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

Policy liabilities under CGAAP at December 31, 2009 comprises	
Actuarial liabilities	\$ 78,923
Provision for claims	1,203
Provision for policyholder dividends	569
Provision for experience rating refunds	168
Policyholder funds	2,133
	<u>\$ 82,996</u>
IFRS conversion adjustments	
Remeasurement of DAC	114
Fair value of investment properties backing liabilities	(203)
Fair value adjustment of deferred net realized gains	23
Sub-total – IFRS conversion adjustments	<u>(66)</u>
IFRS reclassification adjustments	
DAC to other assets	447
Reinsurance assets offset by reinsurance liabilities	4,889
Sub-total – IFRS reclassification adjustments	<u>5,336</u>
Total insurance and investment contract liabilities under IFRS at January 1, 2010	<u>\$ 88,266</u>
Attributable to	
Insurance contract liabilities	\$ 87,446
Investment contract liabilities	\$ 820

(t) **Presentation of Segregated Funds on the Consolidated Balance Sheets**

The assets and liabilities of the segregated funds, totaling \$67.8 billion at January 1, 2010, will be included at fair value on the Consolidated Balance Sheets as a line item within both assets and liabilities under IFRS. There was no measurement change impacting equity.

(u) **Presentation of Non-Controlling Interests within Equity**

Under the previous CGAAP, non-controlling interests were presented in the mezzanine between liabilities and equity whereas under IFRS non-controlling interest is presented within the equity section of the Consolidated Balance Sheets. The reclassification of non-controlling interests from liabilities of \$147 relates to the preferred shares issued by subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(v) Future Accounting Policies

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

Revised standard	Summary of proposed changes
IFRS 4 – <i>Insurance Contracts</i>	<p>The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of the Company. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.</p> <p>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.</p>
IFRS 9 – <i>Financial Instruments</i>	<p>The IASB tentatively approved the adoption of the proposed new IFRS 9, <i>Financial Instruments</i> standard to be effective January 1, 2015. The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables.</p> <p>The new standard also requires</p> <ul style="list-style-type: none"> • embedded derivatives to be assessed for classification together with their financial asset host, • a single expected loss impairment method be used for financial assets, and • amendments to the criteria for hedge accounting and measuring effectiveness. <p>The full impact of IFRS 9 on the Company will be evaluated after the remaining stages of the IASB's project to replace IAS 39, <i>Financial Instruments</i> – impairment methodology, hedge accounting, and asset and liability offsetting – are finalized. The Company continues to actively monitor developments in this area.</p>
IFRS 10 – <i>Consolidated Financial Statements</i> , IFRS 11 – <i>Joint Arrangements</i> , IFRS 12 – <i>Disclosure of Interests in Other Entities</i>	<p>Effective January 1, 2013, the Company plans to adopt IFRS 10, <i>Consolidated Financial Statements</i>, IFRS 11, <i>Joint Arrangements</i>, and IFRS 12, <i>Disclosure of Interests in Other Entities</i> for the presentation and preparation of its consolidated financial statements.</p> <p>IFRS 10, <i>Consolidated Financial Statements</i> uses consolidated principles based on a revised definition of control. The definition of control is dependent on the power of the investor to direct the activities of the investee, the ability of the investor to derive variable benefits from its holdings in the investee, and a direct link between the power to direct activities and receive benefits.</p> <p>IFRS 11, <i>Joint Arrangements</i> separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation for accounting in the interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures.</p> <p>IFRS 12, <i>Disclosure of Interests in Other Entities</i> 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.</p> <p>The Company is currently evaluating the impact of the above standards on its consolidation procedures and disclosure in preparation of the January 1, 2013 transition date.</p>
IFRS 13 – <i>Fair Value Measurement</i>	<p>Effective January 1, 2013, the Company will adopt the guidance in IFRS 13, <i>Fair Value Measurement</i> for the measurement and disclosure of assets and liabilities held at fair value. The standard refines the measurement and disclosure requirements and aims to achieve consistency with other standard setters to improve the visibility to financial statement users.</p> <p>The Company is currently evaluating the impact this standard will have on its financial statements when it becomes effective January 1, 2013.</p>
IAS 1 – <i>Presentation of Financial Statements</i>	<p>Effective on January 1, 2013, the Company will adopt the guidance in the amended IAS 1, <i>Presentation of Financial Statements</i>. The amended standard includes requirements that OCI be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation.</p> <p>The Company is evaluating the impact this standard will have on the presentation of its financial statements.</p>
IAS 17 – <i>Leases</i>	<p>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.</p> <p>The full impact of adoption of the proposed changes will be determined once the final lease standard is issued, which is proposed to be in 2012.</p>
IAS 19 – <i>Employee Benefits</i>	<p>The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through OCI while the net pension asset or liability would reflect the full funded status of the plan on the Consolidated Balance Sheets. Further, the standard includes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity.</p> <p>The Company will continue to use the corridor method until January 1, 2013 when the revised IAS for employee benefits becomes effective.</p>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Portfolio Investments (cont'd)

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

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

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

(d) Included in portfolio investments are the following

(i) Carrying amount of impaired investments

	December 31 2011	December 31 2010	January 1 2010
Impaired amounts by type ⁽¹⁾			
Fair value through profit or loss	\$ 59	\$ 105	\$ 102
Available for sale	19	22	21
Loans and receivables	47	53	83
Total	\$ 125	\$ 180	\$ 206

Provisions on loans and receivables were \$19 at December 31, 2011; \$21 at December 31, 2010 and \$32 at January 1, 2010.

(1) Excludes amounts in funds held by ceding insurers of nil at December 31, 2011; \$11 at December 31, 2010 and \$6 at January 1, 2010.

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

	2011			2010		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	\$ 9	\$ 12	\$ 21	\$ 11	\$ 21	\$ 32
Net provision (recovery) for credit losses – in year	(3)	7	4	(2)	2	–
Write-offs, net of recoveries	(4)	(1)	(5)	–	(7)	(7)
Other (including foreign exchange rate changes)	–	(1)	(1)	–	(4)	(4)
Balance, end of year	\$ 2	\$ 17	\$ 19	\$ 9	\$ 12	\$ 21

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

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

	December 31 2011	December 31 2010	January 1 2010
Bonds	\$ –	\$ 7	\$ 15
Bonds with equity conversion features	119	150	169
Mortgages	17	18	1
Total	\$ 136	\$ 175	\$ 185

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(e) Net investment income comprises the following

	2011					Total
	Bonds	Mortgage loans	Stocks	Investment properties	Other	
Regular net investment income						
Investment income earned	\$ 2,982	\$ 757	\$ 181	\$ 254	\$ 195	\$ 4,369
Net realized gains (losses) <i>(available for sale)</i>	82	-	2	-	-	84
Net realized gains (losses) <i>(other classifications)</i>	7	14	-	-	-	21
Net recovery (provision) for credit losses <i>(loans and receivables)</i>	3	(7)	-	-	-	(4)
Other income and expenses	-	-	-	(65)	(53)	(118)
	<u>3,074</u>	<u>764</u>	<u>183</u>	<u>189</u>	<u>142</u>	<u>4,352</u>
Changes in fair value on fair value through profit or loss assets						
Net realized/unrealized gains (losses) <i>(classified fair value through profit or loss)</i>	66	-	-	-	-	66
Net realized/unrealized gains (losses) <i>(designated fair value through profit or loss)</i>	3,744	-	(271)	143	113	3,729
	<u>3,810</u>	<u>-</u>	<u>(271)</u>	<u>143</u>	<u>113</u>	<u>3,795</u>
Net investment income	<u>\$ 6,884</u>	<u>\$ 764</u>	<u>\$ (88)</u>	<u>\$ 332</u>	<u>\$ 255</u>	<u>\$ 8,147</u>
	2010					Total
	Bonds	Mortgage loans	Stocks	Investment properties	Other	
Regular net investment income						
Investment income earned	\$ 2,987	\$ 773	\$ 198	\$ 241	\$ 348	\$ 4,547
Net realized gains (losses) <i>(available for sale)</i>	63	-	(2)	-	-	61
Net realized gains (losses) <i>(other classifications)</i>	8	16	-	-	-	24
Net recovery (provision) for credit losses <i>(loans and receivables)</i>	2	(1)	-	-	-	1
Other income and expenses	-	-	-	(64)	(58)	(122)
	<u>3,060</u>	<u>788</u>	<u>196</u>	<u>177</u>	<u>290</u>	<u>4,511</u>
Changes in fair value on fair value through profit or loss assets						
Net realized/unrealized gains (losses) <i>(classified fair value through profit or loss)</i>	34	-	-	-	-	34
Net realized/unrealized gains (losses) <i>(designated fair value through profit or loss)</i>	2,387	-	602	162	12	3,163
	<u>2,421</u>	<u>-</u>	<u>602</u>	<u>162</u>	<u>12</u>	<u>3,197</u>
Net investment income	<u>\$ 5,481</u>	<u>\$ 788</u>	<u>\$ 798</u>	<u>\$ 339</u>	<u>\$ 302</u>	<u>\$ 7,708</u>

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

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

	2011	2010
Balance, beginning of year	\$ 2,953	\$ 2,609
Additions	159	353
Change in fair value through profit or loss	143	162
Disposal	(97)	(16)
Foreign exchange rate changes	40	(155)
Balance, end of year	<u>\$ 3,198</u>	<u>\$ 2,953</u>

6 Funds Held by Ceding Insurers

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

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

(a) Carrying values and estimated market values

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

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

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

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

(d) Asset quality

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

7 Financial Instrument Risk Management

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

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

(a) Credit Risk

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

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

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

(i) Maximum Exposure to Credit Risk

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

	December 31 2011	December 31 2010	January 1 2010
Cash and cash equivalents	\$ 1,855	\$ 1,557	\$ 3,030
Bonds			
Fair value through profit or loss	49,000	44,570	41,629
Available for sale	5,041	4,258	2,474
Loans and receivables	6,440	6,173	6,080
Mortgage loans	14,849	14,393	15,033
Loans to policyholders	2,858	2,808	2,786
Funds held by ceding insurers ⁽¹⁾	9,923	9,856	10,984
Reinsurance assets	4,046	4,433	4,889
Other financial assets	2,442	2,845	2,762
Derivative assets	927	930	693
Total balance sheet maximum credit exposure	\$ 97,381	\$ 91,823	\$ 90,360

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 Financial Instrument Risk Management (cont'd)

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 \$10 of collateral received in 2011 (\$16 of collateral received at December 31, 2010 and \$35 of collateral received at January 1, 2010) relating to derivative assets.

(11) 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 table provides details of the carrying value of bonds by industry sector and geographic distribution.

	December 31, 2011			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by				
Canadian federal government	\$ 4,328	\$ 41	\$ 2	\$ 4,371
Provincial, state, and municipal governments	6,430	53	71	6,554
U.S. Treasury and other U.S. agencies	271	968	516	1,755
Other foreign governments	185	8,216	25	8,426
Government related	1,293	955	—	2,248
Supranationals	443	211	12	666
Asset-backed securities	2,696	794	478	3,968
Residential mortgage backed securities	26	146	79	251
Banks	2,168	1,858	34	4,060
Other financial institutions	855	1,615	121	2,591
Basic materials	233	210	98	541
Communications	508	501	33	1,042
Consumer products	1,848	1,759	203	3,810
Industrial products/services	695	212	170	1,077
Natural resources	1,127	550	71	1,748
Real estate	608	1,610	—	2,218
Transportation	1,721	624	90	2,435
Utilities	3,792	3,148	470	7,410
Miscellaneous	2,024	266	43	2,333
Total long term bonds	31,251	23,737	2,516	57,504
Short term bonds	2,386	558	33	2,977
	\$ 33,637	\$ 24,295	\$ 2,549	\$ 60,481

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2010			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by				
Canadian federal government	\$ 3,548	\$ 31	\$ –	\$ 3,579
Provincial, state, and municipal governments	5,619	61	61	5,741
U S Treasury and other U S agencies	335	932	517	1,784
Other foreign governments	216	7,617	11	7,844
Government related	1,057	946	–	2,003
Supranationals	381	224	11	616
Asset-backed securities	2,729	832	445	4,006
Residential mortgage backed securities	25	111	87	223
Banks	2,183	1,993	34	4,210
Other financial institutions	1,056	1,470	123	2,649
Basic materials	202	177	84	463
Communications	589	477	31	1,097
Consumer products	1,608	1,490	177	3,275
Industrial products/services	543	181	121	845
Natural resources	997	419	70	1,486
Real estate	422	1,400	–	1,822
Transportation	1,557	464	77	2,098
Utilities	3,266	2,788	417	6,471
Miscellaneous	1,728	222	36	1,986
Total long term bonds	28,061	21,835	2,302	52,198
Short term bonds	2,064	726	13	2,803
	\$ 30,125	\$ 22,561	\$ 2,315	\$ 55,001
	January 1, 2010			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by				
Canadian federal government	\$ 2,264	\$ 14	\$ –	\$ 2,278
Provincial, state, and municipal governments	4,917	58	26	5,001
U S Treasury and other U S agencies	240	758	447	1,445
Other foreign governments	212	6,652	–	6,864
Government related	937	916	–	1,853
Supranationals	516	436	4	956
Asset-backed securities	2,636	842	463	3,941
Residential mortgage backed securities	46	60	86	192
Banks	2,201	2,299	40	4,540
Other financial institutions	1,021	1,507	127	2,655
Basic materials	151	198	72	421
Communications	598	473	38	1,109
Consumer products	1,384	1,664	218	3,266
Industrial products/services	516	206	119	841
Natural resources	1,000	577	78	1,655
Real estate	559	1,216	–	1,775
Transportation	1,414	495	81	1,990
Utilities	3,008	2,694	377	6,079
Miscellaneous	1,489	182	39	1,710
Total long term bonds	25,109	21,247	2,215	48,571
Short term bonds	1,475	137	–	1,612
	\$ 26,584	\$ 21,384	\$ 2,215	\$ 50,183

7 Financial Instrument Risk Management (cont'd)

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

(ii) Interest Rate Risk

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

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

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.18% (0.20% in 2010). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk. One way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholder earnings of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows:

- The effect of an immediate 1% parallel increase in the yield curve would be to decrease these insurance and investment contract liabilities by approximately \$149 causing an increase in net earnings of approximately \$102
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately \$579 causing a decrease in net earnings of approximately \$413

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 (GMWB) using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, the Company generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately \$26 causing an increase in net earnings of approximately \$21. A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately \$76 causing a decrease in net earnings of approximately \$57.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately \$389 causing an increase in net earnings of approximately \$292. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately \$423 causing a decrease in net earnings of approximately \$316.

Caution Related to Risk Sensitivities

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

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

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

(iv) Segregated funds guaranteed exposure

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

	December 31, 2011				
	Market value	Investment deficiency by benefit type			
		Income	Maturity	Death	Total*
Canada	\$ 22,883	\$ -	\$ 42	\$ 301	\$ 304
United States	972	640	-	40	680
Europe	2,214	1	121	134	134
Total	\$ 26,069	\$ 641	\$ 163	\$ 475	\$ 1,118

	December 31, 2010				
	Market value	Investment deficiency by benefit type			
		Income	Maturity	Death	Total*
Canada	\$ 23,324	\$ -	\$ 24	\$ 135	\$ 137
United States	1,140	342	-	42	383
Europe	2,095	-	118	119	119
Total	\$ 26,559	\$ 342	\$ 142	\$ 296	\$ 639

* A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2011 and December 31, 2010.

8 Financial Instrument Fair Value Measurement

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

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

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

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

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

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

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Bonds	\$ –	\$ 48,971	\$ 29	\$ 49,000
Stocks	5,485	3	14	5,502
Total financial assets at fair value through profit or loss	5,485	48,974	43	54,502
Available for sale financial assets				
Bonds	–	5,022	19	5,041
Stocks	2	–	1	3
Total available for sale financial assets	2	5,022	20	5,044
Other assets – derivatives ⁽¹⁾	–	927	–	927
Total assets measured at fair value	\$ 5,487	\$ 54,923	\$ 63	\$ 60,473
Liabilities measured at fair value				
Other liabilities – derivatives ⁽²⁾	\$ –	\$ 273	\$ –	\$ 273

(1) Excludes collateral received of \$10

(2) Excludes collateral pledged of \$45

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Bonds	\$ -	\$ 44,535	\$ 35	\$ 44,570
Stocks	4,947	-	417	5,364
Total financial assets at fair value through profit or loss	4,947	44,535	452	49,934
Available for sale financial assets				
Bonds	-	4,238	20	4,258
Stocks	16	-	1	17
Total available for sale financial assets	16	4,238	21	4,275
Other assets – derivatives ⁽¹⁾	-	930	-	930
Total assets measured at fair value	\$ 4,963	\$ 49,703	\$ 473	\$ 55,139
Liabilities measured at fair value				
Other liabilities – derivatives ⁽²⁾	\$ -	\$ 148	\$ -	\$ 148

(1) Excludes collateral received of \$16
(2) Excludes collateral pledged of \$39

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

	January 1, 2010			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Bonds	\$ -	\$ 41,538	\$ 91	\$ 41,629
Stocks	4,783	-	145	4,928
Total financial assets at fair value through profit or loss	4,783	41,538	236	46,557
Available for sale financial assets				
Bonds	-	2,452	22	2,474
Stocks	65	-	1	66
Total available for sale financial assets	65	2,452	23	2,540
Other assets – derivatives ⁽¹⁾	-	676	17	693
Total assets measured at fair value	\$ 4,848	\$ 44,666	\$ 276	\$ 49,790
Liabilities measured at fair value				
Other liabilities – derivatives	\$ -	\$ 188	\$ -	\$ 188

(1) Excludes collateral received of \$35

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Financial Instruments Fair Value Measurement (cont'd)

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

	2011				
	Fair value through profit or loss bonds	Available for sale bonds	Other assets – derivatives	Fair value through profit or loss stocks	Available for sale stocks
Balance, beginning of year	\$ 35	\$ 20	\$ –	\$ 417	\$ 1
Total gains/(losses)					
Included in net earnings	3	–	–	35	–
Included in OCI	–	1	–	–	–
Purchases	–	–	–	65	–
Sales	(4)	–	–	(6)	–
Settlements	(5)	(2)	–	–	–
Transfers out of Level 3	–	–	–	(497)	–
Balance, end of year	\$ 29	\$ 19	\$ –	\$ 14	\$ 1
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2011	\$ 3	\$ –	\$ –	\$ (3)	\$ –
	2010				
	Fair value through profit or loss bonds	Available for sale bonds	Other assets – derivatives	Fair value through profit or loss stocks	Available for sale stocks
Balance, beginning of year	\$ 91	\$ 22	\$ 17	\$ 145	\$ 1
Total gains/(losses)					
Included in net earnings	(2)	–	(17)	16	–
Purchases	–	–	–	287	–
Sales	–	–	–	(30)	–
Settlements	(6)	(2)	–	–	–
Transfers out of Level 3	(48)	–	–	(1)	–
Balance, end of year	\$ 35	\$ 20	\$ –	\$ 417	\$ 1
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2010	\$ 1	\$ –	\$ (17)	\$ 16	\$ –

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 Pledging of Assets

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

10 Goodwill and Intangible Assets

(a) Goodwill

The carrying value of goodwill, all in the shareholder account, and changes in the carrying value of goodwill are as follows

	2011	2010
Balance, beginning of year	\$ 5,267	\$ 5,270
Sale of subsidiary by London Reinsurance Group (LRG)	-	(3)
Balance, end of year	\$ 5,267	\$ 5,267

The Company has no accumulated impairment losses on goodwill at December 31, 2011 and 2010

(b) Intangible Assets

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

(i) Indefinite life intangible assets

2011	Brands and trademarks	Customer contract related	Shareholder portion of acquired future participating account profit	Total
Cost and net carrying amount				
Balance, beginning of year	\$ 371	\$ 354	\$ 354	\$ 1,079
Changes in foreign exchange rates	1	-	-	1
Balance, end of year	\$ 372	\$ 354	\$ 354	\$ 1,080

2010	Brands and trademarks	Customer contract related	Shareholder portion of acquired future participating account profit	Total
Cost and net carrying amount				
Balance, beginning of year	\$ 382	\$ 354	\$ 354	\$ 1,090
Changes in foreign exchange rates	(11)	-	-	(11)
Balance, end of year	\$ 371	\$ 354	\$ 354	\$ 1,079

The Company has no accumulated impairment losses on indefinite life intangible assets at December 31, 2011 and 2010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 Goodwill and Intangible Assets (cont'd)

(ii) Finite life intangible assets

2011	Customer contract related	Distribution channels	Software	Total
Amortization period range	10–20 years	30 years	5–10 years	
Weighted average remaining amortization period	11 years	22 years	–	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 329	\$ 100	\$ 242	\$ 671
Acquisitions	–	–	3	3
Other	–	–	48	48
Balance, end of year	\$ 329	\$ 100	\$ 293	\$ 722
Accumulated amortization and impairment				
Balance, beginning of year	\$ (110)	\$ (24)	\$ (101)	\$ (235)
Impairment	–	–	(4)	(4)
Changes in foreign exchange rates	–	(1)	(1)	(2)
Amortization	(18)	(4)	(28)	(50)
Balance, end of year	\$ (128)	\$ (29)	\$ (134)	(291)
Net carrying amount	\$ 201	\$ 71	\$ 159	\$ 431
2010				
Amortization period range	10–20 years	30 years	5–10 years	
Weighted average remaining amortization period	13 years	22 years	–	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 330	\$ 108	\$ 199	\$ 637
Acquisitions	–	–	2	2
Changes in foreign exchange rates	(1)	(8)	(2)	(11)
Other	–	–	43	43
Balance, end of year	\$ 329	\$ 100	\$ 242	\$ 671
Accumulated amortization and impairment				
Balance, beginning of year	\$ (92)	\$ (21)	\$ (76)	\$ (189)
Changes in foreign exchange rates	–	1	–	1
Amortization	(18)	(4)	(25)	(47)
Balance, end of year	\$ (110)	\$ (24)	\$ (101)	\$ (235)
Net carrying amount	\$ 219	\$ 76	\$ 141	\$ 436

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

2011	Goodwill	Indefinite life intangible assets	Total
Canada			
Group	\$ 1,024	\$ -	\$ 1,024
Individual insurance/wealth management	2,723	973	3,696
Europe			
Insurance and annuities	1,500	107	1,607
Reinsurance	1	-	1
United States			
Financial services	19	-	19
	<u>\$ 5,267</u>	<u>\$ 1,080</u>	<u>\$ 6,347</u>
2010			
Canada			
Group	\$ 1,024	\$ -	\$ 1,024
Individual insurance/wealth management	2,723	973	3,696
Europe			
Insurance and annuities	1,500	106	1,606
Reinsurance	1	-	1
United States			
Financial services	19	-	19
	<u>\$ 5,267</u>	<u>\$ 1,079</u>	<u>\$ 6,346</u>

(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 use 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 1.5% and 3.0%, depending on the nature of the business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 Owner Occupied Properties and Other Fixed Assets

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

	2011		2010	
	Owner occupied properties	Other fixed assets	Owner occupied properties	Other fixed assets
Carrying value, beginning of year	\$ 323	\$ 380	\$ 303	\$ 368
Less accumulated depreciation/impairments	(13)	(295)	(12)	(277)
Net carrying value, beginning of year	310	85	291	91
Additions	49	37	22	22
Disposals	-	-	-	(1)
Depreciation	(2)	(26)	(2)	(25)
Net exchange differences	-	1	(1)	(2)
Net carrying value, end of year	357	97	310	85
Plus accumulated depreciation/impairments	16	321	13	295
Carrying value, end of year	\$ 373	\$ 418	\$ 323	\$ 380

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

	December 31 2011	December 31 2010	January 1 2010
Canada	\$ 426	\$ 369	\$ 352
Europe	28	26	30
	\$ 454	\$ 395	\$ 382

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

12 Other Assets

(a) Other assets consist of the following

	December 31 2011	December 31 2010	January 1 2010
Premiums in course of collection	\$ 418	\$ 378	\$ 393
Interest due and accrued	854	809	826
Current income taxes	63	496	728
Prepaid expenses	73	79	58
Accounts receivable	425	376	261
Accrued pension asset (note 23)	420	302	248
Deferred acquisition costs (note 12(b))	529	508	501
Other	153	278	53
	\$ 2,935	\$ 3,226	\$ 3,068

\$1,986 of total other assets are expected to be realized within 12 months from the reporting date

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Segregated Funds for the Risk of Unitholders

(a) Segregated funds – consolidated net assets

	December 31 2011	December 31 2010	January 1 2010
Bonds	\$ 10,356	\$ 9,086	\$ 8,379
Mortgage loans	2,303	2,058	1,744
Stocks	52,220	52,616	47,168
Investment properties	5,457	5,598	6,012
Cash and cash equivalents	5,302	5,336	5,538
Accrued income	241	203	156
Other liabilities	(1,656)	(1,259)	(1,192)
	<u>\$ 74,223</u>	<u>\$ 73,638</u>	<u>\$ 67,805</u>

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

	2011	2010
Segregated funds net assets, beginning of year	\$ 73,638	\$ 67,805
Additions (deductions)		
Policyholder deposits	10,761	10,387
Net investment income	130	499
Net realized capital gains (losses) on investments	974	1,869
Net unrealized capital gains (losses) on investments	(3,020)	3,151
Unrealized gains (losses) due to changes in foreign exchange rates	275	(2,209)
Policyholder withdrawals	(8,552)	(8,018)
Net transfer from General Fund	17	154
	<u>585</u>	<u>5,833</u>
Segregated funds net assets, end of year	<u>\$ 74,223</u>	<u>\$ 73,638</u>

14 Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	December 31, 2011		
	Gross	Ceded	Net
Insurance contract liabilities	\$ 94,111	\$ 3,823	\$ 90,288
Investment contract liabilities	746	223	523
	<u>\$ 94,857</u>	<u>\$ 4,046</u>	<u>\$ 90,811</u>
	December 31, 2010		
	Gross	Ceded	Net
Insurance contract liabilities	\$ 88,929	\$ 4,192	\$ 84,737
Investment contract liabilities	764	241	523
	<u>\$ 89,693</u>	<u>\$ 4,433</u>	<u>\$ 85,260</u>
	January 1, 2010		
	Gross	Ceded	Net
Insurance contract liabilities	\$ 87,446	\$ 4,603	\$ 82,843
Investment contract liabilities	820	286	534
	<u>\$ 88,266</u>	<u>\$ 4,889</u>	<u>\$ 83,377</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance and Investment Contract Liabilities (cont'd)

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

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

	December 31, 2011		
	Gross	Ceded	Net
Participating			
Individual insurance	\$ 26,470	\$ (49)	\$ 26,519
Europe/reinsurance	1,230	—	1,230
Corporate	1,580	2	1,578
Non-Participating			
Individual insurance	6,609	823	5,786
Wealth management	13,752	—	13,752
Group	6,738	95	6,643
Europe/reinsurance	35,464	1,432	34,032
Corporate	3,014	1,743	1,271
	\$ 94,857	\$ 4,046	\$ 90,811
	December 31 2010		
	Gross	Ceded	Net
Participating			
Individual insurance	\$ 25,094	\$ 6	\$ 25,088
Europe/reinsurance	1,209	—	1,209
Corporate	1,469	4	1,465
Non-Participating			
Individual insurance	5,692	1,132	4,560
Wealth management	13,391	—	13,391
Group	6,331	132	6,199
Europe/reinsurance	33,491	1,385	32,106
Corporate	3,016	1,774	1,242
	\$ 89,693	\$ 4,433	\$ 85,260
	January 1 2010		
	Gross	Ceded	Net
Participating			
Individual insurance	\$ 23,113	\$ (12)	\$ 23,125
Europe/reinsurance	1,456	—	1,456
Corporate	1,488	5	1,483
Non-Participating			
Individual insurance	4,998	1,084	3,914
Wealth management	12,700	—	12,700
Group	5,974	135	5,839
Europe/reinsurance	35,205	1,661	33,544
Corporate	3,332	2,016	1,316
	\$ 88,266	\$ 4,889	\$ 83,377

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2011						
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Individual insurance	11,862	6,686	3,864	507	3,551	26,470
Europe/reinsurance	855	56	176	22	121	1,230
Corporate	1,316	79	–	–	185	1,580
Non-participating liabilities						
Individual insurance	4,485	271	1,063	20	770	6,609
Wealth management	8,029	2,932	217	–	2,574	13,752
Group	4,159	1,536	49	–	994	6,738
Europe/reinsurance	20,348	2,506	119	2,093	10,398	35,464
Corporate	944	140	–	–	1,930	3,014
Other	6,520	328	–	6	73,102	79,956
Total equity	1,963	315	896	550	10,405	14,129
Total carrying value	\$ 60,481	\$ 14,849	\$ 6,384	\$ 3,198	\$ 104,030	\$ 188,942
Fair value	\$ 61,144	\$ 15,929	\$ 6,452	\$ 3,198	\$ 104,030	\$ 190,753
December 31 2010						
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Individual insurance	10,872	6,158	3,775	419	3,870	25,094
Europe/reinsurance	805	65	185	27	127	1,209
Corporate	1,184	97	–	–	188	1,469
Non-participating liabilities						
Individual insurance	3,574	240	857	13	1,008	5,692
Wealth management	8,586	3,327	516	–	962	13,391
Group	3,796	1,502	58	–	975	6,331
Europe/reinsurance	18,874	2,189	108	1,914	10,406	33,491
Corporate	928	146	–	–	1,942	3,016
Other	4,731	330	–	19	74,471	79,551
Total equity	1,651	339	766	561	9,695	13,012
Total carrying value	\$ 55,001	\$ 14,393	\$ 6,265	\$ 2,953	\$ 103,644	\$ 182,256
Fair value	\$ 55,355	\$ 15,088	\$ 6,334	\$ 2,953	\$ 103,644	\$ 183,374
January 1 2010						
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Individual insurance	\$ 10,244	\$ 6,025	\$ 3,535	\$ 324	\$ 2,985	\$ 23,113
Europe/reinsurance	784	77	224	33	338	1,456
Corporate	1,162	134	–	–	192	1,488
Non-participating liabilities						
Individual insurance	2,473	219	587	21	1,698	4,998
Wealth management	8,220	3,465	336	–	679	12,700
Group	3,615	1,643	68	–	648	5,974
Europe/reinsurance	18,903	2,535	131	1,683	11,953	35,205
Corporate	941	187	–	–	2,204	3,332
Other	2,287	322	–	4	70,481	73,094
Total equity	1,554	426	1,023	544	9,330	12,877
Total carrying value	\$ 50,183	\$ 15,033	\$ 5,904	\$ 2,609	\$ 100,508	\$ 174,237
Fair value	\$ 50,257	\$ 15,242	\$ 5,965	\$ 2,609	\$ 100,508	\$ 174,581

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance and Investment Contract Liabilities (cont'd)

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities. Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(c) Changes in Insurance Contract Liabilities

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

	2011			Total Net
	Participating			
	Gross liability	Reinsurance asset	Net	
Balance, beginning of year	\$ 27,731	\$ 10	\$ 27,721	
Crown ancillary reclassification	(89)	-	(89)	
Impact of new business	133	-	133	
Normal change in force	1,509	(12)	1,521	
Management action and changes in assumptions	(110)	(45)	(65)	
Impact of foreign exchange rate changes	70	-	70	
Balance, end of year	\$ 29,244	\$ (47)	\$ 29,291	
	Non participating			Total Net
	Gross liability	Reinsurance asset	Net	
	Gross liability	Reinsurance asset	Net	
Balance, beginning of year	\$ 61,198	\$ 4,182	\$ 57,016	\$ 84,737
Crown ancillary reclassification	89	-	89	-
Impact of new business	2,025	141	1,884	2,017
Normal change in force	1,613	(53)	1,666	3,187
Management action and changes in assumptions	(795)	(469)	(326)	(391)
Impact of foreign exchange rate changes	737	69	668	738
Balance, end of year	\$ 64,867	\$ 3,870	\$ 60,997	\$ 90,288
	2010			Total Net
	Participating			
	Gross liability	Reinsurance asset	Net	
Balance, beginning of year	\$ 26,006	\$ (7)	\$ 26,013	
Impact of new business	193	-	193	
Normal change in force	1,742	16	1,726	
Management action and changes in assumptions	(4)	-	(4)	
Impact of foreign exchange rate changes	(206)	1	(207)	
Balance, end of year	\$ 27,731	\$ 10	\$ 27,721	
	Non participating			Total Net
	Gross liability	Reinsurance asset	Net	
	Gross liability	Reinsurance asset	Net	
Balance, beginning of year	\$ 61,440	\$ 4,610	\$ 56,830	\$ 82,843
Impact of new business	2,997	141	2,856	3,049
Normal change in force	297	(271)	568	2,294
Management action and changes in assumptions	(472)	(77)	(395)	(399)
Business movement from/to external parties	(1)	-	(1)	(1)
Impact of foreign exchange rate changes	(3,063)	(221)	(2,842)	(3,049)
Balance, end of year	\$ 61,198	\$ 4,182	\$ 57,016	\$ 84,737

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In 2011, the major contributors to the increase in net insurance contract liabilities were the impact of new business (\$2,017 increase) and the normal change in the in force business (\$3,187 increase) primarily due to the change in fair value.

Net non-participating insurance contract liabilities decreased by \$326 in 2011 due to management actions and changes in assumptions.

The Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to future mortality improvement in net insurance contract liabilities for life insurance and annuities. The resulting decrease in net non-participating insurance contract liabilities for life insurance was \$331. The resulting change in net insurance contract liabilities for annuities was a \$3 decrease.

The remaining decrease was primarily due to increased provisions for policyholder behavior in Individual Insurance (\$213 increase), provisions for asset liability matching (\$131 increase) and a reclassification from miscellaneous liabilities (\$29 increase) offset by updated expenses and taxes (\$132 decrease), updated morbidity assumptions (\$86 decrease), updated base life insurance mortality (\$30 decrease), and modeling refinements across the Canadian Segment (\$109 decrease).

Net participating insurance contract liabilities decreased by \$65 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 (\$230 decrease) and updated expenses and taxes (\$15 decrease) partially offset by lower investment returns (\$1,952 increase), and increased provisions for policyholder behavior (\$40 increase).

In 2010, the major contributors to the increase in insurance contract liabilities was the impact of new business and the normal change in the in force business partially offset by the impact of foreign exchange rates.

Net non-participating insurance contract liabilities decreased by \$395 in 2010 due to management actions and assumption changes. The decrease was primarily due to reduced provisions for asset liability matching (\$169 decrease), modeling refinements (\$111 decrease), updated expenses and taxes (\$110 decrease), improved Life mortality (\$57 decrease), and improved Group Insurance morbidity (\$48 decrease) partially offset by increased provisions for policyholder behavior (\$76 increase), strengthened longevity (\$18 increase) and strengthened provisions for asset default (\$8 increase).

Net participating insurance contract liabilities decreased by \$4 in 2010 due to management actions and assumption changes. The decrease was primarily due to updated expenses (\$260 decrease), improved investment (\$20 decrease), and improved Individual Life mortality (\$13 decrease) partially offset by modeling refinements (\$213 increase), increases in the provision for future policyholder dividends (\$66 increase) and increased provisions for policyholder behavior (\$10 increase).

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

	2011			2010		
	Gross	Ceded	Net	Gross	Ceded	Net
Balance, beginning of year	\$ 764	\$ 241	\$ 523	\$ 820	\$ 286	\$ 534
Normal change in force business	(55)	(26)	(29)	(35)	(29)	(6)
Investment experience	29	1	28	-	-	-
Impact of foreign exchange rate changes	8	7	1	(21)	(16)	(5)
Balance, end of year	\$ 746	\$ 223	\$ 523	\$ 764	\$ 241	\$ 523

The carrying value of investment contract liabilities approximates its fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance and Investment Contract Liabilities (cont'd)

(e) Canadian Universal Life Embedded Derivatives

The Company bifurcated the index linked component of the universal life contracts as this embedded derivative is not closely related to the insurance host and is not itself an insurance contract. The forward contracts are contractual agreements in which the policyholder is entitled to the performance of the underlying index. The policyholder may select one or more of the following indices: the TSX, the S&P and the AEX.

(f) Actuarial Assumptions

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

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

Mortality

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

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

Morbidity

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

Property and casualty reinsurance

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

Investment returns

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

Expenses

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

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited.

Utilization of elective policy options

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

Policyholder dividends and adjustable policy features

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

(g) Risk management

(i) Insurance risk

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

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

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

	2011	
	Changes in assumptions	Impact on profit or loss
Mortality	2%	\$ (150)
Annuitant mortality	2%	\$ (170)
Morbidity	5%	\$ (181)
Investment returns		
Parallel shift in yield curve		
Increase	1%	\$ 102
Decrease	1%	\$ (413)
Change in equity markets		
Increase	10%	\$ 21
Decrease	10%	\$ (57)
Change in best estimate returns for equities		
Increase	1%	\$ 292
Decrease	1%	\$ (316)
Expenses	5%	\$ (49)
Policy termination	10%	\$ (369)
	2010	
	Changes in assumptions	Impact on profit or loss
Mortality	2%	\$ (132)
Annuitant mortality	2%	\$ (166)
Morbidity	5%	\$ (151)
Investment returns		
Parallel shift in yield curve		
Increase	1%	\$ (19)
Decrease	1%	\$ (281)
Change in equity markets		
Increase	10%	\$ 25
Decrease	10%	\$ (53)
Change in best estimate returns for equities		
Increase	1%	\$ 241
Decrease	1%	\$ (279)
Expenses	5%	\$ (45)
Policy termination	10%	\$ (267)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

	December 31, 2011			December 31, 2010			January 1, 2010		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
Canada	\$ 53,569	\$ 869	\$ 52,700	\$ 50,508	\$ 1,270	\$ 49,238	\$ 46,785	\$ 1,207	\$ 45,578
Europe	36,694	1,432	35,262	34,700	1,385	33,315	36,661	1,661	35,000
United States	4,594	1,745	2,849	4,485	1,778	2,707	4,820	2,021	2,799
	\$ 94,857	\$ 4,046	\$ 90,811	\$ 89,693	\$ 4,433	\$ 85,260	\$ 88,266	\$ 4,889	\$ 83,377

(ii) Reinsurance risk

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

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

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

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

15 Financing Charges

Financing charges consist of the following:

	2011	2010
Interest on long-term debentures and other debt instruments	\$ 20	\$ 20
Net interest on capital trust securities	48	48
Other	11	6
	\$ 79	\$ 74

16 Debentures and Other Debt Instruments

Debentures and other debt instruments consist of the following:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Market value	Carrying value	Market value	Carrying value	Market value
Long term						
Operating						
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	\$ 3	\$ 3	\$ 4	\$ 4	\$ 5	\$ 5
Capital						
Great-West						
6.74% debentures due November 24, 2036, unsecured	200	200	200	200	200	200
Canada Life						
6.40% subordinated debentures due December 11, 2028, unsecured	100	115	100	110	100	105
	300	315	300	310	300	305
Total debentures and other debt instruments	\$ 303	\$ 318	\$ 304	\$ 314	\$ 305	\$ 310

17 Other Liabilities

(a) Other liabilities consist of the following

	December 31 2011	December 31 2010	January 1 2010
Current income taxes	\$ 370	\$ 354	\$ 369
Accounts payable	539	914	430
Pension and other post-employment benefits (note 23)	547	459	460
Deferred income reserve (note 17(b))	406	377	357
Other	1,075	1,267	1,070
	<u>\$ 2,937</u>	<u>\$ 3,371</u>	<u>\$ 2,686</u>

\$1,984 of total other liabilities are expected to be realized within 12 months from the reporting date

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

(b) Changes in deferred income reserves are as follows

	2011	2010
Balance, beginning of year	\$ 377	\$ 357
Additions	97	108
Amortization	(38)	(27)
Foreign exchange	5	(33)
Disposals	(35)	(28)
	<u>\$ 406</u>	<u>\$ 377</u>

18 Capital Trust Securities

	December 31 2011		December 31, 2010		January 1 2010	
	Carrying value	Market value	Carrying value	Market value	Carrying value	Market value
Capital trust securities						
5.995% Capital trust securities due December 31, 2052, unsecured (GWLCT)	\$ 350	\$ 363	\$ 350	\$ 375	\$ 350	\$ 383
6.679% Capital trust securities due June 30, 2052, unsecured (CLCT)	300	307	300	320	300	331
7.529% Capital trust securities due June 30, 2052, unsecured (CLCT)	150	197	150	198	150	186
	<u>800</u>	<u>867</u>	<u>800</u>	<u>893</u>	<u>800</u>	<u>900</u>
Acquisition related fair market value adjustment	15	-	17	-	19	-
Trust securities held by consolidated group as temporary investments	(44)	(44)	(44)	(44)	(41)	(41)
Total	<u>\$ 771</u>	<u>\$ 823</u>	<u>\$ 773</u>	<u>\$ 849</u>	<u>\$ 778</u>	<u>\$ 859</u>

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued \$350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of \$350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued \$450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of \$450. Distributions and interest on the capital trust securities are classified as financing charges on the Consolidated Statements of Earnings (see note 15).

Pursuant to the CLFC acquisition in 2003, the Canadian regulated subsidiaries had purchased certain of these Capital Trust Debentures. During the year ended December 31, 2009, the Company disposed of \$138 principal amount of capital trust securities held by the consolidated group as temporary investments.

Subject to regulatory approval, GWLCT and CLCT may redeem the GREATs and CLiCS, in whole or in part, at any time. The CLiCS Series A securities are callable at par on June 30, 2012 and the GREATs Series A securities are callable at par on December 31, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 Participating Account

The Company controlled a 100% equity interest in London Life and Canada Life at December 31, 2011 and 2010. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements. The following tables provide additional information related to the operations and financial position of each entity.

(a) Net earnings, participating account

	2011	2010
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	\$ 173	\$ 146
London Life	825	697
Canada Life	253	241
	<u>1,251</u>	<u>1,084</u>
Policyholder dividends		
Great-West Life	(134)	(129)
London Life	(758)	(730)
Canada Life	(242)	(235)
	<u>(1,134)</u>	<u>(1,094)</u>
Net earnings (loss) – participating account	<u>\$ 117</u>	<u>\$ (10)</u>

(b) Participating account surplus:

	December 31 2011	December 31 2010	January 1 2010
Participating account accumulated surplus			
Great-West Life	\$ 492	\$ 453	\$ 436
London Life	1,598	1,531	1,564
Canada Life	49	38	32
	<u>2,139</u>	<u>2,022</u>	<u>2,032</u>
Participating account accumulated other comprehensive income (loss)			
Great-West Life	18	8	6
London Life	53	5	(1)
Canada Life	6	3	3
	<u>77</u>	<u>16</u>	<u>8</u>
Accumulated other comprehensive income (loss) – participating account	<u>\$ 2,216</u>	<u>\$ 2,038</u>	<u>\$ 2,040</u>

(c) Participating account – other comprehensive income

	2011	2010
Other comprehensive income (loss) attributable to participating account		
Great-West Life	\$ 10	\$ 2
London Life	48	6
Canada Life	3	–
Other comprehensive income (loss) – participating account	<u>\$ 61</u>	<u>\$ 8</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Share Capital

Authorized

Unlimited Preferred Shares

Unlimited Common Shares

Issued and outstanding

	December 31, 2011		December 31, 2010		January 1, 2010	
	Number	Carrying value	Number	Carrying value	Number	Carrying value
Preferred shares						
Series O, 5 55% Non-Cumulative Preferred Shares	-	\$ -	-	\$ -	6,278,671	\$ 157
Series Q, 5 00% Non-Cumulative Preferred Shares	40,000	1	40,000	1	40,000	1
	<u>40,000</u>	<u>\$ 1</u>	<u>40,000</u>	<u>\$ 1</u>	<u>6,318,671</u>	<u>\$ 158</u>
Common shares						
Balance, beginning of year	2,117,015	\$ 6,426	2,088,655	\$ 6,116	2,088,655	\$ 6,116
Issued to parent	-	-	28,360	310	-	-
Balance, end of year	<u>2,117,015</u>	<u>\$ 6,426</u>	<u>2,117,015</u>	<u>\$ 6,426</u>	<u>2,088,655</u>	<u>\$ 6,116</u>
Total share capital		<u>\$ 6,427</u>		<u>\$ 6,427</u>		<u>\$ 6,274</u>

Preferred Shares

On October 29, 2010, the Company redeemed all of its outstanding 5 55% Non-Cumulative Preferred Shares Series O at a price of \$25 00 per share

The Series Q, 5 00% Non-Cumulative Preferred Shares are redeemable at the option of the Company for \$25 00 per share on the later of December 31, 2007 and the date on which there are no Great-West Life Capital Trust Securities outstanding in GWLCT, subject to regulatory approval

Common Shares

On October 26, 2010 the Company issued 28,360 common shares to its parent, Lifeco, for a total of \$310 The Company then invested \$255 in common shares of its wholly owned subsidiary LIG which in turn invested \$255 in common shares of its indirect wholly owned subsidiary London Life

21 Capital Management

At the consolidated 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

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities

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

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

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 Capital Management (cont'd)

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline. The following table provides the MCCSR information and ratios for Great-West Life.

	2011	2010
Capital Available		
Tier 1 Capital		
Common shares	\$ 6,426	\$ 6,426
Shareholder surplus	5,638	6,563
Innovative instruments	769	771
Other Tier 1 Capital Elements	2,022	609
Gross Tier 1 Capital	<u>14,855</u>	<u>14,369</u>
Deductions from Tier 1		
Goodwill & intangible assets in excess of limit	5,661	5,699
Other deductions	1,240	1,211
Net Tier 1 Capital	<u>7,954</u>	<u>7,459</u>
Deductions/Adjustments to Net Tier 1 Capital	(36)	(37)
Adjusted Net Tier 1 Capital	<u>7,918</u>	<u>7,422</u>
Tier 2 Capital		
Tier 2A	182	77
Tier 2B allowed	300	300
Tier 2C	1,252	1,206
Tier 2 Deductions/Adjustments	(36)	(37)
Net Tier 2 Capital	<u>1,698</u>	<u>1,546</u>
Total Available Capital	<u>\$ 9,616</u>	<u>\$ 8,968</u>
Capital Required		
Assets Default & market risk	\$ 1,815	\$ 1,679
Insurance Risks	1,961	1,877
Interest Rate Risks	927	851
Other	6	7
Total Capital Required	<u>\$ 4,709</u>	<u>\$ 4,414</u>
MCCSR ratios		
Tier 1	<u>168%</u>	<u>168%</u>
Total	<u>204%</u>	<u>203%</u>

The result of adoption of IFRS as at January 1, 2011 is a reduction in Total Available Capital subject to phase-in of \$636. This impact is to be phased-in over eight quarters beginning March 31, 2011 in accordance with the IFRS transition guidance outlined by OSFI.

In the United Kingdom, Canada Life U.K. is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Financial Services Authority Handbook. The capital requirements are set prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2011, Canada Life U.K. complied with the capital resource requirements in the United Kingdom.

As at December 31, 2011 and 2010 the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

The Company 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 or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to put amounts on deposit for certain reinsurance transactions. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. Some of these amounts on deposit support surplus.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

22 Share-Based Payments

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

During 2011, 1,115,400 options were granted (583,000 options were granted during 2010). The weighted average fair value of options granted during 2011 was \$4.40 per option. The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2011: dividend yield 4.53%, expected volatility 23.29%, risk-free interest rate 2.87%, and expected life of 7 years.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. Options vest over a period of up to 8 years. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

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

	2011		2010	
	Options	Weighted-average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	9,101,729	\$ 28.10	11,403,922	\$ 24.71
Granted	1,115,400	27.16	583,300	26.82
Exercised	(565,164)	17.91	(2,815,959)	14.05
Forfeited/expired	(96,926)	31.65	(69,534)	32.99
Outstanding, end of year	9,555,039	\$ 28.55	9,101,729	\$ 28.10
Options exercisable at end of year	6,954,981	\$ 27.89	6,209,883	\$ 26.19

Compensation expense due to transactions accounted for as equity-settled share-based payments of \$4 after-tax in 2011 (\$3 after-tax in 2010) arising from transactions in which the services received did not qualify for recognition as an asset, has been recognized in the Consolidated Statements of Earnings.

The entity measured the compensation for the Director's services based on fair market value when measuring the services received in the deferred share unit plan (DSPP/DSUP).

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2011:

Exercise price ranges	Outstanding			Exercisable			Expiry
	Options	Weighted average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price		
\$19.42-\$29.84	106,299	0.58	26.61	106,299	25.61		2012
\$19.42-\$29.84	1,932,500	1.51	21.54	1,932,500	21.54		2013
\$24.37-\$26.00	569,000	2.34	25.23	569,000	25.23		2014
\$29.84-\$29.84	1,595,000	3.95	29.84	1,595,000	29.84		2015
\$27.16-\$31.27	482,000	4.50	30.35	482,000	30.35		2016
\$35.36-\$37.22	1,042,800	5.20	37.06	445,548	37.01		2017
\$31.27-\$31.27	2,315,000	6.37	31.27	1,717,334	31.27		2018
\$27.13-\$27.13	531,140	8.34	26.78	107,300	26.79		2020
\$27.16-\$27.16	981,300	9.17	27.16	-	-		2021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Share-Based Payments (cont'd)

- (b) The Company has both a voluntary Deferred Share Unit Plan and a mandatory Deferred Share Unit Plan (the "Voluntary DSU Plan" and the "Mandatory DSU Plan" respectively) for its Directors to promote a greater alignment of interests between the Directors and the shareholders of the Corporation. Under the Voluntary DSU Plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of Deferred Share Units, entirely in cash, or equally in cash and Deferred Share Units. Under the Mandatory DSU Plan, which was created as of April 29, 2004, each Director who is a resident of Canada or the United States receives \$45,000 of his or her annual retainer in the form of Deferred Share Units. In both cases the number of Deferred Share Units granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per Common Share on the TSX for the last five trading days of the preceding fiscal quarter (such weighted average trading price being the "value of a Deferred Share Unit"). Directors receive additional Deferred Share Units in respect of dividends payable on the Common Shares based on the value of a Deferred Share Unit at that time. Deferred Share Units are redeemable at the time that an individual ceases to be a Director by a lump sum cash payment, based on the value of the Deferred Share Units on the date of redemption. This amount is fully taxable as income in the year in which it is received. In 2010, \$1 in directors fees were used to acquire Deferred Share Units.

23 Pension Plans and Other Post-Employment Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its 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 trustee pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to operating expenses.

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

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

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

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

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

The period of time over which benefits are assumed to be paid is based on best estimate 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit plans at December 31, 2011 and 2010 and January 1, 2010

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans			Other post employment benefits		
	December 31 2011	December 31 2010	January 1 2010	December 31 2011	December 31 2010	January 1 2010
Change in Fair Value of Plan Assets						
Fair value of plan assets, beginning of period	\$ 2,842	\$ 2,671	\$ 2,671	\$ -	\$ -	\$ -
Expected return on plan assets	170	161	-	-	-	-
Employee contributions	16	16	-	-	-	-
Employer contributions	80	78	-	16	17	-
Actuarial gains (losses)	(111)	81	-	-	-	-
Benefits paid	(163)	(129)	-	(16)	(17)	-
Settlement	-	(2)	-	-	-	-
Foreign currency exchange rate changes	4	(34)	-	-	-	-
Fair value of plan assets, end of period	\$ 2,838	\$ 2,842	\$ 2,671	\$ -	\$ -	\$ -
Change in Defined Benefit Obligation						
Defined benefit obligation, beginning of period	\$ 2,779	\$ 2,438	\$ 2,438	\$ 389	\$ 333	\$ 333
Employer current service cost	58	44	-	1	1	-
Employee contributions	16	16	-	-	-	-
Interest on defined benefit obligation	151	147	-	21	20	-
Actuarial (gains) losses	138	304	-	(4)	52	-
Benefits paid	(163)	(129)	-	(16)	(17)	-
Past service cost	1	5	-	-	-	-
Settlements	-	(2)	-	-	-	-
Foreign currency exchange rate changes	5	(44)	-	-	-	-
Defined benefit obligation, end of period	\$ 2,985	\$ 2,779	\$ 2,438	\$ 391	\$ 389	\$ 333
Asset (Liability) recognized in the Balance Sheets						
Funded status of plans – surplus (deficit)	\$ (147)	\$ 63	\$ 233	\$ (391)	\$ (389)	\$ (333)
Unrecognized past service costs (credits)	5	5	-	(22)	(28)	(34)
Net actuarial (gains) losses	453	203	-	46	52	-
Unrecognized amount due to limit on asset	(71)	(63)	(78)	-	-	-
Asset (liability) recognized in the Consolidated Balance Sheets	\$ 240	\$ 208	\$ 155	\$ (367)	\$ (365)	\$ (367)
Recorded in						
Other assets	\$ 420	\$ 302	\$ 248	\$ -	\$ -	\$ -
Other liabilities	(180)	(94)	(93)	(367)	(365)	(367)
Asset (liability) recognized in the Consolidated Balance Sheets	\$ 240	\$ 208	\$ 155	\$ (367)	\$ (365)	\$ (367)
Analysis of defined benefit obligation						
Wholly or partly funded plans	\$ 2,821	\$ 2,622	\$ 2,306			
Wholly unfunded plans	\$ 164	\$ 157	\$ 132	\$ 391	\$ 389	\$ 333
Actual return on plan assets	\$ 59	\$ 242				

The Company expects to contribute \$92 to its funded and unfunded defined benefit pension and other post-employment benefit plans in 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	All pension plans		Other post-employment benefits	
	2011	2010	2011	2010
Defined benefit current service cost	\$ 74	\$ 60	\$ 1	\$ 1
Defined contribution current service cost	4	4	-	-
Employee contributions	(16)	(16)	-	-
Employer current service cost	62	48	1	1
Past service costs recognized	1	-	(6)	(6)
Interest cost on defined benefit obligation	151	147	21	20
Actuarial (gain) loss recognized	(1)	19	2	-
Expected return on plan assets	(170)	(161)	-	-
Amount recognized due to limit on asset	7	(14)	-	-
Pension and other post-employment benefits expense recognized	\$ 50	\$ 39	\$ 18	\$ 15

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

	Defined benefit pension plans		
	December 31 2011	December 31 2010	January 1 2010
Equity securities	45%	49%	48%
Debt securities	41%	37%	38%
Real estate	5%	4%	5%
Cash and cash equivalents	9%	10%	9%
	100%	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds managed by subsidiaries of the Company in the Consolidated Balance Sheets of \$1,430 (\$1,438 in 2010). Plan assets do not include any property occupied or other assets used by the Company.

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

	Defined benefit pension plans		Other post-employment benefits	
	2011	2010	2011	2010
To determine benefit cost				
Discount rate	5.5%	6.1%	5.5%	6.3%
Expected rate of return on plan assets, during the year	6.0%	6.1%	-	-
Expected rate of compensation increase	3.6%	3.7%	-	-
Future pension increases	2.2%	2.4%	-	-
To determine defined benefit obligation (DBO)				
Discount rate	5.1%	5.5%	5.1%	5.5%
Rate of compensation increase	3.5%	3.6%	-	-
Future pension increases	2.0%	2.2%	-	-
% of DBO subject to future pension increases	46.0%	47.0%	-	-
Medical cost trend rates				
Initial medical cost trend rate			6.7%	7.0%
Ultimate medical cost trend rate			4.5%	4.5%
Year ultimate trend rate is reached			2024	2024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	1% increase		1% decrease	
	2011	2010	2011	2010
Impact on defined benefit obligation	\$ 40	\$ 39	\$ (33)	\$ (33)
Impact on current service cost and interest cost	\$ 2	\$ 2	\$ (2)	\$ (2)

(f) Amounts for the current and previous annual periods are as follows:

	2011	2010
Defined benefit pension plans		
Defined benefit obligation	\$ (2,985)	\$ (2,779)
Fair value of plan assets	2,838	2,842
Funded status of plans – surplus (deficit)	(147)	63
Experience adjustments on plan liabilities	(138)	(304)
Experience adjustments on plan assets	(111)	81
Other post-employment benefits		
Defined benefit obligation	(391)	(389)
Experience adjustments on plan liabilities	4	(52)

24 Accumulated Other Comprehensive Income (Loss)

	2011					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Participating account	Shareholder
Balance, beginning of year	\$ (368)	\$ 103	\$ 1	\$ (264)	\$ 16	\$ (280)
Other comprehensive loss	82	137	–	219	83	136
Income tax	1	(29)	–	(28)	(22)	(6)
	83	108	–	191	61	130
Balance, end of year	\$ (285)	\$ 211	\$ 1	\$ (73)	\$ 77	\$ (150)

	2010					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Participating account	Shareholder
Balance, beginning of year	\$ –	\$ 72	\$ 1	\$ 73	\$ 8	\$ 65
Other comprehensive loss	(368)	40	–	(328)	14	(342)
Income tax	–	(9)	–	(9)	(6)	(3)
	(368)	31	–	(337)	8	(345)
Balance, end of year	\$ (368)	\$ 103	\$ 1	\$ (264)	\$ 16	\$ (280)

25 Related Party Transactions

(a) Principal subsidiaries

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

Company	Incorporated in	Primary business operation	% Held
GLC Asset Management Group Ltd	Canada	Wealth management	100.00%
GWL Realty Advisors Inc	Canada	Real estate investment management	100.00%
London Insurance Group Inc	Canada	Insurance and wealth management	100.00%
Canada Life Financial Corporation	Canada	Insurance and wealth management	100.00%

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

Reinsurance Transactions

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), an affiliated company, assumed on a coinsurance basis with funds withheld, certain of Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S. term life reinsurance business was retroceded by Canada Life to GWSC. In 2011, for the Consolidated Statements of Earnings, these transactions resulted in a reduction in premium income of \$124 (\$127 in 2010) and total paid or credited to policyholders of \$176 (\$103 in 2010). The transaction was at market terms and conditions.

Other Related Party Transactions

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During 2011, the Company provided and received from IGM certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM.

At December 31, 2011 the Company held \$39 (\$47 in 2010) of debentures issued by IGM.

	2011	2010
6.75%, matured May 9, 2011	\$ -	\$ 10
6.65%, matures December 13, 2027	15	14
7.45%, matures May 9, 2031	12	12
7.00%, matures December 31, 2032	12	11
	<u>\$ 39</u>	<u>\$ 47</u>

During 2011, the Company and segregated funds maintained by the Company purchased residential mortgages of \$202 from IGM (\$226 in 2010).

During the year, GWL&A provided certain administrative services to the Company. The expense to the Company for these services was \$5 (\$5 in 2010).

The Company has 6.74% debentures due to Lifeco, its parent, which have an outstanding balance of \$200 (\$200 in 2010). Financing charges of \$13 is included in the Consolidated Statements of Earnings (\$13 in 2010).

In 2008, the Company issued \$2.0 billion of 7.127% debentures to Lifeco. The Company made a corresponding investment of \$2.0 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company also issued \$1.2 billion of 5.75% debentures to Lifeco in 2003. The Company made a corresponding investment of \$1.2 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly the investments and debentures are offset in the consolidated financial statements of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) **Key management compensation**

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

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel in 2011 for services rendered in all capacities to the Company and its subsidiaries.

	2011	2010
Salary	\$ 10	\$ 10
Share based awards	2	-
Option based awards	1	-
Annual non-equity incentive plan compensation	5	6
Pension value	4	9
	<u>\$ 22</u>	<u>\$ 25</u>

26 Income Tax

(a) Income tax receivable (payable)

	2011	2010
Balance, beginning of year	\$ 142	\$ 359
Current tax expense	(203)	(90)
Recorded in OCI	(28)	(10)
Payments made on account	(197)	(75)
Other	(21)	(42)
Balance, end of year	<u>\$ (307)</u>	<u>\$ 142</u>

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

	2011	2010
Insurance and investment contract liabilities	\$ (119)	\$ (232)
Portfolio assets	(525)	(435)
Losses carried forward	97	105
Intangible assets	(68)	(68)
Other	(150)	28
Net deferred income tax asset (liability)	<u>\$ (765)</u>	<u>\$ (602)</u>
Balance, beginning of year	\$ (602)	\$ (494)
Amounts recorded in		
Statements of net earnings	(140)	(95)
Statement of other comprehensive income	-	1
Insurance and investment contract liabilities	(17)	(29)
Foreign exchange rate changes	(6)	15
Balance, end of year	<u>\$ (765)</u>	<u>\$ (602)</u>

A deferred tax asset is recognized for a tax loss carryforward only to the extent that realization of the related tax benefit through the future taxable profits is more likely than not.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 Related Party Transactions (cont'd)

Recognition is based on the fact that it is more likely than not that the entity will have taxable profits and/or can utilize tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income and believes the carrying values of the deferred tax assets as of December 31, 2011 are recoverable.

At December 31, 2011, the Company had tax loss carryforwards, totaling \$507 (\$1,572 in 2010). Of this amount, \$282 expire between 2011 and 2031, while \$225 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

A deferred tax liability has not been recognized in respect of the investment in subsidiaries, branches and associates as the Company is able to control the timing, which is not probable in the foreseeable future, of the reversal of the temporary difference.

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

(i) Current income tax

	2011	2010
Current tax expense	\$ 193	\$ 88
Previously unrecognized tax loss, tax credit or temporary difference of prior period	5	(4)
Other	5	6
Total current income tax	\$ 203	\$ 90

(ii) Deferred income tax

	2011	2010
Origination and reversal of temporary difference	\$ 165	\$ 72
Changes in tax rates or imposition of new taxes	(7)	(4)
Write-down or reversal of previous write-down of deferred tax assets	1	8
Previously unrecognized tax loss, tax credit or temporary difference of prior period	(7)	(2)
Other	(12)	21
Total deferred income tax	\$ 140	\$ 95
Total income tax expense	\$ 343	\$ 185

(iii) Tax recorded in other comprehensive income (see note 24)

	2011	2010
Current tax	\$ 28	\$ 10
Deferred tax	-	(1)
	\$ 28	\$ 9

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

	2011		2010	
Combined basic Canadian federal and provincial tax rate	\$ 674	28.0%	\$ 468	30.5%
Increase (decrease) in the income tax rate resulting from Non-taxable investment income	(188)	(7.8)	(175)	(11.4)
Lower effective income tax rates on income not subject to tax in Canada	(114)	(4.8)	(84)	(5.4)
Other	(22)	(0.9)	(20)	(1.3)
Impact of rate changes on future income taxes	(7)	(0.3)	(4)	(0.3)
Effective income tax rate applicable to current year	\$ 343	14.2%	\$ 185	12.1%

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27 Operating and Administrative Expenses

	2011	2010
Salaries and other employee benefits	\$ 987	\$ 933
Amortization of fixed assets	28	27
Other	(96)	858
	<u>\$ 919</u>	<u>\$ 1,818</u>

28 Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 7 illustrates the credit quality of the Company's exposure to counterparties. As at December 31, 2011, the Company received assets of \$10 (\$16 in 2010) as collateral for derivative contracts from counterparties and pledged assets of \$45 (\$39 in 2010) as collateral for derivative contracts to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure.

	2011				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	\$ 1,979	\$ 330	\$ 13	\$ 341	\$ 36
Options purchased	197	53	2	48	4
	<u>2,176</u>	<u>383</u>	<u>15</u>	<u>389</u>	<u>40</u>
Foreign exchange contracts					
Forward contracts	224	-	3	3	-
Cross-currency swaps	6,175	544	423	966	61
	<u>6,399</u>	<u>544</u>	<u>426</u>	<u>969</u>	<u>61</u>
Other derivative contracts					
Equity contracts	58	-	4	4	-
Futures – long	7	-	-	-	-
Futures – short	146	-	-	-	-
	<u>211</u>	<u>-</u>	<u>4</u>	<u>4</u>	<u>-</u>
	<u>\$ 8,786</u>	<u>\$ 927</u>	<u>\$ 445</u>	<u>\$ 1,362</u>	<u>\$ 101</u>

* Credit risk equivalent amounts are presented net of collateral received (\$10)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28 Derivative Financial Instruments (cont'd)

	2010				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – short	\$ 18	\$ –	\$ –	\$ –	\$ –
Swaps	1,440	200	8	198	21
Options purchased	221	26	3	23	1
	<u>1,679</u>	<u>226</u>	<u>11</u>	<u>221</u>	<u>22</u>
Foreign exchange contracts					
Forward contracts	86	1	1	2	–
Cross-currency swaps	5,778	703	397	1,100	68
	<u>5,864</u>	<u>704</u>	<u>398</u>	<u>1,102</u>	<u>68</u>
Other derivative contracts					
Equity contracts	64	–	4	4	–
Futures – long	8	–	–	–	–
Futures – short	37	–	–	–	–
	<u>109</u>	<u>–</u>	<u>4</u>	<u>4</u>	<u>–</u>
	<u>\$ 7,652</u>	<u>\$ 930</u>	<u>\$ 413</u>	<u>\$ 1,327</u>	<u>\$ 90</u>

* Credit risk equivalent amounts are presented net of collateral received (\$16)

The following has been disclosed in the tables above, as prescribed by OSFI

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

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

	2011				Total estimated market value
	Notional Amount			Total	
	1 year or less	1–5 years	Over 5 years		
Interest rate contracts					
Swaps	\$ 404	\$ 992	\$ 564	\$ 1,960	\$ 312
Options purchased	–	95	102	197	53
	<u>404</u>	<u>1,087</u>	<u>666</u>	<u>2,157</u>	<u>365</u>
Foreign exchange contracts					
Forward contracts	224	–	–	224	–
Cross-currency swaps	43	1,509	4,623	6,175	307
	<u>267</u>	<u>1,509</u>	<u>4,623</u>	<u>6,399</u>	<u>307</u>
Other derivative contracts					
Equity contracts	40	18	–	58	(17)
Futures – long	7	–	–	7	–
Futures – short	146	–	–	146	(1)
	<u>193</u>	<u>18</u>	<u>–</u>	<u>211</u>	<u>(18)</u>
	<u>864</u>	<u>2,614</u>	<u>5,289</u>	<u>8,767</u>	<u>654</u>
Fair value hedges					
Interest rate contracts					
Interest rate swaps	–	10	9	19	–
Total	<u>\$ 864</u>	<u>\$ 2,624</u>	<u>\$ 5,298</u>	<u>\$ 8,786</u>	<u>\$ 654</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010				Total estimated market value
	Notional Amount			Total	
	1 year or less	1-5 years	Over 5 years		
Interest rate contracts					
Futures – short	\$ 6	\$ –	\$ –	\$ 6	\$ –
Swaps	419	716	305	1,440	188
Options purchased	–	–	221	221	26
	425	716	526	1,667	214
Foreign exchange contracts					
Forward contracts	86	–	–	86	–
Cross-currency swaps	70	1,284	4,424	5,778	588
	156	1,284	4,424	5,864	588
Other derivative contracts					
Equity contracts	43	21	–	64	(20)
Futures – long	8	–	–	8	–
Futures – short	37	–	–	37	–
	88	21	–	109	(20)
	669	2,021	4,950	7,640	782
Fair value hedges					
Interest rate contracts					
Futures – short	12	–	–	12	–
Total	\$ 681	\$ 2,021	\$ 4,950	\$ 7,652	\$ 782

Futures contracts included in the above table 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 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.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. The Company may use credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

29 Legal Provisions, Contingent Liabilities and Subsequent Event

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

A subsidiary of the Company has declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of \$97 after-tax established by the Company's subsidiaries in the third quarter, 2007 have been reduced to \$68. Actual results could differ from these estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Court of Appeal for Ontario released a decision on November 3, 2011 in regard to the involvement of the participating accounts of London Life and Great-West Life in the financing of the acquisition of LIG in 1997 (the "Appeal Decision")

The Appeal Decision made substantial adjustments to the original trial judgment (the "Trial Decision") The impact is expected to be favourable to the Company's overall financial position Any monies to be returned to the participating accounts will be dealt with in accordance with the companies' participating policyholder dividend policies in the ordinary course of business No awards are to be paid out to individual class members

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

Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured

Based on information presently known, the Trial Decision, if affirmed on further appeal, is not expected to have a material adverse effect on the consolidated financial position of the Company

The Company and a subsidiary of the Company have an investment in a USA based private equity partnership wherein a dispute arose over the terms of the partnership agreement The Company acquired the investment in 2007 for purchase consideration of US\$350 The dispute was resolved on January 10, 2012 and the Company has established a provision for \$99 after-tax

Subsequent Event

On January 3, 2012 the plaintiffs filed an application in the Supreme Court of Canada for leave to appeal the Appeal Decision

30 Commitments

(a) Syndicated Letters of Credit

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

LRG has a syndicated letter of credit facility providing US\$650 in letters of credit capacity The facility was arranged in 2010 for a five year term expiring November 12, 2015 Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs LRG has issued US\$479 in letters of credit under the facility as at December 31, 2011 (US\$507 at December 31, 2010)

In addition, LRG has other bilateral letter of credit facilities totaling US\$18 (US\$18 in 2010) LRG has issued US\$7 in letters of credit under these facilities as at December 31, 2011 (US\$6 at December 31, 2010)

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business Letters of credit in the amount of \$1 were outstanding at December 31, 2011 (\$1 at December 31, 2010), none of which have been drawn upon at that date

(c) Lease Obligations

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

	2012	2013	2014	2015	2016	2017 and thereafter	Total
Future lease payments	\$ 68	52	42	34	24	36	\$ 256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 Segmented Information

The major reportable segments of the Company are the participating and shareholder operations. The Company operates through Great-West Life and its wholly owned subsidiaries LIG and CLFC. Within these segments the major business units are Individual Insurance, Wealth Management, Group Insurance, Europe/Reinsurance, and Corporate. These business units reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and the revenues from these business units are derived principally from life, health and disability insurance, annuity products, and life, property and casualty, accident and health and annuity reinsurance. Business activities and operations that are not associated with the specific business units are attributed to Corporate.

(a) Consolidated Net Earnings

	2011						Participating Total	Total company
	Individual insurance	Wealth management	Group insurance	Europe/ reinsurance	Corporate	Total		
Income								
Premium income	\$ 1,128	\$ 1,091	\$ 4,521	\$ 4,718	\$ 55	\$ 11,513	\$ 2,660	\$ 14,173
Net investment income								
Regular net								
investment income	277	572	291	1,758	(9)	2,889	1,463	4,352
Changes in fair value through profit or loss	831	394	186	1,840	128	3,379	416	3,795
Total net investment income	1,108	966	477	3,598	119	6,268	1,879	8,147
Fee and other income	—	905	147	583	39	1,674	(1)	1,673
Total income	2,236	2,962	5,145	8,899	213	19,455	4,538	23,993
Benefits and expenses								
Paid or credited to								
policyholders	1,532	2,001	3,824	7,515	148	15,020	3,942	18,962
Other	330	593	805	548	(244)	2,032	457	2,489
Financing charges	—	—	—	11	68	79	—	79
Amortization of finite life intangible assets	4	11	10	13	15	53	1	54
Earnings before income taxes	370	357	506	812	226	2,271	138	2,409
Income taxes	61	79	135	122	(75)	322	21	343
Net earnings	309	278	371	690	301	1,949	117	2,066
Net earnings – participating policyholder	—	—	—	—	—	—	117	117
Net earnings – common shareholder	\$ 309	\$ 278	\$ 371	\$ 690	\$ 301	\$ 1,949	\$ —	\$ 1,949

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 Segmented Information (cont'd)

	2010							
	Shareholder					Participating		Total company
	Individual insurance	Wealth management	Group insurance	Europe/reinsurance	Corporate	Total	Total	
Income								
Premium income	\$ 1,069	\$ 1,497	\$ 4,327	\$ 5,141	\$ 63	\$ 12,097	\$ 2,453	\$ 14,550
Net investment income								
Regular net investment income	224	650	278	1,793	149	3,094	1,417	4,511
Changes in fair value through profit or loss	419	248	111	1,464	61	2,303	894	3,197
Total net investment income	643	898	389	3,257	210	5,397	2,311	7,708
Fee and other income	–	851	144	549	31	1,575	–	1,575
Total income	1,712	3,246	4,860	8,947	304	19,069	4,764	23,833
Benefits and expenses								
Paid or credited to policyholders	990	2,197	3,538	7,717	180	14,622	4,240	18,862
Other	356	604	764	530	380	2,634	681	3,315
Financing charges	–	–	–	7	67	74	–	74
Amortization of finite life intangible assets	3	10	10	7	15	45	2	47
Earnings before income taxes	363	435	548	686	(338)	1,694	(159)	1,535
Income taxes	83	111	157	101	(118)	334	(149)	185
Net earnings before non-controlling interests	280	324	391	585	(220)	1,360	(10)	1,350
Non-controlling interests	–	–	–	–	7	7	–	7
Net earnings	280	324	391	585	(227)	1,353	(10)	1,343
Net earnings – participating policyholder	–	–	–	–	–	–	(10)	(10)
Net earnings – shareholders	280	324	391	585	(227)	1,353	–	1,353
Preferred share dividends	–	–	–	–	7	7	–	7
Net earnings – common shareholder	\$ 280	\$ 324	\$ 391	\$ 585	\$ (234)	\$ 1,346	\$ –	\$ 1,346

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(b) Consolidated Total Assets

	December 31, 2011		
	Shareholder	Participating account	Total
Assets			
Invested assets	\$ 58,500	\$ 31,125	\$ 89,625
Goodwill and intangible assets	6,778	–	6,778
Segregated funds for the risk of unitholders	74,223	–	74,223
Other assets	17,692	624	18,316
Total assets	\$ 157,193	\$ 31,749	\$ 188,942

	December 31, 2010		
	Shareholder	Participating account	Total
Assets			
Invested assets	\$ 53,358	\$ 29,619	\$ 82,977
Goodwill and intangible assets	6,782	–	6,782
Segregated funds for the risk of unitholders	73,638	–	73,638
Other assets	17,777	1,082	18,859
Total assets	\$ 151,555	\$ 30,701	\$ 182,256

	January 1, 2010		
	Shareholder	Participating account	Total
Assets			
Invested assets	\$ 52,034	\$ 27,511	\$ 79,545
Goodwill and intangible assets	6,808	–	6,808
Segregated funds for the risk of unitholders	67,805	–	67,805
Other assets	19,186	893	20,079
Total assets	\$ 145,833	\$ 28,404	\$ 174,237

(c) Geographic Distribution of Total Assets and Income

	2011		2010	
	Income	Assets	Income	Assets
Canada	\$ 14,556	\$ 113,906	\$ 14,351	\$ 111,256
International	9,437	75,036	9,482	71,000
Total assets	\$ 23,993	\$ 188,942	\$ 23,833	\$ 182,256

INDEPENDENT AUDITOR'S REPORT

**To the Policyholders and Shareholders,
The Great-West Life Assurance Company**

We have audited the accompanying consolidated financial statements of The Great-West Life Assurance Company, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the financial statements

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Great-West Life Assurance Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 9, 2012

APPOINTED ACTUARY'S REPORT

**To the Policyholders, Shareholders and Directors
of The Great-West Life Assurance Company**

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2011 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Tyrone Faulds

Tyrone Faulds
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba
February 9, 2012

PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This policyholder dividend policy has been established by the Board of Directors and applies to all participating insurance policies issued or assumed by Great-West. The Board of Directors may amend this policy from time to time at its discretion. The factors most likely to be considered in deciding whether to amend this policy include changes in applicable legal or regulatory requirements, professional guidelines, industry practices or significant business changes.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, asset defaults, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when establishing the guaranteed values associated with participating insurance policies. Great-West may distribute a portion of the earnings as declared at the discretion of the Board of Directors in accordance with this policy.

Participating insurance policies are eligible for periodic policyholder dividends. The amount to be distributed from the participating account as policyholder dividends is determined at least annually following a review of the actual and expected experience of the participating account, taking into account significant changes in factors such as investment income, asset defaults, mortality, lapses, expenses and taxes. The amount distributed in any year will vary up or down depending on the actual and expected experience. The amount distributed is also influenced by considerations such as the need to retain earnings as surplus and reducing short-term volatility in dividends.

The amount distributed as policyholder dividends is divided among classes of policies by setting the policyholder dividend scale. These dividend classes are groupings of participating policies with certain product and policy attributes in common.

Great-West follows the contribution principle when setting the policyholder dividend scale. This means the amount distributed as policyholder dividends is divided among dividend classes over the long term in proportion to their contribution to earnings. A contribution to earnings will be made from a particular dividend class to the extent the experience for that particular class is different from the assumptions used when establishing the guaranteed values for that class. When applying the contribution principle, attention is paid to achieving reasonable equity between dividend classes and between generations of policies, taking into account practical considerations and limits, legal and regulatory requirements, professional guidelines and industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods designed to approximate the contribution to earnings of those blocks.

The policyholder dividends are credited according to the terms of each policy. A change made by a policyholder to a policy after it is issued may, in some cases, result in a change to the policy's dividend class and thus a change to the amount of policyholder dividends credited thereafter.

Termination dividends are not payable under any participating policies issued by Great-West.

Prior to the declaration of policyholder dividends by the Board, the Appointed Actuary reports to the Board of Directors with his opinion on the fairness to participating policyholders of the proposed policyholder dividends and on their compliance with this policy, applicable legislative and regulatory requirements and applicable professional practice standards. Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

PARTICIPATING ACCOUNT FINANCIAL DISCLOSURE

(in Canadian \$ millions)

Participating Account	Accounting Item	2010	2011
Canada	Opening surplus and accumulated other comprehensive income (OCI)	\$ 442	\$ 461
	Net earnings (including OCI) before distributions	152	187
	Amounts transferred to shareholders under section 461 of the ICA	3	3
	Other transfers or accruals under section 462 of the ICA	0	1
	Net earnings (including OCI) before payment of policyholder dividends	148	183
	Policyholder dividends distributed during the year	129	134
	Closing surplus and accumulated other comprehensive income (OCI)	461	510
	Total assets at year end	3,583	3,693
	Section 461 transfer as a % of total distributions	2.5%	2.5%

PARTICIPATING ACCOUNT MANAGEMENT POLICY

This participating account management policy has been established by the Board of Directors and may be amended by the Board from time to time at its discretion. The factors most likely to be considered in deciding whether to amend this policy include changes in applicable legal or regulatory requirements, professional guidelines, industry practices or significant business changes.

As required by the Insurance Companies Act, the Company maintains accounts for its participating insurance policies separately from those maintained in respect of other policies. This facilitates the measurement of the earnings attributable to the participating account.

The participating account is maintained in respect of participating life insurance policies and a small block of participating annuities that have been issued or assumed by the Company. The participating account remains open to new participating policies issued or assumed by the Company.

Assets of the Company held within its general funds are allocated to the participating account and non-participating account segments for the purpose of determining investment income for each account. Assets are allocated to each segment according to the investment guidelines established for the segments. These guidelines outline criteria for asset mix, liquidity, currency risk and interest rate risk. These guidelines are intended to recognize considerations such as the business objectives, liability characteristics, liquidity requirements, tax considerations and interest rate risk tolerance of each segment. Assets allocated to a segment may from time to time be reallocated to another segment within the same account or another account provided the assets exchanged comply with the investment policy of the respective segments. Any such exchanges are effected at fair value.

On an annual basis the Board of Directors reviews and approves investment policies and guidelines which govern investment activities. The investment policies outline a number of principles for investing in assets, including risk tolerance and the approach to managing investment risk. Investment risk is managed through underwriting standards, exposure limits and specific guidelines governing asset classes and investment operations. The investment policies establish limits for the concentration of assets in single geographic areas, industries, companies and types of businesses as part of the risk management process.

A large portion of the participating account assets are invested in fixed-income assets to support long-term stable growth and the core guarantees within participating policies. The Company employs cash-flow-matching techniques so that asset cash flows are sufficient to meet obligations and to help control exposure to interest rate fluctuations. In addition, a portion of the portfolio is reinvested each year so returns reflect the trend in interest rates. The Company may use derivative products as risk management instruments to hedge asset and liability positions, or as substitutes for cash instruments within specified guideline limits.

Investment income is allocated to the participating account in accordance with the Company's investment income allocation policy. Generally, investment income results are allocated directly to a segment based on the assets allocated to the segment. Each year the Appointed Actuary reviews the method used for allocating investment income to the participating account and reports to the Board of Directors on its fairness and equitableness.

Expenses and taxes incurred by the Company are allocated to the participating account in accordance with the Company's expense allocation and tax allocation policies.

In general, expenses that are exclusively related to participating business are allocated directly to the participating account. Expenses related to both participating and non-participating business are allocated based on business statistics when the expenses vary based on those statistics, based on managers' estimates supported by time studies or other assessments, or in proportion to the total expenses allocated using all of the methods previously mentioned.

From time to time, material non-recurring expenses may be incurred by the Company. Management will determine and report to the Appointed Actuary the allocation of any such expenses, including the basis or justification for it. The Appointed Actuary's approval is required for any allocation of such expenses to the participating account.

Taxes are allocated to the participating account using the characteristics of the participating and non-participating accounts that are determinative of the relevant tax costs.

Each year the Appointed Actuary reviews the method used for allocating expenses and taxes to the participating account and reports to the Board of Directors on its fairness and equitableness.

The participating account surplus is managed in accordance with the Company's capital management policy and participating account surplus policy and with regard to regulatory requirements. The surplus position is reviewed annually to assess its continuing appropriateness, having regard for the specific circumstances of the participating account. Surplus may be used for a number of purposes including to help ensure the Company can meet its obligations to participating policyholders, help ensure financial strength and stability, finance new business growth and acquisitions which may benefit the participating account, provide for transitions during periods of major change, and smooth the reflection of experience fluctuations in dividends, subject to items such as practical considerations and limits, legal and regulatory requirements, and industry practices.

As permitted by the Insurance Companies Act, the Company may distribute to the shareholder account a percentage of the amount distributed to policyholders in respect of a financial year. Prior to any such distribution, the Appointed Actuary will confirm to the Board of Directors that the proposed distribution is permitted under the terms of the Insurance Companies Act. The proportion distributed to the shareholder account will not exceed the prescribed amount as determined under section 461 of the Insurance Companies Act. Any distribution made to the shareholder account will be published in the Company's annual report.

SOURCES OF EARNINGS

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

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

Expected Profit on In-Force Business

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

Impact of New Business

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

Experience Gains and Losses

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

Management Actions and Changes in Assumptions

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

Other

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

Earnings on Surplus

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

Great West Life's sources of earnings are shown below for 2011 and 2010.

Sources of Earnings

(In Canadian \$ millions)

For the year ended December 31, 2011	Shareholder net earnings					Total
	Group Insurance	Individual Insurance	Wealth Management	Europe/ Reinsurance	Corporate	
Expected profit on in-force business	\$ 498	\$ 179	\$ 406	\$ 442	\$ 6	\$ 1,531
Impact of new business	0	(47)	48	(9)	0	(8)
Experience gains and losses	(22)	43	(9)	(74)	(37)	(99)
Management actions and changes in assumptions	30	195	(88)	276	13	426
Other	0	0	0	0	0	0
Earnings on surplus	0	0	0	177	102	279
Net earnings before tax	506	370	357	812	84	2,129
Taxes	(135)	(61)	(79)	(122)	93	(304)
Net earnings before non-controlling interests	371	309	278	690	177	1,825
Non-controlling interests	0	0	0	0	0	0
Net earnings – shareholders	371	309	278	690	177	1,825
Preferred share dividends	0	0	0	0	0	0
Net earnings – common shareholder before adjustments	371	309	278	690	177	1,825
Adjustments after tax	0	0	0	0	124	124
Net earnings – common shareholder	\$ 371	\$ 309	\$ 278	\$ 690	\$ 301	\$ 1,949

SOURCES OF EARNINGS (CONT'D)

Sources of Earnings

(in Canadian \$ millions)

For the year ended December 31, 2010	Shareholder net earnings					Total
	Group Insurance	Individual Insurance	Wealth Management	Europe/ Reinsurance	Corporate	
Expected profit on in-force business	\$ 495	\$ 176	\$ 365	\$ 470	\$ 27	\$ 1,533
Impact of new business	0	(33)	38	(14)	0	(9)
Experience gains and losses	(22)	69	5	(61)	(47)	(56)
Management actions and changes in assumptions	75	151	27	129	8	390
Other	0	0	0	0	0	0
Earnings on surplus	0	0	0	162	34	196
Net earnings before tax	548	363	435	686	22	2,054
Taxes	(157)	(83)	(111)	(101)	47	(405)
Net earnings before non-controlling interests	391	280	324	585	69	1,649
Non-controlling interests	0	0	0	0	(7)	(7)
Net earnings – shareholders	391	280	324	585	62	1,642
Preferred share dividends	0	0	0	0	(7)	(7)
Net earnings – common shareholder before adjustments	391	280	324	585	55	1,635
Adjustments after tax	0	0	0	0	(289)	(289)
Net earnings – common shareholder	\$ 391	\$ 280	\$ 324	\$ 585	\$ (234)	\$ 1,346

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 72% of pre-tax earnings in 2011. The expected profit on in-force business of \$1,531 in 2011 was \$2 lower than the 2010 level.

New business issued in 2011 led to losses of \$8 at issue compared to losses of \$9 in 2010, largely due to reduced strain on retirement products in Canada and new business in Reinsurance largely offset by increased strain on insurance sales in Canada.

Experience losses in 2011 were primarily due to unfavourable expense, morbidity and policyholder behaviour experience in Europe, policyholder behavior and Group morbidity experience in Canada offset by favourable investment experience. Experience losses in 2010 were primarily due to unfavourable investment and expense experience in Europe, policyholder behavior and Group morbidity experience in Canada and reinsurance claim provisions. Experience losses of \$(99) in 2011 were \$43 lower than in 2010 primarily due to unfavourable morbidity, policyholder behavior and expense experience partially offset by favourable investment experience.

In 2011 the Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to the future mortality improvement in insurance contract liabilities for life insurance and annuities. The resulting increase to earnings was \$331 for life insurance and \$3 for annuities.

Other management actions and changes in assumptions contributed \$92 to pre-tax earnings. The most significant contributors to assumption changes and management actions were \$141 due to model refinements across the Canadian segment, \$132 due to updated expenses and taxes, \$86 due to updated morbidity assumptions, \$30 due to updated base life insurance mortality, \$9 due to reinsurance related management actions, \$(213) due to increased provisions for policyholder behavior in Individual insurance, and \$(88) due to increased provisions for asset liability matching.

In 2010 management actions and changes in assumptions contributed \$390 to pre-tax earnings, including \$(3) due to the shareholder portion of assumption changes in the participating lines and \$395 due to assumption changes and management actions for insurance contract liabilities. The most significant contributors to assumption changes and management actions were \$168 due to reduced provisions for asset liability management, \$111 due to model refinements, \$110 due to updated expenses and taxes, \$57 improved life mortality, \$48 due to improved group insurance morbidity, \$(76) due to increased provisions for policyholder behaviour, \$(18) due to strengthened longevity, and \$(8) due to strengthened provisions for asset default.

Pre-tax earnings on surplus increased by \$83 in 2011 compared to 2010.

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY*

Name	Principal Office Address	Carrying Value (\$ millions)	Voting Share Ownership
GLC Asset Management Group Ltd	Winnipeg, Manitoba	29	100.0%
GWL Realty Advisors Inc	Winnipeg, Manitoba	–	100.0%
London Insurance Group Inc	London, Ontario	3,779	100.0%
Canada Life Financial Corporation	Toronto, Ontario	12,728	100.0%

* The table above depicts the material and certain other subsidiaries of the Company as at December 31, 2011.

FIVE YEAR SUMMARY

(in Canadian \$ millions except per share amounts)

	2011	2010	*2009	*2008	*2007
At December 31					
Total assets under administration	\$ 203,820	\$ 197,290	\$ 182,715	\$ 173,184	\$ 179,756
For the Year Ended December 31					
Premiums and deposits					
Life insurance, guaranteed annuities and insured health products	\$ 14,173	\$ 14,550	\$ 15,085	\$ 27,425	\$ 19,221
Self-funded premium equivalents (ASO contracts)	2,645	2,575	2,499	2,410	2,233
Segregated funds deposits					
Individual products	7,146	6,643	5,765	6,932	8,544
Group products	3,615	3,744	4,231	3,321	3,311
Proprietary mutual funds deposits	724	616	565	708	835
Total premiums and deposits	\$ 28,303	\$ 28,128	\$ 28,145	\$ 40,796	\$ 34,144
Condensed Summary of Operations					
Income					
Premium income	\$ 14,173	\$ 14,550	\$ 15,085	\$ 27,425	\$ 19,221
Net investment income					
Regular net investment income	4,352	4,511	4,807	4,802	4,321
Changes in fair value through profit or loss	3,795	3,197	2,637	(4,056)	(1,015)
Total net investment income	8,147	7,708	7,444	746	3,306
Fee and other income	1,673	1,575	1,599	1,685	1,705
Total income	23,993	23,833	24,128	29,856	24,232
Benefits and expenses					
Paid or credited to policyholders	18,962	18,862	19,226	24,461	18,982
Other	2,568	3,389	2,800	2,851	2,999
Amortization of finite life intangible assets	54	47	38	32	18
Earnings before income taxes	2,409	1,535	2,064	2,512	2,233
Income taxes	343	185	289	543	450
Net earnings before non-controlling interests	2,066	1,350	1,775	1,969	1,783
Non-controlling interests	-	7	7	7	7
Net earnings	2,066	1,343	1,768	1,962	1,776
Net earnings (loss) – participating account	117	(10)	24	59	129
Net earnings – shareholders	1,949	1,353	1,744	1,903	1,647
Preferred share dividends	-	7	9	9	11
Net earnings – common shareholder	\$ 1,949	\$ 1,346	\$ 1,735	\$ 1,894	\$ 1,636
Earnings per common share	\$ 920 47	\$ 642 94	\$ 830 46	\$ 906 69	\$ 783 48
Book value per common share	\$5,627 00	\$ 5,184 00	\$ 5,320 00	\$ 5,350 00	\$ 4,889 00
Dividends to common shareholder – per share	\$ 540 46	\$ 415 44	\$ 613 78	\$ 465 83	\$ 412 26

* The years 2007, 2008 and 2009 are presented on a previous CGAAP basis.

DIRECTORS AND OFFICERS

As of January 1, 2012

BOARD OF DIRECTORS

Raymond L. McFeetors^{3 4 5 6}

Chairman of the Board of the Company
Vice-Chairman,
Power Financial Corporation

George S. Bain¹

Corporate Director

Marcel R. Coutu^{3 4 5 6}

President and Chief Executive Officer,
Canadian Oil Sands Limited

André Desmarais, O.C., O.Q.^{3 4 5 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.^{3 4 5 6}

Chairman and Co-Chief Executive Officer,
Power Corporation of Canada

Co-Chairman,

Power Financial Corporation

H David Graves^{3 4 5}

Chairman and Chief Executive Officer,
IMRIS Inc

Michael L. Hepher^{1 5}

Corporate Director

Chaviva M. Hošek, O.C., Ph.D., LL.D.^{1 2}

President and Chief Executive Officer,
The Canadian Institute for Advanced Research

D. Allen Loney, FIA, FCIA^{3 4}

President and Chief Executive Officer
of the Company,
Great-West Lifeco Inc.,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson¹

Chairman of the Board,
H B Nickerson & Sons Limited

David A. Nield^{2 3 4 5 6}

Corporate Director

R Jeffrey Orr^{3 4 5 6}

President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA¹

Vice-Chairman,
Power Corporation of Canada

Henri-Paul Rousseau, Ph.D.^{3 4}

Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Raymond Royer, O.C., O.Q., FCA¹

Corporate Director

Philip K. Ryan^{1 3 4}

Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

T. Timothy Ryan, Jr.^{3 4 5}

President and Chief Executive Officer,
Securities Industry and Financial
Markets Association

Emőke J.E. Szathmáry, C.M., O.M.,

Ph.D., FRSC^{2 3}

President Emeritus,
University of Manitoba

Brian E. Walsh^{5 6}

Chairman and Chief Investment Officer,
Saguenay Strathmore Capital, LLC

¹ member of the Audit Committee

² member of the Conduct Review Committee

³ member of the Executive Committee

⁴ member of the Investment Committee

⁵ member of the Compensation Committee

⁶ member of the Governance and Nominating 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

Brian R. Allison

Executive Vice-President and
Chief Investment Officer

Andrew D. Brands

Senior Vice-President and
General Counsel

Elwood C. Haas

Senior Vice-President,
Corporate Resources

Helen R. Kasdorf

Senior Vice-President
and Chief Internal Auditor

William W. Lovatt

Executive Vice-President and
Chief Financial Officer

Garry MacNicholas

Senior Vice-President and
Chief Actuary

Ronald D. Saul

Executive Vice-President,
Chief Information Officer

Laurie A. Speers

Vice-President and
Corporate Secretary

POLICYHOLDER AND SHAREHOLDER INFORMATION

Head Office

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

Financial Information

For financial information about Great-West Life, please contact the Senior Vice-President and Chief Financial Officer, Canada at 204-946-8396

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

The trademarks contained in this report are owned by The Great-West Life Assurance Company or a member of the Power Financial Corporation group of companies, with the exception of *iPhone* which is a trademark of Apple Inc. The display of *iPhone* in this report does not imply sponsorship, affiliation or endorsement either by The Great West Life Assurance Company or by Apple Inc. of the other's products or services. Trademarks that are not owned by The Great West Life Assurance Company are used with permission.

THE
Great-West Life
ASSURANCE  COMPANY

A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™



Conserving for our future

To help reduce our environmental footprint, we have printed this report on paper that is certified by the Forest Stewardship Council™ (FSC®) and manufactured with 30 per cent post-consumer recycled fibre

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



009 163/20
OS AA01

Statement of details of parent law and other information for an overseas company



What this form is for
 You may use this form to accompany your accounts disclosed under parent law

What this form is NOT for
 You cannot use this form to register an alteration of manner of compliance with accounting requirements

COMPANIES HOUSE
 For further information, please refer to our guidance at www.companieshouse.gov.uk

Part 1 Corporate company name

Corporate name of overseas company ❶	The Great-West Life Assurance Company									
	If the company has already been registered in the UK, please enter the establishment number below									
UK establishment number ❷	B	R	0	1	4	4	2	1		

→ **Filling in this form**
 Please complete in typescript or in bold black capitals
 All fields are mandatory unless specified or indicated by *
 ❶ This is the name of the company in its home state
 ❷ This should only be completed if the company has already been registered in the UK

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

	Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited
Legislation ❶	Insurance Companies Act (Canada)

❶ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts	Have the accounts been prepared in accordance with a set of generally accepted accounting principles? Please tick the appropriate box <input type="checkbox"/> No Go to Section A3 <input checked="" type="checkbox"/> Yes Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3
Name of organisation or body ❶	Accounting Standards Board - Canadian GAAP

❶ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts	Have the accounts been audited? Please tick the appropriate box <input type="checkbox"/> No Go to Section A5 <input checked="" type="checkbox"/> Yes Go to Section A4
----------	---

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts	
Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box <input type="checkbox"/> No Go to Part 3 'Signature' <input checked="" type="checkbox"/> Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'
Name of organisation or body ①	Auditing Standards Committee
A5 Unaudited accounts	
Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box <input type="checkbox"/> No. <input type="checkbox"/> Yes
Part 3 Signature	
I am signing this form on behalf of the overseas company	
Signature	Signature <input checked="" type="checkbox"/>  <input checked="" type="checkbox"/>
This form may be signed by Director, Secretary, Permanent representative	

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name **Karina Morris**

Company name **Canada Life Limited**

Address **Canada Life Place**

High Street

Post town **Potters Bar**

County/Region **Hertfordshire**

Postcode

	E	N	6		5	B	A	
--	---	---	---	--	---	---	---	--

Country **England**

DX

Telephone **01707 422736**

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- The company name and, if appropriate, the registered number, match the information held on the public Register
- You have completed all sections of the form, if appropriate
- You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address

England and Wales

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk