CONSOLIDATED BALANCE SHEETS

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2012	2011
ASSETS		
Cash and cash equivalents [Note 3]	3,313	3,385
Investments [Note 4]		
Bonds	83,387	78,759
Mortgages and other loans	22,797	21,518
Shares	6,796	6,402
Investment properties	3,525	3,201
Loans to policyholders	7,082	7,162
	123,587	117,042
Funds held by ceding insurers [Note 5]	10,537	9,923
Reinsurance assets [Note 11]	2,064	2,061
Investment in jointly controlled corporation [Note 6]	2,149	2,222
Owner-occupied properties and capital assets [Note 7]	791	738
Derivative financial instruments [Note 25]	1,060	1,056
Other assets [Note 8]	5,368	4,653
Deferred tax assets [Note 16]	1,170	1,207
Intangible assets [Note 9]	4,933	5,023
Goodwill [Note 9]	8,673	8,786
Investments on account of segregated fund policyholders [Note 10]	104,948	96,582
Total assets	268,593	252,678
LIABILITIES		
Insurance contract liabilities [Note 11]	119,919	114,730
Investment contract liabilities [Note 11]	739	782
Obligation to securitization entities [Note 12]	4,701	3,827
Debentures and debt instruments [Note 13]	5,858	5,888
Capital trust securities [Note 14]	119	533
Derivative financial instruments [Note 25]	413	427
Other liabilities [Note 15]	6,311	5,836
Deferred tax liabilities [Note 16]	1,213	1,258
Investment and insurance contracts on account of segregated fund policyholders [Note 10]	104,948	96,582
Total liabilities	244,221	229,863
EQUITY		
Stated capital [Note 17]		
Perpetual preferred shares	2,255	2,005
Common shares	664	639
Retained earnings	11,148	10,743
Reserves	(38)	134
Total shareholders' equity	14,029	13,521
Non-controlling interests [Note 19]	10,343	9,294
Total equity	24,372	22,815
Total liabilities and equity	268,593	252,678

Approved by the Board of Directors

Signed,

Raymond Royer
Director

Signed,

R. Jeffrey Orr
Director

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS]	2012	2011
REVENUES		
Premium income		
Gross premiums written	21,839	20,013
Ceded premiums	(3,019)	(2,720)
Total net premiums	18,820	17,293
Net investment income [Note 4]		
Regular net investment income	5,711	5,610
Change in fair value	2,650	4,154
	8,361	9,764
Fee income	5,231	5,343
Total revenues	32,412	32,400
EXPENSES		
Policyholder benefits		
Insurance and investment contracts		
Gross	17,431	16,591
Ceded	(1,457)	(1,217)
	15,974	15,374
Policyholder dividends and experience refunds	1,437	1,424
Change in insurance and investment contract liabilities	5,040	6,245
Total paid or credited to policyholders	22,451	23,043
Commissions	2,501	2,312
Operating and administrative expenses [Note 22]	3,696	3,006
Financing charges [Note 23]	395	409
Total expenses	29,043	28,770
	3,369	3,630
Share of earnings (losses) of investment in jointly controlled corporation [Note 6]	134	(20)
Earnings before income taxes—continuing operations	3,503	3,610
Income taxes [Note 16]	563	706
Net earnings—continuing operations	2,940	2,904
Net earnings—discontinued operations	–	63
Net earnings	2,940	2,967
Attributable to		
Non-controlling interests [Note 19]	1,197	1,141
Perpetual preferred shareholders	117	104
Common shareholders	1,626	1,722
	2,940	2,967
Earnings per common share [Note 28]		
Net earnings attributable to common shareholders		
—Basic	2.30	2.43
—Diluted	2.28	2.41
Net earnings from continuing operations attributable to common shareholders		
—Basic	2.30	2.38
—Diluted	2.28	2.36

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2012	2011
Net earnings	2,940	2,967
Other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	85	226
Income tax (expense) benefit	(25)	(48)
Realized (gains) losses transferred to net earnings	(126)	(116)
Income tax expense (benefit)	31	30
	(35)	92
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	14	(24)
Income tax (expense) benefit	(5)	10
Realized (gains) losses transferred to net earnings	2	2
Income tax expense (benefit)	(1)	(1)
	10	(13)
Net unrealized foreign exchange gains (losses) on translation of foreign operations	(78)	214
Share of other comprehensive income of jointly controlled corporation	(100)	(222)
Other comprehensive income (loss)	(203)	71
Total comprehensive income	2,737	3,038
Attributable to		
Non-controlling interests	1,165	1,269
Perpetual preferred shareholders	117	104
Common shareholders	1,455	1,665
	2,737	3,038

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2012 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 27]	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance, beginning of year	2,005	639	10,743	111	23	134	9,294	22,815
Net earnings	–	–	1,743	–	–	–	1,197	2,940
Other comprehensive income (loss)	–	–	–	–	(171)	(171)	(32)	(203)
Total comprehensive income	–	–	1,743	–	(171)	(171)	1,165	2,737
Issue of perpetual preferred shares	250	–	–	–	–	–	–	250
Dividends to shareholders								
Perpetual preferred shares	–	–	(117)	–	–	–	–	(117)
Common shares	–	–	(992)	–	–	–	–	(992)
Dividends to non-controlling interests	–	–	–	–	–	–	(659)	(659)
Share-based compensation	–	–	–	9	–	9	4	13
Stock options exercised	–	25	–	(10)	–	(10)	(3)	12
Effects of changes in ownership and capital on non-controlling interests, and other	–	–	(229)	–	–	–	542	313
Balance, end of year	2,255	664	11,148	110	(148)	(38)	10,343	24,372

YEAR ENDED DECEMBER 31, 2011 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 27]	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance, beginning of year	2,005	636	9,982	108	80	188	8,741	21,552
Net earnings	–	–	1,826	–	–	–	1,141	2,967
Other comprehensive income (loss)	–	–	–	–	(57)	(57)	128	71
Total comprehensive income	–	–	1,826	–	(57)	(57)	1,269	3,038
Dividends to shareholders								
Perpetual preferred shares	–	–	(104)	–	–	–	–	(104)
Common shares	–	–	(991)	–	–	–	–	(991)
Dividends to non-controlling interests	–	–	–	–	–	–	(640)	(640)
Share-based compensation	–	–	–	8	–	8	2	10
Stock options exercised	–	3	–	(5)	–	(5)	(2)	(4)
Effects of changes in ownership and capital on non-controlling interests, and other	–	–	30	–	–	–	(76)	(46)
Balance, end of year	2,005	639	10,743	111	23	134	9,294	22,815

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2012	2011
OPERATING ACTIVITIES—CONTINUING OPERATIONS		
Earnings before income taxes–continuing operations	3,503	3,610
Income tax paid, net of refunds received	(414)	(4)
Adjusting items		
Change in insurance and investment contract liabilities	5,034	6,029
Change in funds held by ceding insurers	205	464
Change in funds held under reinsurance contracts	201	25
Change in reinsurance assets	45	415
Change in fair value through profit or loss	(2,650)	(4,182)
Other	(555)	(852)
	5,369	5,505
FINANCING ACTIVITIES—CONTINUING OPERATIONS		
Dividends paid		
By subsidiaries to non-controlling interests	(659)	(640)
Perpetual preferred shares	(114)	(104)
Common shares	(991)	(991)
	(1,764)	(1,735)
Issue of common shares by the Corporation [Note 17]	20	3
Issue of common shares by subsidiaries	44	61
Issue of perpetual preferred shares by the Corporation [Note 17]	250	–
Issue of preferred shares by subsidiaries	650	–
Repurchase of common shares by subsidiaries	(215)	(186)
Changes in debt instruments	(1)	(6)
Repayment of debentures [Note 13]	–	(450)
Change in obligations related to assets sold under repurchase agreements	(2)	(408)
Change in obligations to securitization entities	874	319
Redemption of capital trust securities [Note 14]	(409)	–
Other	(8)	(4)
	(561)	(2,406)
INVESTMENT ACTIVITIES—CONTINUING OPERATIONS		
Bond sales and maturities	24,516	20,486
Mortgage loan repayments	2,071	1,756
Sale of shares	2,152	2,355
Change in loans to policyholders	(57)	(198)
Change in repurchase agreements	(23)	(1,053)
Investment in bonds	(27,716)	(20,510)
Investment in mortgage loans	(3,394)	(3,361)
Investment in shares	(2,162)	(2,643)
Proceeds on disposal of business	–	199
Investment in investment properties and other	(259)	(137)
	(4,872)	(3,106)
Effect of changes in exchange rates on cash and cash equivalents–continuing operations	(8)	24
Increase (decrease) in cash and cash equivalents–continuing operations	(72)	17
Cash and cash equivalents, beginning of year	3,385	3,656
Less: Cash and cash equivalents–discontinued operations, beginning of year	–	(288)
Cash and cash equivalents–continuing operations, end of year	3,313	3,385
NET CASH FROM CONTINUING OPERATING ACTIVITIES INCLUDES		
Interest and dividends received	5,062	5,044
Interest paid	492	493

NOTE 1 CORPORATE INFORMATION

Power Financial Corporation (Power Financial or the Corporation) is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada. The registered address of the Corporation is 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services industry in Canada, the United States and Europe and, through its indirect investment in Pargesa, has substantial holdings in companies based in Europe, active in the following industries: oil and gas and alternative energies, electricity, energy and environmental services, water and waste management services, cement and other building materials, and wines and spirits.

The Consolidated Financial Statements (financial statements) of Power Financial for the year ended December 31, 2012 were approved for issue by the Board of Directors on March 13, 2013. The Corporation is controlled by 171263 Canada Inc., which is wholly owned by Power Corporation of Canada.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Power Financial at December 31, 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS).

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Power Financial and all its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries of the Corporation are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases.

The principal subsidiaries of the Corporation are:

> Great-West Lifeco Inc. (direct interest of 68.2% (2011—68.2%)), whose major operating subsidiary companies are The Great-West Life Assurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company, The Canada Life Assurance Company, and Putnam Investments, LLC.

> IGM Financial Inc. (direct interest of 58.7% (2011—57.6%)), whose major operating subsidiary companies are Investors Group Inc. and Mackenzie Financial Corporation.

> IGM Financial Inc. holds 4.0% (2011—4.0%) of the common shares of Great-West Lifeco Inc., and The Great-West Life Assurance Company holds 3.7% (2011—3.6%) of the common shares of IGM Financial Inc.

The Corporation also holds a 50% (2011—50%) interest in Parjointco N.V. Parjointco holds a 55.6% (2011—56.5%) equity interest in Pargesa Holding SA. The Corporation accounts for its investment in Parjointco using the equity method.

The preparation of financial statements in conformity with IFRS requires management of the Corporation and its subsidiaries to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

USE OF ESTIMATES AND ASSUMPTIONS

In preparation of the financial statements, management of the Corporation and its subsidiaries are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some variability is inherent in these estimates, management of the Corporation and its subsidiaries believe that the amounts recorded are reasonable. Key sources of estimation uncertainty include: valuation of insurance and investment contracts, determination of the fair value of financial instruments, carrying value of goodwill, intangible assets, deferred selling commissions, investment in a jointly controlled corporation, legal and other provisions, income taxes and pension plans and other post-employment benefits. Areas where significant estimates and assumptions have been used by management and its subsidiaries are further described in the relevant accounting policies of this note and other notes throughout the financial statements. The reported amounts and note disclosures are determined using management of the Corporation and its subsidiaries' best estimates.

SIGNIFICANT JUDGMENTS

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

The results reflect judgments of management of the Corporation and its subsidiaries 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. Lifeco's practice is to use third-party independent credit ratings where available.

REVENUE RECOGNITION

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

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

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

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

For Lifeco, fee income primarily includes fees earned from the management of segregated fund assets, proprietary mutual fund assets, fees earned on the administration of administrative services only Group health contracts and fees earned from management services. Fee income is recognized when the service is performed, the amount is collectible and can be reasonably estimated.

For IGM, management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from mutual fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. These management, administration and distribution fees are included in fee income in the Consolidated Statements of Earnings (statements of earnings).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include 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.

INVESTMENTS

Investments include bonds, mortgages and other loans, shares, investment properties, and loans to policyholders. Investments are classified as either 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 for which the instruments were acquired or the characteristics of the investments. The Corporation currently has not classified any investments as held to maturity.

Investments in bonds and shares 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 and are recorded on a trade-date basis. Fixed income securities are included in bonds on the Consolidated Balance Sheets (balance sheets). Fair value through profit or loss investments are recognized at fair value on the balance sheets with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recognized at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold or impaired. Interest income earned on both fair value through profit or loss and available-for-sale bonds is recorded as investment income earned in the statements of earnings.

Investments in shares where a fair value cannot be measured reliably are classified as available for sale and carried at cost.

Investments in mortgages and other loans and bonds not normally actively traded on a public market and other loans 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 net investment income in the statements of earnings.

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. All changes in fair value are recorded as net investment income in the statements of earnings. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner-occupied properties. Property that is leased that would otherwise be classified as investment property if owned by the Corporation is also included with investment properties.

Fair value measurement Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation relies upon.

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

Bonds at 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. The Corporation 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. Where prices are not quoted in a normally active market, fair values are determined by valuation models. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The Corporation 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 are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

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

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

Investment properties Fair values for investment properties are determined using independent 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 Corporation 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. Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.

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

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For impaired mortgages and other loans, and bonds classified as loans and receivables, provisions are established or impairments recorded 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 bonds, recorded at fair value, the accumulated loss recorded in the investment revaluation reserves 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 earnings, therefore, a reduction due to impairment of these assets will be recorded in earnings. As well, when determined to be impaired, contractual interest is no longer accrued and previous interest accruals are reversed.

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

TRANSACTION COSTS

Transaction costs are expensed as incurred for financial instruments classified or designated 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 method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and taken into net earnings using the effective interest method.

INVESTMENT IN JOINTLY CONTROLLED CORPORATION

A jointly controlled corporation is any entity in which unanimous consent is required over the entity's management and operating and financial policy. The investment in the jointly controlled corporation is accounted for using the equity method. The share in net earnings of the jointly controlled corporation is recognized in the statement of earnings, the share in other comprehensive income of the jointly controlled corporation is recognized in the statement of other comprehensive income and the change in equity is recognized in the statement of changes in equity.

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. The carrying value of loans to policyholders approximates fair value.

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is both a user and a 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 Lifeco 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, Lifeco 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. Lifeco 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 statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement 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 balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

DERECOGNITION

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

Capital assets and property held for own use are carried at cost less accumulated depreciation and impairments. Depreciation is charged to write off the cost of assets, using the straight-line method, over their estimated useful lives, which vary from 3 to 50 years. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

> Building, owner-occupied properties, and components	10–50 years
> Equipment, furniture and fixtures	3–10 years
> Other capital assets	3–10 years

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

OTHER ASSETS

Trading account assets consist of investments in Putnam-sponsored funds, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the balance sheet with realized and unrealized gains and losses reported in the statements of earnings.

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

GOODWILL AND INTANGIBLE ASSETS

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

Intangible assets represent finite life and indefinite life intangible assets acquired and software acquired or internally developed by the Corporation and its subsidiaries. Finite life intangible assets include the value of software, some customer contracts, distribution channels, distribution contracts, deferred selling commissions, property leases and technology. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 30 years.

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units in mutual funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by IGM. Any unamortized deferred selling commission asset on the initial sale of these mutual fund units is recorded as a disposal. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

Indefinite life intangible assets include brands and trademarks, some customer contracts, the shareholders' portion of acquired future participating account profits, trade names and mutual fund management contracts. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Corporation. 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.

Goodwill and indefinite life 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 Corporation would be required to reverse the impairment charge or a portion thereof.

Goodwill has been allocated to groups of cash generating units (CGU), representing the lowest level in which goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment by comparing the carrying value of the groups of CGU 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 cost to sell or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

SEGREGATED FUNDS

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification Lifeco's products are classified at contract inception, for accounting purposes, as insurance contracts or investment contracts, depending on the existence of significant insurance risk. Significant insurance risk exists when Lifeco 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 21 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 are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features.

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

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 21 for a discussion on 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 Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance contracts and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

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

DEFERRED INCOME RESERVES

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

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POLICYHOLDER BENEFITS

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

FINANCIAL LIABILITIES

Financial liabilities, other than insurance and investment contract liabilities, are classified as other liabilities. Debentures and debt instruments, capital trust securities and other liabilities are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the statements of earnings.

EQUITY

Financial instruments issued by the Corporation are classified as stated capital if they represent a residual interest in the assets of the Corporation. Preferred shares are classified as equity if they are non-redeemable, or retractable only at the Corporation'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.

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation represents the vesting of share options less share options exercised.

Other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, and the share of other comprehensive income of the jointly controlled corporation.

Non-controlling interest represents the proportion of equity that is attributable to minority shareholders.

SHARE-BASED PAYMENTS

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees. Compensation expense is recognized as an increase to operating and administrative expenses in the statements of earnings over the period that the stock options vest, with a corresponding increase in share-based compensation reserves. When the stock options are exercised, the proceeds, together with the amount recorded in share-based compensation reserves, are added to the stated capital of the entity issuing the corresponding shares.

Lifeco follows the liability method of accounting for share-based awards issued by its subsidiaries Putnam and PanAgora Asset Management, Inc. Compensation expense is recognized as an increase to operating expenses in the statements of earnings and a liability is recognized on the balance sheets over the vesting period of the share-based awards. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating expense and is settled in cash when the shares are purchased from employees.

REPURCHASE AGREEMENTS

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco 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 assets are retained, Lifeco does not derecognize the assets. Such agreements are accounted for as investment financings.

DERIVATIVE FINANCIAL INSTRUMENTS

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

All derivatives are recorded at fair value on the 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 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 Corporation generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

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

Where a hedging relationship exists, the Corporation 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 balance sheets or to specific firm commitments or forecasted transactions. The Corporation 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.

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

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

Net investment hedges Foreign exchange forward contracts may be used to hedge net investment in foreign operations. Changes in the fair value of these hedges are recorded in other comprehensive income. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

EMBEDDED DERIVATIVES

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

FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

For the purpose of presenting 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 expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its foreign operations and a jointly controlled corporation are presented separately as a component of other comprehensive income. Unrealized gains and losses are recognized in earnings when there has been a disposal of a foreign operation or a jointly controlled corporation.

All other assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Realized and unrealized exchange gains and losses are included in net investment income and are not material to the financial statements of the Corporation.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain defined benefit pension plans as well as defined contribution pension plans for eligible employees and advisors.

The plans provide pension based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method pro-rated on service. Pension expense consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, and imputed interest on the accrued benefit obligation, less expected returns on plan assets, which are valued at market value. Past service costs are amortized on a straight-line basis over the average period until the benefits become vested. Vested past service costs are recognized immediately in pension expense. For the defined benefit plans, actuarial gains and losses are amortized into the statements of earnings using the straight-line method over the average remaining working life 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 per cent of the greater of the present value of the defined benefit obligation or the fair value of plan assets. The amortization charge is reassessed at the beginning of each year. The cost of pension benefits is charged to earnings using the projected benefit method pro-rated on services.

The Corporation and its subsidiaries also have unfunded supplementary pension plans for certain employees. Pension expense related to current services is charged to earnings in the period during which the services are rendered.

In addition, the Corporation and its subsidiaries provide certain post-employment healthcare, dental, and life insurance benefits to eligible retirees, employees and advisors. The current cost of post-employment health, dental and life benefits is charged to earnings using the projected unit credit method pro-rated on services.

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. Lifeco 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.

INCOME TAXES

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

Current income tax Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current income 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 liability simultaneously.

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

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

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

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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 Corporation is the lessee, are charged to net earnings over the period of use.

Where the Corporation is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

EARNINGS PER SHARE

Basic earnings per share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share, except that the weighted average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

FUTURE ACCOUNTING CHANGES

The Corporation continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Corporation's consolidated financial statements when they become effective.

EFFECTIVE FOR THE CORPORATION IN 2013

IAS 19—Employee Benefits Effective on January 1, 2013, the Corporation adopted the amended IAS 19, *Employee Benefits*. The amended IAS 19 includes requirements for the measurement, presentation and disclosure for defined benefit plans. Amendments include:

> The elimination of the deferral and amortization approach (corridor approach) for recognizing actuarial gains and losses in net earnings. Actuarial gains and losses will be recognized in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income will not be reclassified to net earnings in subsequent periods.

> The elimination of the concept of an expected return on assets (EROA). Amended IAS 19 requires the use of the discount rate in the place of EROA in the determination of the net interest component of the pension expense. This discount rate is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds.

> Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments will be recognized in net earnings in the period in which the plan amendments or curtailments occur, without regard to vesting.

In accordance with the transitional provisions in IAS 19, this change in IFRS will be applied retroactively and is anticipated to decrease equity by approximately $470 million at January 1, 2012 (decrease of $330 million in shareholders' equity and $140 million in non-controlling interests) with an additional decrease to equity by approximately $240 million at January 1, 2013 (decrease of $165 million in shareholders' equity and $75 million in non-controlling interests). Furthermore, the effect of applying this standard retroactively will decrease earnings before tax by approximately $12 million for the year ended December 31, 2012.

IFRS 10—Consolidated Financial Statements Effective for the Corporation on January 1, 2013, IFRS 10, *Consolidated Financial Statements* uses consolidation principles based on a revised definition of control. The definition of control is dependent on the power of the investor to direct the activities of the investee, the ability of the investor to derive variable returns from its holdings in the investee, and a direct link between the power to direct activities and receive benefits.

The IASB issued amendments to IFRS 10 and IFRS 12 in October 2012 that introduced an exception from consolidation for the controlled entities of investment entities. Lifeco continues to review the financial reporting of the segregated funds for the risk of policyholders presented within Lifeco's financial statements to determine whether it would be different than the current reporting under IFRS.

IFRS 11—Joint Arrangements Effective for the Corporation on January 1, 2013, IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard eliminates the option of using proportionate consolidation in accounting for interests in joint ventures, requiring an entity to use the equity method of accounting. The standard is not expected to have a significant impact on the Corporation's financial position or results of operations.

IFRS 12—Disclosure of Interest in Other Entities Effective for the Corporation on January 1, 2013, IFRS 12, *Disclosure of Interest in Other Entities* proposes new disclosure requirements for the interest an entity has in subsidiaries, joint arrangements, associates, and structured entities. The standard requires enhanced disclosure, including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented within the financial statements. The standard is expected to result in additional disclosures.

IFRS 13—Fair Value Measurement Effective for the Corporation on January 1, 2013, IFRS 13, *Fair Value Measurement* provides guidance to increase consistency and comparability in fair value measurements and related disclosures through a "fair value hierarchy". The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

This standard relates primarily to disclosure and will not impact the financial results of the Corporation.

IAS 1—Presentation of Financial Statements Effective for the Corporation on January 1, 2013, IAS 1, *Presentation of Financial Statements* includes requirements that other comprehensive income be classified by nature and grouped between those items that will be classified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified.

This revised standard relates only to presentation and will not impact the financial results of the Corporation.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 7—Financial Instruments: Disclosure Effective for the Corporation on January 1, 2013, the IASB issued amendments to IFRS 7 regarding disclosure of offsetting financial assets and financial liabilities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken near the end of a reporting period.

This revised standard relates only to disclosure and will not impact the financial results of the Corporation.

EFFECTIVE FOR THE CORPORATION SUBSEQUENT TO 2013

IFRS 4—Insurance Contracts The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under the Canadian Asset Liability Method (CALM) and may cause significant volatility in the results of Lifeco. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.

Since the release of the exposure draft, there have been discussions within the insurance industry and between accounting standards setters globally recommending significant changes to the 2010 exposure draft. At this time no new standard has been either re-exposed or released.

Lifeco will continue to measure insurance contract liabilities using the Canadian Asset Liability Method 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; Lifeco continues to actively monitor developments in this area.

IFRS 9—Financial Instruments Effective for the Corporation on January 1, 2015, IFRS 9, *Financial Instruments* requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables.

The new standard also requires:

- embedded derivatives to be assessed for classification together with their financial asset host;
- an expected loss impairment method be used for financial assets; and
- amendments to the criteria for hedge accounting and measuring effectiveness.

The full impact of IFRS 9 on the Corporation will be evaluated after the remaining stages of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*—impairment methodology, hedge accounting, and asset and liability offsetting—are finalized. The current timetable for adoption of IFRS 9, *Financial Instruments* is for the annual period beginning January 1, 2015; however, the Corporation continues to monitor this standard in conjunction with developments to IFRS 4.

IAS 32—Financial Instruments: Presentation Effective for the Corporation on January 1, 2014, IAS 32, *Financial Instruments: Presentation* clarifies the existing requirements for offsetting financial assets and financial liabilities.

The Corporation is evaluating the impact this standard will have on the presentation of its financial statements.

EXPOSURE DRAFTS NOT YET EFFECTIVE

IAS 17—Leases The IASB issued an exposure draft proposing a new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist.

The full impact of adoption of the proposed changes will be determined once the final leases standard is issued.

IAS 18—Revenue The IASB issued a second exposure draft in November 2011 which proposed a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. A company would recognize revenue when it transfers goods or services to a customer in the amount of the consideration the company expects to receive from the customer.

The full impact of adoption of the proposed changes will be determined once the final revenue recognition standard is issued, which is targeted for release in 2013.

NOTE 3 CASH AND CASH EQUIVALENTS

DECEMBER 31	2012	2011
Cash	1,152	912
Cash equivalents	2,161	2,473
Cash and cash equivalents	3,313	3,385

NOTE 4 INVESTMENTS

CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

	2012		2011	
DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Bonds				
Designated as fair value through profit or loss[1]	62,963	62,963	60,112	60,112
Classified as fair value through profit or loss[1]	2,113	2,113	1,853	1,853
Available for sale	7,377	7,377	7,050	7,050
Loans and receivables	10,934	12,438	9,744	10,785
	83,387	84,891	78,759	79,800
Mortgages and other loans				
Loans and receivables	22,548	23,787	21,226	22,514
Designated as fair value through profit or loss[1]	249	249	292	292
	22,797	24,036	21,518	22,806
Shares				
Designated as fair value through profit or loss[1]	5,971	5,971	5,502	5,502
Available for sale	825	825	900	900
	6,796	6,796	6,402	6,402
Investment properties	3,525	3,525	3,201	3,201
Loans to policyholders	7,082	7,082	7,162	7,162
	123,587	126,330	117,042	119,371

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

BONDS AND MORTGAGES

Carrying value of bonds and mortgages due over the current and non-current term are as follows:

	CARRYING VALUE			
	TERM TO MATURITY			
DECEMBER 31, 2012	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL
Bonds	8,351	16,899	57,744	82,994
Mortgage loans	2,057	10,069	10,401	22,527
	10,408	26,968	68,145	105,521

	CARRYING VALUE			
	TERM TO MATURITY			
DECEMBER 31, 2011	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL
Bonds	7,627	17,450	53,367	78,444
Mortgage loans	2,042	8,916	10,249	21,207
	9,669	26,366	63,616	99,651

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

NOTE 4 INVESTMENTS (CONTINUED)

IMPAIRED INVESTMENTS, ALLOWANCE FOR CREDIT LOSSES, INVESTMENTS WITH RESTRUCTURED TERMS

Carrying amount of impaired investments

DECEMBER 31	2012	2011
Impaired amounts by type		
Fair value through profit or loss	365	290
Available for sale	27	51
Loans and receivables	41	36
Total	433	377

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

	2012	2011
Balance, beginning of year	37	68
Net provision (recovery) for credit losses	(9)	(13)
Write-offs, net of recoveries	(5)	(15)
Other (including foreign exchange rate changes)	(1)	(3)
Balance, end of year	22	37

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

NET INVESTMENT INCOME

2012	BONDS	MORTGAGE AND OTHER LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income:						
Investment income earned	3,698	946	230	255	532	5,661
Net realized gains (losses) (available for sale)	124	–	2	–	–	126
Net realized gains (losses) (other classifications)	10	46	2	–	1	59
Net recovery (provision) for credit losses (loans and receivables)	1	8	–	–	–	9
Other income (expenses)	–	(12)	–	(63)	(69)	(144)
	3,833	988	234	192	464	5,711
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) (classified fair value through profit or loss)	22	5	–	–	2	29
Net realized/unrealized gains (losses) (designated fair value through profit or loss)	2,196	–	389	104	(68)	2,621
	2,218	5	389	104	(66)	2,650
Net investment income	6,051	993	623	296	398	8,361

NOTE 4 INVESTMENTS (CONTINUED)

2011	BONDS	MORTGAGE AND OTHER LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income:						
Investment income earned	3,780	940	190	254	396	5,560
Net realized gains (losses) (available for sale)	119	–	7	–	–	126
Net realized gains (losses) (other classifications)	11	33	–	–	–	44
Net recovery (provision) for credit losses (loans and receivables)	20	(7)	–	–	–	13
Other income (expenses)	–	(2)	–	(65)	(66)	(133)
	3,930	964	197	189	330	5,610
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) (classified fair value through profit or loss)	74	–	–	–	–	74
Net realized/unrealized gains (losses) (designated fair value through profit or loss)	4,166	(7)	(280)	143	58	4,080
	4,240	(7)	(280)	143	58	4,154
Net investment income	8,170	957	(83)	332	388	9,764

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 and other loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions. 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.

INVESTMENT PROPERTIES

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

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

TRANSFERRED FINANCIAL ASSETS

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

NOTE 5 FUNDS HELD BY CEDING INSURERS

Included in funds held by ceding insurers of $10,537 million at December 31, 2012 ($9,923 million at December 31, 2011) is an agreement with Standard Life Assurance Limited (Standard Life). During 2008, Canada Life International Re Limited (CLIRE), Lifeco'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 balance sheets. Income and expenses arising from the agreement are included in net investment income on the statements of earnings.

At December 31, 2012 CLIRE had amounts on deposit of $9,951 million ($9,411 million at December 31, 2011).

The details of the funds on deposit and related credit risk on the funds are as follows:

Carrying values and estimated fair values:

	2012		2011	
DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents	120	120	49	49
Bonds	9,655	9,655	9,182	9,182
Other assets	176	176	180	180
	9,951	9,951	9,411	9,411
Supporting:				
Reinsurance liabilities	9,406	9,406	9,082	9,082
Surplus	545	545	329	329
	9,951	9,951	9,411	9,411

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

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

NOTE 5 FUNDS HELD BY CEDING INSURERS (CONTINUED)

The following table provides details of the carrying value of bonds by asset quality:

BOND PORTFOLIO QUALITY DECEMBER 31	2012	2011
AAA	3,103	3,520
AA	2,183	1,819
A	3,539	3,116
BBB	507	468
BB and lower	323	259
Total bonds	9,655	9,182

NOTE 6 INVESTMENT IN JOINTLY CONTROLLED CORPORATION

As at December 31, 2012, Parjointco, 50% held by the Corporation, held a 55.6% equity interest in Pargesa (56.5% as at December 31, 2011).

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

Carrying value of the investment in a jointly controlled corporation is as follows:

	2012	2011
Carrying value, beginning of year	2,222	2,448
Share of earnings (losses)	134	(20)
Share of other comprehensive income (loss)	(100)	(222)
Dividends	(65)	–
Other	(42)	16
Carrying value, end of year	2,149	2,222

During 2012, Pargesa recorded an impairment charge on its investment in GDF Suez. The Corporation's net share of this charge was $48 million.

During 2011, Pargesa recorded an impairment charge on its investment in Lafarge SA. An impairment test was performed as Lafarge's share price has persistently been at a level significantly below its carrying value. In 2011, the test was renewed in a weakened economic environment, and led to determining a value in use below the existing carrying value. The impairment recorded results in a reduction of the carrying value of Lafarge. The Corporation's share of this charge was $133 million.

The fair value of the Corporation's indirect interest in Pargesa is approximately $2,300 million as at December 31, 2012. The carrying value of the investment in Pargesa, adjusted for investment revaluation reserve, is $1,700 million.

NOTE 7 OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

The carrying value of owner-occupied properties and capital assets and the changes in the carrying value of owner-occupied properties and capital assets are as follows:

	2012		2011	
DECEMBER 31	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS
Cost, beginning of year	577	846	521	802
Additions	33	93	52	77
Disposal	–	(32)	–	(16)
Change in foreign exchange rates	(3)	–	4	(17)
Cost, end of year	607	907	577	846
Accumulated amortization, beginning of year	(36)	(649)	(32)	(626)
Amortization	(7)	(52)	(4)	(52)
Disposal	–	24	–	11
Change in foreign exchange rates	–	(3)	–	18
Accumulated amortization, end of year	(43)	(680)	(36)	(649)
Carrying value, end of year	564	227	541	197

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

DECEMBER 31	2012	2011
Canada	589	536
United States	172	175
Europe	30	27
	791	738

NOTE 8 OTHER ASSETS

DECEMBER 31	2012	2011
Accounts receivable	1,285	1,095
Interest due and accrued	1,096	1,106
Income taxes receivable	204	181
Premiums in course of collection	484	422
Deferred acquisition costs	541	529
Trading account assets	313	207
Prepaid expenses	120	129
Accrued benefit asset [Note 24]	495	456
Other	830	528
	5,368	4,653

It is expected that $4,248 million of other assets will be realized within 12 months from the reporting date.

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

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

NOTE 9 GOODWILL AND INTANGIBLE ASSETS

GOODWILL

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

	2012			2011		
DECEMBER 31	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Balance, beginning of year	9,703	(917)	8,786	9,607	(890)	8,717
Change in foreign exchange rates	(31)	27	(4)	31	(27)	4
Other	(109)	–	(109)	65	–	65
Balance, end of year	9,563	(890)	8,673	9,703	(917)	8,786

INTANGIBLE ASSETS

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

INDEFINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2012	BRANDS AND TRADEMARKS	CUSTOMER CONTRACT-RELATED	SHAREHOLDER PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	726	2,321	354	285	740	4,426
Change in foreign exchange rates	(9)	(57)	–	–	–	(66)
Cost, end of year	717	2,264	354	285	740	4,360
Accumulated impairment, beginning of year	(94)	(825)	–	–	–	(919)
Change in foreign exchange rates	3	23	–	–	–	26
Accumulated impairment, end of year	(91)	(802)	–	–	–	(893)
Carrying value, end of year	626	1,462	354	285	740	3,467

DECEMBER 31, 2011	BRANDS AND TRADEMARKS	CUSTOMER CONTRACT-RELATED	SHAREHOLDER PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	714	2,264	354	285	740	4,357
Change in foreign exchange rates	12	57	–	–	–	69
Cost, end of year	726	2,321	354	285	740	4,426
Accumulated impairment, beginning of year	(91)	(801)	–	–	–	(892)
Change in foreign exchange rates	(3)	(24)	–	–	–	(27)
Accumulated impairment, end of year	(94)	(825)	–	–	–	(919)
Carrying value, end of year	632	1,496	354	285	740	3,507

NOTE 9 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

FINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2012	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost, beginning of year	571	100	107	25	545	1,551	2,899
Additions	–	–	3	–	105	212	320
Disposal/redemption	–	–	–	–	(19)	(103)	(122)
Change in foreign exchange rates	(7)	3	–	–	(3)	–	(7)
Other, including write-off of assets fully amortized	–	–	–	–	27	(212)	(185)
Cost, end of year	564	103	110	25	655	1,448	2,905
Accumulated amortization, beginning of year	(204)	(29)	(33)	(22)	(295)	(800)	(1,383)
Amortization	(31)	(5)	(8)	(3)	(72)	(223)	(342)
Disposal/redemption	–	–	–	–	15	59	74
Other, including write-off of assets fully amortized	–	–	–	–	–	212	212
Accumulated amortization, end of year	(235)	(34)	(41)	(25)	(352)	(752)	(1,439)
Carrying value, end of year	329	69	69	–	303	696	1,466

DECEMBER 31, 2011	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost, beginning of year	564	100	103	25	449	1,623	2,864
Additions	–	–	4	–	38	238	280
Disposal/redemption	–	–	–	–	(1)	(104)	(105)
Change in foreign exchange rates	7	–	–	–	5	–	12
Other, including write-off of assets fully amortized	–	–	–	–	54	(206)	(152)
Cost, end of year	571	100	107	25	545	1,551	2,899
Accumulated amortization, beginning of year	(169)	(24)	(26)	(17)	(240)	(829)	(1,305)
Amortization	(34)	(4)	(7)	(5)	(61)	(237)	(348)
Impairment	–	–	–	–	(4)	–	(4)
Disposal/redemption	–	–	–	–	–	60	60
Change in foreign exchange rates	(1)	(1)	–	–	(3)	–	(5)
Other, including write-off of assets fully amortized	–	–	–	–	13	206	219
Accumulated amortization, end of year	(204)	(29)	(33)	(22)	(295)	(800)	(1,383)
Carrying value, end of year	367	71	74	3	250	751	1,516

RECOVERABLE AMOUNT

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

For Lifeco, 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 Lifeco'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; it ranges between 0% and 3.0%, depending on the nature of the business.

For IGM, the valuation models used to assess fair value utilized assumptions that include levels of growth in assets under management from net sales and market pricing and margin changes, synergies achieved, discount rates, and observable data from comparable transactions.

NOTE 9 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The fair value less cost to sell was compared with the carrying amount of goodwill and indefinite life intangible assets and it was determined there was no impairment in the value of these assets.

ALLOCATION TO CASH GENERATING UNITS

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

			2012			2011
DECEMBER 31	GOODWILL	INTANGIBLES	TOTAL	GOODWILL	INTANGIBLES	TOTAL
LIFECO						
Canada						
Group	1,142	–	1,142	1,142	–	1,142
Individual insurance / wealth management	3,028	973	4,001	3,028	973	4,001
Europe						
Insurance and annuities	1,563	109	1,672	1,563	107	1,670
Reinsurance	1	–	1	1	–	1
United States						
Financial services	123	–	123	127	–	127
Asset management	–	1,360	1,360	–	1,402	1,402
IGM						
Investors Group	1,443	–	1,443	1,500	–	1,500
Mackenzie	1,250	1,003	2,253	1,302	1,003	2,305
Other and corporate	123	22	145	123	22	145
	8,673	3,467	12,140	8,786	3,507	12,293

NOTE 10 SEGREGATED FUNDS

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

DECEMBER 31	2012	2011
Cash and cash equivalents	4,837	5,334
Bonds	24,070	21,594
Mortgage loans	2,303	2,303
Shares	69,254	63,885
Investment properties	6,149	5,457
Accrued income	239	287
Other liabilities	(1,904)	(2,278)
	104,948	96,582

NOTE 10 SEGREGATED FUNDS (CONTINUED)

INVESTMENT AND INSURANCE CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEAR ENDED DECEMBER 31	2012	2011
Balance, beginning of year	96,582	94,827
Additions (deductions):		
Policyholder deposits	13,819	13,462
Net investment income	1,189	755
Net realized capital gains (losses) on investments	1,094	1,048
Net unrealized capital gains (losses) on investments	4,316	(3,539)
Unrealized gains (losses) due to changes in foreign exchange rates	(213)	887
Policyholder withdrawals	(11,831)	(10,876)
Net transfer from General Fund	(8)	18
	8,366	1,755
Balance, end of year	104,948	96,582

NOTE 11 INSURANCE AND INVESTMENT CONTRACT LIABILITIES

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

DECEMBER 31, 2012	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	119,919	2,064	117,855
Investment contract liabilities	739	–	739
	120,658	2,064	118,594

DECEMBER 31, 2011	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	114,730	2,061	112,669
Investment contract liabilities	782	–	782
	115,512	2,061	113,451

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

DECEMBER 31, 2012	GROSS LIABILITY	REINSURANCE ASSETS	NET
Participating			
Canada	27,851	(88)	27,939
United States	8,942	14	8,928
Europe	1,241	–	1,241
Non-participating			
Canada	27,283	746	26,537
United States	17,356	241	17,115
Europe	37,985	1,151	36,834
	120,658	2,064	118,594

NOTE 11 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

DECEMBER 31, 2011	GROSS LIABILITY	REINSURANCE ASSETS	NET
Participating			
Canada	26,470	(50)	26,520
United States	8,639	18	8,621
Europe	1,230	–	1,230
Non-participating			
Canada	27,099	919	26,180
United States	16,657	276	16,381
Europe	35,417	898	34,519
	115,512	2,061	113,451

The composition of the assets supporting liabilities and equity of Lifeco is as follows:

DECEMBER 31, 2012	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Carrying value						
Participating liabilities						
Canada	12,818	6,903	4,221	932	2,977	27,851
United States	4,307	188	–	–	4,447	8,942
Europe	874	40	162	19	146	1,241
Non-participating liabilities						
Canada	17,519	4,428	1,565	3	3,768	27,283
United States	14,280	2,464	–	–	612	17,356
Europe	22,420	2,827	127	2,173	10,438	37,985
Other	6,507	493	–	4	108,470	115,474
Total equity	3,811	532	1,023	394	11,826	17,586
Total carrying value	82,536	17,875	7,098	3,525	142,684	253,718
Fair value	84,040	19,067	7,136	3,525	142,684	256,452

DECEMBER 31, 2011	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Carrying value						
Participating liabilities						
Canada	11,862	6,686	3,864	507	3,551	26,470
United States	4,059	152	–	–	4,428	8,639
Europe	855	56	176	22	121	1,230
Non-participating liabilities						
Canada	16,674	4,738	1,329	20	4,338	27,099
United States	13,523	2,369	–	–	765	16,657
Europe	20,449	2,506	119	2,092	10,251	35,417
Other	6,563	484	–	6	100,099	107,152
Total equity	4,088	441	1,216	554	9,805	16,104
Total carrying value	78,073	17,432	6,704	3,201	133,358	238,768
Fair value	79,114	18,662	6,772	3,201	133,358	241,107

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

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

NOTE 11 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

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:

	PARTICIPATING			NON-PARTICIPATING			
DECEMBER 31, 2012	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	TOTAL NET
Balance, beginning of year	36,303	(32)	36,335	78,427	2,093	76,334	112,669
Impact of new business	72	–	72	4,664	326	4,338	4,410
Normal change in force	1,621	(6)	1,627	(528)	35	(563)	1,064
Management action and changes in assumptions	(260)	(34)	(226)	(380)	(306)	(74)	(300)
Business movement from/to external parties	–	–	–	(48)	(7)	(41)	(41)
Impact of foreign exchange rate changes	(262)	(2)	(260)	310	(3)	313	53
Impact of Crown amalgamation	529	–	529	(529)	–	(529)	–
Balance, end of year	38,003	(74)	38,077	81,916	2,138	79,778	117,855

	PARTICIPATING			NON-PARTICIPATING			
DECEMBER 31, 2011	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	TOTAL NET
Balance, beginning of year	34,398	25	34,373	73,007	2,508	70,499	104,872
Crown Ancillary reclassification	(89)	–	(89)	89	–	89	–
Impact of new business	133	–	133	3,088	(329)	3,417	3,550
Normal change in force	1,719	(14)	1,733	1,910	476	1,434	3,167
Management action and changes in assumptions	(139)	(45)	(94)	(806)	(583)	(223)	(317)
Impact of foreign exchange rate changes	281	2	279	1,139	21	1,118	1,397
Balance, end of year	36,303	(32)	36,335	78,427	2,093	76,334	112,669

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

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

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

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

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

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

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

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

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

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

NOTE 11 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

change in net insurance contract liabilities for annuities was a $47 million increase, including a $53 million increase in Canada, a $58 million decrease in Europe and a $52 million increase in the U.S.

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

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

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

Net participating insurance contract liabilities decreased by $94 million 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 million decrease), modelling refinements in Canada ($256 million decrease), improved Individual Life mortality ($256 million decrease, including $27 million from the Standards of Practice revision) and updated expenses and taxes ($15 million decrease), partially offset by lower investment returns ($1,952 million increase), and increased provisions for policyholder behaviour ($40 million increase).

CHANGES IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

DECEMBER 31	2012	2011
Balance, beginning of year	782	791
Normal change in-force business	(87)	(54)
Investment experience	51	35
Impact of foreign exchange rate changes	(7)	10
Balance, end of year	739	782

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

CANADIAN UNIVERSAL LIFE EMBEDDED DERIVATIVES

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

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 Lifeco'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 are used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

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

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

Investment returns The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 21).

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

Policy termination Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco 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 Lifeco's persistency assumption for these products as Lifeco's own experience is very limited.

Utilization of elective policy options There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco 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 Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholder earnings is reflected in the impact of changes in best estimate assumptions above.

RISK MANAGEMENT

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

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

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

	2012			2011		
	CHANGES IN ASSUMPTIONS	IMPACT ON LIFECO PROFIT OR LOSS	POWER FINANCIAL'S SHARE	CHANGES IN ASSUMPTIONS	IMPACT ON LIFECO PROFIT OR LOSS	POWER FINANCIAL'S SHARE
Mortality (increase)	2%	(208)	(147)	2%	(188)	(133)
Annuitant mortality (decrease)	2%	(274)	(194)	2%	(176)	(124)
Morbidity (adverse change)	5%	(188)	(133)	5%	(181)	(128)
Investment returns						
Parallel shift in yield curve						
Increase	1%	121	85	1%	123	87
Decrease	1%	(504)	(356)	1%	(511)	(361)
Change in equity markets						
Increase	10%	18	13	10%	21	15
Decrease	10%	(96)	(68)	10%	(57)	(40)
Change in best estimate returns for equities						
Increase	1%	342	242	1%	292	206
Decrease	1%	(376)	(266)	1%	(316)	(223)
Expenses (increase)	5%	(56)	(40)	5%	(55)	(39)
Policy termination (adverse change)	10%	(473)	(334)	10%	(435)	(307)

NOTE 11 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

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

	2012			2011		
DECEMBER 31	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Canada	55,134	658	54,476	53,569	869	52,700
United States	26,298	255	26,043	25,296	294	25,002
Europe	39,226	1,151	38,075	36,647	898	35,749
	120,658	2,064	118,594	115,512	2,061	113,451

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 Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco 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 Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

NOTE 12 OBLIGATION TO SECURITIZATION ENTITIES

IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM has retained these mortgages on its balance sheets and has recorded an offsetting liability for the net proceeds received as obligations to securitization entities which is carried at amortized cost.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $56 million at December 31, 2012.

Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

DECEMBER 31, 2012	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Programs	3,285	3,312	(27)
Bank-sponsored ABCP	1,354	1,389	(35)
Total	4,639	4,701	(62)
Fair value	4,685	4,787	(102)

The carrying value of obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 13 DEBENTURES AND DEBT INSTRUMENTS

DECEMBER 31	2012 CARRYING VALUE	2012 FAIR VALUE	2011 CARRYING VALUE	2011 FAIR VALUE
DEBT INSTRUMENTS				
GREAT-WEST LIFECO INC.				
Commercial paper and other short-term debt instruments with interest rates from 0.27% to 0.35% (0.20% to 0.39% in 2011)	97	97	100	100
Revolving credit facility with interest equal to LIBOR rate plus 1% or U.S. prime rate loan (US$200 million)	198	198	204	204
Term note due October 18, 2015, bearing an interest rate of LIBOR plus 0.75% (US$304 million), unsecured	301	301	304	308
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	2	2	3	3
TOTAL DEBT INSTRUMENTS	598	598	611	615
DEBENTURES				
POWER FINANCIAL CORPORATION				
6.90% debentures, due March 11, 2033, unsecured	250	324	250	295
GREAT-WEST LIFECO INC.				
6.14% debentures due March 21, 2018, unsecured	199	234	199	229
4.65% debentures due August 13, 2020, unsecured	498	557	497	522
6.40% subordinated debentures due December 11, 2028, unsecured	100	117	100	115
6.74% debentures due November 24, 2031, unsecured	191	256	190	237
6.67% debentures due March 21, 2033, unsecured	397	512	397	472
6.625% deferrable debentures due November 15, 2034, unsecured (US$175 million)	170	176	175	170
5.998% debentures due November 16, 2039, unsecured	342	431	343	383
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and, thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (US$300 million)	296	307	310	298
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	995	1,097	994	1,028
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	497	592	497	551
IGM FINANCIAL INC.				
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	176	150	175
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	466	375	457
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	151	125	148
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	194	150	189
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	220	175	213
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	190	150	185
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	232	200	220
TOTAL DEBENTURES	5,260	6,232	5,277	5,887
	5,858	6,830	5,888	6,502

On May 9, 2011, IGM repaid the $450 million 2001 Series 6.75% debentures which had matured.

The principal payments on debentures and debt instruments in each of the next five years is as follows:

2013	296
2014	1
2015	301
2016	–
2017	–
Thereafter	5,260

NOTE 14 CAPITAL TRUST SECURITIES

	2012		2011	
DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
GREAT-WEST LIFE CAPITAL TRUST				
5.995% capital trust securities due December 31, 2052, unsecured	–	–	350	363
CANADA LIFE CAPITAL TRUST				
6.679% capital trust securities due June 30, 2052, unsecured	–	–	300	307
7.529% capital trust securities due June 30, 2052, unsecured	150	216	150	197
	150	216	800	867
Acquisition-related fair value adjustment	14	–	15	–
Trust securities held by subsidiaries of Lifeco as investments	(45)	(45)	(44)	(44)
Trust securities held by Lifeco as investments	–	–	(238)	(246)
	119	171	533	577

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

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

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

Distributions and interest on the capital trust securities are classified as financing charges on the statements of earnings (see Note 23). The fair value for capital trust securities is determined by the bid-ask price.

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

NOTE 15 OTHER LIABILITIES

DECEMBER 31	2012	2011
Bank overdraft	448	437
Accounts payable	1,842	1,760
Dividends and interest payable	332	330
Income taxes payable	684	513
Repurchase agreements	225	250
Deferred income reserves	427	406
Deposits and certificates	163	151
Funds held under reinsurance contracts	335	169
Accrued benefit liability [Note 24]	920	867
Other	935	953
	6,311	5,836

It is expected that $4,205 million of other liabilities will be settled within 12 months from the reporting date.

NOTE 15 OTHER LIABILITIES (CONTINUED)

DEFERRED INCOME RESERVES

Changes in deferred income reserves are as follows:

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

DEPOSITS AND CERTIFICATES

Included in assets on the balance sheets are cash and cash equivalents, shares, loans, and accounts and other receivables amounting to $163 million ($151 million at December 31, 2011) related to deposits and certificates.

		TERM TO MATURITY				
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	DECEMBER 31, 2012 TOTAL	DECEMBER 31, 2011 TOTAL
Deposits	136	9	12	2	159	147
Certificates	–	–	1	3	4	4
	136	9	13	5	163	151

NOTE 16 INCOME TAXES

EFFECTIVE INCOME TAX RATE

The Corporation's effective income tax rate is derived as follows:

YEARS ENDED DECEMBER 31	2012	2011
	%	%
Combined basic Canadian federal and provincial tax rates	26.5	28.0
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.4)	(3.4)
Lower effective tax rates on income not subject to tax in Canada	(2.0)	(2.5)
Earnings of investment in jointly controlled corporation	(1.0)	0.2
Impact of rate changes on deferred income taxes	(0.1)	(0.2)
Loss consolidation transaction	–	(0.4)
Other	(1.9)	(2.1)
Effective income tax rate	16.1	19.6

As of January 1, 2012, the federal corporate tax rate decreased from 16.5% to 15.0%.

INCOME TAX EXPENSE

The components of income tax expense on continuing operations recognized in net earnings are:

YEARS ENDED DECEMBER 31	2012	2011
Current income taxes	603	519
Deferred income taxes	(40)	187
	563	706

NOTE 16 INCOME TAXES (CONTINUED)

DEFERRED INCOME TAXES

Deferred income taxes consist of the following taxable temporary differences on:

DECEMBER 31	2012	2011
Insurance and investment contract liabilities	(272)	(321)
Loss carry forwards	1,184	1,007
Investments	(839)	(788)
Deferred selling commissions	(186)	(197)
Intangible assets	77	162
Other	(7)	86
	(43)	(51)
Classified on the balance sheets as:		
Deferred income tax assets	1,170	1,207
Deferred income tax liabilities	(1,213)	(1,258)
	(43)	(51)

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

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

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

At December 31, 2012 Lifeco had tax loss carry forwards totalling $3,600 million ($3,013 million in 2011). Of this amount, $3,471 million expires between 2013 and 2032, while $129 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

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

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

As at December 31, 2012, the Corporation and its subsidiaries have non-capital losses of $288 million ($311 million in 2011) available to reduce future taxable income for which the benefits have not been recognized. These losses expire at various dates to 2032. In addition, the Corporation and its subsidiaries have capital loss carry forwards that can be used indefinitely to offset future capital gains of approximately $96 million ($96 million in 2011) for which the benefits have not been recognized.

NOTE 17 STATED CAPITAL

AUTHORIZED

Unlimited number of first preferred shares, issuable in series; of second preferred shares, issuable in series; and of common shares.

ISSUED AND OUTSTANDING

		2012		2011
DECEMBER 31	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
First Preferred Shares (perpetual)				
Series A[i]	4,000,000	100	4,000,000	100
Series D[ii]	6,000,000	150	6,000,000	150
Series E[iii]	8,000,000	200	8,000,000	200
Series F[iv]	6,000,000	150	6,000,000	150
Series H[v]	6,000,000	150	6,000,000	150
Series I[vi]	8,000,000	200	8,000,000	200
Series K[vii]	10,000,000	250	10,000,000	250
Series L[viii]	8,000,000	200	8,000,000	200
Series M[ix]	7,000,000	175	7,000,000	175
Series O[x]	6,000,000	150	6,000,000	150
Series P[xi]	11,200,000	280	11,200,000	280
Series R[xii]	10,000,000	250	–	–
		2,255		2,005
COMMON SHARES [xiii]	709,104,080	664	708,173,680	639
COMMON SHARES				
Balance, beginning of year	708,173,680	639	708,013,680	636
Issued under Stock Option Plan	930,400	25	160,000	3
Balance, end of year	709,104,080	664	708,173,680	639

[i] The Series A First Preferred Shares are entitled to an annual cumulative dividend at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable, at the Corporation's option, at $25.00 per share.

[ii] The 5.50% Non-Cumulative First Preferred Shares, Series D are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum. The Corporation may redeem for cash the Series D First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[iii] The 5.25% Non-Cumulative First Preferred Shares, Series E are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.3125 per share per annum. The Corporation may redeem for cash the Series E First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[iv] The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.475 per share per annum. The Corporation may redeem for cash the Series F First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[v] The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.4375 per share per annum. The Corporation may redeem for cash the Series H First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[vi] The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum. The Corporation may redeem for cash the Series I First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[vii] The 4.95% Non-Cumulative First Preferred Shares, Series K are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2375 per share per annum. The Corporation may redeem for cash the Series K First Preferred Shares in whole or in part, at the Corporation's option, at $25.50 per share if redeemed prior to October 31, 2013, $25.25 per share if redeemed thereafter and prior to October 31, 2014, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[viii] The 5.10% Non-Cumulative First Preferred Shares, Series L are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2750 per share per annum. The Corporation may redeem for cash the Series L First Preferred Shares in whole or in part, at the Corporation's option, at $25.75 per share if redeemed prior to October 31, 2013, $25.50 per share if redeemed thereafter and prior to October 31, 2014, $25.25 per share if redeemed thereafter and prior to October 31, 2015, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[ix] The 6.00% Non-Cumulative First Preferred Shares, Series M are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum. On January 31, 2014 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series M First Preferred shares in whole or in part, at the Corporation's option, at

NOTE 17 STATED CAPITAL (CONTINUED)

$25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series M First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series N, at the option of the holders on January 31, 2014 or on January 31 every five years thereafter.

[x] The 5.80% Non-Cumulative First Preferred Shares, Series O are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.45 per share per annum. The Corporation may redeem for cash the Series O First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2015, $25.75 per share if redeemed thereafter and prior to October 31, 2016, $25.50 per share if redeemed thereafter and prior to October 31, 2017, $25.25 per share if redeemed thereafter and prior to October 31, 2018, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[xi] The 4.40% Non-Cumulative First Preferred Shares, Series P are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.10 per share per annum. On January 31, 2016 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series P First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series P First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series Q, at the option of the holders on January 31, 2016 or on January 31 every five years thereafter.

[xii] In 2012, the Corporation issued 10,000,000 5.50% Non-Cumulative First Preferred Shares, Series R for cash proceeds of $250 million. The 5.50% Non-Cumulative First Preferred Shares, Series R are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum. The Corporation may redeem for cash the Series R First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to April 30, 2018, $25.75 per share if redeemed thereafter and prior to April 30, 2019, $25.50 per share if redeemed thereafter and prior to April 30, 2020, $25.25 per share if redeemed thereafter and prior to April 30, 2021 and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption. Share issue costs of $7 million in connection with the Series R First Preferred Shares were charged to retained earnings.

[xiii] During the year, 930,400 common shares (160,000 in 2011) were issued under the Corporation's Employee Stock Option Plan for a consideration of $20 million ($3 million in 2011).

For the year ended December 31, 2012, dividends declared on the Corporation's common shares amounted to $1.40 per share ($1.40 per share in 2011).

NOTE 18 SHARE-BASED COMPENSATION

DEFERRED SHARE UNIT PLAN

On October 1, 2000, the Corporation established a Deferred Share Unit Plan for the Directors of the Corporation to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this 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. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Common Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director who has elected to receive deferred share units will 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. A deferred share unit is payable, at the time a Director's membership on the Board is terminated or in the event of the death of a Director, by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2012, the value of the deferred share units outstanding was $13 million ($10 million in 2011). Alternatively, Directors may participate in the Directors Share Purchase Plan.

EMPLOYEE SHARE PURCHASE PROGRAM

Effective May 1, 2000, an Employee Share Purchase Program was implemented, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have the Corporation invest, on the employee's behalf, up to an equal amount. The amount paid on behalf of employees was $0.1 million in 2012 ($0.1 million in 2011).

STOCK OPTION PLAN

Compensation expense is recorded for options granted under the Corporation's and its subsidiaries' stock option plans based on the fair value of the options at the grant date, amortized over the vesting period.

During the year ended December 31, 2012, 668,579 options (777,503 options in 2011) were granted under the Corporation's Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2012	2011
Dividend yield	4.8%	4.9%
Expected volatility	18.7%	19.2%
Risk-free interest rate	1.7%	2.3%
Expected life (years)	9	9
Fair value per stock option ($/option)	$2.08	$2.47
Weighted-average exercise price ($/option)	$25.31	$26.54

NOTE 18 SHARE-BASED COMPENSATION (CONTINUED)

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over nine years which is reflective of the expected option life.

For the year ended December 31, 2012, compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $13 million ($10 million in 2011).

Under the Corporation's Employee Stock Option Plan, 16,491,200 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from date of grant and no later than five years from date of grant. Options recently granted, which are not fully vested, have the following vesting conditions: grants of 830,980 options in 2008 which vest equally over a period of five years beginning in 2009; grants of 19,039 options in 2010 which vest as follows: the first 50% three years from the date of grant, and the remaining 50% four years from the date of grant; a grant of 679,525 options in 2010 which vest equally over a period of five years beginning in 2011; grants of 743,080 options in 2011 which vest equally over a period of five years beginning in 2012; grants of 21,537 in 2011 options which vest as follows: the first 50% three years from the date of grant, and the remaining 50% four years from the date of grant; grants of 598,325 in 2012 options which vest equally over a period of five years beginning in 2013; grants of 70,254 in 2012 options which vest as follows: the first 50% three years from the date of grant, and the remaining 50% four years from the date of grant.

A summary of the status of the Corporation's Employee Stock Option Plan as at December 31, 2012 and 2011, and changes during the years ended on those dates is as follows:

	2012		2011	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
		$		$
Outstanding at beginning of year	9,097,618	27.85	8,480,115	27.77
Granted	668,579	25.31	777,503	26.54
Exercised	(930,400)	21.65	(160,000)	16.87
Outstanding at end of year	8,835,797	28.32	9,097,618	27.85
Options exercisable at end of year	6,958,267	28.73	7,267,535	27.82

The following table summarizes information about stock options outstanding at December 31, 2012:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
$		(YRS)	$		$
21.65	2,069,600	0.6	21.65	2,069,600	21.65
25.07–28.13	2,254,992	8.3	26.55	606,608	27.17
29.05–30.18	887,777	5.7	29.63	677,670	29.61
31.59–32.46	2,567,777	3.1	32.11	2,548,738	32.11
34.46–37.13	1,055,651	5.2	34.81	1,055,651	34.81
	8,835,797	4.4	28.32	6,958,267	28.73

EQUITY INCENTIVE PLAN OF PUTNAM

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

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

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

NOTE 19 NON-CONTROLLING INTERESTS

DECEMBER 31	2012	2011
Non-controlling interests include:		
Participating account surplus in subsidiaries	2,505	2,227
Preferred shareholders of subsidiaries	2,694	2,044
Common shareholders of subsidiaries	5,144	5,023
	10,343	9,294

YEARS ENDED DECEMBER 31	2012	2011
Earnings attributable to non-controlling interests include:		
Earnings attributable to common shareholders of subsidiaries	797	916
Dividends to preferred shareholders of subsidiaries	124	105
Earnings attributable to participating account surplus in subsidiaries	276	120
	1,197	1,141

NOTE 20 CAPITAL MANAGEMENT

As a holding company, Power Financial's objectives in managing its capital are to:

> provide sufficient financial flexibility to pursue its growth strategy and support its group companies and other investments.

> maintain an appropriate credit rating to achieve access to the capital markets at the lowest overall cost of capital.

> provide attractive long-term returns to shareholders of the Corporation.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new forms of capital.

The capital structure of the Corporation consists of preferred shares, debentures and equity composed of stated capital, retained earnings and non-controlling interests in the equity of subsidiaries of the Corporation. The Corporation utilizes perpetual preferred shares as a permanent and cost-effective source of capital. The Corporation considers itself to be a long-term investor and as such holds positions in long-term investments as well as cash and short-term investments for liquidity purposes.

The Corporation is not subject to externally imposed regulatory capital requirements.

The Corporation's major operating subsidiaries are subject to regulatory capital requirements along with capital standards set by rating agencies.

Lifeco's subsidiaries Great-West Life and Great-West Life & Annuity are subject to minimum regulatory capital requirements. Lifeco's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate:

> In Canada, the Office of the Superintendent of Financial Institutions 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). As at December 31, 2012, the MCCSR ratio for Great-West Life was 207%.

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

> In the United Kingdom, Canada Life UK 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 prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2012, Canada Life UK complied with the capital resource requirements in the United Kingdom.

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

IGM subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. IGM subsidiaries have complied with all regulatory capital requirements.

NOTE 21 RISK MANAGEMENT

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

The Corporation and its subsidiaries have also established policies, guidelines or 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 of the Corporation and the boards of directors of its subsidiaries review and approve all capital transactions undertaken by management.

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation and its subsidiaries will not be able to meet all cash outflow obligations as they come due.

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends to its common and preferred shareholders, are principally made up of dividends received from its subsidiaries and jointly controlled corporation, and income from investments, less operating expenses, financing charges and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends depends in particular upon receipt of sufficient funds from their own subsidiaries.

Power Financial seeks to maintain a sufficient level of liquidity to meet all its cash flow requirements. In addition, Power Financial and its parent, Power Corporation of Canada, jointly have a $100 million uncommitted line of credit with a Canadian chartered bank. Power Corporation and Power Financial never accessed the uncommitted line of credit in the past; however, any advances made by the bank under the uncommitted line would be at the bank's sole discretion.

Principal payments on debentures (other than those of Lifeco and IGM discussed below) of $250 million due after five years, represent the only significant contractual liquidity requirement of Power Financial.

Power Financial's liquidity position and its management of liquidity risk have not changed materially since December 31, 2011.

For Lifeco, the following policies and procedures are in place to manage liquidity risk:

> Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 70% (72% in 2011) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to market value adjustments.

> Management of Lifeco monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.

> Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or the capital markets. Lifeco maintains a $200 million committed line of credit with a Canadian chartered bank. As well, Putnam maintains a US$500 million revolving credit agreement with a consortium of banks and on October 18, 2012, Lifeco renewed a US$304 million Putnam non-revolving term loan facility, guaranteed by Lifeco, for three years.

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

	PAYMENTS DUE BY PERIOD						
DECEMBER 31, 2012	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	AFTER 5 YEARS	TOTAL
Debentures and debt instruments	296	1	301	–	–	3,714	4,312
Capital trust securities[1]	–	–	–	–	–	150	150
Purchase obligations	58	13	10	2	–	–	83
Pension contributions	133	–	–	–	–	–	133
	487	14	311	2	–	3,864	4,678

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

IGM's liquidity management practices include: controls over liquidity management processes; stress testing of various operating scenarios; and oversight over liquidity management by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of commissions paid on the sale of mutual funds. Commissions on the sale of mutual funds continue to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are sold or securitized to:

> Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;

> third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts;

> institutional investors through private placements.

Certain subsidiaries of IGM are approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and approved sellers into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides IGM with additional funding sources for residential mortgages. IGM's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change. A condition of the NHA MBS and CMB Programs is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions that are subject to change.

NOTE 21 RISK MANAGEMENT (CONTINUED)

IGM's contractual obligations were as follows:

DECEMBER 31, 2012	DEMAND	LESS THAN 1 YEAR	1–5 YEARS	AFTER 5 YEARS	TOTAL
Repurchase agreements	–	225	–	–	225
Derivative financial instruments	–	23	45	3	71
Deposits and certificates	136	9	13	5	163
Obligations to securitization entities	–	789	3,877	35	4,701
Long-term debt	–	–	–	1,325	1,325
Operation leases	–	53	152	79	284
Total contractual obligations	136	1,099	4,087	1,447	6,769

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's operating lines of credit. IGM's operating lines of credit with various Schedule I Canadian chartered banks totalled $525 million as at December 31, 2012, compared to $325 million as at December 31, 2011. On October 26, 2012, IGM entered into an additional $200 million committed line of credit to provide financing for IGM's mortgage operations. The operating lines of credit as at December 31, 2012 consisted of committed lines of $350 million ($150 million in 2011) and uncommitted lines of $175 million ($175 million in 2011). IGM has accessed its uncommitted operating lines of credit in the past; however, any advances made by the banks under the uncommitted operating lines are at the banks' sole discretion. As at December 31, 2012 and 2011, IGM was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

IGM accessed capital markets most recently in December 2010; IGM's ability to access capital markets to raise funds in future is dependent on market conditions.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2011.

CREDIT RISK

Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its obligations.

For Power Financial, cash and cash equivalents, fixed income securities, and derivatives are subject to credit risk. The Corporation continuously monitors its credit risk.

Cash and cash equivalents amounting to $359 million and fixed income securities amounting to $625 million consist primarily of highly liquid temporary deposits with Canadian chartered banks as well as bankers' acceptances and short-term securities guaranteed by the Canadian government. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Corporation mitigates credit risk on these financial instruments by adhering to its Investment Policy which outlines credit risk parameters and concentration limits.

Derivatives or derivatives not designated as hedges continue to be utilized on a basis consistent with the risk management policies of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter traded with counterparties that are highly rated financial institutions. The exposure to credit risk of these derivatives is limited to their fair values which were nil at December 31, 2012.

For Lifeco, the following policies and procedures are in place to manage credit 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 of Lifeco or the investment committee of the board of directors of Lifeco.
- 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.
- Lifeco 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 of Lifeco. Management of Lifeco continuously monitors and performs an assessment of creditworthiness of reinsurers.

Maximum Exposure to Credit Risk for Lifeco The following table summarizes Lifeco'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.

NOTE 21 RISK MANAGEMENT (CONTINUED)

DECEMBER 31	2012	2011
Cash and cash equivalents	1,895	2,056
Bonds		
Fair value through profit or loss	64,850	61,709
Available for sale	6,752	6,620
Loans and receivables	10,934	9,744
Mortgage loans	17,875	17,432
Loans to policyholders	7,082	7,162
Funds held by ceding insurers[1]	10,537	9,923
Reinsurance assets	2,064	2,061
Interest due and accrued	1,098	1,108
Accounts receivable	977	813
Premiums in course of collection	484	422
Trading account assets	313	207
Other financial assets[2]	973	685
Derivative assets	997	968
Total balance sheet maximum credit exposure	126,831	120,910

[1] Includes $9,951 million ($9,411 million at December 31, 2011) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 5).

[2] Includes items such as current income taxes receivable and miscellaneous other assets of Lifeco.

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 of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has $25 million of collateral received in 2012 ($21 million at December 31, 2011) relating to derivative assets.

Concentration of Credit Risk for Lifeco 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 of Lifeco by industry sector and geographic distribution:

DECEMBER 31, 2012	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	4,873	3	43	4,919
Provincial, state and municipal governments	6,454	1,881	61	8,396
U.S. Treasury and other U.S. agencies	305	3,421	976	4,702
Other foreign governments	151	29	8,044	8,224
Government-related	1,584	–	1,205	2,789
Supranationals	453	11	289	753
Asset-backed securities	2,587	3,117	830	6,534
Residential mortgage-backed securities	16	452	165	633
Banks	2,140	359	2,317	4,816
Other financial institutions	801	1,578	1,964	4,343
Basic materials	252	724	231	1,207
Communications	499	181	553	1,233
Consumer products	1,903	1,975	1,867	5,745
Industrial products/services	873	984	323	2,180
Natural resources	1,100	665	565	2,330
Real estate	850	–	1,739	2,589
Transportation	1,747	696	598	3,041
Utilities	4,257	3,317	3,342	10,916
Miscellaneous	2,317	856	312	3,485
Total long-term bonds	33,162	20,249	25,424	78,835
Short-term bonds	2,388	358	955	3,701
	35,550	20,607	26,379	82,536

NOTE 21 RISK MANAGEMENT (CONTINUED)

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

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

DECEMBER 31, 2012	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,676	3,250	6,982	11,908
United States	–	921	2,139	3,060
Europe	–	187	2,720	2,907
	1,676	4,358	11,841	17,875

DECEMBER 31, 2011	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,591	3,407	7,022	12,020
United States	–	811	1,999	2,810
Europe	79	108	2,415	2,602
	1,670	4,326	11,436	17,432

Asset Quality

BOND PORTFOLIO QUALITY DECEMBER 31	2012	2011
AAA	29,302	29,612
AA	13,463	12,525
A	23,767	22,435
BBB	14,662	12,399
BB and lower	1,342	1,102
Total	82,536	78,073

NOTE 21 RISK MANAGEMENT (CONTINUED)

DERIVATIVE PORTFOLIO QUALITY DECEMBER 31	2012	2011
Over-the-counter contracts (counterparty ratings):		
AAA	9	12
AA	106	361
A	882	595
Total	997	968

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

DECEMBER 31	2012	2011
Less than 30 days	12	3
30–90 days	–	1
Greater than 90 days	4	1
Total	16	5

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

DECEMBER 31	2012	2011
Participating	892	852
Non-participating	1,667	1,648
	2,559	2,500

For IGM, cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. IGM monitors its credit risk management practices continuously to evaluate their effectiveness.

With respect to IGM, at December 31, 2012, cash and cash equivalents of $1,059 million ($1,052 million in 2011) consisted of cash balances of $101 million ($97 million in 2011) on deposit with Canadian chartered banks and cash equivalents of $958 million ($955 million in 2011). Cash equivalents are composed of Government of Canada treasury bills totalling $233 million ($521 million in 2011), provincial government and government-guaranteed commercial paper of $473 million ($340 million in 2011) and bankers' acceptances issued by Canadian chartered banks of $253 million ($94 million in 2011). IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. IGM manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fair value through profit or loss securities include Canada Mortgage Bonds with a fair value of $226 million ($227 million in 2011). The fair value represents the maximum exposure to credit risk of IGM at December 31, 2012.

IGM regularly reviews the credit quality of the mortgage portfolios related to IGM's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at December 31, 2012, mortgages totalled $4.9 billion ($4.1 billion in 2011) and consisted of residential mortgages:

> Sold to securitization programs which are classified as loans and receivables and totalled $4.6 billion compared to $3.8 billion at December 31, 2011. An offsetting liability, obligations to securitization entities, has been recorded and totalled $4.7 billion at December 31, 2012, compared to $3.8 billion at December 31, 2011.

> Related to IGM's mortgage banking operations which are classified as held for trading and totalled $249 million, compared to $292 million at December 31, 2011. These loans are held by IGM pending sale or securitization.

> Related to IGM's intermediary operations which are classified as loans and receivables and totalled $35 million at December 31, 2012, compared to $31 million at December 31, 2011.

As at December 31, 2012, the mortgage portfolios related to IGM's intermediary operations were geographically diverse, 100% residential (100% in 2011) and 86.2% insured (99.4% in 2011). As at December 31, 2012, impaired mortgages over 90 days were nil, unchanged from December 31, 2011. Uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2011. The characteristics of the mortgage portfolios have not changed significantly during 2012.

IGM purchases portfolio insurance from CMHC on newly funded qualifying conventional mortgages. Under the NHA MBS and CMB Programs, it is a requirement that securitized mortgages be insured against default by an approved insurer, and IGM has also insured substantially all loans securitized through ABCP programs. At December 31, 2012, 88.3% of the securitized portfolio and the residential mortgages classified as held for trading were insured, compared to 93.0% at December 31, 2011. As at December 31, 2012, impaired mortgages on these portfolios were $1 million, unchanged from December 31, 2011. Uninsured non-performing mortgages over 90 days on these portfolios were $1 million at December 31, 2012, compared to nil at December 31, 2011.

NOTE 21 RISK MANAGEMENT (CONTINUED)

IGM retains certain elements of credit risk on securitized loans. At December 31, 2012, 90.2% of securitized loans were insured against credit losses compared to 96.2% at December 31, 2011. IGM's credit risk on its securitization activities is limited to retained interest. The fair value of IGM's retained interests in securitized mortgages was $69 million at December 31, 2012, compared to $24 million at December 31, 2011. Retained interests include:

> *Cash reserve accounts and rights to future net interest income*—which were $24 million and $102 million, respectively, at December 31, 2012. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

  The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of $55 million ($45 million in 2011) is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as previously discussed, and IGM's credit risk on insured loans is to the insurer.

  Rights to future net interest income under the NHA MBS and CMB Programs totalled $70 million ($56 million in 2011). Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the programs. Outstanding mortgages securitized under these programs are $3.3 billion ($2.7 billion in 2011).

> *Fair value of principal reinvestment account swaps*—had a negative fair value of $56 million at December 31, 2012 ($77 million in 2011) and is reflected on the balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby IGM pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was $932 million ($556 million in 2011) at December 31, 2012.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2011.

IGM utilizes over-the-counter derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements. To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by IGM are between IGM and the Canadian Housing Trust. IGM receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. IGM also enters into offsetting interest rate swaps with the same bank counterparties to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled $27 million at December 31, 2012 ($26 million in 2011) and the outstanding notional amount was $5.7 billion ($4.4 billion in 2011). Certain of these swaps relate to securitized mortgages that have been recorded on IGM's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of $3.3 billion ($2.7 billion in 2011) and having a negative fair value of $29 million ($33 million in 2011), are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of $2.4 billion ($1.7 billion in 2011) and having a fair value of $3 million ($7 million in 2011), are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $63 million at December 31, 2012, compared to $87 million at December 31, 2011.

IGM utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled $5 million ($23 million in 2011) on an outstanding notional amount of $435 million at December 31, 2012 ($1.0 billion in 2011). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $0.2 million at December 31, 2012, compared to $0.6 million at December 31, 2011.

IGM also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The negative fair value of these interest rate swaps totalled $5 million ($7 million in 2011) on an outstanding notional amount of $200 million at December 31, 2012 ($200 million in 2011). The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, was nil at December 31, 2012, unchanged from December 31, 2011.

IGM enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by IGM as well as total return swaps and forward agreements on IGM's common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was $0.1 million on an outstanding notional amount of $125 million at December 31, 2012, compared to a fair value of nil on an outstanding notional amount of $76 million at December 31, 2011. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was $2 million at December 31, 2012, compared to $1 million as at December 31, 2011.

The aggregate credit risk exposure related to derivatives that are in a gain position of $65 million ($89 million in 2011) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was nil at December 31, 2012 ($0.3 million in 2011). Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2012. Management of credit risk at IGM has not changed materially since December 31, 2011.

MARKET RISK

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

Caution related to risk sensitivities The consolidated financial statements of the Corporation include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices 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 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, the Corporation cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

Currency risk Currency risk relates to the Corporation, its subsidiaries and its jointly controlled corporation operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc.

Power Financial's financial assets are essentially cash and cash equivalents and fixed income securities. In managing its own cash and cash equivalents, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2012, essentially all of Power Financial's cash and cash equivalents were denominated in Canadian dollars or in foreign currencies with currency hedges in place.

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

- Lifeco 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.

IGM's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

Interest rate risk Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

Power Financial's financial instruments are essentially cash and cash equivalents, fixed income securities, and long-term debt that do not have significant exposure to interest rate risk.

For Lifeco, the following policies and procedures are in place to mitigate exposure to interest rate risk:

- Lifeco 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), Lifeco 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 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 risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

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

NOTE 21 RISK MANAGEMENT (CONTINUED)

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

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

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

> The effect of an immediate 1% parallel increase in the yield curve would be to decrease these insurance and investment contract liabilities by approximately $181 million, causing an increase in net earnings of Lifeco of approximately $121 million (Power Financial's share—$85 million).

> The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately $715 million, causing a decrease in net earnings of Lifeco of approximately $504 million (Power Financial's share—$356 million).

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

IGM is exposed to interest rate risk on its loan portfolio, fixed income securities, Canada Mortgage Bonds and on certain of the derivative financial instruments used in IGM's mortgage banking and intermediary operations.

The objective of IGM's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2012, the total gap between deposit assets and liabilities was within IGM's trust subsidiaries' stated guidelines.

IGM utilizes interest rate swaps with Canadian Schedule I chartered bank counterparties in order to reduce the impact of fluctuating interest rates on its mortgage banking operations, as follows:

> IGM has funded fixed rate mortgages with ABCP as part of the securitization transactions with bank-sponsored securitization trusts. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, IGM remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptance rates that it receives on its hedges.

> IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages decline. As previously discussed, as part of the CMB Program, IGM also is entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. IGM hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.

> IGM is exposed to the impact that changes in interest rates may have on the value of its investments in Canada Mortgage Bonds. IGM enters into interest rate swaps with Canadian Schedule I chartered bank counterparties to hedge interest rate risk on these bonds.

> IGM is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by IGM. IGM may enter into interest rate swaps to hedge this risk.

As at December 31, 2012, the impact to annual net earnings of IGM of a 100-basis-point change in interest rates would have been approximately $5 million (Power Financial's share—$3 million). IGM's exposure to and management of interest rate risk has not changed materially since December 31, 2011.

Equity price risk Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate equity price risk, the Corporation and its subsidiaries have investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Power Financial's financial instruments are essentially cash and cash equivalents, fixed income securities, and long-term debt that do not have exposure to equity price risk.

Pargesa indirectly holds substantial investments classified as available for sale, therefore unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

For Lifeco, the risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $22 million, causing an increase in net earnings of Lifeco of approximately $18 million (Power Financial's share—$13 million). A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $128 million, causing a decrease in net earnings of Lifeco of approximately $96 million (Power Financial's share—$68 million).

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $443 million, causing an increase in net earnings of Lifeco of approximately $342 million (Power Financial's share—$242 million). A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $492 million, causing a decrease in net earnings of Lifeco of approximately $376 million (Power Financial's share—$266 million).

NOTE 21 RISK MANAGEMENT (CONTINUED)

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

DECEMBER 31, 2012		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	24,192	–	29	181	181
United States	7,272	–	–	59	59
Europe	3,665	552	40	71	624
Total	35,129	552	69	311	864

DECEMBER 31, 2011		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	22,837	–	39	301	301
United States	7,041	1	–	79	80
Europe	3,232	641	124	174	817
Total	33,110	642	163	554	1,198

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

IGM is exposed to equity price risk on its proprietary investment funds which are classified as available-for-sale securities and its equity securities which are classified as fair value through profit or loss. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income until they are realized or until management of IGM determines there is objective evidence of impairment in value, at which time they are recorded in the statements of earnings.

IGM sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. IGM hedges this risk through the use of forward agreements and total return swaps.

NOTE 22 OPERATING AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31	2012	2011
Salaries and other employee benefits	2,178	2,019
Amortization, depreciation and impairment	178	171
Premium taxes	293	264
Other[1]	1,047	552
	3,696	3,006

[1] Other reflects adjustment from Lifeco for the court decision on November 3, 2011 that any monies to be reallocated to the participating accounts will be dealt with in accordance with the participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members (refer to Note 29).

NOTE 23 FINANCING CHARGES

YEARS ENDED DECEMBER 31	2012	2011
Interest on debentures and debt instruments	341	351
Net interest on capital trust securities	27	33
Other	27	25
	395	409

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors. The Corporation and its subsidiaries provide post-employment health, dental and life insurance benefits to eligible retirees and advisors.

Effective July 1, 2012, the defined benefit pension plan of IGM was closed and will only accept members hired prior to July 1, 2012. For all eligible employees hired after July 1, 2012, IGM introduced a registered defined contribution pension plan.

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

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

PLAN ASSETS, BENEFIT OBLIGATIONS AND FUNDED STATUS

	2012		2011	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	3,359	–	3,363	–
Expected return on plan assets	191	–	208	–
Employee contributions	20	–	20	–
Employer contributions	102	19	101	18
Actuarial gains (losses)	82	–	(153)	–
Benefits paid	(185)	(19)	(193)	(18)
Foreign exchange and other	(22)	–	13	–
Fair value of plan assets, end of year	3,547	–	3,359	–
CHANGE IN DEFINED BENEFIT OBLIGATIONS				
Defined benefit obligation, beginning of year	3,868	449	3,548	442
Employer current service cost	89	3	77	3
Employee contributions	20	–	20	–
Interest on defined obligations	194	22	194	24
Actuarial (gains) losses	428	15	197	(2)
Benefits paid	(185)	(19)	(193)	(18)
Past service cost	1	–	6	–
Foreign exchange and other	(26)	–	19	–
Defined benefit obligation, end of year	4,389	470	3,868	449
FUNDED STATUS				
Fund surplus (deficit)	(842)	(470)	(509)	(449)
Unamortized past service costs	5	(25)	5	(33)
Unamortized net actuarial losses	890	58	599	47
Unrecognized amount due to limit on asset	(41)	–	(71)	–
Accrued benefit asset (liability)	12	(437)	24	(435)

The aggregate accrued benefit obligations of plan assets are as follows:

YEAR ENDED DECEMBER 31	2012	2011
Wholly or partly funded plans	3,975	3,491
Wholly unfunded plans	414	377

The Corporation and its subsidiaries expect to contribute $137 million to their funded and unfunded defined benefit pension and other post-employment benefit plans in 2013.

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	2012			2011		
DECEMBER 31	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL
Accrued benefit asset [Note 8]	495	–	495	456	–	456
Accrued benefit liability [Note 15]	(483)	(437)	(920)	(432)	(435)	(867)
Accrued benefit asset (liability)	12	(437)	(425)	24	(435)	(411)

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	2012		2011	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Amounts arising from events in the period				
Defined benefit current service cost	109	3	97	3
Employee contributions	(20)	–	(20)	–
	89	3	77	3
Past service cost recognized	2	(8)	3	(8)
Interest on defined benefit obligations	194	22	194	24
Actuarial (gain) loss recognized	54	4	–	1
Expected return on plan assets	(191)	–	(208)	–
Amount recognized due to limit on asset	(30)	–	8	–
Defined contribution current service cost	27	–	29	–
	145	21	103	20

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS—DEFINED BENEFIT PENSION PLANS

	2012	2011
	%	%
Equity securities	52	47
Debt securities	38	41
All other assets	10	12
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. With respect to Lifeco, plan assets include investments in segregated funds managed by subsidiaries of Lifeco of $1,523 million ($1,430 million in 2011). Plan assets do not include any property occupied or other assets used by Lifeco.

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

SIGNIFICANT ASSUMPTIONS

	DEFINED BENEFIT PENSION PLANS		OTHER POST-EMPLOYMENT BENEFITS	
%	2012	2011	2012	2011
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT COST				
Discount rate	5.1	5.5	5.1	5.5
Expected long-term rate of return on plan assets	5.8	6.2	–	–
Rate of compensation increase	3.6	3.7	–	–
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFIT OBLIGATION				
Discount rate	4.4	5.1	4.2	5.1
Rate of compensation increase	3.2	3.6	–	–
WEIGHTED AVERAGE HEALTHCARE TREND RATES				
Initial healthcare trend rate			6.5	6.7
Ultimate healthcare trend rate			4.5	4.5
Year ultimate trend rate is reached			2024	2024

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 to 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. In 2012, the actual return on plan assets was $273 million ($55 million in 2011).

The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The mortality assumptions applied by the Corporation and its subsidiaries 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.

IMPACT OF CHANGES TO ASSUMED HEALTHCARE RATES — OTHER POST-EMPLOYMENT BENEFITS

	IMPACT ON END-OF-YEAR ACCRUED POST-EMPLOYMENT BENEFIT OBLIGATION		IMPACT ON POST-EMPLOYMENT BENEFIT SERVICE AND INTEREST COST	
	2012	2011	2012	2011
1% increase in assumed healthcare cost trend rate	44	46	2	2
1% decrease in assumed healthcare cost trend rate	(37)	(38)	(2)	(2)

SUMMARIZED PLAN INFORMATION

	DEFINED BENEFIT PENSION PLANS		OTHER POST-EMPLOYMENT BENEFITS	
	2012	2011	2012	2011
Defined benefit obligation	(4,389)	(3,868)	(470)	(449)
Fair value of plan assets	3,547	3,359	–	–
Funded status of plan (deficit)	(842)	(509)	(470)	(449)
Experience adjustment on plan liabilities	(428)	(197)	(15)	2
Experience adjustment on plan assets	82	(153)	–	–

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter traded with counterparties that are credit-worthy financial intermediaries.

The following table summarizes the portfolio of derivative financial instruments of the Corporation and its subsidiaries at December 31:

	NOTIONAL AMOUNT					
2012	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Futures–long	9	–	–	9	–	–
Futures–short	71	–	–	71	–	–
Swaps	1,844	2,613	1,348	5,805	410	318
Options purchased	257	513	87	857	46	46
	2,181	3,126	1,435	6,742	456	364
Foreign exchange contracts						
Forward contracts	300	–	–	300	1	–
Cross-currency swaps	205	2,001	4,772	6,978	565	290
	505	2,001	4,772	7,278	566	290
Other derivative contracts						
Equity contracts	900	4	–	904	8	(5)
Futures–long	7	–	–	7	–	–
Futures–short	224	–	–	224	–	(4)
	1,131	4	–	1,135	8	(9)
	3,817	5,131	6,207	15,155	1,030	645
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	30	30	14	13
Foreign exchange contracts						
Cross-currency swaps	3	1,018	500	1,521	16	(10)
	3	1,018	530	1,551	30	3
FAIR VALUE HEDGES						
Interest rate contracts						
Swaps	–	58	124	182	–	(1)
	–	58	124	182	–	(1)
	3,820	6,207	6,861	16,888	1,060	647

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

2011	NOTIONAL AMOUNT 1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Futures–long	55	–	–	55	–	–
Futures–short	5	–	–	5	–	–
Swaps	1,021	2,940	1,495	5,456	434	294
Options purchased	233	760	114	1,107	54	53
	1,314	3,700	1,609	6,623	488	347
Foreign exchange contracts						
Forward contracts	224	–	–	224	–	(1)
Cross-currency swaps	43	1,540	4,662	6,245	551	314
	267	1,540	4,662	6,469	551	313
Other derivative contracts						
Equity contracts	40	18	–	58	–	(16)
Futures–long	7	–	–	7	–	–
Futures–short	146	2	–	148	–	(1)
	193	20	–	213	–	(17)
	1,774	5,260	6,271	13,305	1,039	643
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	31	31	11	11
Foreign exchange contracts						
Cross-currency swaps	–	10	1,500	1,510	6	(23)
	–	10	1,531	1,541	17	(12)
FAIR VALUE HEDGES						
Interest rate contracts						
Swaps	–	10	92	102	–	(2)
	–	10	92	102	–	(2)
	1,774	5,280	7,894	14,948	1,056	629

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

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 and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Changes in fair value are recorded in net investment income in the statements of earnings.

Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

FOREIGN EXCHANGE CONTRACTS

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

OTHER DERIVATIVE CONTRACTS

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

IGM also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating expenses in the statements of earnings for those instruments not designated as hedges.

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2012		2011	
DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents	3,313	3,313	3,385	3,385
Investments (excluding investment properties)	120,062	122,805	113,841	116,170
Funds held by ceding insurers	10,537	10,537	9,923	9,923
Derivative financial instruments	1,060	1,060	1,056	1,056
Other financial assets	4,212	4,212	3,539	3,539
Total financial assets	139,184	141,927	131,744	134,073
LIABILITIES				
Obligation to securitization entities	4,701	4,787	3,827	3,930
Debentures and debt instruments	5,858	6,830	5,888	6,502
Capital trust securities	119	171	533	577
Derivative financial instruments	413	413	427	427
Other financial liabilities	4,923	4,925	4,509	4,510
Total financial liabilities	16,014	17,126	15,184	15,946

Fair value is determined using the following methods and assumptions:

> The fair value of short-term financial instruments approximates carrying value due to their short-term maturities. These include cash and cash equivalents, dividends, interest and accounts receivables, income tax receivable, premiums in course of collection, accounts payable, repurchase agreements, dividends payable, interest payable and income tax payable.

> Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. For mortgage and other loans, bonds, loans and other receivables, the fair value is determined by discounting the expected future cash flows at market interest rates for loans with similar credit risks and maturities (refer to Note 2).

> Deposits and certificates (included in other financial liabilities) are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

> Obligations to securitization entities are valued by discounting the expected future cash flows by prevailing market yields for securities issued by these securitization entities having like maturities and characteristics.

> Debentures and debt instruments are determined by reference to current market prices for debt with similar terms, risks and maturities.

> Derivative financial instruments' fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

In accordance with IFRS 7, *Financial Instruments—Disclosures*, the Corporation'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 Corporation has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions. Level 1 assets also include liquid, exchange-traded equity securities, liquid open-end investment fund units, and investments in Government of Canada Bonds and Canada Mortgage Bonds in instances where there are quoted prices available from active markets.

> 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 rate and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities and most over-the-counter derivatives.

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

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents information about the Corporation's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and December 31, 2011:

DECEMBER 31, 2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Shares				
Available for sale	145	5	1	151
Fair value through profit or loss	5,952	7	12	5,971
Bonds				
Available for sale	–	7,350	27	7,377
Fair value through profit or loss	225	64,577	274	65,076
Mortgage and other loans				
Fair value through profit or loss	–	249	–	249
Derivatives	–	1,060	–	1,060
	6,322	73,248	314	79,884
LIABILITIES				
Derivatives	4	353	56	413
Other liabilities	–	–	21	21
	4	353	77	434

DECEMBER 31, 2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Shares				
Available for sale	132	7	1	140
Fair value through profit or loss	5,485	3	14	5,502
Bonds				
Available for sale	–	7,010	40	7,050
Fair value through profit or loss	227	61,406	332	61,965
Mortgage and other loans				
Fair value through profit or loss	–	292	–	292
Derivatives	–	1,056	–	1,056
	5,844	69,774	387	76,005
LIABILITIES				
Derivatives	–	350	77	427
Other liabilities	–	–	26	26
	–	350	103	453

NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation has utilized Level 3 inputs to determine fair value for the years ended December 31, 2012 and 2011.

	SHARES		BONDS				
DECEMBER 31, 2012	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	TOTAL
Balance, beginning of year	1	14	40	332	(77)	(26)	284
Total gains (losses)							
In net earnings	–	(2)	–	48	10	(4)	52
In other comprehensive income	–	–	3	–	–	–	3
Purchases	–	3	–	–	(3)	(1)	(1)
Sales	–	–	(4)	(1)	–	–	(5)
Settlements	–	–	(5)	(97)	14	10	(78)
Transfers out of Level 3	–	(3)	(7)	(8)	–	–	(18)
Balance, end of year	1	12	27	274	(56)	(21)	237

	SHARES		BONDS				
DECEMBER 31, 2011	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	TOTAL
Balance, beginning of year	1	417	42	340	(26)	(18)	756
Total gains (losses)							
In net earnings	–	35	1	54	(62)	(5)	23
In other comprehensive income	–	–	2	–	–	–	2
Purchases	–	65	–	–	–	(3)	62
Sales	–	(6)	–	(4)	–	–	(10)
Settlements	–	–	(5)	(58)	11	–	(52)
Transfers out of Level 3	–	(497)	–	–	–	–	(497)
Balance, end of year	1	14	40	332	(77)	(26)	284

NOTE 27 OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATION	TOTAL
Balance, beginning of year	96	(249)	176	23
Other comprehensive income (loss)	(18)	(53)	(100)	(171)
Balance, end of year	78	(302)	76	(148)

FOR THE YEAR ENDED DECEMBER 31, 2011	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATION	TOTAL
Balance, beginning of year	81	(399)	398	80
Other comprehensive income (loss)	15	150	(222)	(57)
Balance, end of year	96	(249)	176	23

NOTE 28 EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

YEARS ENDED DECEMBER 31	2012	2011
Net earnings attributable to shareholders	1,743	1,826
Dividends on perpetual preferred shares	(117)	(104)
Net earnings attributable to common shareholders	1,626	1,722
Dilutive effect of subsidiaries	(8)	(12)
Diluted net earnings attributable to common shareholders	1,618	1,710
Weighted average number of common shares outstanding (millions)		
–Basic	708.3	708.1
Exercise of stock options	3.6	3.0
Shares assumed to be repurchased with proceeds from exercise of stock options	(3.2)	(2.3)
Weighted average number of common shares outstanding (millions)		
–Diluted	708.7	708.8

For 2012, 5,190,730 stock options (6,097,618 in 2011) have been excluded from the computation of diluted earnings per share as the exercise price was higher than the market price.

YEARS ENDED DECEMBER 31	2012	2011
Basic earnings per common share ($)		
From continuing operations	2.30	2.38
From discontinued operations	–	0.05
	2.30	2.43
Diluted earnings per common share ($)		
From continuing operations	2.28	2.36
From discontinued operations	–	0.05
	2.28	2.41

NOTE 29 CONTINGENT LIABILITIES

The Corporation 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 Corporation. 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 Corporation.

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

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

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

During the fourth quarter of 2011, in response to the Appeal Decision, Lifeco re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholder net earnings of Lifeco in 2011 by $223 million after tax (Power Financial's share—$158 million).

NOTE 29 CONTINGENT LIABILITIES (CONTINUED)

During the subsequent event period, in response to the Ontario Superior Court of Justice decision on January 24, 2013, Lifeco established an incremental provision of $140 million after tax (Power Financial's share—$99 million). Lifeco now holds $290 million in after-tax provisions for these proceedings.

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

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

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

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

NOTE 30 COMMITMENTS AND GUARANTEES

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No amounts have been accrued related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. For Lifeco, the total amount of letter of credit facilities is US$3.0 billion, of which US$2.7 billion is currently issued.

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

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments to investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were $516 million as at December 31, 2012 ($675 million as at December 31, 2011). At December 31, 2012, $470 million will mature within one year ($555 million at December 31, 2011), $46 million will mature in one to two years ($79 million at December 31, 2011) and no commitments will mature in a period over two years ($41 million in two to three years at December 31, 2011).

INVESTED ASSETS ON DEPOSIT FOR REINSURANCE AGREEMENTS

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

COMMITMENTS

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

	2013	2014	2015	2016	2017	2018 AND THEREAFTER	TOTAL
Future lease payments	153	135	115	95	77	158	733

NOTE 31 RELATED PARTY TRANSACTIONS

PRINCIPAL SUBSIDIARIES

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

CORPORATION	INCORPORATED IN	PRIMARY BUSINESS OPERATION	% HELD
Great-West Lifeco Inc.	CANADA	FINANCIAL SERVICES HOLDING COMPANY	68.2%
The Great-West Life Assurance Company	CANADA	INSURANCE AND WEALTH MANAGEMENT	100%
London Life Insurance Company	CANADA	INSURANCE AND WEALTH MANAGEMENT	100%
The Canada Life Assurance Company	CANADA	INSURANCE AND WEALTH MANAGEMENT	100%
Great-West Life & Annuity Insurance Company	UNITED STATES	INSURANCE AND WEALTH MANAGEMENT	100%
Putnam Investments, LLC	UNITED STATES	FINANCIAL SERVICES	95.6%
IGM Financial Inc.	CANADA	FINANCIAL SERVICES	58.7%
Investors Group Inc.	CANADA	FINANCIAL SERVICES	100%
Mackenzie Financial Corporation	CANADA	FINANCIAL SERVICES	100%
Parjointco N.V.	NETHERLANDS	HOLDING COMPANY	50%
Pargesa Holding SA	SWITZERLAND	HOLDING COMPANY	55.6%

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Great-West Life enters into various transactions with related companies which include providing insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions are at market terms and conditions.

During 2012, IGM sold residential mortgage loans to Great-West Life and London Life for $232 million ($202 million in 2011).

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and subsidiaries.

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

YEARS ENDED DECEMBER 31	2012	2011
Compensation and employee benefits	16	15
Post-employment benefits	7	4
Share-based payment	9	9
	32	28

NOTE 32 SUBSEQUENT EVENTS

ACQUISITION OF IRISH LIFE GROUP LIMITED

On February 19, 2013, Lifeco announced that it had reached an agreement with the Government of Ireland to acquire, through its subsidiary Canada Life Limited, all of the shares of Irish Life Group Limited (Irish Life) for $1.75 billion (€1.3 billion). Established in 1939, Irish Life is the largest life and pensions group and investment manager in Ireland.

Lifeco also announced a $1.25 billion offering of subscription receipts exchangeable into Lifeco common shares by way of a $650 million bought deal public offering as well as concurrent private placements of subscription receipts to Power Financial and IGM for an aggregate amount of $600 million.

On March 12, 2013, Power Financial purchased $550 million of Lifeco subscription receipts. On that date, IGM also purchased $50 million of Lifeco subscription receipts. Each subscription receipt entitles the holder to receive one common share of Lifeco upon closing of the acquisition of Irish Life, without any action on the part of the holder and without payment of additional consideration. Power Financial and IGM completed the purchase of subscription receipts by private placements concurrently with the closing of the bought deal public offering of Lifeco's subscription receipts. The public offering and private placements of subscription receipts are at the same price of $25.70 per subscription receipt.

Should the subscription receipts be converted into common shares of Lifeco, Power Financial will hold, directly and indirectly, a 69.4% economic interest in Lifeco.

The acquisition is expected to close in July of 2013, and is subject to customary regulatory approvals, including approvals from the European Commission under the EU Merger Regulation, and certain closing conditions.

PREFERRED SHARE ISSUE

On February 28, 2013, the Corporation issued 12,000,000 4.80% Non-Cumulative First Preferred Shares, Series S for gross proceeds of $300 million.

NOTE 33 SEGMENTED INFORMATION

The following strategic business units constitute the Corporation's reportable operating segments:

> Lifeco offers, in Canada, the United States and Europe, a wide range of life insurance, retirement and investment products, as well as reinsurance and specialty general insurance products, to individuals, businesses and other private and public organizations.

> IGM offers a comprehensive package of financial planning services and investment products to its client base. IGM derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenue from fees charged to its mutual funds for administrative services.

> Parjointco holds the Corporation's interest in Pargesa, a holding company which holds diversified interests in companies based in Europe active in various sectors, including specialty minerals, cement and building materials, water, waste services, energy, and wines and spirits.

> The segment entitled Other is made up of corporate activities of the Corporation and also includes consolidation elimination entries.

The accounting policies of the operating segments are those described in Note 2—Basis of Presentation and Summary of Significant Accounting Policies of the financial statements. The Corporation evaluates the performance based on the operating segment's contribution to consolidated net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to consolidated net earnings of each segment is calculated after taking into account the investment Lifeco and IGM have in each other.

NOTE 33 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2012	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
REVENUES					
Premium income, net	18,820	–	–	–	18,820
Investment income, net	8,296	153	–	(88)	8,361
Fee income	2,945	2,425	–	(139)	5,231
	30,061	2,578	–	(227)	32,412
EXPENSES					
Total paid or credited to policyholders	22,451	–	–	–	22,451
Commissions	1,781	858	–	(138)	2,501
Operating and administrative expenses	2,968	671	–	57	3,696
Financing charges	285	92	–	18	395
	27,485	1,621	–	(63)	29,043
	2,576	957	–	(164)	3,369
Share of earnings (losses) of investment in jointly controlled corporation	–	–	134	–	134
Earnings before income taxes–continuing operations	2,576	957	134	(164)	3,503
Income taxes	368	190	–	5	563
Contribution to net earnings–continuing operations	2,208	767	134	(169)	2,940
Contribution to net earnings–discontinued operations	–	–	–	–	–
Contribution to net earnings	2,208	767	134	(169)	2,940
Attributable to					
Non-controlling interests	969	327	–	(99)	1,197
Perpetual preferred shareholders	–	–	–	117	117
Common shareholders	1,239	440	134	(187)	1,626
	2,208	767	134	(169)	2,940

INFORMATION ON ASSETS AND LIABILITIES MEASURE

DECEMBER 31, 2012	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,857	2,816	–	–	8,673
Total assets	253,833	11,609	2,149	1,002	268,593
Total liabilities	236,132	7,503	–	586	244,221

GEOGRAPHIC INFORMATION

DECEMBER 31, 2012	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	65,068	28,722	33,110	126,900
Investment in jointly controlled corporation	–	–	2,149	2,149
Investments on account of segregated fund policyholders	54,341	23,809	26,798	104,948
Other assets	4,176	3,311	13,503	20,990
Goodwill and intangible assets	10,129	1,721	1,756	13,606
Total assets	133,714	57,563	77,316	268,593
Total revenues	16,221	6,401	9,790	32,412

NOTE 33 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2011	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
REVENUES					
Premium income, net	17,293	–	–	–	17,293
Investment income, net	9,702	161	–	(99)	9,764
Fee income	2,903	2,571	–	(131)	5,343
	29,898	2,732	–	(230)	32,400
EXPENSES					
Total paid or credited to policyholders	23,043	–	–	–	23,043
Commissions	1,548	895	–	(131)	2,312
Operating and administrative expenses	2,314	638	–	54	3,006
Financing charges	289	103	–	17	409
	27,194	1,636	–	(60)	28,770
	2,704	1,096	–	(170)	3,630
Share of earnings (losses) of investment in jointly controlled corporation	–	–	(20)	–	(20)
Earnings before income taxes–continuing operations	2,704	1,096	(20)	(170)	3,610
Income taxes	465	250	–	(9)	706
Contribution to net earnings–continuing operations	2,239	846	(20)	(161)	2,904
Contribution to net earnings–discontinued operations	–	63	–	–	63
Contribution to net earnings	2,239	909	(20)	(161)	2,967
Attributable to					
Non-controlling interests	855	392	–	(106)	1,141
Perpetual preferred shareholders	–	–	–	104	104
Common shareholders	1,384	517	(20)	(159)	1,722
	2,239	909	(20)	(161)	2,967

INFORMATION ON ASSETS AND LIABILITIES MEASURE

DECEMBER 31, 2011	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,861	2,925	–	–	8,786
Total assets	238,552	10,839	2,222	1,065	252,678
Total liabilities	222,664	6,625	–	574	229,863

GEOGRAPHIC INFORMATION

DECEMBER 31, 2011	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	61,960	27,403	31,064	120,427
Investment in jointly controlled corporation	–	–	2,222	2,222
Investments on account of segregated fund policyholders	49,622	22,359	24,601	96,582
Other assets	4,087	3,050	12,501	19,638
Goodwill and intangible assets	10,280	1,769	1,760	13,809
Total assets	125,949	54,581	72,148	252,678
Total revenues	17,064	6,123	9,213	32,400

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the accompanying consolidated financial statements of Power Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 audits 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 Power Financial Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed
Deloitte LLP [1]

March 13, 2013
Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A104630

FIVE-YEAR FINANCIAL SUMMARY

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)				PREVIOUS CANADIAN GAAP	
	2012	2011	2010	2009	2008
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	3,313	3,385	3,656	4,855	4,689
Total assets	268,593	252,678	244,644	140,231	141,546
Shareholders' equity	14,029	13,521	12,811	13,207	13,419
Consolidated assets and assets under management	523,885	496,781	500,181	471,775	452,158
CONSOLIDATED STATEMENTS OF EARNINGS					
REVENUES					
Premium income, net	18,820	17,293	17,748	18,033	30,007
Investment income, net	8,361	9,764	9,600	9,678	1,163
Fee income	5,231	5,343	5,174	4,998	5,540
	32,412	32,400	32,522	32,709	36,710
EXPENSES					
Total paid or credited to policyholders	22,451	23,043	23,225	23,809	26,774
Commissions	2,501	2,312	2,216	2,088	2,172
Operating and administrative expenses	3,696	3,006	3,837	3,607	3,675
Intangible and goodwill impairment	–	–	–	–	2,178
Financing charges	395	409	432	494	438
	29,043	28,770	29,710	29,998	35,237
	3,369	3,630	2,812	2,711	1,473
Share of earnings (losses) of investment in jointly controlled corporation	134	(20)	121	71	(181)
Income taxes	563	706	523	565	16
Net earnings–continuing operations	2,940	2,904	2,410	2,217	1,276
Net earnings–discontinued operations	–	63	2	–	692
Net earnings	2,940	2,967	2,412	2,217	1,968
Attributable to					
Non-controlling interests	1,197	1,141	845	778	631
Perpetual preferred shareholders	117	104	99	88	74
Common shareholders	1,626	1,722	1,468	1,351	1,263
	2,940	2,967	2,412	2,217	1,968
PER SHARE					
Operating earnings before other items	2.38	2.44	2.30	2.05	1.98
Net earnings from discontinued operations	–	0.05	–	–	0.71
Net earnings	2.30	2.43	2.08	1.92	1.79
Dividends	1.4000	1.4000	1.4000	1.4000	1.3325
Book value at year-end	16.60	16.26	15.26	16.27	16.80
MARKET PRICE (COMMON SHARES)					
High	30.15	31.98	34.23	31.99	40.94
Low	24.06	23.62	27.00	14.66	20.33
Year-end	27.24	25.54	30.73	31.08	23.90

QUARTERLY FINANCIAL INFORMATION

[IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	TOTAL REVENUES	NET EARNINGS	EARNINGS PER SHARE —BASIC	EARNINGS PER SHARE —DILUTED
2012				
First quarter	7,110	712	0.64	0.64
Second quarter	8,374	695	0.61	0.60
Third quarter	9,217	813	0.65	0.65
Fourth quarter	7,711	720	0.39	0.38
2011				
First quarter	6,919	616	0.52	0.52
Second quarter	7,784	803	0.72	0.71
Third quarter	9,126	593	0.44	0.44
Fourth quarter	8,571	955	0.75	0.75