UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______ to _______

Commission file number 333-1173

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

COLORADO	**84-0467907**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

8515 EAST ORCHARD ROAD, GREENWOOD VILLAGE, CO 80111
(Address of principal executive offices)

(303) 737-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X]   No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined in Rule 12b-2 of the Act.

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [X]   Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Act.

Yes [ ]   No [X]

As of November 1, 2012, 7,032,000 shares of the registrant's common stock were outstanding, all of which were owned by the registrant's parent company.

Table of Contents

			Page Number
Part I	Financial Information		3
	Item 1	Interim Financial Statements	3
		Condensed Consolidated Balance Sheets at September 30, 2012 (Unaudited) and December 31, 2011	3
		Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)	5
		Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)	6
		Condensed Consolidated Statements of Stockholder's Equity for the Year Ended December 31, 2011 and for the Nine Months Ended September 30, 2012 (Unaudited)	7
		Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)	8
		Notes to Condensed Consolidated Financial Statements (Unaudited)	10
	Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	41
	Item 3	Quantitative and Qualitative Disclosures About Market Risk	54
	Item 4	Controls and Procedures	55
Part II	Other Information		55
	Item 1	Legal Proceedings	55
	Item 1A	Risk Factors	55
	Item 6	Exhibits	56
		Signature	56

Part I Financial Information
Item 1. Interim Financial Statements

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Balance Sheets
September 30, 2012 (Unaudited) and December 31, 2011
(In Thousands, Except Share Amounts)

	September 30, 2012	December 31, 2011 As adjusted See Note 1
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost $16,542,668 and $15,586,970)	$ 17,978,069	$ 16,589,783
Fixed maturities, held for trading, at fair value (amortized cost $206,443 and $134,591)	220,786	147,526
Mortgage loans on real estate (net of allowances of $3,957 and $21,130)	2,600,215	2,513,087
Policy loans	4,215,850	4,219,849
Short-term investments, available-for-sale (cost approximates fair value)	1,779,662	332,764
Limited partnership and other corporation interests	136,951	169,233
Other investments	21,235	22,990
Total investments	26,952,768	23,995,232
Other assets:		
Cash	4,476	7,593
Reinsurance receivable	642,184	616,336
Deferred acquisition costs and value of business acquired	191,517	219,833
Investment income due and accrued	274,746	248,114
Collateral under securities lending agreements	83,943	7,099
Due from parent and affiliates	132,091	114,697
Goodwill	105,255	105,255
Other intangible assets	19,167	21,855
Other assets	531,474	505,401
Assets of discontinued operations	35,129	39,621
Separate account assets	24,535,992	22,331,391
Total assets	$ 53,508,742	$ 48,212,427

See notes to condensed consolidated financial statements. (Continued)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Condensed Consolidated Balance Sheets

September 30, 2012 (Unaudited) and December 31, 2011

(In Thousands, Except Share Amounts)

	September 30, 2012	December 31, 2011 As adjusted See Note 1
Liabilities and stockholder's equity		
Policy benefit liabilities:		
Future policy benefits	$ 22,931,713	$ 21,828,274
Policy and contract claims	319,851	310,455
Policyholders' funds	350,423	382,816
Provision for policyholders' dividends	64,383	64,710
Undistributed earnings on participating business	13,127	11,105
Total policy benefit liabilities	23,679,497	22,597,360
General liabilities:		
Due to parent and affiliates	557,902	538,561
Repurchase agreements	1,473,393	-
Commercial paper	99,089	97,536
Payable under securities lending agreements	83,943	7,099
Deferred income tax liabilities, net	300,008	154,464
Other liabilities	599,618	532,327
Liabilities of discontinued operations	35,130	39,616
Separate account liabilities	24,535,992	22,331,391
Total liabilities	51,364,572	46,298,354
Commitments and contingencies		
Stockholder's equity:		
Preferred stock, $1 par value, 50,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $1 par value, 50,000,000 shares authorized; 7,032,000 shares issued and outstanding	7,032	7,032
Additional paid-in capital	770,154	768,247
Accumulated other comprehensive income	677,659	469,982
Retained earnings	689,325	668,812
Total stockholder's equity	2,144,170	1,914,073
Total liabilities and stockholder's equity	$ 53,508,742	$ 48,212,427

See notes to condensed consolidated financial statements. (Concluded)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Condensed Consolidated Statements of Income

Three and Nine Months Ended September 30, 2012 and 2011

(In Thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
		As adjusted See Note 1		As adjusted See Note 1
Revenues:				
Premium income, net of premiums ceded of $5,045, $3,904, $35,231 and $28,705	$ 140,032	$ 158,688	$ 343,510	$ 426,879
Fee income	132,202	120,100	394,305	363,482
Net investment income	292,609	287,250	895,530	867,803
Realized investment gains (losses), net:				
Total other-than-temporary gains (losses)	(224)	(17,274)	(478)	(18,965)
Other-than-temporary losses transferred to other comprehensive income	-	10,004	-	10,004
Other realized investment gains, net	55,349	18,012	92,402	28,708
Total realized investment gains (losses), net	55,125	10,742	91,924	19,747
Total revenues	619,968	576,780	1,725,269	1,677,911
Benefits and expenses:				
Life and other policy benefits, net of reinsurance recoveries of $4,908, $10,715, $41,964 and $33,832	160,665	160,097	521,119	482,974
Increase (decrease) in future policy benefits	28,185	34,251	(30,103)	41,442
Interest paid or credited to contractholders	130,396	138,483	388,085	395,799
Provision for policyholders' share of earnings on participating business	(428)	747	1,760	1,503
Dividends to policyholders	14,904	14,846	47,628	50,783
Total benefits	333,722	348,424	928,489	972,501
General insurance expenses	152,569	142,957	444,185	416,792
Amortization of deferred acquisition costs and value of business acquired	15,872	(3,071)	47,103	9,118
Interest expense	9,350	9,338	28,040	28,131
Total benefits and expenses, net	511,513	497,648	1,447,817	1,426,542
Income from operations before income taxes	108,455	79,132	277,452	251,369
Income tax expense	45,184	24,680	102,139	76,700
Net income	$ 63,271	$ 54,452	$ 175,313	$ 174,669

See notes to condensed consolidated financial statements.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2012 and 2011
(In Thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
		As adjusted See Note 1		As adjusted See Note 1
Net income	$ 63,271	$ 54,452	$ 175,313	$ 174,669
Components of other comprehensive income:				
Unrealized holding gains (losses) arising during the period on available-for-sale fixed maturity investments	300,076	369,310	511,810	512,257
Net change during the period related to cash flow hedges	(8,578)	20,067	(1,539)	19,157
Reclassification adjustments for (gains) losses realized in net income	(37,801)	(39,153)	(82,482)	(63,200)
Net unrealized gains (losses) related to investments	253,697	350,224	427,789	468,214
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(79,224)	(34,120)	(108,286)	(63,035)
Other comprehensive income before income taxes	174,473	316,104	319,503	405,179
Income tax expense related to items of other comprehensive income	61,066	110,636	111,826	141,813
Other comprehensive income	113,407	205,468	207,677	263,366
Comprehensive income	$ 176,678	$ 259,920	$ 382,990	$ 438,035

Other comprehensive income includes the non-credit component of impaired losses on fixed maturities available for sale in the amounts of $9,218, $(1,363), $16,151 and $14,670 for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

See notes to condensed consolidated financial statements.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Statements of Stockholder's Equity
Year Ended December 31, 2011 and Nine Months Ended September 30, 2012 (Unaudited)
(In Thousands)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balances, January 1, 2011, as adjusted, see Note 1	$ 7,032	$ 764,644	$ 269,308	$ 672,928	$ 1,713,912
Net income				202,237	202,237
Other comprehensive income (loss), net of income taxes			200,674		200,674
Dividends				(206,353)	(206,353)
Capital contribution - stock-based compensation		1,786			1,786
Income tax benefit on stock-based compensation		1,817			1,817
Balances, December 31, 2011	$ 7,032	$ 768,247	$ 469,982	$ 668,812	$ 1,914,073
Net income				175,313	175,313
Other comprehensive income (loss), net of income taxes			207,677		207,677
Dividends				(154,800)	(154,800)
Capital contribution - stock-based compensation		1,719			1,719
Income tax benefit on stock-based compensation		188			188
Balances, September 30, 2012	$ 7,032	$ 770,154	$ 677,659	$ 689,325	$ 2,144,170

See notes to the condensed consolidated financial statements.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2012 and 2011
(In Thousands)
(Unaudited)

	Nine months ended September 30,	
	2012	2011
Net cash provided by operating activities	$ 199,470	$ 349,025
Cash flows from investing activities:		
Proceeds from sales, maturities and redemptions of investments:		
Fixed maturities, available-for-sale	5,439,658	4,581,017
Mortgage loans on real estate	101,204	63,755
Limited partnership interests, other corporation interests and other investments	39,247	46,422
Purchases of investments:		
Fixed maturities, available-for-sale	(4,822,397)	(4,526,471)
Mortgage loans on real estate	(171,366)	(551,951)
Limited partnership interests, other corporation interests and other investments	(3,689)	(6,578)
Net change in short-term investments	(2,859,785)	(483,015)
Net change in repurchase agreements	1,473,393	117,700
Policy loans, net	5,366	(14,807)
Purchases of furniture, equipment and software	(14,101)	-
Net cash used in investing activities	(812,470)	(773,928)
Cash flows from financing activities:		
Contract deposits	1,992,201	1,872,213
Contract withdrawals	(1,247,330)	(1,348,054)
Change in due to/from parent and affiliates	1,791	79,607
Dividends paid	(154,800)	(153,350)
Net commercial paper borrowings	1,553	4,264
Change in bank overdrafts	16,280	(31,704)
Income tax benefit of stock option exercises	188	1,646
Net cash provided by (used in) financing activities	609,883	424,622
Net increase (decrease) in cash	(3,117)	(281)
Cash, beginning of period	7,593	4,476
Cash, end of period	$ 4,476	$ 4,195

See notes to condensed consolidated financial statements. (Continued)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2012 and 2011
(In Thousands)
(Unaudited)

	Nine months ended September 30,	
	2012	2011
Supplemental disclosures of cash flow information:		
Net cash paid (received) during the year for:		
Income taxes	$ (53,387)	$ (121,162)
Income tax payments withheld and remitted to taxing authorities	37,367	41,105
Interest	18,783	18,873
Non-cash investing and financing transactions during the years:		
Share-based compensation expense	$ 1,719	$ 1,289
Fair value of assets acquired in settlement of fixed maturity investments	1,125	12,865
Real estate acquired in satisfaction of debt	-	2,140

See notes to condensed consolidated financial statements. (Concluded)

1. Basis of Presentation

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries over which it exercises control. Intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2011, which was derived from the Company's audited financial statements, and the unaudited interim condensed consolidated financial statements as of and for the nine months ended September 30, 2012, have been prepared in accordance with the instructions for Form 10-Q. In compliance with those instructions, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures made are adequate such that the information presented is not misleading.

In the opinion of management, these statements include all normal recurring adjustments necessary to fairly present the Company's condensed consolidated results of operations, financial position and cash flows as of September 30, 2012, and for all periods presented. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The condensed consolidated results of operations and condensed consolidated statement of cash flows for the nine months ended September 30, 2012, are not necessarily indicative of the results or cash flows expected for the full year.

Reclassifications

Certain amounts have been reclassified to conform to current year presentation. Specifically, for the condensed consolidated statement of cash flows for the nine months ended September 30, 2011, equity investments available-for-sale were reclassified to other investments. This reclassification had no effect on previously reported results of operations or retained earnings.

Use of Estimates

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are required to account for items and matters such as, but not limited to, the valuation of investments in the absence of quoted market values, impairment of investments, derivative financial instruments, valuation of policy benefit liabilities, valuation of deferred acquisition costs ("DAC") and value of business acquired ("VOBA"), employee benefits plans, income taxes and the valuation of deferred tax assets or liabilities, net. Actual results could differ from those estimates.

During the three and nine months ended September 30, 2012, the Company had an $18 million decrease in the general mortgage provision allowance as a result of revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio.

Retrospective Adoption of Accounting Pronouncement

In October 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2010-26 *"Financial Services - Insurance (Topic 944): Accounting for Costs Associated with*

Acquiring or Renewing Insurance Contracts - a Consensus of the FASB Emerging Issues Task Force" ("ASU No. 2010-26"). ASU No. 2010-26 provides guidance and modifies the definition of the types and nature of costs incurred by insurance enterprises that can be capitalized in connection with the successful acquisition of new or renewal insurance contracts. Further, ASU No. 2010-26 clarifies which costs may not be capitalized as DAC. Such costs include incremental costs related to unsuccessful attempts to acquire new or renewal insurance contracts in addition to certain administrative costs. ASU No. 2010-26 was effective for interim and annual periods in fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted ASU No. 2010-26 for its fiscal year beginning January 1, 2012, and applied the retrospective method of adoption to year-end 2004. Any adjustment prior to 2004 is impracticable.

The following is a summary of the effects of the adoption of ASU No. 2010-26 on the Company's condensed consolidated financial statements:

	As previously reported	Retrospective adoption	As adjusted
Condensed Consolidated Balance Sheets			
December 31, 2011			
Deferred acquisition costs and value of business acquired	$ 343,449	$ (123,616)	$ 219,833
Deferred income tax liabilities, net	197,729	(43,265)	154,464
Accumulated other comprehensive income	445,372	24,610	469,982
Retained earnings	773,773	(104,961)	668,812
Condensed Consolidated Statements of Income			
Three months ended September 30, 2011			
General insurance expenses	135,993	6,964	142,957
Amortization of deferred acquisition costs and value of business acquired	53	(3,124)	(3,071)
Income tax expense	26,024	(1,344)	24,680
Net income	56,948	(2,496)	54,452
Condensed Consolidated Statements of Income			
Nine months ended September 30, 2011			
General insurance expenses	389,422	27,370	416,792
Amortization of deferred acquisition costs and value of business acquired	18,730	(9,612)	9,118
Income tax expense	82,915	(6,215)	76,700
Net income	186,212	(11,543)	174,669
Condensed Consolidated Statements of Comprehensive Income			
Three months ended September 30, 2011			
Net income	56,948	(2,496)	54,452
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(22,389)	(11,731)	(34,120)
Income tax expense related to items of other comprehensive income	114,742	(4,106)	110,636
Condensed Consolidated Statements of Comprehensive Income			
Nine months ended September 30, 2011			
Net income	186,212	(11,543)	174,669
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(54,365)	(8,670)	(63,035)
Income tax expense related to items of other comprehensive income	144,847	(3,034)	141,813

	As previously reported	Retrospective adoption	As adjusted
Condensed Consolidated Statements of Stockholder's Equity			
Balances, January 1, 2011, Accumulated other comprehensive income (loss)	$ 242,516	$ 26,792	$ 269,308
Balances, January 1, 2011, Retained earnings	766,031	(93,103)	672,928
Net income, 2011	214,095	(11,858)	202,237
Other comprehensive income (loss), net of income taxes, 2011	202,856	(2,182)	200,674

Due to the adoption, expenses in 2012 and future periods will be higher due to a decrease of deferrable expenses. However, amortization expense will be lower in 2012 and future periods due to the lower DAC balance, before the effect of any amortization related to realized gains and losses.

Summary of significant accounting policies

Deferred acquisition costs

The Company incurs costs in connection with the acquisition of new and renewal insurance business. Costs that vary with and relate to the successful production of new business are deferred as DAC. These costs consist primarily of commissions, costs associated with the Company's sales representatives and policy issuance and underwriting expenses related to the production of successfully acquired new business or through the acquisition of insurance or annuity contracts through indemnity insurance transactions. A success factor is derived from actual contracts issued by the Company from requests for proposals or applications received.

DAC associated with the annuity products and flexible premium universal life insurance products are being amortized over the life of the contracts in proportion to the emergence of gross profits. DAC associated with traditional life insurance are amortized over the premium-paying period of the related policies in proportion to premium revenues recognized. Acquisition costs amortized for the three-month periods ended September 30, 2012 and 2011, were $14,003 and $(3,736), respectively. Acquisition costs amortized for the nine-month periods ended September 30, 2012 and 2011, were $37,760 and $5,987, respectively.

Fair value

Certain assets and liabilities are recorded at fair value on the Company's condensed consolidated balance sheets. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company categorizes its assets and liabilities measured at fair value on a recurring basis into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company's assets and liabilities recorded at fair value on a recurring basis have been categorized based upon the following fair value hierarchy:

- Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include certain money market funds.

- Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities are obtained from pricing services. The inputs used by the pricing services are reviewed at least quarterly or when the pricing vendor issues updates to its pricing methodology. For

fixed maturity securities and separate account assets and liabilities, inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, evaluated bids, offers and reference data including market research publications. Additional inputs utilized for assets and liabilities classified as Level 2 are:

- Asset-backed, residential mortgage-backed, commercial mortgage-backed securities and collateralized debt obligations - new issue data, monthly payment information, collateral performance and third party real estate analysis.
- U.S. states and their subdivisions - material event notices.
- Short-term investments - valued at amortized cost, which approximates fair value.
- Derivative instruments - trading activity, swap curves, credit spreads, currency volatility, net present value of cash flows and news sources.
- Separate account assets and liabilities - exchange rates, various index data and news sources, amortized cost (which approximates fair value), trading activity, swap curves, credit spreads, recovery rates, restructuring, currency volatility, net present value of cash flows and quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Common collective trusts – the net asset value based on the underlying trust investments.

- Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. In general, the prices of Level 3 securities are obtained from single broker quotes and internal pricing models. If the broker's inputs are largely unobservable, the valuation is classified as a Level 3. Broker quotes are validated through an internal analyst review process, which includes validation through known market conditions and other relevant data, as noted below. Internal models are usually cash flow based utilizing characteristics of the underlying collateral of the security such as default rate and other relevant data. Inputs utilized for securities classified as Level 3 are as follows:

    - Corporate debt securities – unadjusted single broker quotes which may be in an illiquid market or otherwise deemed unobservable.
    - Asset-backed securities - internal models utilizing asset-backed securities index spreads.
    - Separate account assets - single broker quotes which may be in an illiquid market or otherwise deemed unobservable or net asset value per share of the underlying investments.

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

Overall, transfers between levels are attributable to a change in the observability of inputs. Assets and liabilities are transferred to a lower level in the hierarchy when a significant input cannot be corroborated with market observable data. This may occur when market activity decreases and underlying inputs cannot be observed, current prices are not available, and/or when there are significant variances in quoted prices, thereby affecting transparency. Assets and liabilities are transferred to a higher level in the hierarchy when circumstances change such that a significant input can be corroborated with market observable data. This may be due to a significant increase in market activity including recent trades, a specific event, or one or more significant input(s) becoming observable. All transfers between levels are recognized at the beginning of the reporting period in which the transfer occurred.

The policies and procedures utilized to review, account for and report on the value and level of the Company's securities were determined and implemented by the Finance division. The Investments division is responsible for the processes related to security purchases and sales and provides valuation and leveling input to the Finance division when necessary. Both divisions within the Company have worked in conjunction to establish

thorough pricing, review, approval, accounting and reporting policies and procedures around the securities valuation process.

Internal pricing models may be used to value certain Level 3 securities. These models have been created by the Company based on specific characteristics of the portfolio, such as the high level of illiquidity, the low level of market making and trading activity and the collateralized nature of certain securities. These models are recalibrated monthly by adjusting the inputs based on current public security market conditions and how those conditions apply to the Company's portfolio. Internal model input assumptions may include: prepayment speeds, constant default rates and the Asset Backed Securities Index ("ABX Index") spread adjusted by an internally calculated liquidity premium. The primary inputs into the internal pricing models are the constant default rate and the internally adjusted ABX Index spread. Additionally, a monthly comparison of the internally developed model prices to pricing vendor evaluations is performed and analyzed. The Company determined the use of internal models was more accurate for certain securities categorized as Level 3 primarily due to the internally adjusted ABX Index spread being a better indication of fair value than spread assumptions used by external pricing models in the illiquid markets. The internally adjusted ABX Index spread captures exposure to similar cash flows as the Company's portfolio in a liquid and actively traded market and includes additional spread assumptions for potential illiquidity of the underlying collateral.

In some instances, securities are priced using external broker quotes. In most cases, when broker quotes are used as pricing inputs, more than one broker quote is obtained. External broker quotes are reviewed internally by comparing the quotes to similar securities in the public market and/or to vendor pricing, if available. Additionally, external broker quotes are compared to market reported trade activity to ascertain whether the price is reasonable, reflective of the current market prices and takes into account the characteristics of the Company's securities.

2. Application of Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In April 2011, the FASB issued ASU No. 2011-03 *"Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements"* ("ASU No. 2011-03"). ASU No. 2011-03 removes from the assessment of effective control the criterion requiring a transferor to have the ability to repurchase or redeem the financial assets transferred in a repurchase arrangement. This requirement was one of the criteria under ASC topic 860 that entities used to determine whether a transferor maintained effective control. Entities are still required to consider all the effective control criterion under ASC topic 860; however, the elimination of this requirement may lead to more conclusions that a repurchase agreement should be accounted for as a secured borrowing rather than a sale. ASU No. 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company adopted the provisions of ASU No. 2011-03 for its fiscal year beginning January 1, 2012. The adoption of ASU No. 2011-03 did not have an impact on the Company's condensed consolidated financial position or the results of its operations.

In May 2011, the FASB issued ASU No. 2011-04 *"Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs"* ("ASU No. 2011-04"). ASU No. 2011-04 does not extend the use of the existing concepts or guidance regarding fair value. It results in common fair value measurements and disclosures between accounting principles generally accepted in the United States and those of International Financial Reporting Standards. ASU No. 2011-04 expands disclosure requirements for Level 3 inputs to include a quantitative description of the unobservable inputs used, a description of the valuation process used and a qualitative description about the sensitivity of the fair value measurements. ASU No. 2011-04 is effective for interim or annual periods beginning on or after December 15, 2011. The Company adopted the provisions of ASU No. 2011-04 for its fiscal year beginning January 1, 2012. The provisions of ASU No. 2011-04 relate only to financial statement disclosures regarding fair value and, accordingly, its adoption did not have an impact on the Company's consolidated financial position or the results of its operations.

In June 2011, the FASB issued ASU No. 2011-05 *"Comprehensive Income (Topic 220): Presentation of Comprehensive Income"* ("ASU No. 2011-05"). ASU No. 2011-05 provides that entities must present the components of net income, the components of comprehensive income and the total of comprehensive income for all periods presented. The option of presenting the components of comprehensive income in the statement of changes of equity has been eliminated. ASU No. 2011-05 is effective for interim or annual periods beginning on or after December 15, 2011. The Company adopted the provisions of ASU No. 2011-05 for its fiscal year beginning January 1, 2012. The provisions of ASU No. 2011-05 relate only to the presentation of other comprehensive income and, accordingly, its adoption did not have an impact on the Company's consolidated financial position or the results of its operations. ASU No. 2011-05 was subsequently amended by ASU No. 2011-12.

In September 2011, the FASB issued ASU No. 2011-08 *"Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment"* ("ASU No. 2011-08"). ASU No. 2011-08 provides that entities have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of recorded goodwill is less than its carrying value. If an entity concludes that it is more likely than not that the fair value of recorded goodwill is less than its carrying value, it is then required to calculate the fair value of the recorded goodwill and to measure the amount of impairment loss, if any. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests for fiscal years beginning after December 15, 2011. The Company adopted the provisions of ASU No. 2011-08 for its fiscal year beginning January 1, 2012. The adoption of ASU No. 2011-08 did not have an impact on the Company's condensed consolidated financial position or the results of its operations.

In December 2011, the FASB issued ASU No. 2011-12 *"Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05"* ("ASU No. 2011-12"). ASU No. 2011-12 indefinitely defers the requirement in ASU No. 2011-05 for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and statement in which other comprehensive income is presented, for both interim and annual periods. ASU No. 2011-12 does not affect any other provisions of ASU No. 2011-05. ASU No. 2011-12 is effective for fiscal years and interim periods within those years ending after December 15, 2011. The Company adopted the provisions of ASU No. 2011-12 for its fiscal year beginning January 1, 2012. The provisions of ASU No. 2011-12 relate only to the indefinite deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income and, accordingly, its adoption did not have an impact on the Company's consolidated financial position or the results of its operations.

Future adoption of new accounting pronouncements

In December 2011, the FASB issued ASU No. 2011-11 *"Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities"* ("ASU No. 2011-11"). ASU No. 2011-11 provides for entities to disclose information about financial instruments and derivative instruments that are either offset in the balance sheet (presented on a net basis), or subject to an enforceable master netting arrangement or similar arrangement. ASU No. 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013 and for interim periods within those annual periods. The Company will adopt the provisions of ASU No. 2011-11 for its fiscal year beginning January 1, 2013. The Company is evaluating the impact of the adoption of ASU No. 2011-11.

3. Dividends

The maximum amount of dividends, which can be paid to stockholders by insurance companies domiciled in the State of Colorado, is subject to restrictions relating to statutory capital and surplus and statutory net gain from operations. Prior to the payment of any dividends, the Company seeks approval from the Colorado Insurance Commissioner. During the nine-month periods ended September 30, 2012 and 2011, the Company paid dividends of $154,800 and $153,350, respectively, to its parent, GWL&A Financial Inc. ("GWL&A Financial").

4. Summary of Investments

The following tables summarize fixed maturity investments classified as available-for-sale and the non-credit-related component of other-than-temporary impairments ("OTTI") in accumulated other comprehensive income (loss) ("AOCI") at September 30, 2012 and December 31, 2011:

	September 30, 2012				
Fixed maturities:	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value and carrying value	OTTI (gain) loss included in AOCI [1]
U.S. government direct obligations and U.S. agencies	$ 2,615,621	$ 115,405	$ 549	$ 2,730,477	$ -
Obligations of U.S. states and their subdivisions	1,714,392	350,627	109	2,064,910	-
Foreign governments	1,602	-	-	1,602	-
Corporate debt securities [2]	9,166,732	1,009,188	121,951	10,053,969	(2,241)
Asset-backed securities [3]	1,896,607	97,089	86,994	1,906,702	(45,470)
Residential mortgage-backed securities	477,737	21,297	25	499,009	(135)
Commercial mortgage-backed securities	655,960	54,019	797	709,182	-
Collateralized debt obligations	14,017	14	1,813	12,218	-
Total fixed maturities	$ 16,542,668	$ 1,647,639	$ 212,238	$ 17,978,069	$ (47,846)

[1] Indicates the amount of any OTTI (gain) loss included in AOCI that is included in gross unrealized gains and losses. OTTI (gain) loss included in AOCI, as presented above, includes both the initial recognition of non-credit losses and the effects of subsequent increases and decreases in estimated fair value for those fixed maturity securities that had previous non-credit impairment.
[2] Includes perpetual debt investments with amortized cost of $251,922 and estimated fair value of $169,868 at September 30, 2012.
[3] The non-credit loss component of OTTI (gain) loss for asset-backed securities was in an unrealized gain position due to increases in estimated fair value subsequent to initial recognition of non-credit losses on such securities.

	December 31, 2011				
Fixed maturities:	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value and carrying value	OTTI (gain) loss included in AOCI [1]
U.S. government direct obligations and U.S. agencies	$ 2,209,420	$ 107,363	$ 1,112	$ 2,315,671	$ -
Obligations of U.S. states and their subdivisions	1,773,687	297,488	5	2,071,170	-
Corporate debt securities [2]	8,287,960	762,045	154,259	8,895,746	3,672
Asset-backed securities [3]	2,006,544	70,117	125,217	1,951,444	(23,837)
Residential mortgage-backed securities	578,046	17,461	3,965	591,542	1,409
Commercial mortgage-backed securities	712,831	42,538	7,572	747,797	-
Collateralized debt obligations	18,482	3	2,072	16,413	-
Total fixed maturities	$ 15,586,970	$ 1,297,015	$ 294,202	$ 16,589,783	$ (18,756)

[1] Indicates the amount of any OTTI (gain) loss included in AOCI that is included in gross unrealized gains and losses. OTTI (gain) loss included in AOCI, as presented above, includes both the initial recognition of non-credit losses and the effects of subsequent increases and decreases in estimated fair value for those fixed maturity securities that had previous non-credit impairment.
[2] Includes perpetual debt investments with amortized cost of $253,023 and estimated fair value of $166,284 at December 31, 2011.
[3] The non-credit loss component of OTTI (gain) loss for asset-backed securities was in an unrealized gain position due to increases in estimated fair value subsequent to initial recognition of non-credit losses on such securities.

See Note 6 for additional discussion regarding fair value measurements.

The amortized cost and estimated fair value of fixed maturity investments classified as available-for-sale at September 30, 2012, based on estimated cash flows, are shown in the table below. Actual maturities will likely differ from these projections because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2012	
	Amortized cost	Estimated fair value
Maturing in one year or less	$ 676,656	$ 715,216
Maturing after one year through five years	3,094,292	3,399,029
Maturing after five years through ten years	3,796,898	4,333,626
Maturing after ten years	3,496,105	3,873,024
Mortgage-backed and asset-backed securities	5,478,717	5,657,174
	$ 16,542,668	$ 17,978,069

Mortgage-backed (commercial and residential) and asset-backed securities include those issued by U.S. government and U.S. agencies.

The following table summarizes information regarding the sales of securities classified as available-for-sale for the three and nine-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Proceeds from sales	$ 2,010,884	$ 991,790	$ 4,400,898	$ 3,563,490
Gross realized gains from sales	37,494	41,893	83,416	89,130
Gross realized losses from sales	-	122	3,414	21,696

Gross realized gains and losses from sales were primarily attributable to changes in interest rates and losses on repurchase agreement transactions.

The Company had no fixed maturity securities that had been non-income producing for the twelve months preceding September 30, 2012. The Company had a corporate fixed maturity security with a fair value of $9,949 that had been non-income producing for the twelve months preceding December 31, 2011.

Mortgage loans on real estate - The following table summarizes the carrying value of the mortgage loan portfolio by component as of September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Principal	$ 2,584,574	$ 2,510,949
Unamortized premium (discount)	19,598	23,268
Allowance for credit loss	(3,957)	(21,130)
Total mortgage loans	$ 2,600,215	$ 2,513,087

The average recorded investment in impaired mortgage loans was $2,067 and $5,822 for the nine-month periods ended September 30, 2012 and 2011, respectively.

The following table summarizes the recorded investment of the mortgage loan portfolio by risk assessment category as of September 30, 2012, and December 31, 2011:

	September 30, 2012	December 31, 2011
Performing	$ 2,602,105	$ 2,532,150
Non-performing	2,067	2,067
Total	$ 2,604,172	$ 2,534,217

The following table summarizes activity in the allowance for mortgage loan credit losses for the nine months ended September 30, 2012 and the year ended December 31, 2011:

	Nine months ended September 30, 2012	Year ended December 31, 2011
Beginning balance	$ 21,130	$ 16,300
Provision increases	1,067	4,830
Provision decreases	(18,240)	-
Ending balance	$ 3,957	$ 21,130
Allowance ending balance by basis of impairment method:	$ 3,957	$ 21,130
Individually evaluated for impairment	1,067	-
Collectively evaluated for impairment	2,890	21,130
Recorded investment balance in the mortgage loan portfolio, gross of allowance, by basis of impairment method:	$ 2,604,172	$ 2,534,217
Individually evaluated for impairment	16,398	18,493
Collectively evaluated for impairment	2,587,774	2,515,724

Limited partnership and other corporation interests - At September 30, 2012 and December 31, 2011, the Company had $136,951 and $169,233, respectively, invested in limited partnership and other corporation interests, which include limited partnerships established for the purpose of investing in low-income housing that qualify for federal and state tax credits.

The Company has determined its investment in low-income housing limited partnerships ("LIHLP") to be considered a variable interest entity ("VIE"). Although the Company is involved with the VIE, it determined that consolidation was not required because it has no power to direct the activities that most significantly impact the entities' economic performance.

As a 99% limited partner in various upper-tier LIHLPs, the Company has few or no voting rights, but expects to receive the tax credits allocated to the partnership and operating losses from depreciation and interest expense. The Company is only an equity investor and views the LIHLP as a single investment. The general partner of the LIHLPs is most closely involved in the development and management of the LIHLP project. The general partner has a small ownership of the partnership, which requires a de minimus capital contribution. This equity investment is reduced based on fees paid at inception by the limited partner; therefore, the general partner does not qualify as having an equity investment at risk in the LIHLP project. However, the limited partner does not have the direct or indirect ability through voting rights or similar rights to make decisions about the general partner's activities that have a significant effect on the success of the partnership.

The carrying value and maximum exposure to loss in relation to the activities of the VIEs was $82,010 and $111,631 at September 30, 2012 and December 31, 2011, respectively.

Special deposits and securities lending - The Company had securities on deposit with government authorities as required by certain insurance laws with fair values in the amounts of $16,123 and $16,631 at September 30, 2012 and December 31, 2011, respectively.

The Company participates in a securities lending program whereby securities are loaned to third parties. Securities with a cost or amortized cost of $81,352 and $7,266 and estimated fair values of $81,753 and $6,823 were on loan under the program at September 30, 2012 and December 31, 2011, respectively. The Company received restricted cash collateral of $83,943 and $7,099 at September 30, 2012 and December 31, 2011, respectively.

Unrealized losses on fixed maturity investments classified as available-for-sale - The following tables summarize unrealized investment losses, including the non-credit-related portion of OTTI losses reported in AOCI, by class of investment at September 30, 2012 and December 31, 2011:

	September 30, 2012					
	Less than twelve months		Twelve months or longer		Total	
Fixed maturities:	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI
U.S. government direct obligations and U.S. agencies	$ 358,706	$ 402	$ 4,307	$ 147	$ 363,013	$ 549
Obligations of U.S. states and their subdivisions	13,613	109	-	-	13,613	109
Corporate debt securities	267,230	8,364	331,912	113,587	599,142	121,951
Asset-backed securities	116,797	2,801	609,095	84,193	725,892	86,994
Residential mortgage-backed securities	5,163	3	1,303	22	6,466	25
Commercial mortgage-backed securities	-	-	36,300	797	36,300	797
Collateralized debt obligations	-	-	12,186	1,813	12,186	1,813
Total fixed maturities	$ 761,509	$ 11,679	$ 995,103	$ 200,559	$ 1,756,612	$ 212,238
Total number of securities in an unrealized loss position		60		128		188

	December 31, 2011					
	Less than twelve months		Twelve months or longer		Total	
Fixed maturities:	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI	Estimated fair value	Unrealized loss and OTTI
U.S. government direct obligations and U.S. agencies	$ 297,410	$ 913	$ 17,531	$ 199	$ 314,941	$ 1,112
Obligations of U.S. states and their subdivisions	1,557	5	-	-	1,557	5
Corporate debt securities	363,111	12,986	479,441	141,273	842,552	154,259
Asset-backed securities	218,850	10,365	841,415	114,852	1,060,265	125,217
Residential mortgage-backed securities	14,203	373	120,364	3,592	134,567	3,965
Commercial mortgage-backed securities	6,726	13	68,952	7,559	75,678	7,572
Collateralized debt obligations	-	-	16,392	2,072	16,392	2,072
Total fixed maturities	$ 901,857	$ 24,655	$ 1,544,095	$ 269,547	$ 2,445,952	$ 294,202
Total number of securities in an unrealized loss position		89		167		256

Fixed maturity investments - Total unrealized losses and OTTI losses decreased by $81,964, or 28%, from December 31, 2011 to September 30, 2012. This decrease in unrealized losses was across most asset classes and reflects continued recovery in market liquidity and lower interest rates, although the economic uncertainty in certain asset classes still remains.

Unrealized losses on corporate debt securities decreased by $32,308 from December 31, 2011 to September 30, 2012. The valuation of these securities has been influenced by market conditions with increased liquidity and lower interest rates in the finance sector resulting in generally higher valuations of these fixed income securities. The finance sector accounted for 95% of the unrealized loss on corporate debt securities at September 30, 2012.

Corporate debt securities account for 57% of the unrealized losses and OTTI greater than twelve months. Of the $113,587 of unrealized losses and OTTI over twelve months on corporate debt securities, 57% are on securities which continue to be rated investment grade. Of the $49,352 of unrealized losses and OTTI greater than twelve months on non-investment grade corporate debt securities, $47,877 of the losses are on perpetual debt investments issued by banks in the United Kingdom, which have bank ratings of A- or higher. The Company determined the majority of the unrealized losses on perpetual securities were due to widening credit spreads and low LIBOR based coupon rates on the securities, which are not expected to compromise the issuers' ability to service the investments. Management does not have the intent to sell these assets prior to a full recovery; therefore, an OTTI was not recognized in earnings.

Asset-backed securities account for 42% of the unrealized losses and OTTI greater than twelve months. Of the $84,193 of unrealized losses and OTTI over twelve months on asset-backed securities, 87% of the losses are on securities which continue to be rated investment grade. The present value of the cash flows expected to be collected is not less than amortized cost. Management does not have the intent to sell these assets prior to a full recovery; therefore, an OTTI was not recognized in earnings.

See Note 6 for additional discussion regarding fair value measurements.

Other-than-temporary impairment recognition - There were no other-than-temporary impairments on fixed maturity investments for the three or nine months ended September 30, 2012. The Company recorded OTTI on fixed maturity investments for the three and nine months ended September 30, 2011, as follows:

	Three and nine months ended September 30, 2011			
	OTTI recognized in realized gains/(losses)		OTTI recognized in OCI [(2)]	
Fixed maturities:	Credit related [(1)]	Non-credit related	Non-credit related	Total
Asset-backed securities	$ 6,264	$ -	$ 10,004	$ 16,268
Total fixed maturities	$ 6,264	$ -	$ 10,004	$ 16,268

(1) Of the $6,264 in asset-backed fixed maturities, all is bifurcated credit loss recognized on one security.
(2) Amounts are recognized in OCI in the period incurred.

The OTTI of fixed maturity securities where the loss portion is bifurcated and the credit related component is recognized in realized investment gains (losses) is summarized as follows:

	Three and nine months ended September 30,	
	2012	2011
Bifurcated credit loss:		
Beginning balance	$ 186,999	$ 181,611
Additions:		
Initial impairments - credit loss on securities not previously impaired	-	6,264
Reductions:		
Due to sales, maturities, or payoffs during the period	(23,640)	(876)
Ending balance	$ 163,359	$ 186,999

5. Derivative Financial Instruments

Derivative transactions are primarily entered into pursuant to master agreements and other contracts that provide for a single net payment to be made by one party to the other on a daily basis, periodic payment dates, or at the due date, expiration or termination of the agreement.

The aggregate fair value of derivative instruments with credit-risk-related contingent features where the Company is in a net liability position was $17,093 and zero as of September 30, 2012 and December 31, 2011, respectively.

At September 30, 2012 and December 31, 2011, the Company had pledged $17,290 and zero of unrestricted cash collateral to counterparties in the normal course of business, while other counterparties had pledged $12,745 and $11,985 of unrestricted cash collateral to the Company to satisfy collateral netting agreements, respectively. Additionally, at September 30, 2012, one counterparty had pledged a security to the Company with a fair value of $8,423.

Cash flow hedges - Interest rate swap agreements are used to convert the interest rate on certain debt securities from a floating rate to a fixed rate. Cross-currency swaps are used to manage the foreign exchange rate risk associated with investments denominated in other than U.S. dollars. These derivatives are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities. The Company's derivatives treated as cash flow hedges are eligible for hedge accounting.

At September 30, 2012, the Company estimated that $7,760 of net derivative gains included in AOCI will be reclassified into net income within the next twelve months.

Fair value hedges - Interest rate swap agreements are used to convert the interest rate on certain debt securities from a fixed rate to a floating rate to manage the risk of the change in the fair value of certain fixed rate maturity investments. The Company's derivatives treated as fair value hedges are eligible for hedge accounting.

Derivatives not designated as hedging instruments

The Company enters into certain transactions in which derivatives are hedging an economic risk but hedge accounting is not elected. These derivative instruments include: exchange-traded interest rate swap futures, exchange-traded equity index futures on certain indices, OTC interest rate swaptions, OTC interest rate swaps, exchange-traded Eurodollar interest rate futures and interest rate futures.

The derivative instruments mentioned above are economic hedges and used to manage risk. These transactions are used to offset changes in liabilities, hedge the economic effect of a large increase in interest rates, manage the potential variability in future interest payments due to a change in credited interest rates and the related change in cash flows due to increased surrenders, manage interest rate risks of forecasted acquisitions of fixed rate maturity investments and forecasted liability pricing, and hedge equity-based fee income.

The following tables summarize derivative financial instruments at September 30, 2012 and December 31, 2011:

	September 30, 2012			
		Net derivatives	Asset derivatives	Liability derivatives
	Notional amount	Fair value	Fair value [1]	Fair value [1]
Hedge designation/derivative type:				
Derivatives designated as hedges:				
Cash flow hedges:				
Interest rate swaps	$ 184,200	$ 27,991	$ 27,991	$ -
Cross-currency swaps	232,140	(27,365)	5,306	32,671
Total cash flow hedges	416,340	626	33,297	32,671
Fair value hedges:				
Interest rate swaps	35,800	(1,773)	-	1,773
Total fair value hedges	35,800	(1,773)	-	1,773
Total derivatives designated as hedges	452,140	(1,147)	33,297	34,444
Derivatives not designated as hedges:				
Interest rate swaps	28,335	296	1,577	1,281
Futures on equity indices	2,160	-	-	-
Interest rate futures	104,360	-	-	-
Interest rate swaptions	737,354	294	294	-
Total derivatives not designated as hedges	872,209	590	1,871	1,281
Total cash flow hedges, fair value hedges and derivatives not designated as hedges	$ 1,324,349	$ (557)	$ 35,168	$ 35,725

[1] The estimated fair value of all derivatives in an asset position is reported within other assets and the estimated fair value of all derivatives in a liability position is reported within other liabilities in the condensed consolidated balance sheets.

	December 31, 2011			
		Net derivatives	Asset derivatives	Liability derivatives
	Notional amount	Fair value	Fair value [1]	Fair value [1]
Hedge designation/derivative type:				
Derivatives designated as hedges:				
Cash flow hedges:				
Interest rate swaps	$ 184,200	$ 20,894	$ 20,894	$ -
Cross-currency swaps	69,030	6,241	6,241	-
Total cash flow hedges	253,230	27,135	27,135	-
Fair value hedges:				
Interest rate swaps	35,800	(1,011)	-	1,011
Total fair value hedges	35,800	(1,011)	-	1,011
Total derivatives designated as hedges	289,030	26,124	27,135	1,011
Derivatives not designated as hedges:				
Interest rate swaps	392,235	(8,316)	4,687	13,003
Futures on equity indices	2,680	-	-	-
Interest rate futures	59,090	-	-	-
Interest rate swaptions	890,400	944	944	-
Total derivatives not designated as hedges	1,344,405	(7,372)	5,631	13,003
Total cash flow hedges, fair value hedges and derivatives not designated as hedges	$ 1,633,435	$ 18,752	$ 32,766	$ 14,014

[1] The estimated fair value of all derivatives in an asset position is reported within other assets and the estimated fair value of all derivatives in a liability position is reported within other liabilities in the condensed consolidated balance sheets.

Notional amounts are used to express the extent of the Company's involvement in derivative transactions and represent a standard measurement of the volume of its derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received.

The Company had 42 and 143 swap transactions with an average notional amount of $11,817 and $16,361 during the nine months ended September 30, 2012 and the year ended December 31, 2011, respectively. During the nine months ended September 30, 2012 and the year ended December 31, 2011, the Company had 9 and one cross-currency swap transaction(s) with an average notional amount of $15,173 and $39,030, respectively. The Company had 710 and 1,678 futures transactions with an average number of contracts per transaction of 10 and 18 during the nine months ended September 30, 2012 and the year ended December 31, 2011, respectively. The Company had 37 and 44 swaption transactions with an average notional amount of $5,107 and $5,986 during the nine months ended September 30, 2012, and during the year ended December 31, 2011, respectively.

Significant changes in the derivative notional amount during the nine months ended September 30, 2012, were primarily due to the following:

- The net decrease of $472,196 in interest rate swaps, interest rate swaptions and futures was primarily due to a change in the Company's interest rate risk hedging strategy.
- The increase of $163,110 in cross-currency swaps was due to additional swaps opened to hedge newly purchased assets denominated in British pounds and Euros.

The Company recognized total derivative gains (losses) in net investment income of $29 and ($9,761) for the three-month periods ended September 30, 2012 and 2011, respectively. The Company recognized total derivative gains (losses) in net investment income of $10,410 and ($13,413) for the nine-month periods ended

September 30, 2012 and 2011, respectively. The Company recognized net investment gains (losses) on closed derivative positions of ($1,878) and ($23,877) for the three-month periods ended September 30, 2012 and 2011, respectively. The Company recognized net investment gains (losses) on closed derivative positions of ($8,839) and ($22,078) for the nine-month periods ended September 30, 2012 and 2011, respectively. The preceding amounts are shown net of any gains (losses) on the hedged assets in a fair value hedge that has been recorded in net investment income.

The following tables present the effect of derivative instruments in the condensed consolidated statement of income for the three and nine-month periods ended September 30, 2012 and 2011 reported by cash flow hedges, fair value hedges and economic hedges:

	Gain (loss) recognized in OCI on derivatives (Effective portion)		Gain (loss) reclassified from OCI into net income (Effective portion)			Gain (loss) recognized in net income on derivatives (Ineffective portion and amount excluded from effectiveness testing)		
	Three months ended September 30,		Three months ended September 30,			Three months ended September 30,		
	2012	2011	2012	2011		2012	2011	
Cash flow hedges:								
Interest rate swaps	$ 889	$ 17,720	$ 707	$ 702	(A)	$ -	$ (2)	(A)
Cross-currency swaps	(9,467)	2,347	-	-		-	-	
Interest rate futures	-	-	16	10	(A)	-	(49)	(A)
Interest rate futures	-	-	-	-		-	3,976	(B)
Total cash flow hedges	$ (8,578)	$ 20,067	$ 723	$ 712		$ -	$ 3,925	

	Gain (loss) recognized in OCI on derivatives (Effective portion)		Gain (loss) reclassified from OCI into net income (Effective portion)			Gain (loss) recognized in net income on derivatives (Ineffective portion and amount excluded from effectiveness testing)		
	Nine months ended September 30,		Nine months ended September 30,			Nine months ended September 30,		
	2012	2011	2012	2011		2012	2011	
Cash flow hedges:								
Interest rate swaps	$ 7,095	$ 20,974	$ 2,149	$ 1,995	(A)	$ -	$ 5	(A)
Cross-currency swaps	(8,634)	(386)	-	-		-	-	
Interest rate futures	-	-	48	32	(A)	-	(84)	(A)
Interest rate futures	-	(1,431)	-	-		-	6	(B)
Total cash flow hedges	$ (1,539)	$ 19,157	$ 2,197	$ 2,027		$ -	$ (73)	

(A) Net investment income.
(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

	Gain (loss) on derivatives recognized in net income			Gain (loss) on hedged assets recognized in net income		
	Three months ended September 30,			Three months ended September 30,		
	2012	2011		2012	2011	
Fair value hedges:						
Interest rate swaps	$ (69)	$ -	(A)	$ -	$ -	
Interest rate futures	-	(1,276)	(A)	-	-	
Interest rate futures	-	(5,478)	(B)	-	-	
Items hedged in interest rate swaps	-	-		69	-	(A)
Items hedged in interest rate futures	-	-		-	3,756	(A)
Items hedged in interest rate futures	-	-		-	1,926	(B)
Total fair value hedges [1]	$ (69)	$ (6,754)		$ 69	$ 5,682	

[1] Hedge ineffectiveness of zero and ($1,072) was recognized during the three-month periods ended September 30, 2012 and 2011, respectively.
(A) Net investment income.
(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

	Gain (loss) on derivatives recognized in net income			Gain (loss) on hedged assets recognized in net income		
	Nine months ended September 30,			Nine months ended September 30,		
	2012	2011		2012	2011	
Fair value hedges:						
Interest rate swaps	$ (762)	$ -	(A)	$ -	$ -	
Interest rate futures	-	(516)	(A)	-	-	
Interest rate futures	-	(7,362)	(B)	-	-	
Items hedged in interest rate swaps	-	-		762	-	(A)
Items hedged in interest rate futures	-	-		-	2,699	(A)
Items hedged in interest rate futures	-	-		-	3,563	(B)
Total fair value hedges [1]	$ (762)	$ (7,878)		$ 762	$ 6,262	

[1] Hedge ineffectiveness of zero and ($1,616) was recognized during the nine-month periods ended September 30, 2012 and 2011, respectively.
(A) Net investment income.
(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

	Gain (loss) on derivatives recognized in net income			
	Three months ended September 30,			
	2012		2011	
Derivatives not designated as hedging instruments:				
Futures on equity indices	$ (4)	(A)	$ 150	(A)
Futures on equity indices	(1,077)	(B)	75	(B)
Interest rate swaps	(267)	(A)	(12,671)	(A)
Interest rate swaps	-	(B)	(23,727)	(B)
Interest rate futures	(547)	(A)	296	(A)
Interest rate futures	(306)	(B)	(447)	(B)
Interest rate swaptions	124	(A)	(677)	(A)
Interest rate swaptions	(495)	(B)	(202)	(B)
Total derivatives not designated as hedging instruments	$ (2,572)		$ (37,203)	

(A) Net investment income.
(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

	Gain (loss) on derivatives recognized in net income			
	Nine months ended September 30,			
	2012		2011	
Derivatives not designated as hedging instruments:				
Futures on equity indices	$ 75	(A)	$ 126	(A)
Futures on equity indices	(1,299)	(B)	386	(B)
Interest rate swaps	8,611	(A)	(14,688)	(A)
Interest rate swaps	(4,432)	(B)	(27,767)	(B)
Interest rate futures	(831)	(A)	533	(A)
Interest rate futures	(1,843)	(B)	(584)	(B)
Interest rate swaptions	358	(A)	(3,515)	(A)
Interest rate swaptions	(1,265)	(B)	(431)	(B)
Total derivatives not designated as hedging instruments	$ (626)		$ (45,940)	

(A) Net investment income.
(B) Represents realized gains (losses) on closed positions recorded in realized investment gains (losses), net.

6. Fair Value Measurements

Recurring fair value measurements

The following tables present the Company's financial assets and liabilities carried at fair value on a recurring basis by fair value hierarchy category as of September 30, 2012 and December 31, 2011:

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2012 and 2011
(Dollars in Thousands)
(Unaudited)

	Assets and liabilities measured at fair value on a recurring basis			
	September 30, 2012			
Assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities available-for-sale:				
U.S. government direct obligations and U.S. agencies	$ -	$ 2,730,477	$ -	$ 2,730,477
Obligations of U.S. states and their subdivisions	-	2,064,910	-	2,064,910
Foreign governments	-	1,602	-	1,602
Corporate debt securities	-	10,052,194	1,775	10,053,969
Asset-backed securities	-	1,634,906	271,796	1,906,702
Residential mortgage-backed securities	-	499,009	-	499,009
Commercial mortgage-backed securities	-	709,182	-	709,182
Collateralized debt obligations	-	12,186	32	12,218
Total fixed maturities available-for-sale	-	17,704,466	273,603	17,978,069
Fixed maturities held for trading:				
U.S. government direct obligations and U.S. agencies	-	115,895	-	115,895
Corporate debt securities	-	61,767	-	61,767
Asset-backed securities	-	43,124	-	43,124
Total fixed maturities held for trading	-	220,786	-	220,786
Short-term investments available-for-sale	64,179	1,715,483	-	1,779,662
Collateral under securities lending agreements	83,943	-	-	83,943
Collateral under derivative counterparty collateral agreements	30,035	-	-	30,035
Derivative instruments designated as hedges:				
Interest rate swaps	-	27,991	-	27,991
Cross-currency swaps	-	5,306	-	5,306
Derivative instruments not designated as hedges:				
Interest rate swaps	-	1,577	-	1,577
Interest rate swaptions	-	294	-	294
Total derivative instruments	-	35,168	-	35,168
Separate account assets	11,902,603	12,633,389	-	24,535,992
Total assets	$ 12,080,760	$ 32,309,292	$ 273,603	$ 44,663,655
Liabilities				
Payable under securities lending agreements	$ 83,943	$ -	$ -	$ 83,943
Payable under derivative counterparty collateral agreements	12,745	-	-	12,745
Derivative instruments designated as hedges:				
Interest rate swaps	-	1,773	-	1,773
Cross-currency swaps	-	32,671	-	32,671
Derivative instruments not designated as hedges:				
Interest rate swaps	-	1,281	-	1,281
Total derivative instruments	-	35,725	-	35,725
Separate account liabilities [1]	140	551,343	-	551,483
Total liabilities	$ 96,828	$ 587,068	$ -	$ 683,896

[1] Includes only separate account instruments which are carried at the fair value of the underlying assets or liabilities owned by the separate accounts.

	Assets and liabilities measured at fair value on a recurring basis			
	December 31, 2011			
Assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities available-for-sale:				
U.S. government direct obligations and U.S. agencies	$ -	$ 2,315,671	$ -	$ 2,315,671
Obligations of U.S. states and their subdivisions	-	2,071,170	-	2,071,170
Corporate debt securities	-	8,859,250	36,496	8,895,746
Asset-backed securities	-	1,672,423	279,021	1,951,444
Residential mortgage-backed securities	-	591,542	-	591,542
Commercial mortgage-backed securities	-	747,797	-	747,797
Collateralized debt obligations	-	16,391	22	16,413
Total fixed maturities available-for-sale	-	16,274,244	315,539	16,589,783
Fixed maturities held for trading:				
U.S. government direct obligations and U.S. agencies	-	36,352	-	36,352
Corporate debt securities	-	60,243	-	60,243
Asset-backed securities	-	43,905	-	43,905
Commercial mortgage-backed securities	-	7,026	-	7,026
Total fixed maturities held for trading	-	147,526	-	147,526
Short-term investments available-for-sale	45,869	286,895	-	332,764
Collateral under securities lending agreements	7,099	-	-	7,099
Collateral under derivative counterparty collateral agreements	11,985	-	-	11,985
Derivative instruments designated as hedges:				
Interest rate swaps	-	20,894	-	20,894
Cross-currency swaps	-	6,241	-	6,241
Derivative instruments not designated as hedges:				
Interest rate swaps	-	4,687	-	4,687
Interest rate swaptions	-	944	-	944
Total derivative instruments	-	32,766	-	32,766
Separate account assets [1]	10,646,426	11,568,489	2,118	22,217,033
Total assets	$ 10,711,379	$ 28,309,920	$ 317,657	$ 39,338,956
Liabilities				
Payable under securities lending agreements	$ 7,099	$ -	$ -	$ 7,099
Payable under derivative counterparty collateral agreements	11,985	-	-	11,985
Derivative instruments designated as hedges:				
Interest rate swaps	-	1,011	-	1,011
Derivative instruments not designated as hedges:				
Interest rate swaps	-	13,003	-	13,003
Total derivative instruments	-	14,014	-	14,014
Separate account liabilities [1]	74	278,796	-	278,870
Total liabilities	$ 19,158	$ 292,810	$ -	$ 311,968

[1] Includes only separate account instruments which are carried at the fair value of the underlying assets or liabilities owned by the separate accounts.

The methods and assumptions used to estimate the fair value of the Company's financial assets and liabilities carried at fair value on a recurring basis are as follows:

Fixed maturity investments

The fair values for fixed maturity investments are based upon quoted market prices or estimates from independent pricing services. However, in cases where quoted market prices are not readily available, such as for private fixed maturity investments, fair values are estimated. To determine estimated fair value for these instruments, the Company generally utilizes discounted cash flows calculated at current market rates on investments of similar quality and term. Fair value estimates are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty.

Short-term investments and securities lending agreements

The amortized cost of short-term investments and collateral and payable under securities lending agreements is a reasonable estimate of fair value due to their short-term nature.

Derivative counterparty collateral agreements

Included in other assets and other liabilities is cash collateral received from derivative counterparties and the obligation to return the cash collateral to the counterparties. The carrying value of the collateral is a reasonable estimate of fair value.

Derivative instruments

Included in other assets and other liabilities are derivative financial instruments. The estimated fair values of OTC derivatives, primarily consisting of interest rate swaps and interest rate swaptions which are held for other than trading purposes, are the estimated amounts the Company would receive or pay to terminate the agreements at the end of each reporting period, taking into consideration current interest rates, counterparty credit risk and other relevant factors.

Separate account assets

Separate account assets primarily include investments in mutual fund, fixed maturity and short-term securities. Mutual funds are recorded at net asset value, which approximates fair value, on a daily basis. The fixed maturity and short-term investments are valued in the same manner, and using the same pricing sources and inputs as the fixed maturity and short-term investments of the Company.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2012 and 2011
(Dollars in Thousands)
(Unaudited)

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Recurring Level 3 financial assets and liabilities Three months ended September 30, 2012			
	Fixed maturities available-for-sale			
	Corporate debt securities	Asset-backed securities	Collateralized debt obligations	Total
Balance, July 1, 2012	$ 5,460	$ 269,035	$ 19	$ 274,514
Realized and unrealized gains (losses) included in:				
Other comprehensive income (loss)	33	12,547	12	12,592
Settlements	16	(9,786)	1	(9,769)
Transfers out of Level 3 [1]	(3,734)	-	-	(3,734)
Balance, September 30, 2012	$ 1,775	$ 271,796	$ 32	$ 273,603
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets held at September 30, 2012	$ -	$ -	$ -	$ -

[1] Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors and internal models.

	Recurring Level 3 financial assets and liabilities Three months ended September 30, 2011				
	Fixed maturities available-for-sale				
	Corporate debt securities	Asset-backed securities	Collateralized debt obligations	Separate accounts	Total
Balance, July 1, 2011	$ 49,376	$ 285,399	$ 21	$ 10,124	$ 344,920
Realized and unrealized gains (losses) included in:					
Net income	416	(192)	-	(133)	261
Other comprehensive income (loss)	(1,274)	5,585	-	(14,302)	(10,160)
Purchases	-	-	-	-	3,871
Sales	(2,924)	-	-	(1,845)	(4,803)
Settlements	(821)	(7,642)	-	(3,114)	(11,543)
Transfers into Level 3 [1]	-	-	-	67,328	63,456
Transfers out of Level 3 [1]	-	-	-	(7,074)	(7,074)
Balance, September 30, 2011	$ 44,773	$ 283,150	$ 21	$ 50,984	$ 378,928
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets held at September 30, 2011	$ -	$ -	$ -	$ -	$ -

[1] Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

	Recurring Level 3 financial assets and liabilities Nine months ended September 30, 2012				
	Fixed maturities available-for-sale				
	Corporate debt securities	Asset-backed securities	Collateralized debt obligations	Separate accounts	Total
Balance, January 1, 2012	$ 36,496	$ 279,021	$ 22	$ 2,118	$ 317,657
Realized and unrealized gains (losses) included in:					
Net income	(66)	-	-	(1,715)	(1,781)
Other comprehensive income (loss)	70	22,298	11	1,627	24,006
Sales	(1,598)	-	-	(1,997)	(3,595)
Settlements	(795)	(24,503)	(1)	(33)	(25,332)
Transfers out of Level 3 [1]	(32,332)	(5,020)	-	-	(37,352)
Balance, September 30, 2012	$ 1,775	$ 271,796	$ 32	$ -	$ 273,603
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets held at September 30, 2012	$ -	$ -	$ -	$ -	$ -

[1] Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors and internal models.

	Recurring Level 3 financial assets and liabilities Nine months ended September 30, 2011				
	Fixed maturities available-for-sale				
	Corporate debt securities	Asset-backed securities	Collateralized debt obligations	Separate accounts	Total
Balance, January 1, 2011	$ 58,692	$ 290,488	$ 14	$ 4,278	$ 353,472
Realized and unrealized gains (losses) included in:					
Net income	3,666	(192)	-	(133)	3,511
Other comprehensive income (loss)	(740)	17,612	7	(13,868)	2,994
Purchases	-	-	-	-	7,843
Sales	(4,816)	-	-	(1,847)	(6,959)
Settlements	(16,983)	(24,758)	-	(4,674)	(44,835)
Transfers into Level 3 [1]	7,333	-	-	67,328	74,356
Transfers out of Level 3 [1]	(2,379)	-	-	(100)	(11,454)
Balance, September 30, 2011	$ 44,773	$ 283,150	$ 21	$ 50,984	$ 378,928
Total gains (losses) for the period included in net income attributable to the change in unrealized gains and losses relating to assets held at September 30, 2011	$ -	$ -	$ -	$ -	$ -

[1] Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

The following table presents significant unobservable inputs used during the valuation of certain assets categorized within Level 3 of the recurring fair value measurements table:

	September 30, 2012			
	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Fixed maturities available-for-sale:				
Asset-backed securities[1]	$271,722	Internal model pricing	Prepayment speed assumption	5
			Constant default rate assumption	6
			Adjusted ABX Index spread assumption [2]	654

[1] Includes home improvement loans only.
[2] Includes an internally calculated liquidity premium adjustment of 217.

After adjusting the ABX Index spread assumption by the liquidity premium, the overall discount rate ranged from 389 to 923 basis points. The constant default rate assumption ranged from 2.0 to 14.7.

The significant unobservable inputs used in the fair value measurement of asset-backed securities are prepayment speed assumptions, constant default rate assumptions and the ABX Index spread adjusted by an internally calculated liquidity premium with the primary inputs being the constant default rate assumption and the adjusted ABX Index spread assumption. As the constant default rate assumption or the adjusted ABX Index spread assumption increases, the price and therefore, the fair value, of the securities decreases.

Non-recurring fair value measurements - Certain assets are measured at estimated fair value on a non-recurring basis and are not included in the tables above. The Company held zero and $19,745 of adjusted cost basis limited partnership interests which were impaired at September 30, 2012 and December 31, 2011, respectively, based on the fair value disclosed in the limited partnership financial statements. The estimated fair value was categorized as Level 3.

Fair value of financial instruments

The following tables summarize the carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value on a recurring basis at September 30, 2012, and December 31, 2011:

	September 30, 2012		December 31, 2011	
Assets	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Mortgage loans on real estate	$ 2,600,215	$ 2,813,296	$ 2,513,087	$ 2,679,474
Policy loans	4,215,850	4,215,850	4,219,849	4,219,849
Limited partnership interests	47,586	43,075	48,053	41,931
Other investments	19,335	45,167	22,990	47,915
Liabilities				
Annuity contract benefits without life contingencies	$ 9,281,165	$ 9,570,927	$ 8,727,286	$ 8,888,585
Policyholders' funds	350,423	350,423	382,816	382,816
Repurchase agreements	1,473,393	1,473,393	-	-
Commercial paper	99,089	99,089	97,536	97,536
Notes payable	541,742	555,939	532,463	515,104

The methods and assumptions used to estimate the fair value of financial instruments not carried at fair value on a recurring basis are summarized as follows:

Mortgage loans on real estate

Mortgage loan fair value estimates are generally based on discounted cash flows. A discount rate matrix is used where the discount rate valuing a specific mortgage generally corresponds to that mortgage's remaining term and credit quality. Management believes the discount rate used is comparable to the credit, interest rate, term, servicing costs and risks of loans similar to the portfolio loans that the Company would make today given its internal pricing strategy. The estimated fair value was classified as Level 2.

Policy loans

The policy loans accrue interest at variable rates that approximate current market interest rates. Additionally, policy loans are fully collateralized by the cash surrender value of the underlying insurance policy. Given the absence of borrower credit risk and the short time period between interest rate resets, carrying value approximates fair value. The estimated fair value was classified as Level 2.

Limited partnership interests

Limited partnership interests, accounted for using the cost method, represent the Company's minor ownership interests in pooled investment funds. These funds employ varying investment strategies that principally make private equity investments across diverse industries and geographical focuses. The estimated fair value was determined by using the partnership financial statement reported capital account or net asset value adjusted for other relevant information which may impact the exit value of the investments. Distributions by these investments are generated from investment gains, from operating income generated by the underlying investments of the funds and from liquidation of the underlying assets of the funds which are estimated to be liquidated over the next one to ten years. The estimated fair value was classified as Level 3.

Other investments

Other investments primarily include real estate held for investment. The estimated fair value for real estate is based on the unadjusted annual appraised value which includes factors such as comparable property sales, property income analysis, and capitalization rates. The estimated fair value was classified as Level 2.

Annuity contract benefits without life contingencies

The estimated fair value of annuity contract benefits without life contingencies is estimated by discounting the projected expected cash flows to the maturity of the contracts, utilizing risk-free spot interest rates plus a provision for the Company's credit risk. The estimated fair value was classified as Level 2.

Policyholders' funds

The carrying amount of policyholders' funds approximates the fair value since the Company can change the interest crediting rates with 30 days notice. The estimated fair value was classified as Level 2.

Repurchase agreements and commercial paper

The amortized cost of repurchase agreements and commercial paper is a reasonable estimate of fair value due to their short-term nature. The estimated fair value was classified as Level 2.

Notes payable

The estimated fair value of the notes payable to GWL&A Financial is based upon quoted market prices from independent pricing services of securities with characteristics similar to those of the notes payable. As a result, the estimated fair value was classified as Level 2.

7. Other Comprehensive Income

The following tables present the composition of other comprehensive income (loss) for the three and nine-month periods ended September 30, 2012 and 2011:

	Three months ended September 30, 2012		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Unrealized holding gains arising during the year on available-for-sale fixed maturity investments	$ 300,076	$ (105,027)	$ 195,049
Net changes during the year related to cash flow hedges	(8,578)	3,002	(5,576)
Reclassification adjustment for (gains) losses realized in net income	(37,801)	13,230	(24,571)
Net unrealized gains	253,697	(88,795)	164,902
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(79,224)	27,729	(51,495)
Other comprehensive income	$ 174,473	$ (61,066)	$ 113,407

	Three months ended September 30, 2011		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Unrealized holding gains arising during the year on available-for-sale fixed maturity investments	$ 369,310	$ (129,259)	$ 240,051
Net changes during the year related to cash flow hedges	20,067	(7,023)	13,044
Reclassification adjustment for (gains) losses realized in net income	(39,153)	13,704	(25,449)
Net unrealized gains	350,224	(122,578)	227,646
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(34,120)	11,942	(22,178)
Other comprehensive income	$ 316,104	$ (110,636)	$ 205,468

	Nine months ended September 30, 2012		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Unrealized holding gains arising during the year on available-for-sale fixed maturity investments	$ 511,810	$ (179,134)	$ 332,676
Net changes during the year related to cash flow hedges	(1,539)	539	(1,000)
Reclassification adjustment for (gains) losses realized in net income	(82,482)	28,869	(53,613)
Net unrealized gains	427,789	(149,726)	278,063
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(108,286)	37,900	(70,386)
Other comprehensive income	$ 319,503	$ (111,826)	$ 207,677

	Nine months ended September 30, 2011		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Unrealized holding gains arising during the year on available-for-sale fixed maturity investments	$ 512,257	$ (179,290)	$ 332,967
Net changes during the year related to cash flow hedges	19,157	(6,705)	12,452
Reclassification adjustment for (gains) losses realized in net income	(63,200)	22,120	(41,080)
Net unrealized gains	468,214	(163,875)	304,339
Future policy benefits, deferred acquisition costs and value of business acquired adjustments	(63,035)	22,062	(40,973)
Other comprehensive income	$ 405,179	$ (141,813)	$ 263,366

8. Employee Benefit Plans

Net periodic (benefit) cost of the Defined Benefit Pension Plan, the Post-Retirement Medical Plan and the Supplemental Executive Retirement Plan included in general insurance expenses in the accompanying condensed consolidated statements of income for the three and nine-month periods ended September 30, 2012 and 2011, include the following components:

	Three months ended September 30,					
	2012	2011	2012	2011	2012	2011
	Defined Benefit Pension Plan		Post-Retirement Medical Plan		Supplemental Executive Retirement Plan	
Components of periodic (benefit) cost:						
Service costs	$ 1,088	$ 1,008	$ 205	$ 160	$ 251	$ 229
Interest costs	5,236	4,996	143	146	736	784
Expected return on plan assets	(5,459)	(5,245)	-	-	-	-
Amortization of transition obligation	-	(347)	-	-	-	-
Amortization of unrecognized prior service cost (benefit)	12	12	(413)	(413)	235	1,883
Amortization of loss (gain) from earlier periods	3,086	1,162	(114)	(157)	184	36
Net periodic (benefit) cost	$ 3,963	$ 1,586	$ (179)	$ (264)	$ 1,406	$ 2,932

	Nine months ended September 30,					
	2012	2011	2012	2011	2012	2011
	Defined Benefit Pension Plan		Post-Retirement Medical Plan		Supplemental Executive Retirement Plan	
Components of periodic (benefit) cost:						
Service costs	$ 3,263	$ 2,951	$ 613	$ 466	$ 743	$ 687
Interest costs	15,708	15,215	427	439	2,184	2,352
Expected return on plan assets	(16,348)	(15,820)	-	-	-	-
Amortization of transition obligation	-	(1,041)	-	-	-	-
Amortization of unrecognized prior service cost (benefit)	38	38	(1,238)	(1,238)	700	2,351
Amortization of loss (gain) from earlier periods	7,456	3,836	(341)	(458)	478	108
Net periodic (benefit) cost	$ 10,117	$ 5,179	$ (539)	$ (791)	$ 4,105	$ 5,498

The Company expects to make payments of approximately $460 with respect to its Post-Retirement Medical Plan and $2,800 with respect to its Supplemental Executive Retirement Plan during the year ended December 31, 2012. The Company has contributed $17,600 to its Defined Benefit Pension Plan and does not expect to make any additional contributions during the year ended December 31, 2012. The measurement date used to determine pension and post-retirement medical benefits is December 31.

The following table summarizes contributions to the Defined Benefit Pension Plan and payments made to the Post-Retirement Medical Plan and the Supplemental Executive Retirement Plan for the three and nine-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Contributions to the Defined Benefit Pension Plan	$ 4,300	$ 4,100	$ 17,600	$ 7,100
Payments to the Post-Retirement Medical Plan	109	105	346	225
Payments to the Supplemental Executive Retirement Plan	698	698	2,094	2,021

9. Federal Income Taxes

The following table identifies the elements of the Company's income tax provision for the three and nine-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Current	$ 35,877	$ 7,814	$ 68,560	$ 53,332
Deferred	9,307	16,866	33,579	23,368
Total income tax provision	$ 45,184	$ 24,680	$ 102,139	$ 76,700

The following table presents a reconciliation between the statutory federal income tax rate and the Company's effective federal income tax rate for the nine-month periods ended September 30, 2012 and 2011:

	Nine months ended September 30,	
	2012	2011
Statutory federal income tax rate	35.0%	35.0%
Income tax effect of:		
Investment income not subject to federal tax	(2.2%)	(2.3%)
Tax credits	(1.3%)	(1.9%)
State income taxes, net of federal benefit	1.2%	1.2%
Income tax contingency provisions	0.1%	(1.0%)
Prior year income tax adjustment	4.1%	0.0%
Other, net	(0.1%)	(0.5%)
Effective federal income tax rate	36.8%	30.5%

The Company recorded an adjustment to income tax expense in the amount of $11,370 during the nine months ended September 30, 2012, related to the closing of the 2008 tax year IRS examination.

During the nine months ended September 30, 2012, the Company recorded a decrease in unrecognized tax benefits in the amount of $6,498. The Company anticipates additional increases in its unrecognized tax benefits of $2,500 to $4,500 in the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years 2008 and prior. Tax years 2009, 2010 and 2011 are open to federal examination by the Internal Revenue Service. The Company does not expect significant increases or decreases to unrecognized tax benefits relating to federal, state or local audits.

10. Segment Information

The Company has three reportable segments: Individual Markets, Retirement Services and Other.

Individual Markets

The Individual Markets reporting and operating segment distributes individual retirement accounts, life insurance and annuity products, and business-owned life insurance and executive benefits products through various distribution channels. Life insurance products in-force include participating and non-participating term life, whole life, universal life and variable universal life.

Retirement Services

The Retirement Services reporting and operating segment provides various retirement plan products and investment options and educational, advisory, enrollment and communication services to employer-sponsored defined contribution and associated defined benefit plans, as well as comprehensive administrative and record-keeping services for financial institutions and employers.

Other

The Company's Other reporting segment substantially comprises activity under the assumption reinsurance agreement between Great-West Life & Annuity Insurance Company of South Carolina ("GWSC") and Canada Life Assurance Company ("CLAC") (the "GWSC operating segment"), corporate items not directly allocated to the other operating segments and interest expense on long-term debt.

The accounting principles used to determine segment results are the same as those used in the consolidated financial statements. The Company evaluates performance of its reportable segments based on their profitability from operations after income taxes. Inter-segment transactions and balances have been eliminated in consolidation. The Company's operations are not materially dependent on one or a few customers, brokers or agents.

The following table summarizes segment financial information for the three months ended September 30, 2012:

	Three months ended September 30, 2012			
	Individual Markets	Retirement Services	Other	Total
Revenue:				
Premium income	$ 112,109	$ 1,742	$ 26,181	$ 140,032
Fee income	17,909	113,083	1,210	132,202
Net investment income	182,500	98,242	11,867	292,609
Net realized gains on investments	24,466	30,659	-	55,125
Total revenues	336,984	243,726	39,258	619,968
Benefits and expenses:				
Policyholder benefits	250,666	52,392	30,664	333,722
Operating expenses	32,007	128,642	17,142	177,791
Total benefits and expenses	282,673	181,034	47,806	511,513
Income (loss) before income taxes	54,311	62,692	(8,548)	108,455
Income tax expense	18,226	20,679	6,279	45,184
Net income (loss)	$ 36,085	$ 42,013	$ (14,827)	$ 63,271

The following table summarizes segment financial information for the three months ended September 30, 2011:

	Three months ended September 30, 2011			
	Individual Markets	Retirement Services	Other	Total
Revenue:				
Premium income	$ 120,409	$ -	$ 38,279	$ 158,688
Fee income	15,580	103,298	1,222	120,100
Net investment income	178,131	97,284	11,835	287,250
Net realized gains (losses)on investments	10,762	(633)	613	10,742
Total revenues	324,882	199,949	51,949	576,780
Benefits and expenses:				
Policyholder benefits	262,973	60,431	25,020	348,424
Operating expenses	18,406	101,963	28,855	149,224
Total benefits and expenses	281,379	162,394	53,875	497,648
Income (loss) before income taxes	43,503	37,555	(1,926)	79,132
Income tax expense (benefit)	15,322	10,794	(1,436)	24,680
Net income (loss)	$ 28,181	$ 26,761	$ (490)	$ 54,452

The following table summarizes segment financial information for the nine months ended September 30, 2012:

	Nine months ended September 30, 2012			
	Individual Markets	Retirement Services	Other	Total
Revenue:				
Premium income	$ 257,868	$ 3,608	$ 82,034	$ 343,510
Fee income	54,806	335,864	3,635	394,305
Net investment income	547,393	312,621	35,516	895,530
Net realized gains on investments	40,335	51,555	34	91,924
Total revenues	900,402	703,648	121,219	1,725,269
Benefits and expenses:				
Policyholder benefits	685,510	154,770	88,209	928,489
Operating expenses	98,540	368,739	52,049	519,328
Total benefits and expenses	784,050	523,509	140,258	1,447,817
Income (loss) before income taxes	116,352	180,139	(19,039)	277,452
Income tax expense	39,107	59,552	3,480	102,139
Net income (loss)	$ 77,245	$ 120,587	$ (22,519)	$ 175,313

The following table summarizes segment financial information for the nine months ended September 30, 2011:

	Nine months ended September 30, 2011			
	Individual Markets	Retirement Services	Other	Total
Revenue:				
Premium income	$ 323,126	$ 3,569	$ 100,184	$ 426,879
Fee income	48,019	311,780	3,683	363,482
Net investment income	534,568	297,644	35,591	867,803
Net realized gains on investments	16,570	2,540	637	19,747
Total revenues	922,283	615,533	140,095	1,677,911
Benefits and expenses:				
Policyholder benefits	731,455	169,870	71,176	972,501
Operating expenses	69,762	316,256	68,023	454,041
Total benefits and expenses	801,217	486,126	139,199	1,426,542
Income before income taxes	121,066	129,407	896	251,369
Income tax expense	37,810	38,679	211	76,700
Net income	$ 83,256	$ 90,728	$ 685	$ 174,669

11. Commitments and Contingencies

Commitments

The Company has a revolving credit facility agreement in the amount of $50,000 for general corporate purposes. The credit facility matures on May 26, 2013. Interest accrues at a rate dependent on various conditions and terms of borrowings. The agreement requires, among other things, the Company to maintain a minimum adjusted net worth, as defined, of $1,000,000 plus 50% of its net income, if positive and as defined in the credit facility agreement (both compiled on the unconsolidated statutory accounting basis prescribed by the National Association of Insurance Commissioners (the "NAIC")) for each quarter ending after March 31, 2010. The Company was in compliance with all covenants at September 30, 2012, and December 31, 2011. At September 30, 2012, and December 31, 2011, there were no outstanding amounts related to this credit facility.

The Company's wholly owned subsidiary GWSC and CLAC are parties to a reinsurance agreement pursuant to which GWSC assumes term life insurance from CLAC. GWL&A Financial obtained two letters of credit for the benefit of the Company as collateral under the GWSC and CLAC reinsurance agreement for policy liabilities and capital support. The first letter of credit is for $1,140,900 and renews annually until it expires on December 31, 2025. The second letter of credit is for $70,000 and renews annually for an indefinite period of time. At September 30, 2012 and December 31, 2011, there were no outstanding amounts related to the letters of credit.

The Company makes commitments to fund partnership interests, mortgage loans on real estate and other investments in the normal course of its business. The amounts of these unfunded commitments at September 30, 2012, and December 31, 2011, were $348,654 and $97,694, of which $12,454 and $13,205 is related to cost basis limited partnership interests, respectively, all of which is due within one year from the dates indicated.

Contingencies

The Company is involved in various legal proceedings that arise in the ordinary course of its business. In the opinion of management, after consultation with counsel, the resolutions of these proceedings are not expected to have a material effect on the Company's consolidated financial position, results of its operations or cash flows.

12. Subsequent Events

On November 1, 2012, the Company's Board of Directors declared a dividend of $29,601 to be paid to its sole shareholder, GWL&A Financial, during the fourth quarter of 2012.

On November 1, 2012, the Company's Board of Directors approved a transaction to transfer sponsorship of the Company's pension plan to GWL&A Financial, its parent, on December 31, 2012. The Company is evaluating the accounting impact of the transaction. The transaction remains subject to approval from the Colorado Division of Insurance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

As used in this Form 10-Q, the "Company" refers to Great-West Life & Annuity Insurance Company, a stock life insurance company originally organized on March 28, 1907 and domiciled in the state of Colorado, and its subsidiaries.

This Form 10-Q contains forward-looking statements. Forward-looking statements are statements not based on historical information and that relate to future operations, strategies, financial results, or other developments. In particular, statements using words such as "may," "would," "could," "should," "estimates," "expected," "anticipate," "believe," or words of similar import generally involve forward-looking statements. Without limiting the foregoing, forward-looking statements include statements that represent the Company's beliefs concerning future or projected levels of sales of its products, investment spreads or yields, or the earnings or profitability of the Company's activities.

Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control and many of which, with respect to future business decisions, are subject to change. Some of these risks are described in "Risk Factors" in Item 1A of this report. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, some of which may be global or national in scope, such as general economic conditions and interest rates, some of which may be related to the insurance industry generally, such as pricing competition, regulatory developments and industry consolidation and others of which may relate to the Company specifically, such as credit, volatility and other risks associated with its investment portfolio and other factors. Readers should also consider other matters, including any risks and uncertainties, discussed in documents filed by the Company and certain of its subsidiaries with the Securities and Exchange Commission.

In October 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2010-26 *"Financial Services - Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts - a Consensus of the FASB Emerging Issues Task Force"* ("ASU No. 2010-26"). ASU No. 2010-26 provides guidance and modifies the definition of the types and nature of costs incurred by insurance enterprises that can be capitalized in connection with the successful acquisition of new or renewal insurance contracts. Further, ASU No. 2010-26 clarifies which costs may not be capitalized as deferred acquisition costs ("DAC"). ASU No. 2010-26 was effective for interim and annual periods in fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted ASU No. 2010-26 for its fiscal year beginning January 1, 2012, and applied the retrospective method of adoption to year-end 2004. Any adjustment prior to 2004 is impracticable.

A summary of the effects of the adoption of ASU No. 2010-26 on the Company's condensed consolidated financial statements is in Note 1 of the accompanying condensed consolidated financial statements.

Company Results of Operations

The following discussion addresses the Company's results of operations for the three and nine months ended September 30, 2012, compared with the same periods in 2011. The discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011, under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," to which the reader is directed for additional information.

Three months ended September 30, 2012, compared with the three months ended September 30, 2011

The following is a summary of certain financial data of the Company for the three-month periods ended September 30, 2012 and 2011:

Income statement data (In millions)	Three months ended September 30, 2012	Three months ended September 30, 2011
Premium income	$ 140	$ 159
Fee income	132	120
Net investment income	293	287
Net realized investment gains (losses)	55	11
Total revenues	620	577
Policyholder benefits	334	348
Operating expenses	178	149
Total benefits and expenses	512	497
Income before income taxes	108	80
Income tax expense	45	26
Net income	$ 63	$ 54

The Company's consolidated net income increased $9 million, or 17%, from $54 million for three months ended September 30, 2011, to $63 million for the three months ended September 30, 2012. The improvement in earnings is due to increases in fees, investment income, net realized gains on investments, and lower mortality losses. Partially offsetting these increases is higher operating expense including commissions during the three months ended September 30, 2012, compared to 2011.

Premium income decreased by $19 million, or 12%, to $140 million for the three months ended September 30, 2012, when compared to 2011. This decrease is primarily related to an $8 million decrease in the Company's Individual Markets segment which is driven by a $19 million decline in sales of the single premium whole life ("SPWL") product marketed through banks. In 2011, the Company began replacing the SPWL product with a single premium universal life ("SPUL") product, which recorded sales of $115 million for the three months ended September 30, 2012, as compared to sales of $56 million for the three months ended September 30, 2011. SPWL sales are recognized as premium income in the financial statements while SPUL sales are recorded as deposits and are not recognized in premium income. Additionally, the Company's Other segment experienced a decrease in premiums of $12 million primarily due to an improvement in methodology resulting in a more precise calculation of premium due and accrued on reinsurance acquired.

Fee income increased by $12 million, or 10%, to $132 million for the three months ended September 30, 2012, when compared to 2011. The increase is primarily related to improved variable fee income resulting from higher average account balances generated from sales growth and the elevated performance of the U.S. equities market. The equities market performance is evidenced by the average S&P 500 index, which increased by 14% during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011.

Net investment income increased by $6 million, or 2%, to $293 million for the three months ended September 30, 2012, when compared to 2011. The primary drivers of the change are a $7 million increase in unrealized gains primarily generated by derivative and hedging activities offset by a $1 million decrease in investment income as a result of lower yields partially offset by a higher invested assets balance.

Net realized investment gains increased by $44 million to $55 million for the three months ended September 30, 2012, when compared to 2011. The increase is partially due to a net $17 million decrease in the mortgage provision allowance in 2012. The mortgage provision allowance decrease resulted from revised assumptions primarily reflecting the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio. Additionally, investment gains increased $24 million from derivative and hedging activities and $10 million from increased realized gains on sales of investments. These are offset by a $10 million decrease in dollar roll gains.

Total benefits and expenses increased by $15 million, or 3%, to $512 million for the three months ended September 30, 2012, when compared to 2011. The increase in benefits and expense is attributable to an increase of $19 million in the Retirement Services segment, primarily due to higher operating expenses driven by higher asset based commission expense, and an increase in the amortization of deferred acquisition costs as a result of increased realized gains in 2012 as compared to 2011. These increases are offset by lower policyholder benefits primarily driven by a decrease in interest paid to policyholders due to reduced crediting rates. Additionally, there is an expense improvement of $6 million in the Other segment driven by a decrease in operating expenses resulting from lower consulting expenses on special initiatives and lower commission expense attributable to a decrease in premium income. Offsetting the expense improvements in the Other segment is an increase in policyholder benefits due to an unfavorable change in lapse rate experience.

Income tax expense increased by $19 million, or 73%, to $45 million during the three months ended September 30, 2012, when compared to 2011 primarily due to an increase in net income before tax, as well as an increase in the effective tax rate from 33% to 42% due to an $11 million adjustment to prior year income taxes included in the 2012 expense related to the closing of the 2008 tax year IRS examination.

Nine months ended September 30, 2012, compared with the nine months ended September 30, 2011

The following is a summary of certain financial data of the Company for the nine-month periods ended September 30, 2012 and 2011:

	Nine months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 344	$ 427
Fee income	394	364
Net investment income	895	867
Net realized investment gains (losses)	92	20
Total revenues	1,725	1,678
Policyholder benefits	928	973
Operating expenses	520	454
Total benefits and expenses	1,448	1,427
Income before income taxes	277	251
Income tax expense	102	76
Net income	$ 175	$ 175

The Company's consolidated net income remained consistent at $175 million for the nine months ended September 30, 2012, when compared to 2011. Earnings remained constant reflecting higher mortality losses in the closed blocks and higher operating expense during the nine months ended September 30, 2012, compared to 2011. These decreases in net income are offset by increases in fees, investment income and net realized gains on investments.

Premium income decreased by $83 million, or 19%, to $344 million for the nine months ended September 30, 2012, when compared to 2011. This decrease is primarily related to the $65 million decrease in the Company's Individual Markets segment which is driven by a $63 million decline in sales of the SPWL product marketed through banks. In 2011, the Company began replacing the SPWL product with a SPUL product which recorded sales of $359 million for the nine months ended September 30, 2012, as compared to sales of $135 million for the nine months ended September 30, 2011. Additionally, there is an $18 million decrease in the Other segment primarily due to an improvement in methodology resulting in a more precise calculation of premium due and accrued.

Fee income increased by $30 million, or 8%, to $394 million for the nine months ended September 30, 2012, when compared to 2011. The increase is primarily related to improved variable fee income resulting from higher average account balances generated by sales growth and the elevated performance of the U.S. equities market. The equities market performance is evidenced by the average S&P 500 index which increased by 7% during the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011.

Net investment income increased by $28 million, or 3%, to $895 million for the nine months ended September 30, 2012, when compared to 2011. The primary drivers of the change are a $20 million increase in unrealized gains primarily generated by derivative and hedging activities and a $7 million increase in investment income due to a higher invested assets balance partially offset by lower yields.

Net realized investment gains increased by $72 million to $92 million for the nine months ended September 30, 2012, when compared to 2011. One component of the increase is a $25 million change on mortgage loans which is primarily driven by a net $17 million decrease in the mortgage provision allowance in 2012 as compared to a $5 million increase in the mortgage provision allowance in 2011. The mortgage provision allowance decrease resulted from revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio. Additionally, investment gains increased $9 million due to dollar rolls, $27 million from derivative and hedging activities and $9 million resulting from increased realized gains on sales of investments.

Total benefits and expenses increased by $21 million, or 1%, to $1,448 million for the nine months ended September 30, 2012, when compared to 2011. The increase in benefits and expense is attributable to a $38 million increase in the Retirement Services segment, primarily due to higher operating expenses driven by higher asset based commission expense and an increase in the amortization of deferred acquisition costs resulting from increased realized gains in 2012 as compared to 2011. These increases are offset by lower policyholder benefits primarily driven by a decrease in interest paid to policyholders due to reduced crediting rates. The increase in the Retirement Services segment is partially offset by a $17 million decrease in the Company's Individual Markets segment, which is primarily driven by a reduction in policyholder benefits reflecting the change in mix of sales mentioned in premiums above offset by higher mortality losses.

Income tax expense increased by $26 million, or 34%, to $102 million during the nine months ended September 30, 2012, when compared to 2011 primarily due to an increase in net income before tax, as well as an increase in the effective tax rate from 31% to 37% primarily due to an $11 million adjustment to prior year income taxes included in the 2012 expense related to the closing of the 2008 tax year IRS examination.

Individual Markets Segment Results of Operations

Three months ended September 30, 2012, compared with the three months ended September 30, 2011

The following is a summary of certain financial data of the Individual Markets segment for the three-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 112	$ 120
Fee income	18	16
Net investment income	183	178
Net realized investment gains (losses)	24	11
Total revenues	337	325
Policyholder benefits	251	263
Operating expenses	32	18
Total benefits and expenses	283	281
Income before income taxes	54	44
Income tax expense	18	16
Net income	$ 36	$ 28

Net income for the Individual Markets segment increased by $8 million, or 29%, to $36 million for the three months ended September 30, 2012, when compared to the three months ended September 30, 2011. The improvement in earnings is due to increases in investment income, increases in net realized gains on investments driven by a decrease in the mortgage provision allowance and a decrease in mortality losses.

Partially offsetting these increases to net income are higher operating expense during the three months ended September 30, 2012, compared to 2011.

Premium income decreased by $8 million, or 7%, to $112 million for the three months ended September 30, 2012, compared to 2011. The decline is primarily related to a $19 million decrease in sales of the SPWL product marketed through banks. In 2011, the Company began replacing the SPWL product with a SPUL product, which recorded sales of $115 million for the three months ended September 30, 2012, as compared to sales of $56 million for the three months ended September 30, 2011. This decline is partially offset by an improvement in premiums due to growth in the business-owned life insurance block of business.

Fee income increased by $2 million, or 13%, to $18 million for the three months ended September 30, 2012, when compared to 2011. The increase is primarily related to higher asset balances attributable to an increase in the size of the block of business.

Net investment income increased by $5 million, or 3%, to $183 million for the three months ended September 30, 2012, when compared to 2011. The primary drivers of the change are a $2 million increase in unrealized gains primarily generated by derivative and hedging activities and a $3 million increase due to a higher invested assets balance partially offset by lower yields.

Net realized investment gains increased by $13 million to $24 million for the three months ended September 30, 2012, when compared to 2011. The increase is primarily due to an $8 million decrease in the mortgage provision allowance in 2012. The mortgage provision allowance decrease resulted from revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio. Additionally, investment gains increased $9 million from derivative and hedging activities and $3 million from increased realized gains on sales of investments. These are offset by an $8 million decrease in gains on dollar rolls.

Total benefits and expenses increased by $2 million to $283 million, for the three months ended September 30, 2012, when compared to 2011. The change is attributable to an increase of $14 million in operating expenses as a result of higher commission expense. Offsetting this increase is a $12 million reduction in policyholder benefits reflecting the change in mix of sales mentioned in premiums above.

Income tax expense remained consistent increasing by only $2 million to $18 million during the three months ended September 30, 2012, when compared to 2011. This is primarily due to an increase in net income before taxes.

Nine months ended September 30, 2012, compared with the nine months ended September 30, 2011

The following is a summary of certain financial data of the Individual Markets segment for the nine-month periods ended September 30, 2012, and 2011:

	Nine months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 258	$ 323
Fee income	55	48
Net investment income	547	535
Net realized investment gains (losses)	40	16
Total revenues	900	922
Policyholder benefits	685	731
Operating expenses	99	70
Total benefits and expenses	784	801
Income before income taxes	116	121
Income tax expense	39	38
Net income	$ 77	$ 83

Net income for the Individual Markets segment decreased by $6 million, or 7%, to $77 million for the nine months ended September 30, 2012, when compared to 2011. The decline in earnings is primarily due to increases in mortality losses in the closed blocks and increases in operating expense during the nine months ended September 30, 2012, compared to 2011. Partially offsetting these decreases to net income are increases in investment income and net realized gains on investments.

Premium income decreased by $65 million, or 20%, to $258 million for the nine months ended September 30, 2012, compared to 2011. The decrease is primarily related to a $63 million decrease in sales of the SPWL product marketed through banks. In 2011, the Company began replacing the SPWL product with a SPUL product, which recorded sales of $359 million for the nine months ended September 30, 2012, as compared to sales of $135 million for the nine months ended September 30, 2011.

Fee income increased by $7 million, or 15%, to $55 million for the nine months ended September 30, 2012, when compared to 2011. The increase is primarily related to an increase in fees on the business-owned life insurance and executive benefits product reflecting higher variable policy balances as well as an increase in Individual Retirement Account (“IRA”) fees attributable to higher asset balances.

Net investment income increased by $12 million, or 2%, to $547 million for the nine months ended September 30, 2012, when compared to 2011. The primary drivers of the change are an $8 million increase in unrealized gains primarily generated by derivative and hedging activities and a $5 million increase in investment income due to the strengthening of the invested assets balance partially offset by lower yields.

Net realized investment gains increased by $24 million to $40 million for the nine months ended September 30, 2012, when compared to 2011. The increase is primarily due to an $11 million change on mortgage loans which is driven by an $8 million decrease in the mortgage provision allowance in 2012 as compared to a $2 million increase in the mortgage provision allowance in 2011. The mortgage provision allowance decrease resulted from revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company’s own commercial mortgage portfolio. Additionally, investment gains increased $10 million from derivative and hedging activities and $3 million from increased realized gains on sales of investments. These are offset by a $2 million decrease in gains on dollar rolls.

Total benefits and expenses decreased by $17 million, or 2%, to $784 million for the nine months ended September 30, 2012, when compared to 2011. The benefit and expense improvement is attributable to a $46 million, or 6%, decrease in policyholder benefits which primarily reflects the change in the mix of sales mentioned in premiums above, offset by higher mortality losses. Partially offsetting this decrease is a $29 million increase in operating expenses primarily related to increased commissions driven by higher sales of the SPUL product.

Income tax expense increased by $1 million, or 3%, to $39 million during the nine months ended September 30, 2012, when compared to 2011 primarily due to the stability of income before tax during the nine months ended September 30, 2012, when compared to 2011.

Retirement Services Segment Results of Operations

Three months ended September 30, 2012, compared with the three months ended September 30, 2011

The following is a summary of certain financial data of the Retirement Services segment for the three-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 2	$ -
Fee income	113	103
Net investment income	98	97
Net realized investment gains (losses)	31	-
Total revenues	244	200
Policyholder benefits	52	60
Operating expenses	129	102
Total benefits and expenses	181	162
Income before income taxes	63	38
Income tax expense	21	11
Net income	$ 42	$ 27

Net income for the Retirement Services segment increased by $15 million, or 56%, to $42 million for the three months ended September 30, 2012, when compared to 2011. The improvement in earnings is primarily due to increased investment income and increased net realized gains on investments. Partially offsetting these increases are higher operating expenses.

Fee income increased by $10 million, or 10%, to $113 million for the three months ended September 30, 2012, when compared to 2011. The increase is primarily related to improved variable fee income resulting from higher average account balances attributable to sales growth and the improved performance of the U.S. equities market. The equities market performance is evidenced by the average S&P 500 index, which increased by 14% during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011.

Net investment income increased by $1 million to $98 million, for the three months ended September 30, 2012, when compared to 2011. The primary drivers of the change are a $6 million increase in unrealized gains primarily generated by derivative and hedging activities offset by a $5 million decrease as a result of lower yields partially offset by the strengthening of the invested assets balance.

Net realized investment gains increased by $31 million for the three months ended September 30, 2012, when compared to 2011. The increase is primarily due to a $9 million decrease in the mortgage provision allowance in 2012. The mortgage provision allowance decrease resulted from revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio. Additionally, investment gains increased $15 million from derivative and hedging activities and $8 million from increased realized gains on sales of investments. These increases are offset by a decrease of $2 million related to lower gains on dollar rolls.

Total benefits and expenses increased by $19 million, or 12%, to $181 million for the three months ended September 30, 2012, when compared to 2011. The increase in benefits and expense is primarily attributable to a $27 million, or 26%, increase in operating expenses driven by higher asset based commission expense reflecting the growth in the block of business. The increase in operating expenses is also driven by an increase in the amortization of deferred acquisition costs resulting from increased realized gains in 2012 as compared to 2011. Offsetting the operating expense increase is an $8 million, or 13%, decline in policyholder benefits primarily driven by a decrease in interest paid to policyholders due to reduced crediting rates.

Income tax expense increased by $10 million, or 91%, to $21 million during the three months ended September 30, 2012, when compared to 2011. The increase is primarily due to an increase in income before income taxes.

Nine months ended September 30, 2012, compared with the nine months ended September 30, 2011

The following is a summary of certain financial data of the Retirement Services segment for the nine-month periods ended September 30, 2012 and 2011:

	Nine months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 4	$ 4
Fee income	336	312
Net investment income	313	298
Net realized investment gains (losses)	51	2
Total revenues	704	616
Policyholder benefits	155	170
Operating expenses	369	316
Total benefits and expenses	524	486
Income before income taxes	180	130
Income tax expense	60	39
Net income	$ 120	$ 91

Net income for the Retirement Services segment increased by $29 million, or 32%, to $120 million for the nine months ended September 30, 2012, when compared to 2011. The improvement in earnings is primarily due to increased fee income, increased investment income and increased net realized gains on investments. Partially offsetting these increases are higher operating expenses.

Fee income increased by $24 million, or 8%, to $336 million for the nine months ended September 30, 2012, when compared to 2011. The increase is primarily related to improved variable fee income resulting from higher average account balances attributable to sales growth and the improved performance of the U.S. equities market. The equities market performance is evidenced by the average S&P 500 index, which increased by 7% during the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011.

Net investment income increased by $15 million, or 5%, to $313 million for the nine months ended September 30, 2012, when compared to 2011. The primary drivers of the change are a $12 million increase in unrealized gains primarily generated by derivative and hedging activities and a $3 million increase due to a higher invested assets balance partially offset by lower yields.

Net realized investment gains increased by $49 million to $51 million for the nine months ended September 30, 2012, when compared to 2011. The increase is due, in part, to a $14 million change related to mortgage loans which is primarily driven by a $9 million decrease in the mortgage provision allowance in 2012 as compared to a $3 million increase in the mortgage provision allowance in 2011. The mortgage provision allowance decrease resulted from revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio. Additionally, investment gains increased $12 million due to dollar rolls, $17

million from derivative and hedging activities and $5 million from increased realized gains on sales of investments.

Total benefits and expenses increased by $38 million, or 8%, to $524 million for the nine months ended September 30, 2012, when compared to 2011. The increase in benefits and expense is primarily attributable to a $53 million, or 17%, increase in operating expenses driven by higher asset based commission expense reflecting sales growth in the block of business and improved performance of the U.S. equities market. The higher operating expenses are also due to an increase in the amortization of deferred acquisition costs resulting from increased realized gains in 2012 as compared to 2011. Offsetting the increase in operating expenses is a $15 million, or 8%, decline in policyholder benefits primarily driven by a decrease in interest paid to policyholders due to reduced crediting rates.

Income tax expense increased by $21 million, or 54%, to $60 million during the nine months ended September 30, 2012, when compared to 2011. The increase is primarily due to an increase in income before income taxes.

Other Segment Results of Operations

Three months ended September 30, 2012, compared with the three months ended September 30, 2011

The following is a summary of certain financial data of the Company's Other segment for the three-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 26	$ 38
Fee income	1	1
Net investment income	12	12
Net realized investment gains (losses)	-	1
Total revenues	39	52
Policyholder benefits	31	25
Operating expenses	17	29
Total benefits and expenses	48	54
Income (loss) before income taxes	(9)	(2)
Income tax (benefit) expense	6	(1)
Net income (loss)	$ (15)	$ (1)

The Company's Other reporting segment substantially comprises activity of the Great-West South Carolina ("GWSC") operating segment, corporate items not directly allocated to the other operating segments and interest expense on long-term debt.

Net loss for the Company's Other segment increased by $14 million from a loss of $1 million to a loss of $15 million during the three months ended September 30, 2012, when compared to 2011. The loss is primarily due to a $12 million decrease in premiums as a result of an improvement in methodology resulting in a more precise calculation of premium due and accrued, as well as a $6 million increase in policyholder benefits driven by an unfavorable change in lapse rate experience. Partially offsetting these decreases is a $12 million decline in operating expenses resulting from lower consulting expenses on special initiatives and lower commission expense attributable to a decrease in premium income. Additionally, the Company had increased tax expense of $7 million. The increase in income taxes is the result of an $11 million adjustment to prior year taxes included in the 2012 expense related to the closing of the 2008 tax year IRS examination.

Nine months ended September 30, 2012, compared with the nine months ended September 30, 2011

The following is a summary of certain financial data of the Company's Other segment for the nine-month periods ended September 30, 2012 and 2011:

	Nine months ended September 30,	
Income statement data (In millions)	2012	2011
Premium income	$ 82	$ 100
Fee income	4	4
Net investment income	35	35
Net realized investment gains (losses)	-	1
Total revenues	121	140
Policyholder benefits	88	71
Operating expenses	52	68
Total benefits and expenses	140	139
(Loss) income before income taxes	(19)	1
Income tax (benefit) expense	3	-
Net (loss) income	$ (22)	$ 1

Net (loss) income for the Company's Other segment changed by $23 million from income of $1 million to a loss of $22 million during the nine months ended September 30, 2012, when compared to 2011. The loss is primarily due to an $18 million decrease in premiums as a result of an improvement in methodology resulting in a more precise calculation of premium due and accrued, along with a $17 million increase in policyholder benefits resulting from an unfavorable change in lapse rate experience. Partially offsetting the decrease is a $16 million decline in operating expenses resulting from lower guarantee fund assessments, lower consulting expenses on special initiatives and lower commission expense attributable to a decrease in premium income. Additionally, the Company had increased tax expense of $3 million. The increase in income taxes is the result of an $11 million adjustment to prior year taxes included in the 2012 expense related to the closing of the 2008 tax year IRS examination.

Investment Operations

The Company's primary investment objective is to acquire assets with duration and cash flow characteristics reflective of its liabilities, while meeting industry, size, issuer and geographic diversification standards. Formal liquidity and credit quality parameters have also been established.

The Company follows rigorous procedures to control interest rate risk and observes strict asset and liability matching guidelines. These guidelines ensure that even under changing market conditions, the Company's assets should meet the cash flow and income requirements of its liabilities. Using dynamic modeling to analyze the effects of a range of possible market changes upon investments and policyholder benefits, the Company works to ensure that its investment portfolio is appropriately structured to fulfill financial obligations to its policyholders.

A summary of the Company's general account investment assets and the assets as a percentage of total general account investments at September 30, 2012, and December 31, 2011, follows:

(In millions)	September 30, 2012		December 31, 2011	
Fixed maturities, available-for-sale	$ 17,978	66.7%	$ 16,590	69.1%
Fixed maturities, held for trading	221	0.8%	147	0.6%
Mortgage loans on real estate	2,600	9.7%	2,513	10.5%
Policy loans	4,216	15.6%	4,220	17.6%
Short-term investments, available-for-sale	1,780	6.6%	333	1.4%
Limited partnership and other corporation interests	137	0.5%	169	0.7%
Other investments	21	0.1%	23	0.1%
Total investment assets	$ 26,953	100.0%	$ 23,995	100.0%

Fixed Maturity Investments

Fixed maturity investments include public and privately placed corporate bonds, government bonds and mortgage-backed and asset-backed securities. Included in available-for-sale fixed maturities are perpetual debt investments which primarily consist of junior subordinated debt instruments that have no stated maturity date but pay fixed or floating interest in perpetuity. The Company's strategy related to mortgage-backed and asset-backed securities is to focus on those investments with low prepayment risk and minimal credit risk.

Private placement investments are generally less marketable than publicly traded assets, yet they typically offer enhanced covenant protection that allows the Company, if necessary, to take appropriate action to protect its investment. The Company believes that the cost of the additional monitoring and analysis required by private placement investments is more than offset by their enhanced yield.

One of the Company's primary objectives is to ensure that its fixed maturity portfolio is maintained at a high average credit quality to limit credit risk. All securities are internally rated by the Company on a basis intended to be similar to that of the rating agencies. The Company's internal rating methodology generally takes into account ratings from Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investor Services, Inc. In addition, the National Association of Insurance Commissioners (the "NAIC") implemented a ratings methodology for RMBS, CMBS and other structured securities. The Company may utilize inputs from this ratings process to develop its internal rating.

The distribution of the Company's fixed maturity portfolio by the Company's internal credit rating at September 30, 2012, and December 31, 2011, is summarized as follows:

Credit Rating	September 30, 2012	December 31, 2011
AAA	32.1%	33.0%
AA	13.8%	14.7%
A	24.6%	25.0%
BBB	28.3%	25.9%
BB and below (Non-investment grade)	1.2%	1.4%
Total	100.0%	100.0%

The following table contains the sector distribution of the Company's corporate fixed maturity investment portfolio, calculated as a percentage of fixed maturities at September 30, 2012, and December 31, 2011:

Sector	September 30, 2012	December 31, 2011
Utility	16.9%	15.8%
Finance	10.5%	10.5%
Consumer	10.7%	9.6%
Natural resources	4.8%	4.7%
Transportation	2.5%	2.4%
Other	10.1%	10.0%

Fair Value Measurement of Fixed Maturity Investments Classified as Available-for-Sale

Each fixed maturity investment is categorized in a hierarchy based on the observability of inputs into the valuation methodology with Level 3 being the least observable. Management uses some judgment in determining the observability of valuation inputs. Total assets measured using significant unobservable inputs (Level 3) decreased by $44 million at September 30, 2012, from December 31, 2011. Level 3 assets at September 30, 2012, were $274 million or 1% of total net assets and liabilities carried at fair value compared to Level 3 assets of $318 million or 1% at December 31, 2011. The decrease in Level 3 assets is due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors and internal models.

Securities Lending and Cash Collateral Reinvestment Practices

All cash collateral related to the securities lending program, repurchase agreements and dollar repurchase agreement practices is invested in U.S. Government or U.S. Government Agency securities. Some cash collateral may be invested in short-term repurchase agreements which are also collateralized by U.S. Government or U.S. Government Agency securities. In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As of September 30, 2012, and December 31, 2011, the Company had $82 million and $7 million, respectively, of securities out on loan, $980 million and $2 million, respectively, in short-term repurchase agreements and $1,473 million and zero, respectively, in dollar repurchase agreements, all of which are fully collateralized as described above. The increase in dollar repurchase agreements during the period ended September 30, 2012, was due to the Company's review and management of capital resources. The Company does not enter into these types of transactions for liquidity purposes, but rather for yield enhancement on its investment portfolio.

Mortgage Loans on Real Estate

The Company's mortgage loans on real estate are comprised exclusively of domestic commercial collateralized real estate loans. The mortgage loan portfolio is diversified with regard to geographical markets and commercial real estate property types within the United States. The Company originates, directly or through correspondents, real estate mortgages with the intent to hold to maturity. The Company's portfolio includes loans which are fully amortizing, amortizing with a balloon balance at maturity, interest only to maturity and interest only for a number of years followed by an amortizing period. During the nine months ended September 30, 2012, and the year ended December 31, 2011, the Company originated 17 and 69 new loans with aggregate principal balances of $157 million and $900 million, respectively.

During the three and nine months ended September 30, 2012, the Company had an $18 million decrease in the general mortgage provision allowance as a result of revised assumptions primarily related to the improvement in general economic conditions, the stability of loss levels within the commercial real estate market and the stability of the Company's own commercial mortgage portfolio.

Derivatives

The Company uses certain derivatives, such as futures, swaps and interest rate swaptions for purposes of managing the interest rate, foreign currency exchange and equity market risks impacting the Company's business. These derivatives, when taken alone, may subject the Company to varying degrees of market and credit risk; however, since used for hedging purposes, these instruments are intended to reduce risk. The Company controls the credit risk of its over-the-counter derivative contracts through credit approvals, limits, monitoring procedures and in most cases, requiring collateral. Risk of loss is generally limited to the portion of the fair value of derivative instruments that exceeds the value of the collateral held and not to the notional or contractual amounts of the derivatives.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires the Company's management to adopt accounting policies to enable them to make a significant variety of accounting and actuarial estimates and assumptions. These estimates and assumptions affect, among other things, the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results can differ from the amounts previously estimated, which were based on information available at the time the estimates were made.

Critical accounting estimates are those that management believes are important to the portrayal of the Company's results of operations and financial condition and that require them to make difficult, subjective and/or complex judgments. Critical accounting estimates cover accounting and actuarial matters that are inherently uncertain because the future resolution of such matters is unknown. Many of these policies, estimates and related judgments are common in the insurance and financial services industries. The Company believes that its most critical accounting estimates include the following:

- Valuation of investments in the absence of quoted market values;
- Impairment of investments;
- Derivative financial instruments;
- Valuation of policy benefit liabilities;
- Valuation of DAC and VOBA;
- Employee benefit plans and
- Income taxes and the valuation of deferred tax assets and liabilities, net.

A discussion of each of these critical accounting policies may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Application of Recent Accounting Pronouncements

See Note 2 to the accompanying condensed consolidated financial statements for a discussion of the application of recent accounting pronouncements.

Liquidity and Capital Resources

Liquidity refers to a company's ability to generate sufficient cash flows to meet the needs of its operations. The Company manages its operations to create stable, reliable and cost-effective sources of cash flows to meet all of its obligations.

The principal sources of the Company's liquidity are premiums and contract deposits, fees, investment income and investment maturities and sales. Funds provided from these sources are reasonably predictable and normally exceed liquidity requirements for payment of policy benefits, payments to policy and contractholders in connection with surrenders and withdrawals and general expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. A primary liquidity concern regarding cash flows from operations is the risk of early policyholder and contractholder withdrawals. A primary liquidity concern regarding investment activity is the

risks of defaults and market volatilities. In addition, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include the issuance of commercial paper or other debt instruments. Management believes that the liquidity profile of its assets is sufficient to satisfy the liquidity requirements of reasonably foreseeable scenarios. Generally, the Company has met its operating requirements by utilizing cash flows from operations and maintaining appropriate levels of liquidity in its investment portfolio. Liquidity for the Company has remained strong, as evidenced by the amounts of short-term investments, excluding collateral on dollar repurchase agreements, and cash that totaled $344 and $340 million as of September 30, 2012, and December 31, 2011, respectively. In addition, 99% of the fixed maturity portfolio carried an investment grade rating at September 30, 2012, and December 31, 2011, thereby providing significant liquidity to the Company's overall investment portfolio.

The Company continues to be well capitalized, with sufficient borrowing capacity. Additionally, the Company expects that its cash on hand and expected net cash generated by operating activities will exceed the anticipated needs of the business over the next 12 months. The Company's financial strength provides the capacity and flexibility to enable it to raise funds in the capital markets through the issuance of commercial paper. The Company had $99 million and $98 million of commercial paper outstanding at September 30, 2012, and December 31, 2011, respectively. The commercial paper has been given a rating of A-1+ by Standard & Poor's Ratings Services and a rating of P-1 by Moody's Investors Service, each being the highest rating available. Through the financial market volatility, the Company continued to have the ability to access the capital markets for funds. The loss of this access in the future would not have a significant impact to the Company's liquidity as the commercial paper is not used to fund daily operations and is an insignificant amount in relation to total invested assets.

The Company also has available a revolving credit facility agreement, which expires on May 26, 2013, in the amount of $50 million for general corporate purposes. The Company had no borrowings under this credit facility during the nine months ended September 30, 2012. The Company does not anticipate the need for borrowings under this facility and the loss of its availability would not significantly impact its liquidity. Capital resources provide protection for policyholders and financial strength to support the underwriting of insurance risks and allow for continued business growth. The amount of capital resources that may be needed is determined by the Company's senior management and Board of Directors, as well as by regulatory requirements. The allocation of resources to new long-term business commitments is designed to achieve an attractive return, tempered by considerations of risk and the need to support the Company's existing business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has established processes and procedures to effectively identify, monitor, measure and manage the risks associated with its invested assets and its interest rate sensitive insurance and annuity products. Management has identified investment portfolio management, including the use of derivative instruments, insurance and annuity product design and asset/liability management as three critical means to accomplish a successful risk management program.

The major risks to which the Company is exposed include the following:

- Market risk - the potential of loss arising from adverse fluctuations in interest rates and equity market prices and the levels of their volatility.
- Insurance risk - the potential of loss resulting from claims, persistency and expense experience exceeding that assumed in the liabilities held.
- Credit risk - the potential of loss arising from an obligator's inability or unwillingness to meet its obligations to the Company.
- Operational and corporate risk - the potential of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from other external events.

A discussion of each of these risk factors may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, under Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Item 4. Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

(a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and the Chief Accounting Officer have concluded that the Company's current disclosure controls and procedures are effective in facilitating timely decisions regarding required disclosure of any material information relating to the Company that is required to be disclosed by it in the reports that are filed or submitted under the Securities Exchange Act of 1934.

(b) There have been no changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 1A.
Risk Factors

In the normal course of its business, the Company is exposed to certain operational, regulatory and financial risks and uncertainties. The most significant risks include the following.

- Competition could negatively affect the ability of the Company to maintain or increase market share or profitability.
- The insurance and financial services industries are heavily regulated and changes in regulation may reduce profitability.
- A downgrade or potential downgrade in the Company's financial strength or claims paying ratings could result in a loss of business and negatively affect results of operations and financial condition.
- Deviations from assumptions regarding future persistency, mortality and interest rates used in calculating liabilities for future policyholder benefits and claims could adversely affect the Company's results of operations and financial condition.
- The Company may be required to accelerate the amortization of DAC or VOBA, or recognize impairment in the value of goodwill, which could adversely affect its results of operations and financial condition.
- If the companies that provide reinsurance default or fail to perform or if the Company is unable to obtain adequate reinsurance for some of the risks underwritten, the Company could incur significant losses adversely affecting results of operations and financial condition.
- Interest rate fluctuations could have a negative impact on results of operations and financial condition.

- Market fluctuations and general economic conditions may adversely affect results of operations and financial condition.

- Changes in U.S. federal income tax law could make some of the Company's products less attractive to consumers and increase its tax costs.

- The Company may be subject to litigation resulting in substantial awards or settlements and this may adversely affect its reputation and results of operations.

- The Company's risk management policies and procedures may leave it exposed to unidentified or unanticipated risk, which could adversely affect its business, results of operations and financial condition.

- The Company may experience difficulty in marketing and distributing products through its current and future distribution channels.

Item 6. Exhibits

The documents identified below are filed as a part of this report:

Index to Exhibits

Exhibit Number	Title
31.1	Rule 13a-14(a)/15-d14(a) Certification
31.2	Rule 13a-14(a)/15-d14(a) Certification
32	18 U.S.C. 1350 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Great-West Life & Annuity Insurance Company

By: /s/ James H. Van Harmelen Date: November 9, 2012

James H. Van Harmelen, Senior Vice President and Corporate Controller
(Duly authorized Officer and Chief Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Mitchell T.G. Graye, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great-West Life & Annuity Insurance Company (the "registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f), for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control of financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ Mitchell T.G. Graye
Mitchell T.G. Graye
President and Chief Executive Officer and Principal Financial Officer

Exhibit 31.2

CERTIFICATION

I, James H. Van Harmelen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great-West Life & Annuity Insurance Company (the "registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f), for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control of financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ James H. Van Harmelen
James H. Van Harmelen
Senior Vice President and Corporate Controller (Chief Accounting Officer)

Exhibit 32

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Great-West Life & Annuity Insurance Company, a Colorado corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	November 9, 2012	/s/ Mitchell T.G. Graye Mitchell T.G. Graye President and Chief Executive Officer and Principal Financial Officer
Dated:	November 9, 2012	/s/ James H. Van Harmelen James H. Van Harmelen Senior Vice President and Corporate Controller (Chief Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.