



RBC Insurance

Audited Annual Financial Statements of

RBC LIFE INSURANCE COMPANY FUNDS

December 31, 2012

RBC LIFE INSURANCE COMPANY FUNDS

Table of Contents

December 31, 2012

| | <u>Page</u> |
|----------------------------------------------------|-------------|
| Financial Statements and Supplementary Information | |
| Independent Auditor's Report | 1-2 |
| RBC Life Equity Growth Fund | 3 |
| RBC Life Bond Fund | 4 |
| RBC Life Balanced Fund | 5 |
| Notes to the Financial Statements | 6-10 |

Independent Auditor's Report

To the Unitholders of

RBC Life Equity Growth Fund
RBC Life Bond Fund
RBC Life Balanced Fund
(collectively referred to as the "RBC Life Insurance Company Funds")

We have audited the accompanying financial statements of each of the RBC Life Insurance Company Funds, which comprise the statement of net assets as at December 31, 2012, and the statement of operations and statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the RBC Life Insurance Company Funds as at December 31, 2012, and the results of their operations and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Unaudited Information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Financial Highlights and the Top 25 Holdings of the Underlying Fund contained in the financial statements.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 29, 2013

RBC Life Equity Growth Fund

Statement of Net Assets

| As at December 31, | 2012 | 2011 |
|----------------------------------------------|----------------------|----------------------|
| Assets | | |
| Investments in underlying fund at fair value | \$ 29,707,405 | \$ 31,371,845 |
| | 29,707,405 | 31,371,845 |
| Liabilities | | |
| Due to RBC Life Insurance Company | 13,882 | 12,929 |
| | 13,882 | 12,929 |
| Net assets | \$ 29,693,523 | \$ 31,358,916 |
| Net assets value per unit | \$ 33.49 | \$ 31.42 |

Statement of Operations

| For the year ended December 31, | 2012 | 2011 |
|---------------------------------------------------------------|---------------------|-----------------------|
| Income | | |
| Distribution from underlying fund | \$ 618,155 | \$ 2,025,114 |
| Realized losses on sale of investments | (1,191,684) | (908,068) |
| Increase (decrease) in unrealized appreciation of investments | 2,944,648 | (4,490,517) |
| | 2,371,119 | (3,373,471) |
| Expenses | | |
| Management fees | 733,222 | 896,037 |
| Other administrative expenses | 2,886 | 3,888 |
| Audit fees | 4,191 | 4,191 |
| | 740,299 | 904,116 |
| Net income (loss) | \$ 1,630,820 | \$ (4,277,587) |
| Net income (loss) per unit | \$ 1.73 | \$ (3.98) |

Statement of Changes in Net Assets

| For the year ended December 31, | 2012 | 2011 |
|------------------------------------|----------------------|----------------------|
| Net assets, beginning of the year | \$ 31,358,916 | \$ 41,054,439 |
| Premium deposits | 2,336,910 | 2,392,700 |
| Net income (loss) | 1,630,820 | (4,277,587) |
| | 35,326,646 | 39,169,552 |
| Less | | |
| Withdrawals | 5,633,123 | 7,810,636 |
| | 5,633,123 | 7,810,636 |
| Net assets, end of the year | \$ 29,693,523 | \$ 31,358,916 |
| Number of units outstanding | 886,693 | 997,958 |

The accompanying notes are an integral part of these financial statements.

Financial highlights (unaudited)

| For the year ended December 31, | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| The Fund's distribution and Net Asset Value per unit | | | | | |
| Distributions: (*) | | | | | |
| Total annual distributions | \$ 0.70 | \$ 2.03 | \$ 2.50 | \$ 1.36 | \$ - |
| Net Asset Value at December 31 | \$ 33.49 | \$ 31.42 | \$ 35.60 | \$ 30.77 | \$ 23.76 |
| Ratios and supplemental data | | | | | |
| Net assets (\$ '000) | \$ 29,694 | \$ 31,359 | \$ 41,054 | \$ 39,143 | \$ 31,823 |
| Number of units outstanding | 886,693 | 997,958 | 1,153,169 | 1,272,037 | 1,339,113 |
| Management expense ratio ¹ | 2.43% | 2.50% | 2.33% | 2.43% | 2.59% |
| Portfolio turnover rate of the underlying fund ² | 46.00% | 58.58% | 65.52% | 82.78% | 68.28% |

(*) Distributions were reinvested in the Fund.

(1) The management expense ratio ("MER") is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year.

(2) The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

| For the year ended December 31, | 2012 | 2011 |
|----------------------------------------------------|------------|------------|
| Management fees and other expenses (note 7) | | |
| Management fees | \$ 733,222 | \$ 896,037 |
| Other expenses | \$ 7,077 | \$ 8,079 |
| MER ⁽¹⁾ | 2.43% | 2.50% |

Sales and redemption of units (note 8)

| | | |
|------------------------------|--------------|--------------|
| Units issued | 61,308 | 66,055 |
| Proceeds from issue of units | \$ 2,336,910 | \$ 2,392,700 |
| Units redeemed | 172,573 | 221,266 |
| Amounts paid on redemption | \$ 5,633,123 | \$ 7,810,636 |

Investment in underlying fund at fair value (note 9)

| | | |
|---------|---------------|---------------|
| Level 1 | \$ 29,707,405 | \$ 31,371,845 |
|---------|---------------|---------------|

Schedule of invested assets

| RBC Canadian Equity Fund Series O | | |
|-----------------------------------|---------------|---------------|
| Number of units | 1,261,380 | 1,411,328 |
| Cost | \$ 35,346,028 | \$ 40,045,116 |
| Fund owned | 1.0800% | 1.3800% |
| Fair value | \$ 29,707,405 | \$ 31,371,845 |
| Fair value per unit | \$ 23.55 | \$ 22.23 |

Top 25 holdings of the underlying fund (unaudited)

| Top 25 holdings of the underlying fund (unaudited) | % of Assets |
|----------------------------------------------------|-------------|
| Royal Bank of Canada | 5.8 |
| Bank of Nova Scotia | 4.9 |
| Toronto-Dominion Bank | 4.9 |
| Suncor Energy Inc. | 3.8 |
| Canadian National Railway Co. | 3.0 |
| Enbridge Inc. | 2.7 |
| Canadian Natural Resources Ltd. | 2.4 |
| Canadian Imperial Bank of Commerce | 2.4 |
| Bank of Montreal | 2.4 |
| TransCanada Corp. | 2.2 |
| Barrick Gold Corp. | 2.1 |
| Potash Corporation of Saskatchewan Inc. | 2.1 |
| Cenovus Energy Inc. | 2.0 |
| Cash & Cash Equivalents | 1.8 |
| Manulife Financial Corporation | 1.8 |
| Goldcorp Inc. | 1.8 |
| Power Corporation of Canada | 1.6 |
| Rogers Communications Inc., Class B | 1.6 |
| Brookfield Asset Management Inc., Class A | 1.4 |
| TELUS Corp., Class A | 1.4 |
| Teck Resources Ltd., Class B | 1.2 |
| Magna International Inc., Class A | 1.2 |
| Agrium Inc. | 1.1 |
| Talisman Energy Inc. | 1.0 |
| Sun Life Financial Inc. | 1.0 |
| Total % of top 25 holdings | 57.6 |

RBC Life Bond Fund

Statement of Net Assets

| As at December 31, | 2012 | 2011 |
|----------------------------------------------|---------------------|---------------------|
| Assets | | |
| Investments in underlying fund at fair value | \$ 4,487,427 | \$ 4,716,506 |
| | 4,487,427 | 4,716,506 |
| Liabilities | | |
| Due to RBC Life Insurance Company | 1,774 | 1,600 |
| | 1,774 | 1,600 |
| Net assets | \$ 4,485,653 | \$ 4,714,906 |
| Net assets value per unit | \$ 32.13 | \$ 31.20 |

Statement of Operations

| For the year ended December 31, | 2012 | 2011 |
|---------------------------------------------------------------|-------------------|-------------------|
| Income | | |
| Distribution from underlying fund | \$ 195,441 | \$ 183,288 |
| Realized gains on sale of investments | 47,486 | 50,661 |
| Increase (decrease) in unrealized appreciation of investments | (17,924) | 209,959 |
| | 225,003 | 443,908 |
| Expenses | | |
| Management fees | 93,351 | 97,932 |
| Other administrative expenses | 979 | 1,100 |
| Audit fees | 748 | 748 |
| | 95,078 | 99,780 |
| Net income (loss) | \$ 129,925 | \$ 344,128 |
| Net income per unit | \$ 0.89 | \$ 2.12 |

Statement of Changes in Net Assets

| For the year ended December 31, | 2012 | 2011 |
|------------------------------------|---------------------|---------------------|
| Net assets, beginning of the year | \$ 4,714,906 | \$ 5,022,793 |
| Premium deposits | 309,384 | 365,874 |
| Net income | 129,925 | 344,128 |
| | 5,154,215 | 5,732,795 |
| Less | | |
| Withdrawals | 668,562 | 1,017,889 |
| | 668,562 | 1,017,889 |
| Net assets, end of the year | \$ 4,485,653 | \$ 4,714,906 |
| Number of units outstanding | 139,626 | 151,116 |

The accompanying notes are an integral part of these financial statements.

Financial highlights (unaudited)

| For the year ended December 31, | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------------------------------------------------|----------|----------|----------|----------|----------|
| <i>The Fund's distribution and Net Asset Value per unit</i> | | | | | |
| Distributions: (*) | | | | | |
| Total annual distributions | \$ 1.40 | \$ 1.21 | \$ 1.23 | \$ 1.46 | \$ 1.35 |
| Net Asset Value at December 31 | \$ 32.13 | \$ 31.20 | \$ 29.02 | \$ 27.53 | \$ 25.03 |
| <i>Ratios and supplemental data</i> | | | | | |
| Net assets (\$ '000) | \$ 4,486 | \$ 4,715 | \$ 5,023 | \$ 5,152 | \$ 4,676 |
| Number of units outstanding | 139,626 | 151,116 | 173,070 | 187,169 | 198,871 |
| Management expense ratio ¹ | 2.07% | 2.05% | 2.02% | 2.09% | 2.02% |
| Portfolio turnover rate of the underlying fund ² | 33.88% | 49.74% | 44.95% | 60.39% | 49.72% |

(*) Distributions were reinvested in the Fund.

(1) The management expense ratio ("MER") is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year.

(2) The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

| For the year ended December 31, | 2012 | 2011 |
|----------------------------------------------------|-----------|-----------|
| Management fees and other expenses (note 7) | | |
| Management fees | \$ 93,351 | \$ 97,932 |
| Other expenses | \$ 1,727 | \$ 1,848 |
| MER ⁽¹⁾ | 2.07% | 2.05% |

Sales and redemption of units (note 8)

| | | |
|------------------------------|------------|--------------|
| Units issued | 9,395 | 12,204 |
| Proceeds from issue of units | \$ 309,384 | \$ 365,874 |
| Units redeemed | 20,885 | 34,158 |
| Amounts paid on redemption | \$ 668,562 | \$ 1,017,889 |

Investment in underlying fund at fair value (note 9)

| | | |
|---------|--------------|--------------|
| Level 1 | \$ 4,487,427 | \$ 4,716,506 |
|---------|--------------|--------------|

Schedule of invested assets

| RBC Canadian Bond Fund Series O | | |
|---------------------------------|--------------|--------------|
| Number of units | 658,492 | 696,317 |
| Cost | \$ 4,086,019 | \$ 4,297,173 |
| Fund owned | 0.0600% | 0.0800% |
| Fair value | \$ 4,487,427 | \$ 4,716,506 |
| Fair value per unit | \$ 6.81 | \$ 6.77 |

Top 25 holdings of the underlying fund (unaudited)

| | % of Assets |
|-----------------------------------------------------|-------------|
| Cash & Cash Equivalents | 3.0 |
| Cash & Cash Equivalents | 3.0 |
| Province of Ontario 4.200% Jun 2 20 | 3.0 |
| Province of Ontario 4.650% Jun 2 41 | 2.9 |
| Province of Ontario 1.900% Sep 8 17 | 2.6 |
| Province of Ontario 3.500% Jun 2 43 | 2.4 |
| Province of Ontario 6.500% Mar 8 29 | 2.3 |
| Canada Housing Trust No. 1 3.350% Dec 15 20 | 2.2 |
| Province of Ontario 4.000% Jun 2 21 | 2.2 |
| Province of Ontario 3.150% Jun 2 22 | 2.1 |
| Province of Ontario 4.600% Jun 2 39 | 1.8 |
| Province of Ontario 4.400% Jun 2 19 | 1.5 |
| Province of Ontario 4.700% Jun 2 37 | 1.4 |
| Province of Quebec 5.000% Dec 1 41 | 1.2 |
| Province of Quebec 3.500% Dec 1 22 | 1.1 |
| Province of Quebec 5.000% Dec 1 38 | 1.0 |
| BlueBay Emerging Markets Corporate Bond Fund | 1.0 |
| Royal Bank of Canada 3.360% Jan 11 16 | 0.9 |
| Province of Quebec 6.000% Oct 1 29 | 0.9 |
| Bank of Nova Scotia 2.598% Feb 27 17 | 0.9 |
| Royal Bank of Canada 4.350% Jun 15 20 | 0.9 |
| Toronto-Dominion Bank 4.779% Dec 14 16 | 0.9 |
| Canada Housing Trust No. 1 2.650% Mar 15 22 | 0.9 |
| Canadian Imperial Bank of Commerce 4.110% Apr 30 20 | 0.8 |
| United States 10-Year Note Future, March 2013 | -3.6 |
| United States 5-Year Note Future, March 2013 | -2.2 |
| Total % of top 25 holdings | 32.1 |

RBC Life Balanced Fund

Statement of Net Assets

| As at December 31, | 2012 | 2011 |
|----------------------------------------------|----------------------|----------------------|
| Assets | | |
| Investments in underlying fund at fair value | \$ 12,685,656 | \$ 12,827,020 |
| Due from RBC Life Insurance Company | - | 14,756 |
| | 12,685,656 | 12,841,776 |
| Liabilities | | |
| Due to RBC Life Insurance Company | 5,944 | - |
| Due to unitholders | 49,518 | - |
| | 55,462 | - |
| Net assets | \$ 12,630,194 | \$ 12,841,776 |
| Net assets value per unit | \$ 32.37 | \$ 30.34 |

Statement of Operations

| For the year ended December 31, | 2012 | 2011 |
|---------------------------------------------------------------|-------------------|---------------------|
| Income | | |
| Distribution from underlying fund | \$ 466,013 | \$ 78,227 |
| Realized gains on sale of investments | 25,562 | 11,021 |
| Increase (decrease) in unrealized appreciation of investments | 516,099 | (243,530) |
| | 1,007,674 | (154,282) |
| Expenses | | |
| Management fees | 305,445 | 331,090 |
| Other administrative expenses | 1,541 | 1,810 |
| Audit fees | 2,297 | 2,297 |
| | 309,283 | 335,197 |
| Net income (loss) | \$ 698,391 | \$ (489,479) |
| Net income (loss) per unit | \$ 1.72 | \$ (1.11) |

Statement of Changes in Net Assets

| For the year ended December 31, | 2012 | 2011 |
|------------------------------------|----------------------|----------------------|
| Net assets, beginning of the year | \$ 12,841,776 | \$ 14,500,332 |
| Premium deposits | 1,027,921 | 1,064,043 |
| Net income (loss) | 698,391 | (489,479) |
| | 14,568,088 | 15,074,896 |
| Less | | |
| Withdrawals | 1,937,894 | 2,233,120 |
| | 1,937,894 | 2,233,120 |
| Net assets, end of the year | \$ 12,630,194 | \$ 12,841,776 |
| Number of units outstanding | 390,209 | 423,256 |

The accompanying notes are an integral part of these financial statements.

Financial highlights (unaudited)

| For the year ended December 31, | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| <i>The Fund's distribution and Net Asset Value per unit</i> | | | | | |
| Distributions: (*) | | | | | |
| Total annual distributions | \$ 1.19 | \$ 0.18 | \$ - | \$ - | \$ - |
| Net Asset Value at December 31 | \$ 32.37 | \$ 30.34 | \$ 31.49 | \$ 28.98 | \$ 25.61 |
| <i>Ratios and supplemental data</i> | | | | | |
| Net assets (\$ '000) | \$ 12,630 | \$ 12,842 | \$ 14,500 | \$ 14,583 | \$ 13,588 |
| Number of units outstanding | 390,209 | 423,256 | 460,499 | 503,125 | 530,517 |
| Management expense ratio ¹ | 2.43% | 2.45% | 2.37% | 2.43% | 2.46% |
| Portfolio turnover rate of the underlying fund ² | 81.81% | 102.06% | 82.19% | 83.17% | 68.60% |

(*) Distributions were reinvested in the Fund.

(1) The management expense ratio ("MER") is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

(2) The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

| For the year ended December 31, | 2012 | 2011 |
|----------------------------------------------------|------------|------------|
| Management fees and other expenses (note 7) | | |
| Management fees | \$ 305,445 | \$ 331,090 |
| Other expenses | \$ 3,838 | \$ 4,107 |
| MER ⁽¹⁾ | 2.43% | 2.45% |

Sales and redemption of units (note 8)

| | | |
|------------------------------|--------------|--------------|
| Units issued | 26,624 | 33,794 |
| Proceeds from issue of units | \$ 1,027,921 | \$ 1,064,043 |
| Units redeemed | 59,671 | 71,037 |
| Amounts paid on redemption | \$ 1,937,894 | \$ 2,233,120 |

Investment in underlying fund at fair value (note 9)

| | | |
|---------|---------------|---------------|
| Level 1 | \$ 12,685,656 | \$ 12,827,020 |
|---------|---------------|---------------|

Schedule of invested assets

| RBC Balanced Fund Series O | | |
|----------------------------|---------------|---------------|
| Number of units | 929,386 | 980,419 |
| Cost | \$ 12,324,555 | \$ 12,982,018 |
| Fund owned | 32.5200% | 31.5400% |
| Fair value | \$ 12,685,656 | \$ 12,827,020 |
| Fair value per unit | \$ 13.65 | \$ 13.08 |

Top 25 holdings of the underlying fund (unaudited)

| | % of Assets |
|---------------------------------------------|-------------|
| RBC Emerging Markets Equity Fund | 5.4 |
| Cash & Cash Equivalents | 2.5 |
| Royal Bank of Canada | 2.1 |
| Bank of Nova Scotia | 1.8 |
| Toronto-Dominion Bank | 1.8 |
| Province of Ontario 4.300% Mar 8 17 | 1.5 |
| Suncor Energy Inc. | 1.4 |
| Province of Ontario 9.500% Jul 13 22 | 1.4 |
| Province of Ontario 4.650% Jun 2 41 | 1.3 |
| Government of Canada 2.250% Aug 1 14 | 1.2 |
| Province of Quebec 4.500% Dec 1 17 | 1.2 |
| Canadian National Railway Co. | 1.1 |
| Enbridge Inc. | 1.0 |
| Government of Canada 1.000% Feb 1 15 | 1.0 |
| Province of Ontario 6.200% Jun 2 31 | 1.0 |
| Province of Manitoba 6.500% Sep 22 17 | 1.0 |
| Canada Housing Trust No. 1 3.350% Dec 15 20 | 0.9 |
| Canadian Natural Resources Ltd. | 0.9 |
| Canadian Imperial Bank of Commerce | 0.9 |
| Bank of Montreal | 0.9 |
| TransCanada Corp. | 0.8 |
| Potash Corporation of Saskatchewan Inc. | 0.8 |
| Barrick Gold Corp. | 0.8 |
| Canada Housing Trust No. 1 3.150% Jun 15 14 | 0.8 |
| Province of Ontario 4.700% Jun 2 37 | 0.7 |
| Total % of top 25 holdings | 34.2 |

RBC LIFE INSURANCE COMPANY FUNDS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Net asset value per unit

Net asset value per unit is computed by dividing the net assets attributable to a series of units on a business day by the total number of units of the series outstanding on that day.

d) Net income per unit

Net income per unit in the Statement of Operations represents the increase (decrease) in net assets from operations attributable to the series for the year, divided by the average number of units outstanding at the end of the year.

e) Use of estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, and include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses. The most significant estimates relate to the fair valuation of investments. However, all investments are level 1 (refer to note 9). Actual results may differ from these estimates.

f) Expenses of funds

Each Fund is responsible for the payment of the fees and expenses related to the operation of that Fund. Such fees and expenses, which are recorded on an accrual basis, include custodian fees, management fees, legal fees, audit fees, operations and administration fees, bank charges, interest, brokerage on securities transactions and all indirect taxes. As the Funds invest solely in units of the underlying funds, the Funds are not subject to transaction costs pertaining to the purchase, sale or redemption of units.

g) Income taxes

Each Fund is deemed to be an inter-vivos trust under the provisions of the Income Tax Act (Canada) and is deemed to have allocated its income to the contract holders. Each Fund's net capital gains (losses) are deemed to be those of the contract holders. Accordingly, each Fund is not subject to income tax on its net income, including net realized capital gains for the year.

4. FINANCIAL INSTRUMENTS RISK

The Funds may be exposed to a variety of financial risks. Each of the Fund's exposures to financial risks is concentrated in its investment holdings. The Schedule of Invested Assets on each Fund's supplementary information, disclosed alongside the financial statements, presents the details of units held by each Fund as at December 31, 2012 and groups the underlying mutual funds by their nature. The Funds do not manage their underlying mutual funds and therefore the quantitative and qualitative risk disclosures of these funds have not been disclosed. For further information on the financial instruments risk of the underlying fund and the sensitivity to price changes please refer to the financial statements of the underlying fund which are filed on Sedar.

Each of the Fund's risk management practice includes the monitoring of compliance to investment guidelines. The fund manager manages the potential effects of these financial risks on the Funds' performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Funds' positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

a) Credit risk

Credit risk is the possibility that a borrower, or the counterparty to a derivatives contract, repurchase agreement or reverse repurchase agreement, is unable or unwilling to repay the loan or obligation, either on time or at all. Companies and governments that borrow money, and the debt securities they issue, are rated by specialized rating agencies. Debt securities issued by companies or governments in emerging markets often have higher credit risk (lower rated debt), while debt securities issued by well-established companies or by governments of developed countries tend to have lower credit risk (higher rated debt). A downgrade in an issuer's credit rating or other adverse news regarding an issuer can reduce a security's market value. Lower rated and unrated debt instruments generally offer a better return than higher grade debt instruments, but have the potential for substantial loss. Funds that invest in companies or markets with higher credit risk tend to be more volatile in the short term. However, they may offer the potential of higher returns over the long term.

Credit risk arises when an underlying mutual fund invests in fixed income securities. Credit risk is considered as part of the investment decision making process. The underlying mutual funds only buy and sell investments through brokers which are considered to be approved counterparties, thus minimizing the risk of default during settlement.

4. FINANCIAL INSTRUMENTS RISK (continued)

b) Currency risk

The underlying mutual funds are valued in Canadian dollars. However, underlying mutual funds that purchase foreign securities may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value of any foreign securities. For example, if the Canadian dollar rises relative to a foreign currency (like the U.S. dollar or the Euro), the Canadian dollar value of an investment denominated in that foreign currency may decline. This decline may reduce, or even eliminate, any return the Fund has earned on the security. On the other hand, a Fund may also benefit from changes in exchange rates. Currency exposure may increase the volatility of foreign investments relative to Canadian investments. The underlying mutual funds may hedge (protect against) the risk of changes in foreign currency exchange rates of the underlying assets of the Fund.

As the Funds only invest in Canadian denominated underlying mutual funds, the Funds do not have a direct currency risk exposure.

c) Interest rate risk

If a Fund invests primarily in bonds and other fixed-income securities, the biggest influence on the Fund's value will be changes in the general level of interest rates. If interest rates fall, the value of the Fund's units will tend to rise. If interest rates rise, the value of the Fund's units will tend to fall. Short-term interest rates can have a different influence on a Fund's value than long-term interest rates. If a Fund invests primarily in bonds and other fixed-income securities with longer-term maturities, the biggest influence on the Fund's value will be changes in the general level of long-term interest rates. If a Fund invests primarily in bonds and other fixed-income securities with shorter-term maturities, the biggest influence on the Fund's value will be changes in the general level of shorter-term interest rates. Investors seeking current income should be aware that the level of interest income from a money market fund will fluctuate as short-term interest rates vary.

Interest rate risk arises when the underlying mutual fund invests in interest bearing financial instruments such as a bond. The underlying mutual fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

d) Liquidity risk

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. Most securities owned by an underlying mutual fund can be sold easily and at a fair price. In highly volatile markets, such as in periods of sudden interest rate changes, certain securities may become less liquid, which means they cannot be sold as quickly or easily. Some securities may be illiquid because of legal restrictions, the nature of the investment, or because of features like guarantees. Another reason for illiquidity is a lack of buyers interested in a particular security or market. Difficulty in selling securities may result in a loss or reduced return for a Fund.

The Funds' assets are comprised of units of underlying mutual funds which can be redeemed upon request from the issuer on a valuation date. A valuation date occurs every day that the principal exchange is open for trading and a value is available for the assets of the relevant fund. The Toronto Stock Exchange currently is the principal exchange used for purposes of determining the valuation dates.

e) Market risk

Market risk is the risk that the value of investments will fluctuate as a result of changes in market condition. Several factors can influence market trends, such as economic developments, changes in interest rates, political changes, and catastrophic events. The Funds are exposed to the market risk of the underlying mutual funds.

RBC LIFE INSURANCE COMPANY FUNDS

5. FINANCIAL RISK MANAGEMENT

The Funds use a fund-of-fund structure to invest in underlying mutual funds exclusively managed by RBC Global Asset Management Inc. As part of the fund selection process for the Funds, the existing mutual funds line-up are reviewed at least annually by RBC Life Insurance Company to identify any product gaps that result from the changing needs of the market and distribution partners.

The screening criteria may include qualitative as well as quantitative measures of performance and must satisfy internal risk management standards.

Ongoing monitoring throughout the year by the Funds' management includes monitoring any organizational or fund changes announced by underlying mutual fund managers or news items that may affect organizational stability or Funds performance as well as analysis on the Funds' rate of return to verify that it is appropriate compared to the underlying mutual fund or fund's benchmark.

Included in the ongoing due diligence process, managers of the underlying mutual funds are required to verify that the Funds have adhered to the Funds' Investment Policies and that the underlying mutual funds are managed in accordance with the investment objectives and strategies as detailed in the Information Folder. The Information Folder also details the specific risks that the underlying mutual funds could be exposed to. Such risks primarily arise because the value of the investments are affected by changes in the local and global economies including interest rates, foreign exchange rates, financial markets and company-specific news. The underlying mutual funds' manager has developed policies and procedures to manage the fund-specific risks. Fund portfolios are reviewed on a regular basis by RBC Life Insurance Company to ensure that the existing asset mix and weightings continue to meet the current and future needs of the Funds.

6. CAPITAL MANAGEMENT

CICA Handbook Section 1535 "Capital Disclosure", requires that the Fund disclose information about its objectives, policies and process for managing capital including disclosure of any externally imposed capital requirements and the consequences of any non-compliance. The Funds consider their net assets to be their respective capital, the relevant capital movements are disclosed in the Statement of Changes in Net Assets. The Funds have no externally imposed capital requirements.

7. MANAGEMENT FEES AND OTHER ADMINISTRATIVE EXPENSES

In consideration for management services and investment advice, RBC Life Insurance Company, a related party, is entitled to a management fee. The maximum management fee, exclusive of Harmonized Sales Tax ("HST"), is based on the following annual percentages, applied on a weekly basis to the respective net asset values of the Fund

| | |
|-----------------------------|--------------|
| RBC Life Equity Growth Fund | Up to 2.275% |
| RBC Life Bond Fund | Up to 1.900% |
| RBC Life Balanced Fund | Up to 2.275% |

The management expense ratios for the Funds are based on expenses charged directly to the Fund (other than brokerage commissions and taxes on securities transactions) plus, if applicable, expenses of the underlying funds, calculated on a weighted average basis on the percentage weighting of underlying funds and is expressed as a percentage of the annual average net asset value calculated for the purpose of the issue of units of the Funds. Custodian fee, audit fee, interest and bank charges are payable by the Funds.

Management fees and other administrative expenses charged to the Funds are subject to the HST in Ontario, Nova Scotia, New Brunswick and Newfoundland and Labrador. Based on the rules and guidance issued by the Department of Finance, the effective HST rate will reflect the tax rates that are applicable in the Provinces/Territories where the Fund's unitholders reside. Since each fund will have unitholders in more than one Province/Territory, the *blended* rate will be a weighted average based on the tax rate in each Province/Territory and the value of unitholder assets. Therefore the blended rate is likely to be different for each Fund.

8. UNITHOLDERS' EQUITY

Units of the Funds, which are redeemable at the option of the holder in accordance with the provisions of the related policy contracts, do not have any nominal or par value and the number of units which may be issued is unlimited. Units of the Fund are issued or redeemed on a weekly basis at the net asset value per unit next determined after the purchase order or redemption request, respectively, is received by RBC Life Insurance Company.

9. FAIR VALUE

Investments recorded at fair value on the Funds' Statement of Net Assets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by Section 3862 and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets, are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Quoted price for these investments are not adjusted even in situations where a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

As at December 31, 2012 and 2011, the investments in underlying fund by each of the Fund's are classified as Level 1.

10. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, management fees were paid to RBC Life Insurance Company as disclosed in Note 7 and presented separately in the Statement of Operations of each Fund. As at December 31, 2012 and 2011, the management fees payable to RBC Life Insurance Company are presented separately in the Statement of Net Assets of each Fund. The Funds do not pay any expenses to RBC Global Asset Management Inc.