

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 [in millions of Canadian dollars]	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	3,656	4,855
Investments [ Note 3]		
Shares	6,415	6,392
Bonds	73,635	67,388
Mortgages and other loans	16,736	17,356
Real estate	3,275	3,101
	100,061	94,237
Loans to policyholders	6,827	6,957
Funds held by ceding insurers	9,860	10,839
Investment at equity [ Note 5]	2,279	2,675
Intangible assets [ Note 6]	4,238	4,366
Goodwill [ Note 6]	8,726	8,655
Future income taxes [ Note 7]	1,174	1,268
Other assets [ Note 8]	6,434	6,379
	143,255	140,231
<b>LIABILITIES</b>		
Policy liabilities [ Note 9]		
Actuarial liabilities	100,394	98,059
Other	4,723	4,592
Deposits and certificates	835	907
Funds held under reinsurance contracts	152	186
Debentures and other borrowings [ Note 10]	6,348	5,967
Capital trust securities and debentures [ Note 11]	535	540
Preferred shares of the Corporation [ Note 14]	–	300
Preferred shares of subsidiaries	–	203
Future income taxes [ Note 7]	1,167	1,098
Other liabilities [ Note 12]	6,861	6,294
	121,015	118,146
Non-controlling interests [ Note 13]	9,056	8,878
<b>SHAREHOLDERS' EQUITY</b>		
Stated capital [ Note 14]		
Perpetual preferred shares	2,005	1,725
Common shares	636	605
Contributed surplus	105	102
Retained earnings	11,641	11,165
Accumulated other comprehensive income (loss) [ Note 18]	(1,203)	(390)
	13,184	13,207
	143,255	140,231

Approved by the Board of Directors

Signed  
Raymond Royer  
Director

Signed  
R. Jeffrey Orr  
Director

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [in millions of Canadian dollars, except per share amounts]	2010	2009
<b>REVENUES</b>		
Premium income	17,748	18,033
Net investment income		
Regular net investment income	5,783	6,203
Change in fair value on held-for-trading assets	3,646	3,463
	9,429	9,666
Fee income	5,250	4,998
	32,427	32,697
<b>EXPENSES</b>		
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	23,063	23,809
Commissions	2,277	2,088
Operating expenses	3,834	3,607
Financing charges [ Note 19 ]	427	494
	29,601	29,998
	2,826	2,699
Share of earnings of investment at equity [ Note 5 ]	120	141
Other income (charges), net [ Note 20 ]	(5)	(58)
Earnings before income taxes and non-controlling interests	2,941	2,782
Income taxes [ Note 7 ]	497	565
Non-controlling interests [ Note 13 ]	860	778
Net earnings	1,584	1,439
Earnings per common share [ Note 23 ]		
— Basic	2.10	1.92
— Diluted	2.10	1.91

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31 [in millions of Canadian dollars]	2010	2009
Net earnings	1,584	1,439
Other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	129	246
Income tax (expense) benefit	(55)	(47)
Realized (gains) losses to net earnings	(88)	11
Income tax expense (benefit)	18	3
	4	213
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	77	223
Income tax (expense) benefit	(27)	(78)
Realized (gains) losses to net earnings	2	1
Income tax expense (benefit)	(1)	—
	51	146
Net unrealized foreign exchange gains (losses) on translation of foreign operations	(1,014)	(1,328)
Other comprehensive income (loss) before non-controlling interests	(959)	(969)
Non-controlling interests	146	232
Other comprehensive income (loss)	(813)	(737)
Comprehensive income	771	702

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31 [in millions of Canadian dollars]	2010	2009
<b>STATED CAPITAL— PERPETUAL PREFERRED SHARES</b>		
Perpetual preferred shares, beginning of year	1,725	1,575
Issue of perpetual preferred shares [ Note 14]	280	150
Perpetual preferred shares, end of year	2,005	1,725
<b>STATED CAPITAL— COMMON SHARES</b>		
Common shares, beginning of year	605	595
Issue of common shares under the Corporation's Employee Stock Option Plan [Note 14]	31	10
Common shares, end of year	636	605
<b>CONTRIBUTED SURPLUS</b>		
Contributed surplus, beginning of year	102	91
Stock options expense [ Note 15]	9	16
Stock options exercised	(5)	(2)
Non-controlling interests	(1)	(3)
Contributed surplus, end of year	105	102
<b>RETAINED EARNINGS</b>		
Retained earnings, beginning of year	11,165	10,811
Net earnings	1,584	1,439
Dividends to shareholders		
Perpetual preferred shares	(99)	(88)
Common shares	(991)	(988)
Other, including share issue cost	(18)	(9)
Retained earnings, end of year	11,641	11,165
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) [Note 18]</b>		
Accumulated other comprehensive income (loss), beginning of year	(390)	347
Other comprehensive income (loss)	(813)	(737)
Accumulated other comprehensive income (loss), end of year	(1,203)	(390)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>13,184</b>	<b>13,207</b>

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 [in millions of Canadian dollars]	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net earnings	1,584	1,439
Non-cash charges (credits)		
Change in policy liabilities	6,636	5,612
Change in funds held by ceding insurers	619	436
Change in funds held under reinsurance contracts	(94)	32
Amortization and depreciation	96	97
Future income taxes	41	386
Change in fair value of financial instruments	(3,648)	(3,434)
Non-controlling interests	860	778
Other	426	813
Change in non-cash working capital items	52	(1,606)
	6,572	4,553
<b>FINANCING ACTIVITIES</b>		
Dividends paid		
By subsidiaries to non-controlling interests	(632)	(609)
Perpetual preferred shares	(96)	(82)
Common shares	(990)	(988)
	(1,718)	(1,679)
Issue of common shares by the Corporation	31	10
Issue of perpetual preferred shares by the Corporation	280	150
Issue of common shares by subsidiaries	84	49
Issue of preferred shares by subsidiaries	400	320
Repurchase of preferred shares by the Corporation	(305)	-
Repurchase of common shares by subsidiaries	(157)	(70)
Redemption of preferred shares by subsidiaries	(507)	(948)
Issue of debentures	700	575
Repayment of debentures and other debt instruments	(207)	(2)
Change in other borrowings	(46)	(216)
Change in obligations related to assets sold under repurchase agreements	5	630
Change in deposits and certificates	(72)	(52)
Other	(18)	(12)
	(1,530)	(1,245)
<b>INVESTMENT ACTIVITIES</b>		
Bond sales and maturities	20,218	20,305
Mortgage loan repayments	2,102	1,901
Sale of shares	2,653	2,764
Real estate sales	16	11
Proceeds from securitizations	1,203	1,325
Change in loans to policyholders	(135)	(78)
Change in repurchase agreements	559	330
Investment in bonds	(26,937)	(23,378)
Investment in mortgage loans	(3,122)	(3,126)
Investment in shares	(2,116)	(2,757)
Investment in real estate	(376)	(100)
Net cash used in business acquisitions and additions to intangible assets	(44)	(31)
Loan to an affiliate	(32)	-
Other	(15)	(16)
	(6,026)	(2,850)
Effect of changes in exchange rates on cash and cash equivalents	(215)	(292)
Increase (decrease) in cash and cash equivalents	(1,199)	166
Cash and cash equivalents, beginning of year	4,855	4,689
Cash and cash equivalents, end of year	3,656	4,855
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Income taxes paid	196	626
Interest paid	442	506

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of Power Financial Corporation (the Corporation) have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its subsidiaries.

The principal subsidiaries of the Corporation are:

- > Great-West Lifeco Inc. (Lifeco) (direct interest of 68.3% (2009—68.6%)), whose major operating subsidiary companies are Great-West Life & Annuity Insurance Company (GWL&A), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), The Great-West Life Assurance Company (Great-West Life) and Putnam Investments, LLC (Putnam).
- > IGM Financial Inc. (IGM) (direct interest of 57.0% (2009—56.3%)), whose major operating subsidiary companies are Investors Group Inc. (Investors Group) and Mackenzie Financial Corporation (Mackenzie).
- > IGM holds 4.0% (2009—4.0%) of the common shares of Lifeco, and Great-West Life holds 3.5% (2009—3.5%) of the common shares of IGM.

The Corporation also holds a 50% (2009—50%) interest in Parjointco N.V. (Parjointco). Parjointco holds a 54.1% (2009—54.1%) equity interest in Pargesa Holding SA (Pargesa). The Corporation accounts for its investment in Parjointco using the equity method.

### USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (Canadian GAAP) requires management to make estimates and assumptions that affect the amounts reported in those financial statements and accompanying notes. In particular, the valuation of goodwill and intangible assets, policy liabilities, income taxes, deferred selling commissions, certain financial assets and liabilities, pension plans and other post-retirement benefits are key components of the financial statements requiring management to make estimates. The reported amounts and note disclosures are determined using management's best estimates.

The results of the Corporation reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

The estimation of policy liabilities relies upon investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact policy liabilities.

### REVENUE RECOGNITION

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

Lifeco's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

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

For IGM, management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution revenues derived from mutual fund and securities transactions are recognized on a trade-date basis. Distribution revenues derived from insurance and other financial services transactions are recognized on an accrual basis.

Investment income is recognized on an accrual basis.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits with original maturity of three months or less, fixed income securities with an original term to maturity of three months or less, as well as other highly liquid investments with short-term maturities that are readily convertible to known amounts of cash. Cash and cash equivalents are recorded at fair value.

### INVESTMENTS

Investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or the investment's characteristics.

Investments in bonds and shares normally actively traded on a public market are either designated or classified as held for trading or classified as available for sale, based on management's intention. Fixed income securities are included in bonds on the balance sheet. Held-for-trading investments are recognized at fair value on the balance sheet with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recognized at fair value on the balance sheet with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold. Interest income earned on both held-for-trading and available-for-sale bonds is recorded as investment income in the statements of earnings.

Investments in equity instruments where a market value cannot be measured reliably that are classified as available for sale are carried at cost. Investments in shares for which the Corporation exerts significant influence over but does not control are accounted for using the equity method of accounting (see Note 5).

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

With respect to Lifeco, investments in real estate are carried at cost net of write-downs and allowances for losses, plus an unrealized moving average market value adjustment of \$162 million (\$164 million in 2009) in the consolidated balance sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses of \$115 million (\$133 million in 2009) are included in deferred net realized gains classified in other liabilities on the balance sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining balance basis.

Investments classified as available for sale and held for trading are recorded on a trade-date basis.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### FAIR VALUE MEASUREMENT

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

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

#### BONDS – HELD FOR TRADING AND AVAILABLE FOR SALE

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

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

#### SHARES – HELD FOR TRADING AND AVAILABLE FOR SALE

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

#### MORTGAGES AND OTHER LOANS, BONDS CLASSIFIED AS LOANS AND RECEIVABLES, AND REAL ESTATE

Market values for bonds, and mortgages and other loans, classified as loans and receivables are determined by discounting expected future cash flows using current market rates. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

### IMPAIRMENT

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

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

### TRANSACTION COSTS

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net earnings using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net earnings.

### LOANS TO POLICYHOLDERS

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

### SECURITIZATIONS

IGM periodically sells residential mortgages through Canada Mortgage and Housing Corporation (CMHC), utilizing the National Housing Act Mortgage-Backed Securities program (NHA MBS), or through Canadian bank-sponsored securitization trusts that in turn issue securities to investors. NHA MBS are sold to a trust that issues securities to investors through the Canada Mortgage Bond Program (CMB Program), which is sponsored by CMHC. IGM retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. IGM also sells NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the balance sheets and a gain or loss is recognized in earnings immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of IGM's retained interests, quoted market prices are used, if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are classified as held for trading and any realized or unrealized gains and losses are recorded in net investment income in the statements of earnings. IGM continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all sales of loans, the gains or losses and the servicing fee revenue are reported in net investment income in the statements of earnings. The retained interests in the securitized loans are recorded in other assets and the servicing liability is recorded in other liabilities on the balance sheets.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### FIXED ASSETS

Fixed assets, which are included in other assets, are recorded at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from three to 50 years. Amortization of fixed assets included in the Consolidated Statements of Earnings amounted to \$45 million (\$52 million in 2009). Fixed assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### DEFERRED SELLING COMMISSIONS

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over a maximum amortization period of five years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2010, there were no indications of impairment to deferred selling commissions.

### GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Intangible assets represent finite life and indefinite life intangible assets acquired and software acquired or internally developed. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, for a period not exceeding 30 years. The Corporation tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

### IMPAIRMENT TESTING – GOODWILL

In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the Corporation is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk-free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

### IMPAIRMENT TESTING – INDEFINITE LIFE INTANGIBLES

The fair value of intangible assets for customer contracts, the shareholder portion of acquired future participating account profits, certain property leases, and mutual fund management contracts, is estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

### POLICY LIABILITIES

Policy liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provision for Lifeco's obligations to

policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

### FINANCIAL LIABILITIES

Financial liabilities, other than policy liabilities and certain preferred shares, are classified as other liabilities. Other liabilities are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the statements of earnings.

Lifeco had designated certain preferred shares as held for trading with changes in fair value reported in the statements of earnings. These preferred shares were redeemed in 2009 and 2010.

### STOCK-BASED COMPENSATION PLANS

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in contributed surplus. When the stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are added to the stated capital of the entity issuing the corresponding shares.

### REPURCHASE AGREEMENTS

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

### DERIVATIVE FINANCIAL INSTRUMENTS

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

All derivatives, including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts, are recorded at fair value on the balance sheets in other assets and other liabilities. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the statements of earnings. Non-qualifying derivatives or derivatives not designated as hedges continue to be utilized on a basis consistent with the risk management policies of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

IGM also enters into total return swaps to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. These total return swap agreements require the periodic exchange of net contractual payments without the exchange of the notional principal amounts on which the payments are based. These instruments are not designated as hedges. Changes in fair value are recorded in operating expenses in the statements of earnings.

#### FOREIGN CURRENCY TRANSLATION

The Corporation follows the current rate method of foreign currency translation for its net investments in self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and all income and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its self-sustaining foreign operations are presented separately as a component of other comprehensive income. Unrealized gains and losses are recognized proportionately in earnings when there has been a net permanent disinvestment in the foreign operations.

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

**PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS**  
The Corporation and its subsidiaries maintain defined benefit pension plans as well as defined contribution pension plans for certain employees and advisors.

The plans provide pension based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method pro-rated on service. Pension expense consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the accrued benefit obligation less expected returns on plan assets which are valued at market value. Past service costs, transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. For the most part, actuarial gains or losses in excess of the greater of 10% of the beginning-of-year plan assets or accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group. The cost of pension benefits is charged to earnings using the projected benefit method pro-rated on services.

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

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

#### FUNDS HELD BY CEDING INSURERS/ FUNDS HELD UNDER REINSURANCE CONTRACTS

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

#### INCOME TAXES

The Corporation follows the liability method in accounting for income taxes, whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

#### EARNINGS PER SHARE

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

#### COMPARATIVE FIGURES

Certain of the 2009 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### FUTURE ACCOUNTING CHANGES

#### INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB). Publicly accountable enterprises will be required to adopt IFRS for the fiscal year beginning on or after January 1, 2011. The Corporation will issue its initial interim Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

The Corporation is in the final stages of aggregating and analysing potential adjustments required to the opening balance sheet as at January 1, 2010 for changes to accounting policies resulting from identified differences between

Canadian GAAP and IFRS. The impact of adopting IFRS and the related effects on the Corporation's consolidated financial statements will be reported in the Corporation's 2011 interim and annual financial statements.

The IFRS standard that deals with the measurement of insurance contracts, also referred to as Phase II Insurance Contracts, is currently being developed and a final accounting standard is not expected to be implemented for several years. As a result, Lifeco will continue to measure insurance liabilities using the Canadian Asset Liability Method until such time when a new IFRS standard for insurance contract measurement is issued. Consequently, the evolving nature of IFRS will likely result in additional accounting changes, some of which may be significant, in the years following the Corporation's initial transition to IFRS.

## NOTE 2 ACQUISITIONS AND DISPOSALS

- [ a ] During the fourth quarter of 2010, Investment Planning Counsel Inc., a subsidiary of IGM, acquired Partners in Planning Group Ltd. and related entities. The purchase price was allocated to indefinite life intangible assets and goodwill.
- [ b ] During the second quarter of 2009, IGM acquired the 27.6% non-controlling interest in Investment Planning Counsel Inc. IGM accounted for the transaction as a step acquisition and the aggregate purchase price, after elimination of non-controlling interest, was allocated to indefinite life intangible assets and goodwill.
- [ c ] On January 19, 2009, PanAgora, a subsidiary of Putnam, sold its equity investment in Union PanAgora Asset Management GmbH to Union Asset Management. Gross proceeds received of approximately US\$75 million recorded in net investment income resulted in a gain to Putnam of approximately US\$33 million after taxes and non-controlling interests.

## NOTE 3 INVESTMENTS

### CARRYING VALUES AND ESTIMATED MARKET VALUES OF INVESTMENTS

	2010		2009	
	CARRYING VALUE	MARKET VALUE	CARRYING VALUE	MARKET VALUE
SHARES				
Designated as held for trading	5,364	5,364	4,928	4,928
Available for sale	1,051	1,051	1,464	1,464
	6,415	6,415	6,392	6,392
BONDS				
Designated as held for trading	55,266	55,266	51,529	51,529
Classified as held for trading	1,748	1,748	1,759	1,759
Available for sale	7,331	7,331	4,935	4,935
Loans and receivables	9,290	9,942	9,165	9,421
	73,635	74,287	67,388	67,644
MORTGAGES AND OTHER LOANS				
Loans and receivables	16,512	17,279	17,116	17,326
Designated as held for trading	224	224	240	240
	16,736	17,503	17,356	17,566
REAL ESTATE	3,275	3,385	3,101	3,055
	100,061	101,590	94,237	94,657

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3 INVESTMENTS (CONTINUED)

Included in investments are the following:

#### IMPAIRED INVESTMENTS FOR LIFEKO

	2010			2009		
	GROSS AMOUNT	IMPAIRMENT	CARRYING AMOUNT	GROSS AMOUNT	IMPAIRMENT	CARRYING AMOUNT
Impaired amounts by type <sup>[1]</sup>						
Held for trading	572	(270)	302	517	(278)	239
Available for sale	58	(32)	26	55	(36)	19
Loans and receivables	114	(64)	50	151	(81)	70
<b>Total</b>	<b>744</b>	<b>(366)</b>	<b>378</b>	<b>723</b>	<b>(395)</b>	<b>328</b>

[ 1 ] Excludes amounts in funds held by ceding insurers of \$28 million and impairment of (\$17) million at December 31, 2010 and \$10 million and (\$4) million at December 31, 2009.

Gross amount represents the amortized cost or the principal balance of the impaired investments.

With respect to Lifeco, the impairment charges, net of release of actuarial default provision and other, amounted to \$14 million in 2010 (\$74 million in 2009).

Impaired investments include \$30 million gross amount of capital securities that have deferred coupons on a non-cumulative basis.

With respect to IGM, shares which have had an unrealized loss for a prolonged period of time are considered to be other than temporarily impaired. No impairment charge related to shares was recorded by IGM for the year 2010 (\$77 million in 2009).

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

	2010	2009
Balance, beginning of year	88	68
Net provision (recovery) for credit losses	(5)	38
Write-offs, net of recoveries	(8)	(8)
Other (including foreign exchange rate change)	(7)	(10)
<b>Balance, end of year</b>	<b>68</b>	<b>88</b>

Lifeco holds bonds and mortgages with restructured terms or which have been exchanged for securities with amended terms. These investments are performing according to their new terms. As at December 31, 2010, their carrying value is \$191 million (\$206 million in 2009).

### NOTE 4 SECURITIZATIONS

IGM securitizes residential mortgages through CMHC utilizing the NHA MBS program or through Canadian bank-sponsored securitization trusts. NHA MBS are sold to a trust that issues securities to investors through the CMHC-sponsored CMB Program. Pre-tax gains (losses) on the sale of mortgages are reported in net investment income in the statements of earnings. Securitization activities for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Residential mortgages securitized	1,211	1,332
Net cash proceeds	1,203	1,325
Fair value of retained interest	44	65
Pre-tax gain on sales	24	49

IGM's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related CMHC or Canadian bank-sponsored securitization trusts (CP conduits) and NHA MBS holders (the purchasers). The purchasers do not have recourse to IGM's other assets for any failure of the borrowers to pay when due.

#### NOTE 4 SECURITIZATIONS (CONTINUED)

The present value of future expected cash flows are used to fair value the retained interests. The key economic assumptions at the date of securitization issuances for CMHC or Canadian bank-sponsored securitization trusts transactions completed during 2010 and 2009 were as follows:

	2010	2009
Weighted-average		
Remaining service life (in years)	4.5	4.4
Excess spread	0.80%	1.16%
Prepayment rate	15.00%	15.00%
Discount rate	1.82%	1.66%
Servicing fees	0.15%	0.15%
Expected credit losses	-	-

At December 31, 2010, the fair value of the total retained interests was \$107 million (\$174 million in 2009). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was not considered material.

The total loans reported by IGM, the securitized loans serviced by IGM, as well as cash flows related to securitization arrangements are as follows:

	2010	2009
Mortgages	3,819	3,641
Investment loans	280	302
	4,099	3,943
Less: securitized loans serviced	3,478	3,271
Total on-balance sheet loans	621	672
Net cash proceeds	1,203	1,325
Cash flows received on retained interests	88	90

#### NOTE 5 INVESTMENT AT EQUITY

	2010	2009
Carrying value, beginning of year	2,675	2,814
Share of operating earnings	120	141
Share of Pargesa's non-operating earnings [ Note 20 ]	(5)	(70)
Share of other comprehensive income (loss)	(454)	(179)
Dividends	(57)	(31)
Carrying value, end of year	2,279	2,675
Share of equity, end of year	2,278	2,674

At December 31, 2010, Parjointco, 50% held by the Corporation, held a 54.1% equity interest in Pargesa (2009 – 54.1%).

#### NOTE 6 GOODWILL AND INTANGIBLE ASSETS

##### GOODWILL

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

	2010	2009
Balance, beginning of year	8,655	8,613
Acquisition <sup>[1]</sup>	37	32
Other, including the effect of foreign exchange	34	10
Balance, end of year	8,726	8,655

[ 1 ] There is no tax-deductible goodwill in 2010 and 2009.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

#### INTANGIBLE ASSETS

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

2010	COST	ACCUMULATED AMORTIZATION	CHANGE IN FOREIGN EXCHANGE RATES	CARRYING VALUE, END OF YEAR
<b>Indefinite life intangible assets</b>				
Brands and trademarks	662	–	(39)	623
Customer contract-related	1,400	–	63	1,463
Shareholder portion of acquired future participating account profits	354	–	–	354
Trade names	285	–	–	285
Mutual fund management contracts	741	–	–	741
	3,442	–	24	3,466
<b>Finite life intangible assets</b>				
Customer contract-related	595	(169)	(31)	395
Distribution channels	126	(28)	(22)	76
Distribution contracts	112	(29)	–	83
Technology	13	(6)	(3)	4
Property lease	14	(7)	(3)	4
Software	484	(274)	–	210
	1,344	(513)	(59)	772
<b>Total</b>	<b>4,786</b>	<b>(513)</b>	<b>(35)</b>	<b>4,238</b>

2009	COST	ACCUMULATED AMORTIZATION	CHANGE IN FOREIGN EXCHANGE RATES	CARRYING VALUE, END OF YEAR
<b>Indefinite life intangible assets</b>				
Brands and trademarks	662	–	(13)	649
Customer contract-related	1,400	–	129	1,529
Shareholder portion of acquired future participating accounts profits	354	–	–	354
Trade names	285	–	–	285
Mutual fund management contracts	737	–	–	737
	3,438	–	116	3,554
<b>Finite life intangible assets</b>				
Customer contract-related	595	(142)	(12)	441
Distribution channels	126	(24)	(16)	86
Distribution contracts	105	(22)	–	83
Technology	13	(6)	–	7
Property lease	14	(7)	–	7
Software	433	(245)	–	188
	1,286	(446)	(28)	812
<b>Total</b>	<b>4,724</b>	<b>(446)</b>	<b>88</b>	<b>4,366</b>

## NOTE 7 INCOME TAXES

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

	2010	2009
	%	%
Combined basic Canadian federal and provincial tax rates	30.4	31.9
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(3.8)	(2.6)
Lower effective tax rates on income not subject to tax in Canada	(2.8)	(5.1)
Resolution of uncertain tax positions	(2.3)	(4.3)
Adjustment for overstated prior tax items	(1.2)	–
Earnings of investment at equity	(1.2)	(0.8)
Miscellaneous	(2.2)	1.2
Effective income tax rate	16.9	20.3
Components of income tax expense are:		
Current income taxes	456	179
Future income taxes	41	386
	497	565

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

	2010	2009
Policy liabilities	(961)	(724)
Loss carry forwards	1,102	1,266
Investments	(378)	(425)
Deferred selling commissions	(211)	(240)
Intangible assets and goodwill	468	459
Other assets	(13)	(166)
Future income taxes	7	170
Classified in the Consolidated Balance Sheets as:		
Future income tax assets	1,174	1,268
Future income tax liabilities	(1,167)	(1,098)
	7	170

As at December 31, 2010, the Corporation and its subsidiaries have non-capital losses of \$471 million (\$485 million in 2009) available to reduce future taxable income for which the benefits have not been recognized. These losses expire at various dates to 2030. In addition, the Corporation has capital loss carry forwards that can be used indefinitely to offset future capital gains of approximately \$61 million (\$61 million in 2009).

The future tax benefit of loss carried forwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of \$1,102 million (\$1,266 million in 2009). The Corporation and its subsidiaries will realize this benefit in future years through a reduction in current income taxes payable.

## NOTE 8 OTHER ASSETS

	2010	2009
Dividends, interest and other receivables	2,206	2,198
Premiums in course of collection	393	403
Deferred selling commissions	784	850
Fixed assets	243	223
Accrued benefit asset [ Note 21]	437	384
Derivative financial instruments	1,067	837
Income taxes receivable	580	793
Other	724	691
	6,434	6,379

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 9 POLICY LIABILITIES

#### COMPOSITION OF POLICY LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of policy liabilities of Lifeco is as follows:

	PARTICIPATING		NON-PARTICIPATING		TOTAL	
	2010	2009	2010	2009	2010	2009
Canada	25,055	23,097	24,155	22,460	49,210	45,557
United States	8,108	8,250	14,555	13,790	22,663	22,040
Europe	1,189	1,428	32,055	33,626	33,244	35,054
Total	34,352	32,775	70,765	69,876	105,117	102,651

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

2010	BONDS	MORTGAGE LOANS	SHARES	REAL ESTATE	OTHER	TOTAL
Carrying value						
Participating	15,595	6,393	3,882	370	8,112	34,352
Non-participating						
Canada	16,066	5,069	1,432	10	1,578	24,155
United States	12,632	1,479	–	–	444	14,555
Europe	17,162	2,039	195	1,880	10,779	32,055
Other	4,664	874	435	220	6,784	12,977
Capital and surplus	6,084	261	756	793	5,526	13,420
Total carrying value	72,203	16,115	6,700	3,273	33,223	131,514
Market value	72,855	16,880	6,769	3,383	33,223	133,110

2009	BONDS	MORTGAGE LOANS	SHARES	REAL ESTATE	OTHER	TOTAL
Carrying value						
Participating	14,884	6,316	3,747	286	7,542	32,775
Non-participating						
Canada	14,299	5,327	991	14	1,829	22,460
United States	11,843	1,456	–	–	491	13,790
Europe	16,839	2,314	130	1,770	12,573	33,626
Other	3,880	970	1,041	217	6,607	12,715
Capital and surplus	4,402	301	533	812	6,955	13,003
Total carrying value	66,147	16,684	6,442	3,099	35,997	128,369
Market value	66,403	16,891	6,503	3,053	35,997	128,847

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

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

#### CHANGES IN POLICY LIABILITIES

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

	2010	2009
Balance, beginning of year	102,651	102,627
Impact of new business	5,095	4,198
Normal change in force	2,025	1,899
Management action and changes in assumptions	(432)	(268)
Business movement from/to external parties	(1)	(9)
Impact of foreign exchange rate changes	(4,221)	(5,796)
Balance, end of year	105,117	102,651

Under fair value accounting, movement in the market value of the supporting assets is a major factor in the movement of policy liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of

liabilities. The change in the value of the policy liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

## NOTE 9 POLICY LIABILITIES (CONTINUED)

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

Lifeco's non participating policy liabilities decreased by \$427 million in 2010 due to management actions and assumption changes including a \$246 million decrease in Canada, a \$126 million decrease in Europe and a \$55 million decrease in the United States. The decrease in Canada was primarily due to updated expenses and taxes in individual insurance (\$86 million decrease), improved individual life mortality (\$64 million decrease), improved group insurance morbidity (\$62 million decrease), modelling refinements across the Canadian segment (\$56 million decrease) and reduced provisions for asset liability matching (\$49 million decrease), partially offset by increased provisions for policyholder behaviour in individual insurance (\$69 million increase). The decrease in Europe was primarily due to reduced provisions for asset liability matching (\$127 million decrease), modelling refinements across the division (\$97 million decrease) and updated expenses (\$23 million decrease), partially offset by strengthened reinsurance life mortality (\$71 million increase), strengthened longevity (\$16 million increase), strengthened group insurance morbidity (\$13 million increase), increased provisions for policyholder behaviour (\$10 million increase) and asset default (\$8 million increase). The decrease in the United States was primarily due to improved life mortality (\$52 million decrease), improved longevity (\$6 million decrease), modelling refinements (\$4 million decrease), partially offset by increased provisions for policyholder behaviour (\$8 million increase).

Lifeco's participating policy liabilities decreased by \$5 million in 2010 due to management actions and assumption changes. The decrease was primarily due to updated expenses (\$261 million decrease), improved investment returns (\$20 million decrease), and improved individual life mortality (\$13 million decrease), partially offset by modelling refinements (\$213 million increase), increases in the provision for future policyholder dividends (\$66 million increase) and increased provisions for policyholder behaviour (\$10 million increase).

In 2009, the major contributors to the increase in policy liabilities were the impact of new business and the normal change in the in-force business, almost totally offset by the impact of foreign exchange rates.

Lifeco's non-participating policy liabilities decreased by \$194 million in 2009 due to management actions and assumption changes, including a \$135 million decrease in Canada, a \$58 million decrease in Europe and a \$1 million decrease in the United States. The decrease in Canada was primarily due to improved individual life mortality (\$115 million decrease) updated expenses (\$48 million decrease) and modelling refinements in individual life and annuities (\$32 million decrease), partially offset by the future tax impact of a change in asset mix targets for long-tail liabilities (\$52 million increase). The decrease in Europe was primarily due to reduced provisions for asset liability matching (\$199 million decrease), modelling refinements in annuities (\$97 million decrease) and improved life mortality (\$47 million decrease), partially offset by strengthening of asset default and expense (\$158 million increase), modelling refinements in reinsurance (\$77 million increase), strengthened administration expenses in Europe (\$30 million increase) and strengthened longevity (\$20 million increase). The decrease in the United States was primarily due to reduced provisions for asset liability matching (\$32 million decrease) and improved life mortality (\$18 million decrease), partially offset by strengthening of asset default (\$32 million increase) and strengthened longevity (\$13 million increase).

Lifeco's participating policy liabilities decreased by \$74 million in 2009 due to management actions and assumption changes. This decrease was primarily due to a decrease in the provision for future policyholder dividends (\$1,495 million decrease) and improved life mortality (\$168 million decrease), partially offset by lowered investment returns (\$1,588 million increase).

### ACTUARIAL ASSUMPTIONS

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

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

### MORTALITY

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. A 2% increase in the best estimate assumption would increase non-participating policy liabilities by approximately \$216 million, causing a decrease in net earnings of Lifeco of approximately \$159 million (Power Financial's share – \$112 million).

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would increase non-participating policy liabilities by approximately \$217 million, causing a decrease in net earnings of Lifeco of approximately \$172 million (Power Financial's share – \$121 million).

### MORBIDITY

Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best estimate incidence assumptions for active life liabilities would increase non-participating policy liabilities by approximately \$213 million, causing a decrease in net earnings of Lifeco of approximately \$151 million (Power Financial's share – \$107 million).

### PROPERTY AND CASUALTY REINSURANCE

Policy liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. Reflecting the long-term nature of the business, policy liabilities have been established using cash flow valuation techniques, including discounting.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 9 POLICY LIABILITIES (CONTINUED)

The policy liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, policy liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in earnings. LRG analyses the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

#### INVESTMENT RETURNS

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine policy liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 17).

#### EXPENSES

Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would increase the non-participating policy liabilities by approximately \$71 million, causing a decrease in net earnings of Lifeco of approximately \$51 million (Power Financial's share – \$36 million).

#### POLICY TERMINATION

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's persistency assumption for these products as Lifeco's own experience is very limited. A 10% adverse change

in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately \$452 million, causing a decrease in net earnings of Lifeco of approximately \$320 million (Power Financial's share – \$226 million).

#### UTILIZATION OF ELECTIVE POLICY OPTIONS

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

#### POLICYHOLDER DIVIDENDS AND ADJUSTABLE POLICY FEATURES

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

#### CEDED REINSURANCE

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

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

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

As a result of reinsurance, policy liabilities have been reduced by the following amounts:

	2010	2009
Participating	23	17
Non-participating	2,508	2,768
	2,531	2,785

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

## NOTE 10 DEBENTURES AND OTHER BORROWINGS

	2010	2009
<b>OTHER BORROWINGS</b>		
<b>GREAT-WEST LIFECO INC.</b>		
Commercial paper and other short-term debt instruments with interest rates from 0.36% to 0.44% (0.28% to 0.38% in 2009)	91	102
Revolving credit facility with interest equal to LIBOR rate plus 1% or U.S. prime rate loan (US\$215 million in 2010, US\$260 million in 2009)	213	273
<b>Total other borrowings</b>	<b>304</b>	<b>375</b>
<b>DEBENTURES</b>		
<b>POWER FINANCIAL CORPORATION</b>		
6.90% debentures, due March 11, 2033, unsecured	250	250
<b>IGM FINANCIAL INC.</b>		
6.75% debentures 2001 Series, due May 9, 2011, unsecured	450	450
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	150
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	375
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	125
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	150
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	175
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	150
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	–
<b>GREAT-WEST LIFECO INC.</b>		
Term note due October 18, 2012, bearing an interest rate of LIBOR plus 0.30% (US\$304 million), unsecured	301	319
6.75% debentures due August 10, 2015, unsecured	–	200
6.14% debentures due March 21, 2018, unsecured	200	200
4.65% debentures due August 13, 2020, unsecured	500	–
6.40% subordinated debentures due December 11, 2028, unsecured	100	100
6.74% debentures due November 24, 2031, unsecured	200	200
6.67% debentures due March 21, 2033, unsecured	400	400
6.625% deferrable debentures due November 15, 2034, unsecured (US\$175 million)	172	183
5.998% debentures due November 16, 2039, unsecured	345	345
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and, thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (US\$300 million)	297	315
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until 2017 and, thereafter, a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	1,000	1,000
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until 2018 and, thereafter, a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	500	500
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	4	5
<b>Total debentures</b>	<b>6,044</b>	<b>5,592</b>
	<b>6,348</b>	<b>5,967</b>

On December 9, 2010, IGM issued \$200 million of 6.00% debentures maturing on December 10, 2040. The debentures are redeemable by IGM, in whole or in part, at any time, at the greater of par or a formula price based upon yields at the time of redemption.

On August 13, 2010, Lifeco issued \$500 million principal amount debentures at par that will mature on August 13, 2020. Interest on the debentures at the rate of 4.65% per annum will be payable semi-annually in arrears on February 13 and August 13 of each year, commencing February 13, 2011, until the date on which the debentures are repaid. The debentures are redeemable at any time in whole or in part at the greater of the Canada Yield Price or par, together in each case with accrued and unpaid interest.

On August 10, 2010, Lifeco redeemed the \$200 million principal amount 6.75% debentures at par that had a maturity date of August 10, 2015.

On November 16, 2009, Lifeco issued \$200 million principal amount of 5.998% debentures and an additional principal amount of \$144 million on December 18, 2009 (refer to Note 11). The debentures are due November 16, 2039

and bear an interest rate of 5.998% until they are due. The debentures may be redeemed by Lifeco at the greater of the Canadian Yield Price or par plus any unpaid and accrued interest on not less than 30 and no more than 60 days notice.

On June 22, 2009, Putnam executed a new revolving credit facility agreement with a syndicate of banks for US\$500 million, an increase of US\$300 million from the previous agreement. At December 31, 2009, a subsidiary of Putnam had drawn US\$260 million on this credit facility. This agreement expired on June 21, 2010. On June 17, 2010, the revolving credit agreement for US\$500 million was amended and is due June 17, 2013. At December 31, 2010, a subsidiary of Putnam had drawn US\$215 million on this credit facility.

On April 7, 2009, IGM issued \$375 million of 7.35% debentures maturing April 8, 2019. The debentures are redeemable by IGM, in whole or in part, at any time, at the greater of par or a formula price based upon yields at the time of redemption.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 10 DEBENTURES AND OTHER BORROWINGS (CONTINUED)

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

2011	451
2012	302
2013	1
2014	1
2015	–
2016 and thereafter	5,289

### NOTE 11 CAPITAL TRUST SECURITIES AND DEBENTURES

	2010	2009
<b>CAPITAL TRUST DEBENTURES</b>		
5.995% senior debentures due December 31, 2052, unsecured (GWLCT)	350	350
6.679% senior debentures due June 30, 2052, unsecured (CLCT)	300	300
7.529% senior debentures due June 30, 2052, unsecured (CLCT)	150	150
	800	800
Acquisition-related fair market value adjustment	17	19
Trust securities held by Lifeco as temporary investments	(44)	(41)
Trust securities held by Lifeco as long-term investments	(238)	(238)
	535	540

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued \$350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of \$350 million, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued \$450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of \$450 million. Distributions and interest on the capital trust securities are classified as financing charges on the Consolidated Statements of Earnings (refer to Note 19).

Pursuant to the Canada Life Financial Corporation acquisition in 2003, the Canadian regulated subsidiaries had purchased certain of these capital trust debentures. During 2009, Lifeco disposed of \$138 million principal amount of capital trust securities held by the consolidated group as temporary investments.

On November 11, 2009 Lifeco launched an issuer bid whereby it offered to acquire up to 170,000 of the outstanding Great West Life Trust Securities – Series A (GREATS) of GWLCT and up to 180,000 of the outstanding Canada Life Capital Securities – Series A (CLiCS) of CLCT. On December 18, 2009, pursuant to this offer, Lifeco acquired 116,547 GREATs and 121,788 CLiCS for \$261 million, plus accrued and unpaid interest. In connection with this transaction Lifeco issued \$144 million aggregate principal amount of 5.998% debentures due November 16, 2039 and paid cash of \$122 million.

### NOTE 12 OTHER LIABILITIES

	2010	2009
Accounts payable, accrued liabilities and other	3,596	3,413
Deferred net realized gains	115	133
Income taxes payable	217	226
Repurchase agreements	1,676	1,162
Accrued benefit liability [ Note 21 ]	665	662
Derivative financial instruments	258	364
Dividends and interest payable	334	334
	6,861	6,294

## NOTE 13 NON-CONTROLLING INTERESTS

	2010	2009
Non-controlling interests include		
Participating policyholders	2,013	2,004
Preferred shareholders of subsidiaries	2,159	2,014
Common shareholders of subsidiaries	4,884	4,860
	9,056	8,878
Earnings attributable to non-controlling interests include		
Earnings attributable to participating policyholders	2	15
Dividends to preferred shareholders of subsidiaries	110	87
Earnings attributable to common shareholders of subsidiaries	748	676
	860	778

## NOTE 14 STATED CAPITAL

### AUTHORIZED

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

### ISSUED AND OUTSTANDING

	2010		2009	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
<b>PREFERRED SHARES (CLASSIFIED AS LIABILITIES)</b>				
Series C First Preferred Shares [ i ]	–	–	6,000,000	150
Series J First Preferred Shares [ ii ]	–	–	6,000,000	150
		–		300
<b>PREFERRED SHARES (PERPETUAL)</b>				
Series A First Preferred Shares [ iii ]	4,000,000	100	4,000,000	100
Series D First Preferred Shares [ iv ]	6,000,000	150	6,000,000	150
Series E First Preferred Shares [ v ]	8,000,000	200	8,000,000	200
Series F First Preferred Shares [ vi ]	6,000,000	150	6,000,000	150
Series H First Preferred Shares [ vii ]	6,000,000	150	6,000,000	150
Series I First Preferred Shares [ viii ]	8,000,000	200	8,000,000	200
Series K First Preferred Shares [ ix ]	10,000,000	250	10,000,000	250
Series L First Preferred Shares [ x ]	8,000,000	200	8,000,000	200
Series M First Preferred Shares [ xi ]	7,000,000	175	7,000,000	175
Series O First Preferred Shares [ xii ]	6,000,000	150	6,000,000	150
Series P First Preferred Shares [ xiii ]	11,200,000	280	–	–
		2,005		1,725
Common Shares [ xiv ]	708,013,680	636	705,726,680	605

[ i ] On October 31, 2010, the Corporation redeemed all its outstanding 5.20% Non-Cumulative, Series C First Preferred Shares at a redemption price of \$25.40 per share, for a total consideration of \$152 million.

[ ii ] On July 30, 2010, the Corporation redeemed all its outstanding 4.70% Non-Cumulative, Series J First Preferred Shares at a redemption price of \$25.50 per share, for a total consideration of \$153 million.

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

[ iv ] The 5.50% Non-Cumulative First Preferred Shares, Series D are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.375 per share per annum. On and after January 31, 2013, the Corporation may redeem for cash the Series D First Preferred Shares in whole or in part, at the Corporation's option, at \$25.00 per share together with all declared and unpaid dividends to, but excluding, the date of redemption.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 14 STATED CAPITAL (CONTINUED)

- [ vi ] The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.475 per share per annum. The Corporation may redeem for cash the Series F First Preferred Shares in whole or in part, at the Corporation's option, at \$25.25 per share if redeemed prior to July 17, 2011 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [vii] The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.4375 per share per annum. The Corporation may redeem for cash the Series H First Preferred Shares in whole or in part, at the Corporation's option, at \$25.25 per share if redeemed prior to December 10, 2011 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [viii] The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.50 per share per annum. The Corporation may redeem for cash the Series I First Preferred Shares in whole or in part, at the Corporation's option, at \$25.50 per share if redeemed prior to April 30, 2011, \$25.25 if redeemed thereafter and prior to April 30, 2012 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [ ix ] The 4.95% Non-Cumulative First Preferred Shares, Series K are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.2375 per share per annum. The Corporation may redeem for cash the Series K First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to October 31, 2011, \$25.75 if redeemed thereafter and prior to October 31, 2012, \$25.50 if redeemed thereafter and prior to October 31, 2013, \$25.25 if redeemed thereafter and prior to October 31, 2014 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [ x ] The 5.10% Non-Cumulative First Preferred Shares, Series L are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.2750 per share per annum. On and after October 31, 2011, the Corporation may redeem for cash the Series L First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to October 31, 2012, \$25.75 if redeemed thereafter and prior to October 31, 2013, \$25.50 if redeemed thereafter and prior to October 31, 2014, \$25.25 if redeemed thereafter and prior to October 31, 2015, \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [ xi ] The 6.00% Non-Cumulative First Preferred Shares, Series M are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.50 per share per annum. On January 31, 2014 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series M First Preferred shares in whole or in part, at the Corporation's option, at \$25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series M First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series N, at the option of the holders on January 31, 2014 or on January 31 every five years thereafter.
- [xii] The 5.80% Non-Cumulative First Preferred Shares, Series O are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.45 per share per annum. On and after October 31, 2014, the Corporation may redeem for cash the Series O First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to October 31, 2015, \$25.75 if redeemed on or after October 31, 2015 and prior to October 31, 2016, \$25.50 if redeemed on or after October 31, 2016 and prior to October 31, 2017, \$25.25 if redeemed on or after October 31, 2017 and prior to October 31, 2018 and \$25.00 if redeemed on or after October 31, 2018, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [xiii] In the second quarter of 2010, the Corporation issued 11,200,000 4.40% Non-Cumulative 5-Year Rate Reset First Preferred Shares, Series P for cash proceeds of \$280 million. The 4.40% Non-Cumulative First Preferred Shares, Series P are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.10 per share per annum. On January 31, 2016 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series P First Preferred Shares in whole or in part, at the Corporation's option, at \$25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series P First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series Q, at the option of the holders on January 31, 2016 or on January 31 every five years thereafter. Transaction costs incurred in connection with the Series P First Preferred Shares of \$8 million were charged to retained earnings.
- [xiv] During the year, 2,287,000 common shares (713,000 in 2009) were issued under the Corporation's Employee Stock Option Plan for a consideration of \$31 million (\$10 million in 2009).

### NOTE 15 STOCK-BASED COMPENSATION

- [ i ] On October 1, 2000, the Corporation established a deferred share unit plan for the Directors of the Corporation to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Common Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Common Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable, at the time a Director's membership on the Board is terminated or in the event of the death of a Director, by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2010, the value of the deferred share units outstanding was \$9.8 million (\$8.8 million in 2009). In addition, Directors may also participate in the Directors Share Purchase Plan.
- [ ii ] Effective May 1, 2000, an Employee Share Purchase Program was implemented, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have the Corporation invest, on the employee's behalf, up to an equal amount. The amount paid on behalf of employees was \$0.2 million in 2010 (\$0.2 million in 2009).

**NOTE 15 STOCK-BASED COMPENSATION (CONTINUED)**

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

During the year ended December 31, 2010, 717,818 options (136,182 options in 2009) were granted under the Corporation's Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2010	2009
Dividend yield	4.5%	3.7%
Expected volatility	20.4%	16.7%
Risk-free interest rate	2.8%	3.3%
Expected life (years)	9	9
Fair value per stock option (\$/option)	\$3.61	\$3.46
Weighted-average exercise price (\$/option)	\$28.36	\$26.22

For the year ended December 31, 2010, compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$9 million (\$16 million in 2009).

[iv] Under the Corporation's Employee Stock Option Plan, 17,581,600 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from date

of grant and no later than five years from date of grant. Options recently granted have the following vesting conditions: grants of 972,395 options in 2008 which vest equally over a period of five years beginning in 2009; a grant of 136,182 options in 2009 which vest equally over a period of five years beginning in 2010; grants of 38,293 options in 2010 which vest as follows: the first 50% three years from the date of grant and the remaining 50% four years from the date of grant; a grant of 679,525 options in 2010 which vest equally over a period of five years beginning in 2011.

A summary of the status of the Corporation's Employee Stock Option Plan as at December 31, 2010 and 2009, and changes during the years ended on those dates is as follows:

	2010		2009	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	10,049,297	\$ 24.48	10,626,115	\$ 23.72
Granted	717,818	28.36	136,182	26.22
Exercised	(2,287,000)	13.50	(713,000)	13.50
Outstanding at end of year	8,480,115	27.77	10,049,297	24.48
Options exercisable at end of year	7,069,914	27.49	8,427,393	23.14

The following table summarizes information about stock options outstanding at December 31, 2010:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
\$		(yrs)	\$		\$
16.87	160,000	0.8	16.87	160,000	16.87
21.65	3,000,000	2.6	21.65	3,000,000	21.65
26.22 – 28.13	865,707	9.1	27.76	77,236	26.70
29.05 – 29.63	830,980	7.5	29.60	332,392	29.60
31.59 – 32.46	2,567,777	5.1	32.11	2,529,484	32.10
34.46 – 37.13	1,055,651	7.2	34.81	970,802	34.61
	8,480,115	5.0	27.77	7,069,914	27.49

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16 CAPITAL MANAGEMENT

As an investment holding company, Power Financial's objectives in managing its capital are:

- > To provide sufficient financial flexibility to pursue its growth strategy and support its group companies and other investments.
- > To maintain an appropriate credit rating to achieve access to the capital markets at the lowest overall cost of capital.
- > To provide attractive long-term returns to shareholders of the Corporation

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

The capital structure of the Corporation consists of preferred shares, debentures and shareholders' equity composed of stated capital, retained earnings and non-controlling interest in the equity of subsidiaries of the Corporation. The Corporation utilizes perpetual preferred shares as a permanent and cost-effective source of capital. The Corporation considers itself to be a long-term investor and as such holds positions in long-term investments as well as cash and short-term investments for liquidity purposes. As such, the Corporation makes minimal use of leverage at the holding company level.

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

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

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

- > In Canada, the Office of the Superintendent of Financial Institutions has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2010, the MCCSR ratio for Great-West Life was 203%.
- > At December 31, 2010, the Risk Based Capital ratio (RBC) of GWL&A, Lifeco's regulated U.S. operating company, is estimated to be 393% of the Company Action Level set by the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. insurance regulators.
- > As at December 31, 2010 and 2009, Lifeco maintained capital levels above the minimum local requirements in its other foreign operations.

IGM subsidiaries subject to regulatory capital requirements include trust companies, securities dealers and mutual fund dealers. These subsidiaries are in compliance with all regulatory capital requirements.

### NOTE 17 RISK MANAGEMENT

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

#### LIQUIDITY RISK

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

Principal payments on debentures (other than those of Lifeco and IGM discussed below) represent the only significant contractual liquidity requirement of Power Financial.

AS AT DECEMBER 31, 2010	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Debentures	—	—	250	250

Power Financial's liquidity position and its management of liquidity risk have not changed materially since December 31, 2009.

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

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

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

Power Financial seeks to maintain a sufficient level of liquidity to meet all its cash flow requirements. In addition, Power Financial and its parent, Power Corporation of Canada, jointly have a \$100 million uncommitted line of credit with a Canadian chartered bank.

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

- > Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or the capital markets. Lifeco maintains a \$200 million committed line of credit with a Canadian chartered bank.

## NOTE 17 RISK MANAGEMENT (CONTINUED)

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

AS AT DECEMBER 31, 2010	PAYMENTS DUE BY PERIOD						TOTAL
	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	AFTER 5 YEARS	
Debentures and other debt instruments	305	302	1	1	–	3,714	4,323
Capital trust debentures <sup>[1]</sup>	–	–	–	–	–	800	800
Purchase obligations	55	26	27	15	16	4	143
Pension contributions	130	–	–	–	–	–	130
	490	328	28	16	16	4,518	5,396

[ 1 ] Payments due have not been reduced to reflect that Lifeco held capital trust securities of \$275 million principal amount (\$282 million carrying value).

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

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

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

- > Investors Mortgage and Short Term Income Fund;
- > Third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts; or

IGM's contractual maturities were as follows:

AS AT DECEMBER 31, 2010	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	604	91	135	5	835
Other liabilities	–	50	43	–	93
Long-term debt	–	450	–	1,325	1,775
Operation leases	–	45	129	93	267
Total contractual obligations	604	636	307	1,423	2,970

In addition to IGM's current balance of cash and cash equivalents, other potential sources of liquidity include IGM's lines of credit and portfolio of securities. During the third quarter of 2010, IGM decreased its operating lines of credit with various Schedule I Canadian chartered banks to \$325 million from \$675 million as at December 31, 2009. The operating lines of credit as at December 31, 2010 consist of committed lines of credit of \$150 million (2009 – \$500 million) and uncommitted lines of \$175 million (2009 – \$175 million). As at December 31, 2010 and 2009, IGM was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

In the fourth quarter of 2010, IGM accessed the domestic debt markets to raise capital through the issue of \$200 million in 30-year 6.0% debentures. IGM's ability to access capital markets to raise funds is dependent on market conditions.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2009.

### CREDIT RISK

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

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

- > Institutional investors through private placements.

Investors Group is an approved issuer of National Housing Act Mortgage-Backed Securities (NHA MBS) and an approved seller into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides IGM with additional funding sources for residential mortgages. IGM's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change.

Liquidity requirements for trust subsidiaries which engage in financial intermediary activities are based on policies approved by committees of their respective boards of directors. As at December 31, 2010, the trust subsidiaries' liquidity was in compliance with these policies.

Cash and cash equivalents amounting to \$242 million and fixed income securities amounting to \$470 million consist primarily of highly liquid temporary deposits with Canadian chartered banks as well as bankers' acceptances and short-term securities guaranteed by the Canadian government. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Corporation mitigates credit risk on these financial instruments by adhering to its Investment Policy which outlines credit risk parameters and concentration limits.

The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter traded with counterparties that are highly rated financial institutions. The exposure to credit risk is limited to the fair value of those instruments, which were in a gain position, and which was \$4 million at December 31, 2010.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17 RISK MANAGEMENT (CONTINUED)

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

#### MAXIMUM EXPOSURE TO CREDIT RISK FOR LIFECO

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

AS AT DECEMBER 31	2010	2009
Cash and cash equivalents	1,840	3,427
Bonds		
Held for trading	56,296	52,362
Available for sale	6,617	4,620
Loans and receivables	9,290	9,165
Mortgage loans	16,115	16,684
Loans to policyholders	6,827	6,957
Other financial assets <sup>[1]</sup>	13,317	14,385
Derivative assets	984	717
Total balance sheet maximum credit exposure	111,286	108,317

[1] Other financial assets include \$9,097 million of funds held by ceding insurers in 2010 (\$10,146 million in 2009) where Lifeco retains the credit risk of the assets supporting the liabilities ceded.

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has \$24 million of collateral received in 2010 (\$35 million of collateral received in 2009) relating to derivative assets.

#### CONCENTRATION OF CREDIT RISK FOR LIFECO

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

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

AS AT DECEMBER 31, 2010	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	3,548	–	31	3,579
Provincial, state and municipal governments	5,619	1,815	57	7,491
U.S. Treasury and other U.S. agencies	335	2,851	976	4,162
Other foreign governments	121	–	6,372	6,493
Government-related	882	–	1,502	2,384
Sovereign	651	22	770	1,443
Asset-backed securities	2,728	3,450	842	7,020
Residential mortgage-backed securities	25	745	111	881
Banks	2,183	442	1,993	4,618
Other financial institutions	1,057	1,359	1,470	3,886
Basic materials	201	587	182	970
Communications	589	246	477	1,312
Consumer products	1,608	1,419	1,495	4,522
Industrial products/services	544	726	181	1,451
Natural resources	997	561	422	1,980
Real estate	422	–	1,400	1,822
Transportation	1,557	563	584	2,704
Utilities	3,266	2,433	2,821	8,520
Miscellaneous	1,728	628	232	2,588
Total long-term bonds	28,061	17,847	21,918	67,826
Short-term bonds	2,822	816	739	4,377
Total bonds	30,883	18,663	22,657	72,203

NOTE 17 RISK MANAGEMENT (CONTINUED)

AS AT DECEMBER 31, 2009	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	2,264	1	14	2,279
Provincial, state and municipal governments	4,917	1,333	55	6,305
U.S. Treasury and other U.S. agencies	240	2,620	758	3,618
Other foreign governments	104	–	5,773	5,877
Government-related	778	–	1,372	2,150
Sovereign	783	4	762	1,549
Asset-backed securities	2,636	3,306	851	6,793
Residential mortgage-backed securities	46	842	60	948
Banks	2,201	453	2,299	4,953
Other financial institutions	1,021	1,336	1,507	3,864
Basic materials	151	571	198	920
Communications	598	276	473	1,347
Consumer products	1,384	1,351	1,664	4,399
Industrial products/services	516	651	206	1,373
Natural resources	1,000	710	581	2,291
Real estate	559	–	1,216	1,775
Transportation	1,414	585	594	2,593
Utilities	3,008	2,172	2,702	7,882
Miscellaneous	1,489	562	182	2,233
Total long-term bonds	25,109	16,773	21,267	63,149
Short-term bonds	2,406	455	137	2,998
Total bonds	27,515	17,228	21,404	66,147

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

AS AT DECEMBER 31, 2010	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,622	3,528	6,691	11,841
United States	–	464	1,517	1,981
Europe	–	26	2,267	2,293
Total mortgage loans	1,622	4,018	10,475	16,115

AS AT DECEMBER 31, 2009	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,695	3,965	6,371	12,031
United States	–	485	1,509	1,994
Europe	–	29	2,630	2,659
Total mortgage loans	1,695	4,479	10,510	16,684

ASSET QUALITY

BOND PORTFOLIO QUALITY

AS AT DECEMBER 31	2010	2009
AAA	28,925	24,653
AA	11,436	10,684
A	19,968	19,332
BBB	10,649	10,113
BB and lower	1,225	1,365
Total bonds	72,203	66,147

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17 RISK MANAGEMENT (CONTINUED)

#### DERIVATIVE PORTFOLIO QUALITY

AS AT DECEMBER 31	2010	2009
Over-the-counter contracts (counterparty ratings):		
AAA	5	5
AA	491	338
A	488	374
Total	984	717

#### LOANS OF LIFECO PAST DUE, BUT NOT IMPAIRED

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

	2010	2009
Less than 30 days	7	45
30—90 days	2	6
Greater than 90 days	2	9
Total	11	60

#### PERFORMING SECURITIES SUBJECT TO DEFERRED COUPONS

	PAYMENT RESUMPTION DATE		
	LESS THAN 1 YEAR	1-2 YEARS	GREATER THAN 2 YEARS
Coupon payment receivable	—	2	—

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

With respect to IGM, at December 31, 2010, cash and cash equivalents of \$1,574 million consisted of cash balances of \$114 million on deposit with Canadian chartered banks and cash equivalents of \$1,460 million. Cash equivalents are composed primarily of Government of Canada treasury bills totalling \$656 million, provincial government and government-guaranteed commercial paper of \$355 million and bankers' acceptances issued by Canadian chartered banks of \$427 million. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

With respect to IGM, available-for-sale fixed income securities at December 31, 2010 are composed of bankers' acceptances of \$35 million, Canadian chartered bank senior deposit notes and floating rate notes of \$82 million and \$35 million, respectively, and corporate bonds and other of \$92 million. The maximum exposure to credit risk on these financial instruments is their carrying value.

IGM manages credit risk related to cash and cash equivalents and available-for-sale fixed income securities by adhering to its Investment Policy, which outlines credit risk parameters and concentration limits.

Held-for-trading securities include Canada Mortgage Bonds with a fair value of \$638 million, NHA MBS with a fair value of \$53 million, as well as fixed income securities that comprise non-bank-sponsored ABCP with a fair value of \$28 million. These fair values represent the maximum exposure to credit risk at December 31, 2010.

IGM regularly reviews the credit quality of the mortgage and investment loan portfolios and the adequacy of the general allowance. As at December 31, 2010, mortgages and investment loans totalled \$342 million and \$284 million, respectively, compared with \$373 million and \$305 million as at December 31, 2009. The allowance for credit losses was \$4 million at December 31, 2010, compared to \$7 million in 2009, a decrease of \$3 million. The decrease reflects changes in the size and composition of the mortgage loan portfolio and continued low default and loss trends. As at December 31, 2010, the mortgage portfolios were geographically diverse, 100% residential (2009 – 100%) and 60% insured (2009 – 74%). The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. As at December 31, 2010, impaired mortgages and investment loans were \$0.3 million, compared to \$0.8 million in 2009. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were \$0.2 million at December 31, 2010, unchanged from December 31, 2009. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2010.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have not changed materially since December 31, 2009.

## NOTE 17 RISK MANAGEMENT (CONTINUED)

IGM regularly reviews the credit quality of the mortgage loans securitized through CMHC or Canadian bank-sponsored (Schedule I chartered banks) securitization trusts. The fair value of the retained interests in the securitized loans was \$107 million at December 31, 2010, compared to \$174 million at December 31, 2009. Retained interests include:

- > Cash reserve accounts and rights to future excess spread (securitization receivables) which totalled \$109 million at December 31, 2010.

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$23 million is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as discussed below, and IGM's credit risk on insured loans is to the insurer. At December 31, 2010, 92.4% of the \$1.4 billion in outstanding mortgages securitized under these programs was insured.

Rights to the future excess spread under the NHA MBS and CMB Program totalled \$87 million. Under the NHA MBS and CMB Program, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received by mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program, and IGM's credit exposure is to the insurer. Outstanding mortgages securitized under these programs are \$2.1 billion.

Since 2008, IGM has purchased portfolio insurance from CMHC on newly funded qualifying conventional mortgage loans. At December 31, 2010, 94.2% of the total mortgage portfolio serviced by IGM related to its mortgage banking operations was insured. Uninsured non-performing loans over 90 days in the securitized portfolio were \$0.1 million at December 31, 2010, compared to nil at December 31, 2009. IGM's expected exposure to credit risk related to cash reserve accounts and rights to future excess spread was not significant at December 31, 2010.

- > Fair value of interest rate swaps which IGM enters into as a requirement of the securitization programs that it participates in, had a negative fair value of \$2 million at December 31, 2010. The outstanding notional amount of these interest rate swaps was \$3.9 billion at December 31, 2010, compared to \$3.4 billion at December 31, 2009. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled \$40 million at December 31, 2010, compared to \$76 million at December 31, 2009.

IGM utilizes interest rate swaps to hedge interest rate risk related to the securitization activities discussed above. The negative fair value of these interest rate swaps totalled \$27 million at December 31, 2010. The outstanding notional amount was \$2.5 billion at December 31, 2010, compared to \$2.8 billion at December 31, 2009. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, totalled \$23 million at December 31, 2010, compared to \$5 million at December 31, 2009.

IGM also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The fair value of these interest rate swaps totalled \$15 million at December 31, 2010. The outstanding notional amount was \$0.5 billion at December 31, 2010 unchanged from December 31, 2009. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, totalled \$15 million at December 31, 2010, compared to \$37 million at December 31, 2009.

In addition, IGM enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by IGM. The fair value of these interest

rate swaps totalled \$1 million at December 31, 2010. The outstanding notional amount of these derivative contracts was \$118 million at December 31, 2010, compared to \$75 million at December 31, 2009. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$1 million at December 31, 2010, compared to \$3 million at December 31, 2009.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$79 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was \$40 million at December 31, 2010. Counterparties are all bank-sponsored securitization trusts and Canadian Schedule I chartered banks and, as a result, management has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2010. Management of credit risk has not changed materially since December 31, 2009.

### MARKET RISK

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

### CURRENCY RISK

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

Power Financial's financial assets are essentially cash and cash equivalents and fixed income securities. In managing its own cash and cash equivalents, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2010, essentially all of Power Financial's cash and cash equivalents were denominated in Canadian dollars or in foreign currencies with currency hedges in place.

For Lifeco, if the assets backing policy liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. The following policies and procedures are in place to mitigate exposure to currency risk:

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17 RISK MANAGEMENT (CONTINUED)

#### INTEREST RATE RISK

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

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

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

- > Lifeco utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- > Interest rate risk is managed by investing in assets that are suitable for the products sold.
- > Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- > For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched.

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

	2010	2009
Participating	802	755
Non-participating	1,516	1,712
	2,318	2,467

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

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

- > The effect of an immediate 1% parallel increase in the yield curve would be to increase these policy liabilities by approximately \$29 million, causing a decrease in net earnings of Lifeco of approximately \$25 million. (Power Financial's share – \$18 million).
- > The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately \$410 million, causing a decrease in net earnings of Lifeco of approximately \$279 million. (Power Financial's share – \$197 million).

Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.

- > For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- > The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.21% (0.23% in 2009). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

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

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

The objective of IGM's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2010, the total gap between one-year deposit assets and liabilities was within IGM's trust subsidiaries' stated guidelines.

## NOTE 17 RISK MANAGEMENT (CONTINUED)

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

- > As part of the securitization transactions with bank-sponsored securitization trusts, IGM enters into interest rate swaps with the trusts, which transfers the interest rate risk to IGM. IGM enters into offsetting interest rate swaps with Schedule I chartered banks to hedge this risk. Under these securitization transactions with bank-sponsored securitization trusts, IGM is exposed to asset-backed commercial paper rates and, after effecting its interest rate hedging activities, remains exposed to the basis risk that asset-backed commercial paper rates are greater than bankers' acceptance rates.
- > As part of the securitization transactions under the CMB Program, IGM enters into interest rate swaps with Schedule I chartered bank counterparties that transfer the interest rate risk associated with the program, including reinvestment risk, to IGM. To manage these interest rate and reinvestment risks, IGM enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates.
- > IGM is exposed to the impact that changes in interest rates may have on the value of its investments in Canada Mortgage Bonds. IGM enters into interest rate swaps with Schedule I chartered bank counterparties to hedge interest rate risk on these bonds.
- > IGM is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by IGM. IGM may enter into interest rate swaps to hedge this risk.

As at December 31, 2010, the impact to net earnings of IGM of a 100-basis-point change in interest rates would have been approximately \$2.5 million (Power Financial's share – \$1.5 million). IGM's exposure to and management of interest rate risk has not changed materially since December 31, 2009.

### EQUITY PRICE RISK

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

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

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

Some policy liabilities are supported by real estate, common stocks and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating policy liabilities by approximately \$32 million, causing an increase in net earnings of Lifeco of approximately \$25 million (Power Financial's share – \$18 million). A 10% decrease in equity markets would be expected to additionally increase non-participating policy liabilities by approximately \$72 million, causing a decrease in net earnings of Lifeco of approximately \$54 million (Power Financial's share – \$38 million).

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating policy liabilities by approximately \$333 million, causing an increase in net earnings of Lifeco of approximately \$242 million (Power Financial's share – \$171 million). A 1% decrease in the best estimate assumption would be expected to increase non-participating policy liabilities by approximately \$386 million, causing a decrease in net earnings of Lifeco of approximately \$279 million (Power Financial's share – \$197 million).

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

As at December 31, 2010, the impact of a 10% decrease in equity prices would have been a \$3.3 million unrealized loss recorded in other comprehensive income (Power Financial's share – \$2 million). IGM's management of equity price risk has not changed materially since December 31, 2009. However, IGM's exposure to equity price risk has declined materially since December 31, 2009 as a result of the reduction in its common share holdings during 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 18 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2010				UNREALIZED GAINS (LOSSES) ON	TOTAL
	AVAILABLE-FOR-SALE ASSETS	CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION		
Balance, beginning of year	834	(36)	(1,188)		(390)
Other comprehensive income (loss)	41	79	(1,014)		(894)
Income taxes	(37)	(28)	-		(65)
	4	51	(1,014)		(959)
Non-controlling interests	(21)	(15)	182		146
	(17)	36	(832)		(813)
Balance, end of year	817	-	(2,020)		(1,203)

FOR THE YEAR ENDED DECEMBER 31, 2009				UNREALIZED GAINS (LOSSES) ON	TOTAL
	AVAILABLE-FOR-SALE ASSETS	CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION		
Balance, beginning of year	676	(140)	(189)		347
Other comprehensive income (loss)	257	224	(1,328)		(847)
Income taxes	(44)	(78)	-		(122)
	213	146	(1,328)		(969)
Non-controlling interests	(55)	(42)	329		232
	158	104	(999)		(737)
Balance, end of year	834	(36)	(1,188)		(390)

### NOTE 19 FINANCING CHARGES

	2010	2009
Interest on debentures and other borrowings	363	337
Preferred share dividends	12	72
Net interest on capital trust debentures and securities	32	42
Unrealized gain on preferred shares classified as held for trading	(2)	29
Other	22	14
	427	494

## NOTE 20 OTHER INCOME (CHARGES), NET

	2010	2009
Share of Pargesa's non-operating earnings [ Note 5]	(5)	(70)
Gain resulting from dilution of the Corporation's interest in IGM	-	12
	(5)	(58)

## NOTE 21 PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

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

### CHANGES IN FAIR VALUE OF PLAN ASSETS AND IN THE ACCRUED BENEFIT OBLIGATION

	2010		2009	
	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS
<b>FAIR VALUE OF PLAN ASSETS</b>				
Balance, beginning of year	3,155		2,802	
Employee contributions	20		19	
Employer contributions	95		121	
Benefits paid	(159)		(175)	
Actual return on plan assets	304		457	
Other, including foreign exchange	(52)		(69)	
Balance, end of year	3,363		3,155	
<b>ACCRUED BENEFIT OBLIGATION</b>				
Balance, beginning of year	3,106	382	2,808	359
Benefits paid	(159)	(18)	(175)	(19)
Current service cost	59	3	47	3
Employee contributions	20	-	19	-
Interest cost	189	23	184	23
Actuarial (gains) losses	376	51	324	34
Settlement and curtailment	(2)	-	(2)	-
Past service cost	27	2	(3)	(15)
Other, including foreign exchange	(68)	(1)	(96)	(3)
Balance, end of year	3,548	442	3,106	382
<b>FUNDED STATUS</b>				
Fund surplus (deficit) [ i ]	(185)	(442)	49	(382)
Unamortized past service costs	(77)	(50)	(115)	(64)
Valuation allowance	(63)	-	(75)	-
Unamortized transitional obligation and other	1	-	1	-
Unamortized net actuarial losses (gains)	541	47	313	(5)
Accrued benefit asset (liability) [ ii ]	217	(445)	173	(451)

[ i ] The aggregate accrued benefit obligations and aggregate fair value of plan assets of individual pension plans that had accrued benefit obligations in excess of the fair value of their related plan assets at December 31, 2010 amounted to \$1,317 million (\$811 million in 2009) and \$1,097 million

(\$622 million in 2009), respectively. In addition, the Corporation and its subsidiaries maintain unfunded supplementary retirement plans for certain employees. The obligation for these plans, which is included above, was \$315 million at December 31, 2010 (\$286 million in 2009).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 21 PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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

	2010			2009		
	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	TOTAL	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	TOTAL
Accrued benefit asset [ Note 8 ]	437	–	437	384	–	384
Accrued benefit liability [ Note 12 ]	(220)	(445)	(665)	(211)	(451)	(662)
Accrued benefit asset (liability)	217	(445)	(228)	173	(451)	(278)

#### COSTS RECOGNIZED

	2010		2009	
	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS
Amounts arising from events in the period				
Current service cost	59	3	47	3
Interest cost	189	23	184	23
Actual return on plan assets	(304)	–	(457)	–
Past service cost	27	2	(3)	(15)
Actuarial (gains) losses on accrued benefit obligation	376	51	324	34
	347	79	95	45
Adjustments to reflect costs recognized				
Difference between actual and expected return on assets	108	–	268	–
Difference between actuarial gains and losses arising during the period and actuarial gains and losses amortized	(350)	(51)	(319)	(36)
Difference between past service costs arising in period and past service costs amortized	(38)	(12)	(8)	4
Amortization of transitional obligation	1	–	1	–
Increase (decrease) in valuation allowance	(12)	–	1	–
Defined contribution service cost	29	–	33	–
Net cost recognized for the year	85	16	71	13

Subsidiaries of Lifeco have declared partial windups in respect of certain defined benefit pension plans which will not likely be completed for some time. Amounts relating to the partial windups may be recognized by Lifeco as the partial windups are completed.

#### MEASUREMENT AND VALUATION

The measurement dates, weighted by accrued benefit obligation, are November 30 for 90% of the plans and December 31 for 10% of the plans. The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

MOST RECENT VALUATION	% OF PLANS	NEXT REQUIRED VALUATION	% OF PLANS
December 31, 2007	28	December 31, 2010	44
December 31, 2008	19	December 31, 2011	19
December 31, 2009	49	December 31, 2012	33
April 1, 2010	4	April 1, 2013	4

#### CASH PAYMENTS

	ALL PENSION PLANS		OTHER POST-RETIREMENT BENEFITS	
	2010	2009	2010	2009
Benefit payments for unfunded plans	18	18	18	19
Company contributions (defined benefit and contribution plans)	107	115	–	–
	125	133	18	19

**NOTE 21 PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)**

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	DEFINED BENEFIT PENSION PLANS	
	2010	2009
	%	%
Equity securities	51	51
Debt securities	41	41
All other assets	8	8
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Nominal amounts may be invested in the Corporation's or subsidiaries' securities through investments in pooled funds.

SIGNIFICANT ASSUMPTIONS

	DEFINED BENEFIT PENSION PLANS		OTHER POST-RETIREMENT BENEFITS	
	2010	2009	2010	2009
	%	%	%	%
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT COST				
Discount rate	6.2	6.8	6.3	7.1
Expected long-term rate of return on plan assets	6.3	6.8	-	-
Rate of compensation increase	3.9	4.2	-	-
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFIT OBLIGATION				
Discount rate	5.5	6.2	5.5	6.3
Rate of compensation increase	3.6	3.9	-	-
WEIGHTED AVERAGE HEALTHCARE TREND RATES				
Initial healthcare trend rate			7.0	7.1
Ultimate healthcare trend rate			4.5	4.5
Year ultimate trend rate is reached			2024	2024

IMPACT OF CHANGES TO ASSUMED HEALTHCARE RATES – OTHER POST-RETIREMENT BENEFITS

	IMPACT ON END-OF-YEAR ACCRUED POST-RETIREMENT BENEFIT OBLIGATION		IMPACT ON POST-RETIREMENT BENEFIT SERVICE AND INTEREST COST	
	2010	2009	2010	2009
1% increase in assumed healthcare cost trend rate	44	34	2	2
1% decrease in assumed healthcare cost trend rate	(37)	(30)	(2)	(2)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties under no compulsion to act, and best

evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2010		2009	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>ASSETS</b>				
Cash and cash equivalents	3,656	3,656	4,855	4,855
Investments (excluding real estate)	96,786	98,205	91,136	91,602
Loans to policyholders	6,827	6,827	6,957	6,957
Funds held by ceding insurers	9,860	9,860	10,839	10,839
Receivables and other	2,599	2,599	2,601	2,601
Derivative financial instruments	1,067	1,067	837	837
<b>Total financial assets</b>	<b>120,795</b>	<b>122,214</b>	<b>117,225</b>	<b>117,691</b>
<b>LIABILITIES</b>				
Deposits and certificates	835	840	907	916
Debentures and other borrowings	6,348	6,821	5,967	6,180
Capital trust securities and debentures	535	596	540	601
Preferred shares of the Corporation	–	–	300	318
Preferred shares of subsidiaries	–	–	203	203
Other financial liabilities	5,976	5,976	5,321	5,321
Derivative financial instruments	258	258	364	364
<b>Total financial liabilities</b>	<b>13,952</b>	<b>14,491</b>	<b>13,602</b>	<b>13,903</b>

Fair value is determined using the following methods and assumptions:

- > The fair value of short-term financial instruments approximates carrying value due to their short-term maturities. These include cash and cash equivalents, dividends, interest and other receivables, premiums in course of collection, accounts payable, repurchase agreements, dividends and interest payable, and income tax payable.
- > Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risks and maturities (refer to Note 1).
- > Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks and maturities.
- > Debentures and other borrowings are determined by reference to current market prices for debt with similar terms, risks and maturities.
- > Preferred shares are valued using quoted prices from active markets.
- > Derivative financial instruments' fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

In accordance with adopted amendments to Canadian Institute of Chartered Accountants Handbook Section 3862, *Financial Instruments – Disclosures*, the Corporation's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

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

actively exchange-traded equity securities and mutual and segregated funds which have available prices in an active market with no redemption restrictions, liquid open-end investment fund units, and investments in Government of Canada Bonds and Canada Mortgage Bonds in instances where there are quoted prices available from active markets.

- > Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, certain asset-backed securities and some over the counter derivatives.
- > Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single-broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over-the-counter derivatives, non-bank-sponsored asset-backed commercial paper, securitization receivables and derivative instruments.

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents information about the Corporation's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Corporation to determine such fair value:

DECEMBER 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS</b>				
Shares				
Available for sale	238	9	1	248
Held for trading	4,947	–	417	5,364
Bonds				
Available for sale	–	7,289	42	7,331
Held for trading	638	55,984	392	57,014
Mortgage and other loans				
Held for trading	–	224	–	224
Derivatives	–	1,027	40	1,067
Other assets	–	–	109	109
	5,823	64,533	1,001	71,357
<b>LIABILITIES</b>				
Derivatives	–	216	42	258

DECEMBER 31, 2009	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS</b>				
Shares				
Available for sale	564	1	1	566
Held for trading	4,783	–	145	4,928
Bonds				
Available for sale	–	4,868	67	4,935
Held for trading	625	52,021	642	53,288
Mortgage and other loans				
Held for trading	–	240	–	240
Derivatives	–	744	93	837
Other assets	10	7	105	122
	5,982	57,881	1,053	64,916
<b>LIABILITIES</b>				
Derivatives	–	353	11	364
Preferred shares of subsidiaries	203	–	–	203
	203	353	11	567

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation has utilized Level 3 inputs to determine fair value for the years ended December 31, 2010 and 2009.

DECEMBER 31, 2010	SHARES		BONDS		DERIVATIVES, NET	OTHER ASSETS	TOTAL
	AVAILABLE FOR SALE	HELD FOR TRADING	AVAILABLE FOR SALE	HELD FOR TRADING			
Balance, beginning of year	1	145	67	642	82	105	1,042
Total gains (losses)							
In net earnings	–	16	(2)	16	(50)	(7)	(27)
In other comprehensive income	–	–	2	–	–	–	2
Purchases	–	288	–	64	(6)	52	398
Sales	–	(30)	–	(76)	–	–	(106)
Settlements	–	–	(5)	(107)	(31)	(41)	(184)
Transfers in to Level 3	–	–	–	5	–	–	5
Transfers out of Level 3	–	(2)	(20)	(152)	3	–	(171)
Balance, end of year	1	417	42	392	(2)	109	959

DECEMBER 31, 2009	SHARES		BONDS		DERIVATIVES, NET	OTHER ASSETS	TOTAL
	AVAILABLE FOR SALE	HELD FOR TRADING	AVAILABLE FOR SALE	HELD FOR TRADING			
Balance, beginning of year	1	20	68	1,014	135	80	1,318
Total gains (losses)							
In net earnings	–	(2)	(17)	25	(2)	–	4
In other comprehensive income	–	–	24	–	–	–	24
Purchases	–	127	–	9	3	63	202
Sales	–	–	–	(62)	–	–	(62)
Settlements	–	–	(13)	(159)	(54)	(38)	(264)
Transfers in to Level 3	–	–	25	43	–	–	68
Transfers out of Level 3	–	–	(20)	(228)	–	–	(248)
Balance, end of year	1	145	67	642	82	105	1,042

### NOTE 23 EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations:

FOR THE YEARS ENDED DECEMBER 31	2010	2009
Net earnings	1,584	1,439
Dividends on perpetual preferred shares	(99)	(88)
Net earnings available to common shareholders	1,485	1,351
Weighted number of common shares outstanding (millions)		
– Basic	707.0	705.6
Exercise of stock options	4.9	6.5
Shares assumed to be repurchased with proceeds from exercise of stock options	(3.9)	(4.8)
Weighted number of common shares outstanding (millions)		
– Diluted	708.0	707.3

For 2010, 3,623,428 stock options (3,585,135 in 2009) have been excluded from the computation of diluted earnings per share as the exercise price was higher than the market price.

Basic earnings per common share (\$)		
– Basic	2.10	1.92
– Diluted	2.10	1.91

## NOTE 24 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end users of various derivative financial instruments. Contracts

are either exchange traded or over-the-counter traded with counterparties that are credit-worthy financial intermediaries.

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

2010	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
Interest rate contracts						
Futures—long	57	1	—	58	—	—
Futures—short	220	—	—	220	—	—
Swaps	1,655	5,900	1,572	9,127	300	189
Options purchased	226	846	221	1,293	31	31
	2,158	6,747	1,793	10,698	331	220
Foreign exchange contracts						
Forward contracts	221	—	—	221	5	5
Cross-currency swaps	70	1,284	5,954	7,308	731	604
	291	1,284	5,954	7,529	736	609
Other derivative contracts						
Equity contracts	43	21	—	64	—	(20)
Futures—long	8	—	—	8	—	—
Futures—short	38	—	—	38	—	—
	89	21	—	110	—	(20)
	2,538	8,052	7,747	18,337	1,067	809

2009	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
Interest rate contracts						
Futures—long	108	—	—	108	—	—
Futures—short	181	—	—	181	—	—
Swaps	1,231	5,907	1,349	8,487	309	183
Options purchased	60	957	444	1,461	36	35
	1,580	6,864	1,793	10,237	345	218
Foreign exchange contracts						
Forward contracts	236	—	—	236	1	1
Cross-currency swaps	108	987	5,733	6,828	491	277
	344	987	5,733	7,064	492	278
Other derivative contracts						
Equity contracts	49	26	—	75	—	(23)
Futures—long	12	—	—	12	—	—
Futures—short	5	—	—	5	—	—
	66	26	—	92	—	(23)
	1,990	7,877	7,526	17,393	837	473

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive

(or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 24 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### SWAPS

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and actuarial liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Changes in fair value are recorded in net investment income in the Consolidated Statements of Earnings.

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

#### FOREIGN EXCHANGE CONTRACTS

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

#### OTHER DERIVATIVE CONTRACTS

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income.

Lifeco may use credit derivatives to manage its credit exposure and for risk diversification in its investment portfolio.

IGM manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security.

### NOTE 25 CONTINGENT LIABILITIES

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

Subsidiaries of Lifeco have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to certain of the partial windups. The provisions for certain Canadian retirement plans in the amounts of \$97 million after tax established by Lifeco's subsidiaries in the third quarter 2007 have been reduced to \$68 million. Actual results could differ from these estimates.

The Ontario Superior Court of Justice released a decision on October 1, 2010 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of London Insurance Group Inc. (LIG) in 1997. Lifeco believes there are significant aspects of the lower court judgment that are in error and Notice of Appeal has been filed. Notwithstanding the foregoing, Lifeco has established an incremental provision in the third quarter of 2010 in the amount of \$225 million after tax (\$204 million and \$21 million attributable to Lifeco's common shareholder and to Lifeco's non-controlling interests, respectively). Lifeco now holds \$310 million in after-tax

provisions for these proceedings. Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured. Based on information presently known, the original decision, if sustained on appeal, is not expected to have a material adverse effect on the consolidated financial position of Lifeco.

Lifeco has entered into an agreement to settle a class action relating to the provision of notice of the acquisition of Canada Life Financial Corporation to certain shareholders of Canada Life Financial Corporation. The settlement received Court approval on January 27, 2010 and is being implemented. Based on information presently known, Lifeco does not expect this matter to have a material adverse effect on its consolidated financial position.

Subsidiaries of Lifeco have an ownership interest in a U.S.-based private equity partnership wherein a dispute has arisen over the terms of the partnership agreement. Lifeco acquired the ownership interest in 2007 for purchase consideration of US\$350 million. Legal proceedings have been commenced and are in their early stages. Legal proceedings have also commenced against the private equity partnership by third parties in unrelated matters. Another subsidiary of Lifeco has established a provision related to the latter proceedings. While it is difficult to predict the final outcome of these proceedings, based on information presently known, Lifeco does not expect these proceedings to have a material adverse effect on its consolidated financial position.

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

## NOTE 26 COMMITMENTS AND GUARANTEES

### GUARANTEES

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

### SYNDICATED LETTERS OF CREDIT

Clients residing in the United States are required, pursuant to their insurance laws, to obtain letters of credit issued on behalf of London Reinsurance Group (LRG) from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing US\$650 million in letters of credit capacity. The facility was arranged in 2010 for a five-year term expiring November 12, 2015. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued US\$507 million in letters of credit under the facility as at December 31, 2010 (US\$612 million under a previous letter of credit facility at December 31, 2009).

In addition, LRG has other bilateral letter of credit facilities totalling US\$18 million (US\$18 million in 2009). LRG issued US\$6 million in letters of credit under these facilities as of December 31, 2010 (US\$6 million at December 31, 2009).

### PLEDGING OF ASSETS

With respect to Lifeco, the amounts of assets which have a security interest by way of pledging is \$9 million (\$11 million in 2009) in respect of derivative transactions and \$554 million (\$595 million in 2009) in respect of reinsurance agreements.

### COMMITMENTS

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

	2011	2012	2013	2014	2015	2016 AND THEREAFTER	TOTAL
Future lease payments	146	129	107	86	71	216	755

## NOTE 27 RELATED PARTY TRANSACTIONS

In the normal course of business, Great-West Life provides insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions are done at market terms and conditions.

## NOTE 28 SEGMENTED INFORMATION

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

- > Lifeco offers, in Canada, the United States and in Europe, a wide range of life insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations.
- > IGM offers a comprehensive package of financial planning services and investment products to its client base. IGM derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenue from fees charged to its mutual funds for administrative services.

- > Parjointco holds the Corporation's interest in Pargesa, a holding company which holds diversified interests in companies based in Europe active in various sectors, including specialty minerals, water, waste services, energy, and wines and spirits.
- > The segment entitled Other is made up of corporate activities of the Corporation and also includes consolidation elimination entries.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 28 SEGMENTED INFORMATION (CONTINUED)

#### INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2010	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
<b>REVENUES</b>					
Premium income	17,748	–	–	–	17,748
Net investment income					
Regular net investment income	5,743	119	–	(79)	5,783
Change in fair value on held-for-trading assets	3,633	13	–	–	3,646
	9,376	132	–	(79)	9,429
Fee income	2,874	2,491	–	(115)	5,250
	29,998	2,623	–	(194)	32,427
<b>EXPENSES</b>					
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	23,063	–	–	–	23,063
Commissions	1,523	869	–	(115)	2,277
Operating expenses	3,145	636	–	53	3,834
Financing charges	283	111	–	33	427
	28,014	1,616	–	(29)	29,601
	1,984	1,007	–	(165)	2,826
Share of earnings of investment at equity	–	–	120	–	120
Other income (charges), net	–	–	(5)	–	(5)
Earnings before income taxes and non-controlling interests	1,984	1,007	115	(165)	2,941
Income taxes	227	271	–	(1)	497
Non-controlling interests	620	325	–	(85)	860
Contribution to consolidated net earnings	1,137	411	115	(79)	1,584

#### INFORMATION ON ASSET MEASURE

DECEMBER 31, 2010	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,840	2,886	–	–	8,726
Total assets	131,514	8,893	2,279	569	143,255

#### GEOGRAPHIC INFORMATION

DECEMBER 31, 2010	CANADA	UNITED STATES	EUROPE	TOTAL
Revenues	16,835	6,513	9,079	32,427
Investment at equity	–	–	2,279	2,279
Goodwill and intangible assets	9,545	1,717	1,702	12,964
Total assets	70,035	29,973	43,247	143,255

NOTE 28 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2009	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
<b>REVENUES</b>					
Premium income	18,033	–	–	–	18,033
Net investment income					
Regular net investment income	6,179	105	–	(81)	6,203
Change in fair value on held-for-trading assets	3,490	(27)	–	–	3,463
	9,669	78	–	(81)	9,666
Fee income	2,839	2,250	–	(91)	4,998
	30,541	2,328	–	(172)	32,697
<b>EXPENSES</b>					
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	23,809	–	–	–	23,809
Commissions	1,370	808	–	(90)	2,088
Operating expenses	2,946	614	–	47	3,607
Financing charges	336	126	–	32	494
	28,461	1,548	–	(11)	29,998
	2,080	780	–	(161)	2,699
Share of earnings of investment at equity	–	–	141	–	141
Other income (charges), net	–	–	(70)	12	(58)
Earnings before income taxes and non-controlling interests	2,080	780	71	(149)	2,782
Income taxes	345	221	–	(1)	565
Non-controlling interests	617	247	–	(86)	778
Contribution to consolidated net earnings	1,118	312	71	(62)	1,439

INFORMATION ON ASSET MEASURE

DECEMBER 31, 2009	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,853	2,802	–	–	8,655
Total assets	128,369	8,646	2,675	541	140,231

GEOGRAPHIC INFORMATION

DECEMBER 31, 2009	CANADA	UNITED STATES	EUROPE	TOTAL
Revenues	15,989	6,715	9,993	32,697
Investment at equity	–	–	2,675	2,675
Goodwill and intangible assets	9,470	1,830	1,721	13,021
Total assets	65,045	29,262	45,924	140,231

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the accompanying consolidated financial statements of Power Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Power Financial Corporation as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed  
Deloitte & Touche LLP<sup>1</sup>

March 10, 2011  
Montréal, Québec

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<sup>1</sup>Chartered accountant auditor permit No. 18383

# POWER FINANCIAL CORPORATION

## FIVE-YEAR FINANCIAL SUMMARY

DECEMBER 31 [in millions of Canadian dollars, except per share amounts]	2010	2009	2008	2007	2006
<b>CONSOLIDATED BALANCE SHEETS</b>					
Cash and cash equivalents	3,656	4,855	4,689	5,625	5,114
Consolidated assets	143,255	140,231	141,546	130,114	130,486
Shareholders' equity	13,184	13,207	13,419	12,865	11,422
Consolidated assets and assets under management	490,839	471,775	452,158	521,439	341,903
<b>CONSOLIDATED STATEMENTS OF EARNINGS</b>					
<b>REVENUES</b>					
Premium income	17,748	18,033	30,007	18,753	17,752
Net investment income	9,429	9,666	953	4,589	5,962
Fee income	5,250	4,998	5,540	5,327	4,223
	32,427	32,697	36,500	28,669	27,937
<b>EXPENSES</b>					
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	23,063	23,809	26,774	19,122	19,660
Commissions	2,277	2,088	2,172	2,236	2,024
Operating expenses	3,834	3,607	3,605	3,199	2,575
Financial charges	427	494	438	408	338
	29,601	29,998	32,989	24,965	24,597
Share of earnings of investment at equity	2,826	2,699	3,511	3,704	3,340
Other income (charges), net	120	141	183	145	126
Income taxes	(5)	(58)	(2,402)	24	345
Income taxes	497	565	16	938	844
Non-controlling interests	860	778	442	1,039	952
Earnings from continuing operations	1,584	1,439	834	1,896	2,015
Earnings from discontinued operations	–	–	503	148	140
Net earnings	1,584	1,439	1,337	2,044	2,155
<b>PER SHARE</b>					
Operating earnings before non-recurring items and discontinued operations	2.31	2.05	1.98	2.63	2.26
Net earnings from discontinued operations	–	–	0.71	0.21	0.20
Net earnings	2.10	1.92	1.79	2.79	2.96
Dividends	1.4000	1.4000	1.3325	1.1600	1.0000
Book value at year-end	15.79	16.27	16.80	16.26	14.22
<b>MARKET PRICE (COMMON SHARES)</b>					
High	34.23	31.99	40.94	42.69	38.72
Low	27.00	14.66	20.33	35.81	30.20
Year-end	30.73	31.08	23.90	40.77	37.69

## QUARTERLY FINANCIAL INFORMATION

[UNAUDITED] [in millions of Canadian dollars, except per share amounts]	TOTAL REVENUES	NET EARNINGS	EARNINGS PER SHARE — BASIC	EARNINGS PER SHARE — DILUTED
<b>2010</b>				
First quarter	8,874	389	0.52	0.52
Second quarter	7,963	429	0.57	0.57
Third quarter	9,703	323	0.42	0.42
Fourth quarter	5,887	443	0.59	0.59
<b>2009</b>				
First quarter	5,448	195	0.24	0.24
Second quarter	9,777	452	0.61	0.61
Third quarter	10,973	452	0.61	0.61
Fourth quarter	6,499	340	0.45	0.45