REVIEW OF FINANCIAL PERFORMANCE

All tabular amounts are in millions of Canadian dollars, unless otherwise noted.

MARCH 10, 2011

This Annual Report is designed to provide interested shareholders and others with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents such as its Annual Information Form and Management's Discussion and Analysis of Operating Results (MD&A). Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's Web site at www.powerfinancial.com, or from the office of the Secretary at the addresses shown at the end of this report.

FORWARD-LOOKING STATEMENTS > Certain statements in this document, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's and its subsidiaries' current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes (including adoption of International Financial Reporting Standards), business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the foregoing list of factors, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business is provided in its disclosure materials, including its MD&A and its Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

REVIEW OF FINANCIAL PERFORMANCE

OVERVIEW

Power Financial, a subsidiary of Power Corporation of Canada, is a holding company with substantial interests in the financial services industry through its controlling interests in Great-West Lifeco Inc. (Lifeco) and IGM Financial Inc. (IGM). Power Financial also holds, together with the Frère group of Belgium, an interest in Pargesa Holding SA (Pargesa).

As at December 31, 2010, Power Financial and IGM held 68.3% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. As at December 31, 2010, Power Financial and The Great-West Life Assurance Company (Great-West Life), a subsidiary of Lifeco, held 57.0% and 3.5%, respectively, of IGM's common shares.

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère group each hold a 50% interest in Parjointco N.V. (Parjointco), which, as at December 31, 2010, held a 54.1% equity interest in Pargesa, representing 62.9% of the voting rights of that company. These numbers do not reflect the dilution which could result from the potential conversion of outstanding debentures convertible into new bearer shares issued by Pargesa in 2006 and 2007.

The Pargesa group has holdings in major companies based in Europe. These investments are held by Pargesa directly or through its affiliated Belgian holding company, Groupe Bruxelles Lambert (GBL). As at December 31, 2010, Pargesa held a 50.0% equity interest in GBL, representing 52.0% of the voting rights.

As at December 31, 2010, Pargesa's portfolio was composed of interests in various sectors, including primarily oil, gas and chemicals through Total S.A. (Total); energy and energy services through GDF Suez; water and waste services through Suez Environnement Company (Suez Environnement); industrial minerals through Imerys S.A. (Imerys); cement and building materials through Lafarge S.A. (Lafarge); and wines and spirits through Pernod Ricard S.A. (Pernod Ricard). In addition, Pargesa and GBL have also invested, or committed to invest, in the area of private equity, including in the French private equity funds Sagard 1 and Sagard 2, whose management company is a subsidiary of Power Corporation of Canada.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Consolidated Financial Statements of the Corporation have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP or GAAP herein) and are presented in Canadian dollars.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies adopted by the Corporation in 2010. See also "Future Accounting Changes" section below.

INCLUSION OF PARGESA'S RESULTS

The investment in Pargesa is accounted for by Power Financial under the equity method. As described above, the Pargesa portfolio currently consists primarily of investments in Imerys, Total, GDF Suez, Suez Environnement, Lafarge and Pernod Ricard, which are held by Pargesa directly or through GBL. Imerys' results are consolidated in the financial statements of Pargesa, while the contribution from Total, GDF Suez, Suez Environnement and Pernod Ricard to GBL's operating earnings consists of the dividends received from these companies. GBL accounts for its investment in Lafarge under the equity method, and consequently, the contribution from Lafarge to GBL's earnings consists of GBL's share of Lafarge's net earnings.

The contribution from Pargesa to Power Financial's earnings is based on the economic (flow-through) presentation of results as published by Pargesa. Pursuant to this presentation, operating income and non-operating income are presented separately by Pargesa. Power Financial's share of non-operating income of Pargesa, after adjustments or reclassifications if necessary, is included as part of other items in the Corporation's financial statements.

NON-GAAP FINANCIAL MEASURES

In analysing the financial results of the Corporation and consistent with the presentation in previous years, net earnings are subdivided in the section "Results of Power Financial Corporation" below into the following components:

- operating earnings; and
- other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful, and also include the Corporation's share of any such item presented in a comparable manner by Lifeco or IGM. Please also refer to the comments above related to the inclusion of Pargesa's results.

Management has used these financial measures for many years in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation.

Operating earnings and operating earnings per share are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-GAAP measures to results reported in accordance with GAAP, see "Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Statements of Earnings" section below.

RESULTS OF POWER FINANCIAL CORPORATION

This section is an overview of the results of Power Financial. In this section, consistent with past practice, the contributions from Lifeco and IGM, which represent most of the earnings of Power Financial, are accounted for using the equity method in order to facilitate the discussion and analysis. This presentation has no impact on Power Financial's net earnings and is intended to assist readers in their analysis of the results of the Corporation.

EARNINGS SUMMARY – CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

The following table shows a reconciliation of non-GAAP financial measures used herein for the periods indicated, with the reported results in accordance with GAAP for net earnings and earnings per share.

TWELVE MONTHS ENDED DECEMBER 31		2010		2009
	TOTAL	PER SHARE	TOTAL	PER SHARE
Contribution to operating earnings from subsidiaries and investment at equity				
Lifeco	1,276		1,120	
IGM	416		347	
Pargesa	120		141	
	1,812		1,608	
Results from corporate activities	(79)		(75)	
Operating earnings [1] [2]	1,733	2.31	1,533	2.05
Other items [3]	(149)	(0.21)	(94)	(0.13)
Net earnings [1] [2]	1,584	2.10	1,439	1.92

[1] Operating earnings and net earnings represent earnings before dividends on perpetual preferred shares issued by the Corporation, which amounted to $99 million and $88 million in the twelve-month periods ended December 31, 2010 and December 31, 2009, respectively.

[2] Operating earnings per share and net earnings per share are calculated after deducting dividends on perpetual preferred shares issued by the Corporation.

[3] See "Other Items" section below for additional information.

OPERATING EARNINGS

Operating earnings for the year ended December 31, 2010 were $1,733 million or $2.31 per share, compared with $1,533 million or $2.05 per share in the corresponding period in 2009. This represents an increase of 12.8% on a per share basis.

For the year ended December 31, 2010, the strengthening of the Canadian dollar against the U.S. dollar, the British pound and the euro had a negative currency impact on Lifeco's net earnings of $103 million. Power Financial's share of this currency effect is $73 million or $0.10 per share for the year ended December 31, 2010.

SHARE OF OPERATING EARNINGS FROM SUBSIDIARIES AND INVESTMENT AT EQUITY

Power Financial's share of operating earnings from its subsidiaries and investment at equity increased by 12.7% in the year ended December 31, 2010, compared with the same period in 2009, from $1,608 million to $1,812 million.

Lifeco's contribution to Power Financial's operating earnings was $1,276 million for the twelve-month period ended December 31, 2010, compared with $1,120 million for the corresponding period in 2009. Details are as follows:

> Lifeco reported operating earnings attributable to common shareholders of $1,861 million or $1.964 per share for the twelve-month period ended December 31, 2010, compared with $1,627 million or $1.722 per share in the corresponding period of 2009. This represents a 14.4% increase on a per share basis.

> Operating earnings of Lifeco exclude the impact of an incremental litigation provision, as noted in the "Contingent Liabilities" section below, in the amount of $225 million after tax ($204 million attributable to Lifeco's common shareholders or $0.216 per common share, and $21 million to Lifeco's non-controlling interests) established in the third quarter. Lifeco now holds $310 million in after-tax provisions for this matter discussed in Note 25 to the Corporation's 2010 Consolidated Financial Statements.

> Lifeco continued to experience solid operating results throughout the year in all business segments despite the strengthening of the Canadian dollar against the U.S. dollar, British pound and euro in 2010.

IGM's contribution to Power Financial's operating earnings was $416 million for the twelve-month period ended December 31, 2010, compared with $347 million for the corresponding period in 2009. Details are as follows:

> IGM reported operating earnings available to common shareholders for the twelve-month period ended December 31, 2010 of $734 million or $2.79 per share on a diluted basis, compared with $622 million or $2.35 per share in the same period in 2009, an increase of 18.7% on a per share basis.

> Other items for the twelve-month period ended December 31, 2010 (recorded in the third quarter) represent a charge of $8 million representing IGM's share of Lifeco's after-tax charge related to a decision released by the Ontario Superior Court of Justice as discussed in the "Contingent Liabilities" section below.

> Other items for the year ended December 31, 2009 were recorded in the fourth quarter and consisted of:

- A non-cash charge of $77 million ($66 million after tax) on available-for-sale equity securities related to the market environment.
- A non-cash income tax benefit of $18 million resulting from decreases in Ontario corporate income tax rates and their effect on the future income tax liability related to indefinite life intangible assets arising from the acquisition of Mackenzie Financial Corporation in 2001.
- A premium of $14 million paid on the redemption of the Series A preferred shares on December 31, 2009.

> IGM's quarterly earnings are primarily dependent on the level of mutual fund assets under management. Improving market conditions, particularly in the fourth quarter of 2010, have resulted in increased levels of average assets under management and increased quarterly earnings as compared to 2009.

The contribution from Pargesa to Power Financial's operating earnings was $120 million in the twelve-month period ended December 31, 2010, compared with $141 million in the corresponding period of 2009. Details are as follows:

> Pargesa's operating earnings for the twelve-month period ended December 31, 2010 were SF465 million, compared with SF512 million in the corresponding period in 2009.

> The results for Pargesa for the twelve-month period ended December 31, 2010 reflect increased earnings from Imerys, which is consolidated by Pargesa. This increase is offset by the fact that GDF Suez had paid, in addition to its normal dividend, a special one-time dividend in the second quarter of 2009, which represented an amount of SF73 million for Pargesa, and to a lesser extent a decrease in the contribution from Lafarge.

> Operating earnings of Pargesa exclude net non-recurring charges of SF1 million for the twelve-month period ended December 31, 2010, consisting principally of (i) Pargesa's share of non-operating earnings of Imerys and Lafarge of SF24 million less (ii) non-operating charges at the holding company level consisting of impairment charges of SF16 million principally on GBL's investment in Iberdrola S.A. (SF15 million) as a result of a decline in the market value of the investment. Included in the non-operating earnings of Imerys is a gain recorded under International Financial Reporting Standards (IFRS) of SF25 million representing negative goodwill which under Canadian GAAP is not recognized. This gain will be reflected in the Corporation's 2010 IFRS financial statements.

> Operating earnings of Pargesa exclude non-recurring earnings of SF280 million for the twelve-month period ended December 31, 2009, consisting principally of the partial reversal of an impairment charge taken by GBL on its investment in Lafarge for an amount of SF510 million and of impairment charges recorded by GBL.

RESULTS FROM CORPORATE ACTIVITIES

Results from corporate activities include income from investments, operating expenses, financing charges (which include dividends on the Corporation's Preferred Shares Series C and J as these were classified as liabilities), depreciation and income taxes.

Corporate activities were a net charge of $79 million in the twelve-month period ended December 31, 2010, compared with a net charge of $75 million in the corresponding period of 2009.

For 2010, the change in corporate activities largely results from an increase in operating expenses in the twelve month period ended December 31, 2010, when compared to the twelve-month period ended December 31, 2009.

OTHER ITEMS

For the twelve-month period ended December 31, 2010, other items represent a charge of $149 million, compared with a charge of $94 million in the corresponding period of 2009.

TWELVE MONTHS ENDED DECEMBER 31	2010	2009
LIFECO		
Litigation provision	(144)	
IGM		
Non-cash charge on available-for-sale securities		(38)
Non-cash income tax benefit		10
Premium paid on redemption of preferred shares		(8)
PARGESA		
Impairment charge	(4)	(53)
Other	(1)	(17)
CORPORATE		
Dilution gain related to issue of common shares by IGM		12
	(149)	(94)

NET EARNINGS

Net earnings for the twelve-month period ended December 31, 2010 were $1,584 million or $2.10 per share, compared with $1,439 million or $1.92 per share in the corresponding period in 2009.

CONDENSED SUPPLEMENTARY BALANCE SHEETS

	CONSOLIDATED BASIS		EQUITY BASIS[1]	
AS AT DECEMBER 31	2010	2009	2010	2009
ASSETS				
Cash and cash equivalents [2]	3,656	4,855	713	756
Investment at equity	2,279	2,675	13,019	13,306
Investments	100,061	94,237		
Goodwill	8,726	8,655		
Intangible assets	4,238	4,366		
Other assets	24,295	25,443	94	85
Total	143,255	140,231	13,826	14,147
LIABILITIES				
Policy liabilities				
Actuarial liabilities	100,394	98,059		
Other	4,723	4,592		
Other liabilities	9,015	8,485	392	390
Preferred shares of the Corporation		300		300
Preferred shares of subsidiaries		203		
Capital trust securities and debentures	535	540		
Debentures and other borrowings	6,348	5,967	250	250
	121,015	118,146	642	940
Non-controlling interests	9,056	8,878		
SHAREHOLDERS' EQUITY				
Perpetual preferred shares	2,005	1,725	2,005	1,725
Common shareholders' equity	11,179	11,482	11,179	11,482
	13,184	13,207	13,184	13,207
Total	143,255	140,231	13,826	14,147

[1] Condensed supplementary balance sheets of the Corporation using the equity method to account for Lifeco and IGM.

[2] Under the equity basis presentation, cash equivalents include $470 million ($273 million at December 31, 2009) of fixed income securities with maturities of more than 90 days. In the 2010 Consolidated Financial Statements, this amount of cash equivalents is classified in investments.

CONSOLIDATED BASIS

The consolidated balance sheets include Lifeco's and IGM's assets and liabilities.

Total assets of the Corporation increased to $143.3 billion at December 31, 2010, compared with $140.2 billion at December 31, 2009.

The investment at equity of $2.3 billion represents the Corporation's carrying value in Parjointco. The decrease in the carrying value is mainly due to foreign currency changes and a decrease in the market value of Pargesa's investments accounted for as available-for-sale assets.

Investments at December 31, 2010 were $100.1 billion, a $5.8 billion increase from December 31, 2009.

Liabilities increased from $118.1 billion at December 31, 2009 to $121.0 billion at December 31, 2010. Lifeco's actuarial liabilities increased from $98.1 billion to $100.4 billion over the same period.

Debentures and other borrowings increased by $381 million during the twelve-month period ended December 31, 2010, while subsidiaries repurchased preferred shares classified as liabilities for an amount of $203 million and the Corporation repurchased $300 million of similar preferred shares. Details are included in the "Cash Flows – Consolidated" section below.

The increase in perpetual preferred shares presented in the "Shareholders' equity" section below results from the issue of the Series P First Preferred Shares for an amount of $280 million during the second quarter of 2010.

Non-controlling interests include the Corporation's non-controlling interests in the common equity of Lifeco and IGM as well as the participating account surplus in Lifeco's insurance subsidiaries and perpetual preferred shares issued by subsidiaries to third parties.

Assets under administration, which are excluded from the Corporation's balance sheet, include segregated funds of Lifeco, proprietary mutual funds and institutional net assets of Lifeco as well as other assets under administration of Lifeco, and IGM's assets under management, at market value:

- Assets under administration of Lifeco, excluding those included on the balance sheet, increased from $330.2 billion at December 31, 2009 to $352.4 billion at December 31, 2010. Segregated funds and proprietary mutual funds and institutional net assets increased by approximately $7.1 billion from December 31, 2009, primarily as a result of improved equity market levels. Other assets under administration by Lifeco increased by $15.1 billion as a result of improved equity market levels and lower interest rates.
- IGM's assets under management, at market value, were $129.5 billion at December 31, 2010, compared with $120.5 billion at December 31, 2009. The increase is principally due to market and income appreciation.

REVIEW OF FINANCIAL PERFORMANCE

EQUITY BASIS

Under the equity basis presentation, Lifeco and IGM are accounted for using the equity method. This presentation has no impact on Power Financial's shareholders' equity and is intended to assist readers in isolating the contribution of Power Financial, as the parent company, to consolidated assets and liabilities.

Cash and cash equivalents held by Power Financial amounted to $713 million at December 31, 2010, compared with $756 million at the end of December 2009. The amount of quarterly dividends declared by the Corporation but not yet paid was $274 million at December 31, 2010. The amount of dividends declared by IGM but not yet received by the Corporation was $76 million at December 31, 2010.

In managing its own cash and cash equivalents, Power Financial may hold cash balances or invest in short-term paper or equivalents, as well as deposits, 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 financial institutions with high credit ratings. As at December 31, 2010, essentially all of the $713 million of cash and cash equivalents was denominated in Canadian dollars or in foreign currencies with currency hedges in place.

The carrying value at equity of Power Financial's investments in Lifeco, IGM and Parjointco decreased to $13,019 million at December 31, 2010, compared with $13,306 million at December 31, 2009. This decrease is mainly due to:

> Power Financial's share of net earnings from its subsidiaries and investment at equity for the twelve-month period ended December 31, 2010, net of dividends received, amounting to $505 million.

> Power Financial's share of other comprehensive income from its subsidiaries and investment at equity for the twelve-month period ended December 31, 2010 in the negative amount of $813 million. This amount includes a net $832 million negative variation in foreign currency translation adjustments, related to the Corporation's indirect investments in Lifeco's and Pargesa's foreign operations, a negative variation in the value of investments classified as available for sale in the amount of $17 million, and a $36 million positive variation for cash flow hedges.

SHAREHOLDERS' EQUITY

Common shareholders' equity was $11,179 million at December 31, 2010, compared with $11,482 million at December 31, 2009. The decrease of $303 million is mainly due to:

> A $476 million increase in retained earnings, reflecting primarily net earnings of $1,584 million, less dividends declared of $1,090 million.

> Changes to accumulated other comprehensive income in the negative amount of $813 million.

In 2010, 2,287,000 Common Shares were issued by the Corporation pursuant to the Corporation's Employee Stock Option Plan for an aggregate amount of $31 million.

As a result of the above, book value per common share of the Corporation was $15.79 at December 31, 2010, compared with $16.27 at the end of 2009.

On June 29, 2010 the Corporation issued 11,200,000 4.40% Non-Cumulative 5-Year Rate Reset First Preferred Shares, Series P for gross proceeds of $280 million. On July 30, 2010, the Corporation redeemed all of its $150 million First Preferred Shares, Series J at a redemption price of $25.50 for each such share, for an aggregate redemption amount of $153 million. On October 31, 2010, the Corporation redeemed all of its $150 million First Preferred Shares Series C at a redemption price of $25.40 for each such share, for an aggregate redemption amount of $152 million. These two series of preferred shares were classified as liabilities in the Consolidated Balance Sheet.

The Corporation filed a short-form base shelf prospectus dated November 23, 2010, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $1.5 billion of First Preferred Shares, Common Shares and debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis to make changes to the Corporation's capital structure in response to changes in economic conditions and changes in its financial condition.

OUTSTANDING NUMBER OF COMMON SHARES

As of the date hereof, there were 708,013,680 Common Shares of the Corporation outstanding, compared with 705,726,680 at December 31, 2009. The increase in the number of outstanding Common Shares reflects the exercise of options under the Corporation's Employee Stock Option Plan. As of the date hereof, options were outstanding to purchase up to an aggregate of 8,480,115 Common Shares of the Corporation under the Corporation's Employee Stock Option Plan.

CASH FLOWS

CASH FLOWS — CONSOLIDATED

TWELVE MONTHS ENDED DECEMBER 31	2010	2009
Cash flow from operating activities	6,572	4,553
Cash flow from financing activities	(1,530)	(1,245)
Cash flow from investing activities	(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 period	4,855	4,689
Cash and cash equivalents, end of period	3,656	4,855

On a consolidated basis, cash and cash equivalents decreased by $1,199 million in the twelve-month period ended December 31, 2010, compared with an increase of $166 million in the corresponding period in 2009.

Operating activities produced a net inflow of $6,572 million in the twelve-month period ended December 31, 2010, compared with a net inflow of $4,553 million in the corresponding period in 2009.

Operating activities during the twelve-month period ended December 31, 2010, compared to the same period in 2009, included:

- For the twelve-month period ended December 31, 2010, Lifeco's cash flow from operations was a net inflow of $5,797 million, compared with a net inflow of $3,958 million in the corresponding period in 2009. Cash provided by operating activities is used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements.
- Operating activities of IGM, after payment of commissions, generated $863 million in the twelve-month period ended December 31, 2010, compared with $700 million in the corresponding period in 2009.

Cash flows from financing activities resulted in a net outflow of $1,530 million in the twelve-month period ended December 31, 2010, compared with a net outflow of $1,245 million in the corresponding period in 2009.

Financing activities during the twelve-month period ended December 31, 2010 and December 31, 2009, included:

- Dividends paid by the Corporation and its subsidiaries were $1,718 million, compared with $1,679 million in the corresponding period in 2009.
- Issuance of common shares of the Corporation for an amount of $31 million pursuant to the Corporation's Employee Stock Option Plan, compared with $10 million in the corresponding period in 2009.
- Issuance of preferred shares by the Corporation for an amount of $280 million, compared with $150 million in the corresponding period in 2009.
- Issuance of common shares by subsidiaries of the Corporation for an amount of $84 million, compared with $49 million in the corresponding period in 2009.
- Issuance of preferred shares by subsidiaries of the Corporation for an amount of $400 million, compared with $320 million in the corresponding period in 2009.
- Repurchase by the Corporation of preferred shares for an amount of $305 million, compared with nil in the corresponding period of 2009.
- Redemption of preferred shares by subsidiaries of the Corporation for an amount of $507 million, compared with $948 million in the corresponding period in 2009.
- Repurchases for cancellation by subsidiaries of the Corporation of their common shares amounted to $157 million, compared with $70 million in the corresponding period in 2009.
- Issuance of debentures by Lifeco for an amount of $500 million, compared with $200 million in the corresponding period of 2009.
- Issuance of debentures by IGM for an amount of $200 million, compared with $375 million in the corresponding period of 2009.
- Net repayment of other borrowings at Lifeco for an amount of $253 million, compared with net other borrowings of $169 million in the corresponding period of 2009.
- Repayment in 2009 by IGM of $287 million of bankers' acceptances related to the acquisition of Saxon Financial Inc. and of short-term borrowings in the amount of $100 million.

Cash flows from investing activities resulted in a net outflow of $6,026 million in the twelve-month period ended December 31, 2010, compared with a net outflow of $2,850 million in the corresponding period in 2009.

Investing activities during the twelve-month period ended December 31, 2010, compared to the same period in 2009, included:

- Investing activities at Lifeco in the twelve-month period ended December 31, 2010 resulted in a net outflow of $6,099 million, compared with a net outflow of $1,831 million in the corresponding period in 2009.
- Investing activities at IGM in the twelve-month period ended December 31, 2010 resulted in a net inflow of $302 million, compared with a net outflow of $750 million in the corresponding period in 2009.

CASH FLOWS — CORPORATE

TWELVE MONTHS ENDED DECEMBER 31	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings	1,584	1,439
Earnings from subsidiaries not received in cash	(505)	(370)
Dilution gain and reversal of provisions		(12)
Other	(2)	3
	1,077	1,060
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid on common and preferred shares	(1,086)	(1,070)
Issuance of preferred shares	280	150
Issuance of common shares	31	10
Repurchase of preferred shares	(305)	
Other	(8)	(5)
	(1,088)	(915)
CASH FLOW FROM INVESTING ACTIVITIES		
Advance to an affiliate	(32)	
Other		4
	(32)	4
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(43)	149
Cash and cash equivalents, beginning of period	756	607
Cash and cash equivalents, end of period	713	756

REVIEW OF FINANCIAL PERFORMANCE

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 generally and pay dividends depends in particular upon receipt of sufficient funds from their subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital standards be maintained. As well, the capitalization of Lifeco's principal subsidiaries takes into account the views expressed by the various credit rating agencies that provide ratings related to financial strength and other measures relating to those companies. The payment of dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital and liquidity requirements established by regulatory authorities.

Dividends declared by Lifeco and IGM in the twelve-month period ended December 31, 2010 on their common shares amounted to $1.23 and $2.05 per share, respectively, unchanged from the corresponding period in 2009.

Pargesa pays its annual dividends in the second quarter. The dividend paid in 2010 amounted to SF2.72 per bearer share, an increase of 3.8% when compared to the dividend paid in 2009.

In the twelve-month period ended December 31, 2010, dividends declared on the Corporation's Common Shares amounted to $1.40 per share, unchanged from the corresponding period in 2009.

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants (CICA) announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. The Corporation will be required to begin reporting under IFRS for the quarter ending March 31, 2011 and will be required to prepare an opening balance sheet at January 1, 2010 and provide information that conforms to IFRS for the comparative periods presented. The Corporation will include in the March 31, 2011 interim consolidated financial statements disclosures and explanation of transition to IFRS in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards.

IFRS will require increased financial statement disclosure as compared to Canadian GAAP and the Corporation's accounting policies will be affected by the change from Canadian GAAP to IFRS, which will impact the presentation of the Corporation's financial position and results of operations. On adoption of IFRS, the financial position and results of operations reported in accordance with IFRS may differ as compared to Canadian GAAP and these differences may be material. Implementing IFRS will have an impact on accounting, financial reporting and supporting information technology systems and processes. Additionally, the International Accounting Standards Board (IASB) currently has projects underway that are expected to result in new pronouncements and, accordingly, the development of IFRS continues to evolve.

The Corporation's IFRS changeover plan includes the modification of financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting, as well as the education of key stakeholders, including the Board of Directors, management and employees. The impact on the Corporation's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items. At this time, no significant impact on information or data systems has been identified and the Corporation and its subsidiaries do not expect to make changes which will materially affect internal controls over financial reporting.

The Corporation is monitoring the potential impact of other IFRS-related changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting, though the Corporation does not expect the initial adoption of IFRS will have a material impact on the disclosure controls and procedures for financial reporting.

The impact of certain of the foregoing items will be reflected in the financial statements of the Corporation. Consequently, the Corporation seeks harmonization among group companies with respect to such items.

Information below regarding the publicly traded subsidiaries' IFRS changeover plans has been derived from their public disclosure.

The Corporation is in the final stages of aggregating and analysing potential adjustments required to its opening balance sheet at January 1, 2010 for changes to accounting policies resulting from identified differences noted between Canadian GAAP and IFRS in the changeover project. The Corporation also continues to analyse differences to net earnings and retained earnings under IFRS.

Adoption of IFRS requires that the IFRS standards be applied on a retroactive basis with the exception of those specifically exempted under IFRS 1 for first-time adopters. Absent an exemption, any changes to existing standards must be applied retroactively and reflected in the opening balance sheet of the comparative period.

Key adjustments to the Corporation's opening balance sheet have been identified and analysed, with estimates of the impact to the opening balance sheet and shareholders' equity at transition to IFRS presented in the Reconciliations of the pro forma Consolidated Balance Sheet and the pro forma Statement of Retained Earnings and Accumulated Other Comprehensive Income below.

These estimated adjustments represent management's best estimates and may be subject to change, though not materially, prior to the issuance of financial statements prepared in accordance with IFRS. These accounting differences have been separated in the balance sheet, between items impacting shareholders' equity at transition and other items that represent a difference between IFRS and Canadian GAAP with certain of these items resulting in a change in financial statement presentation or reclassification. This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of the Corporation's first annual IFRS reporting period, December 31, 2011. The amounts have not been audited or subject to review by our external audit.

CONVERSION ADJUSTMENTS

The following represents key changes identified in accounting policies that will impact shareholders' equity upon the transition to IFRS. The identified differences represent management's best estimate and these estimates and decisions may be revised before the Corporation issues financial statements prepared in accordance with IFRS.

INVESTMENT CONTRACTS

The majority of Canadian GAAP policyholder and reinsurance contract liabilities will be classified as insurance contracts under IFRS. Contracts where significant insurance risk does not exist will be classified as investment contracts under IFRS and accounted for either at fair value or at amortized cost. If significant insurance risk exists, the contract is classified as an insurance contract and will be measured under the Canadian Asset Liability Method.

IFRS allows for the recognition of both deferred acquisition costs and deferred income reserves related to investment contracts. Certain deferred acquisition costs that were not incremental to the contract and were deferred and amortized into consolidated net earnings over the anticipated period of benefit under Canadian GAAP will now be recognized as an expense under IFRS in the period incurred. Deferred acquisition costs that are incremental in nature will continue to be deferred and amortized. On the balance sheet, the deferred acquisition costs will be presented in other assets. Under Canadian GAAP, actuarial liabilities were presented net of deferred acquisition costs.

The adjustment to decrease opening retained earnings for the adjustments related to deferred acquisition costs and deferred income reserves on investment contracts is expected to be approximately $327 million after tax.

INVESTMENT AT EQUITY

The Corporation will increase the carrying value of its investment at equity and its opening retained earnings by an amount of $154 million to reflect amounts previously recognized under IFRS by Pargesa which were not recognized under Canadian GAAP. The largest component of this adjustment consists of the Corporation's share of the reversal in 2009 of an impairment charge recorded by GBL for an amount of $139 million.

DEFERRED SELLING COMMISSIONS

Under IFRS, commissions paid on the sale of certain mutual fund units will be considered as definite life intangible assets and amortized over their useful life under Canadian GAAP. The IFRS standard for intangible assets more specifically addresses the approach to record amortization and disposals of intangible assets. When a mutual fund client redeems units in certain mutual funds, a redemption fee is paid by the client that is recorded as revenue by IGM. IFRS requires that the remaining deferred selling commission asset related to those units be recorded as a disposal. The current estimate of this difference is expected to be a decrease of $1 million in the Corporation's opening retained earnings.

REAL ESTATE PROPERTIES

Under IFRS, real estate properties have been classified as either investment properties or owner-occupied properties.

INVESTMENT PROPERTIES

Real estate not classified as owner-occupied properties will be accounted for as investment properties and measured at fair value. The resulting net decrease to investment properties at transition is expected to be $85 million. Under Canadian GAAP, these properties were carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment which is expected to total $133 million at transition to IFRS.

The change in measurement, including the derecognition of deferred net realized gains on investment properties at January 1, 2010 will increase opening retained earnings by approximately $100 million after tax.

OWNER-OCCUPIED PROPERTIES

For all owner-occupied properties, the Corporation has elected to measure the fair value as its deemed cost at transition, resulting in a fair value increase of $40 million. After transition, the cost model will be used to value such properties, with depreciation expensed in the consolidated statements of earnings.

The fair value election at transition is expected to result in an increase in opening retained earnings of approximately $15 million after tax.

DERECOGNITION OF FINANCIAL ASSETS

The IFRS determination of whether a financial asset should be derecognized is based to a greater extent on the transfer of risks and rewards of ownership; whereas under Canadian GAAP, the focus is on the surrendering of control over the transferred assets. IGM has disclosed that its analysis indicates most of its securitization transactions will be accounted for as secured borrowings under IFRS rather than sales, which will result in an increase in total assets and liabilities recorded on its consolidated balance sheets. As these transactions are to be treated as financing transactions rather than sale transactions, a transitional adjustment to opening retained earnings is required to reflect this change in accounting treatment.

IGM has disclosed that it has completed its analysis based on assumptions that: (i) the mortgages are carried at amortized cost, (ii) mortgage origination costs are capitalized and amortized, and (iii) the transactions are restated on a retroactive basis. The estimated increase in the mortgage balances is $3.3 billion with a corresponding increase in liabilities. Certain other mortgage-related assets and liabilities, including retained interests, certain derivative instruments and servicing liabilities, will be adjusted. The estimated decrease in the Corporation's opening retained earnings is approximately $45 million.

EMPLOYEE BENEFITS – CUMULATIVE UNAMORTIZED ACTUARIAL GAINS AND LOSSES

The Corporation has elected to apply the exemption available to recognize all cumulative unamortized actuarial gains and losses of the Corporation's defined benefit plans of $308 million in shareholders' equity upon transition. Subsequent to transition, the Corporation intends to apply the "corridor" approach for deferring recognition of actuarial gains and losses that reside within the corridor.

This adjustment, referred to as the "fresh start" adjustment, is expected to decrease opening retained earnings by approximately $132 million after tax.

EMPLOYEE BENEFITS – PAST SERVICE COSTS AND OTHER

Differences exist between IFRS and Canadian GAAP in determining employee benefits, including the requirement to recognize unamortized past service costs and certain service awards. The adjustment for recognition of these unamortized vested past service costs and other employee benefits under IFRS are estimated to total $92 million.

These differences are expected to increase opening retained earnings by approximately $41 million after tax.

UNCERTAIN INCOME TAX PROVISIONS

The difference in the recognition and measurement of uncertain tax provisions between Canadian GAAP and IFRS is expected to decrease opening retained earnings by approximately $170 million.

OTHER ADJUSTMENTS

Several additional items have been identified where the transition from Canadian GAAP to IFRS will result in recognition changes. These adjustments, which include (i) the capitalization of transaction costs on other than held-for-trading financial liabilities netted against the corresponding financial liability, (ii) the adoption of the graded vesting method to account for all stock options, and (iii) the measurement of Lifeco preferred shares previously recorded at fair value will be recorded at amortized cost under IFRS, are expected to result in an adjustment to increase opening retained earnings by approximately $3 million after tax.

PRESENTATION AND RECLASSIFICATION ADJUSTMENTS

The following represents changes in key accounting policies that do not impact shareholders' equity upon the adoption of IFRS. The items below include accounting policy differences under IFRS, certain of which require financial statement presentation and reclassification changes upon transition. The possible impact of the identified differences represents management's best estimates and these estimates and decisions may be revised before the Corporation issues financial statements prepared in accordance with IFRS.

SEGREGATED FUNDS

The assets and liabilities of segregated funds, totalling $87.5 billion at January 1, 2010, will be included at fair value on the Consolidated Balance Sheets as a single line within assets and liabilities under IFRS. There will be no impact on the amount disclosed for shareholders' equity.

PRESENTATION OF REINSURANCE ACCOUNTS

Reinsurance accounts will be presented on a gross basis on the Consolidated Balance Sheets, totalling approximately $2.8 billion of reinsurance assets and corresponding liabilities, with no impact on shareholders' equity. Gross presentation of the reinsurance revenues and expenses will also be required within the Consolidated Statements of Earnings.

CUMULATIVE TRANSLATION LOSSES OF FOREIGN OPERATIONS

The Corporation will reset the unrealized cumulative translation differences of foreign operations to zero upon adoption of IFRS. The balance of the cumulative loss to be reclassified from other comprehensive income to retained earnings at January 1, 2010 is approximately $1,188 million.

REDESIGNATION OF FINANCIAL ASSETS

Lifeco has disclosed it will redesignate certain non-participating available-for-sale financial assets to fair value through profit and loss. Also, certain financial assets classified as held for trading under Canadian GAAP will be redesignated as available for sale under IFRS. The redesignation will have no overall impact on the Corporation's opening shareholders' equity at transition but is expected to result in a reclassification within shareholders' equity of approximately $67 million between retained earnings and accumulated other comprehensive income.

NON-CONTROLLING INTERESTS

Under Canadian GAAP non-controlling interests were presented between liabilities and equity. IFRS requires presentation of non-controlling interests within the equity section of the balance sheet.

BUSINESS COMBINATIONS

The Corporation does not plan to restate business combinations prior to January 1, 2010, and therefore there is no expected impact on opening figures. The Corporation will apply the IFRS 3 standard prospectively for business combinations occurring after January 1, 2010.

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets under IFRS will be measured using the cost model, based on the recoverable amount, which is the greater of value in use or fair value less cost to sell. The recoverable amount calculated under IFRS approximates the Canadian GAAP carrying value at December 31, 2009 and therefore no adjustment is required at transition.

The above accounting policy differences (totalling a decrease of $1,616 million in the opening retained earnings) have been reconciled from Canadian GAAP to IFRS on the following page. It should be noted that the numbers provided in this section are subject to change pending the completion of an audit. Numbers are also subject to change in the event that newly issued international financial reporting standards become effective prior to the completion of the audit.

RECONCILIATION OF THE PRO FORMA CONSOLIDATED BALANCE SHEET FROM CANADIAN GAAP TO IFRS

	CANADIAN GAAP DECEMBER 31, 2009	CONVERSION ADJUSTMENTS	PRESENTATION AND RECLASSIFICATION ADJUSTMENTS	ESTIMATED IFRS JANUARY 1, 2010
ASSETS				
Cash and cash equivalents	4,855			4,855
Investment at equity	2,675	154		2,829
Other investments	94,237	3,192	(413)	97,016
Intangible assets	4,366	(10)	850	5,206
Goodwill	8,655			8,655
Other assets	25,443	(95)	2,953	28,301
Segregated funds for the risk of unitholders			87,495	87,495
	140,231	3,241	90,885	234,357
LIABILITIES				
Insurance and investment contract liabilities	102,651	(69)	3,245	105,827
Other liabilities	8,485	534	145	9,164
Preferred shares of the Corporation	300			300
Preferred shares of subsidiaries	203	(4)		199
Obligations to securitization entities		3,310		3,310
Capital trust securities and debentures	540			540
Debentures and other borrowings	5,967	(36)		5,931
Insurance and investment contracts on account of unitholders			87,495	87,495
Non-controlling interests	8,878		(8,878)	–
	127,024	3,735	82,007	212,766
SHAREHOLDERS' EQUITY				
Perpetual preferred shares	1,725			1,725
Common shares	605			605
Non-controlling interests		(157)	8,878	8,721
Contributed surplus	102	24		126
Retained earnings	11,165	(1,616)		9,549
Accumulated other comprehensive income	(390)	1,255		865
	13,207	(494)	8,878	21,591
	140,231	3,241	90,885	234,357

RECONCILIATION OF PRO FORMA RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS

AT JANUARY 1, 2010	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME
CANADIAN GAAP EQUITY	11,165	(390)
IFRS ADJUSTMENTS (NET OF TAX)		
Investment contracts – Deferred acquisition costs	(84)	
Investment contracts – Deferred income reserves	(243)	
Equity accounting for Pargesa	154	
Investment properties/owner-occupied properties	115	
Derecognition of financial assets	(45)	
Employee benefits – Cumulative unamortized actuarial gains and losses	(132)	
Employee benefits – Past service costs and other	41	
Uncertain income tax provisions	(170)	
Other adjustments	3	
Reset of cumulative translation losses of foreign operations	(1,188)	1,188
Redesignation of financial assets	(67)	67
	(1,616)	1,255
IFRS EQUITY	9,549	865

The foregoing anticipated changes in accounting policies are not an exhaustive list of all possible significant items that will occur upon the transition to IFRS. The Corporation will continue to monitor developments in and interpretations of standards as well as industry practices and may change the accounting policies described above.

The Corporation continues to monitor the potential changes proposed by the IASB and consider the impact changes in the standards would have on the Corporation's operations. In November 2009, the IASB issued IFRS 9 to amend how financial instruments are classified and measured. The standard is effective for annual periods beginning on or after January 1, 2013. The Corporation is analysing the impact the new standard will have on its financial assets and liabilities.

In April 2010, the IASB published for comment an exposure draft proposing amendments to the accounting standard for post-employment benefits. The exposure draft was open for comment until September 6, 2010, with a final standard anticipated for release by the IASB at the end of the first quarter of 2011. The exposure draft proposes to eliminate the corridor approach for actuarial gains and losses, which would result in those gains and losses being recognized immediately through other comprehensive income or earnings, while the net pension asset or liability would reflect the full over- or under-funded status of the plan on the Consolidated Balance Sheet. As well, the exposure draft proposes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity. The Corporation is monitoring the proposed amendments to post-employment benefits.

On July 30, 2010, the IASB published for comment an exposure draft proposing changes to the accounting standard for insurance contracts. A final standard is not expected to be implemented for several years. Lifeco has disclosed that it 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. The exposure draft proposes that an insurer would measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is significantly different from the connection between insurance assets and liabilities considered under the Canadian Asset Liability Method and may cause significant volatility in the results of Lifeco. Lifeco has disclosed that on November 30, 2010, it submitted a comment letter urging the IASB to amend the exposure draft, particularly in the area of discounting.

On August 17, 2010, the IASB published for comment an exposure draft with changes proposed to the accounting standards for leases. A final standard is expected to be released in June 2011. The exposure draft proposes a new accounting model where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts.

RISK FACTORS

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following and others disclosed in the Corporation's Management's Discussion and Analysis, which investors should carefully consider before investing in securities of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

Power Financial is a holding company that holds substantial interests in the financial services industry through its controlling interest in each of Lifeco and IGM. As a result, investors in Power Financial are subject to the risks attributable to its subsidiaries, including those that Power Financial has as the principal shareholder of each of Lifeco and IGM.

As a holding company, Power Financial's ability to pay interest and other operating expenses and dividends, to meet its obligations and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon receipt of sufficient dividends from its principal subsidiaries and other investments and its ability to raise additional capital. The likelihood that shareholders of Power Financial will receive dividends will be dependent upon the operating performance, profitability, financial position and creditworthiness of the principal subsidiaries of Power Financial and on their ability to pay dividends to Power Financial. The payment of interest and dividends by certain of these principal subsidiaries to Power Financial is also subject to restrictions set forth in insurance, securities and corporate laws and regulations which require that solvency and capital standards be maintained by such companies. If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries. In recent years, global financial conditions and market events have experienced increased volatility and resulted in the tightening of credit that has reduced available liquidity and overall economic activity. There can be no assurance that debt or equity financing will be available, or, together with internally generated funds, will be sufficient to meet or satisfy Power Financial's objectives or requirements or, if the foregoing are available to Power Financial, that they will be on terms acceptable to Power Financial. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on Power Financial's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

The market price for Power Financial's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Power Financial's control. Economic conditions may adversely affect Power Financial, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States and Europe. In recent years, financial markets have experienced significant price and volume fluctuations that have affected the market prices of equity securities held by the Corporation and its subsidiaries, and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. In periods of increased levels of volatility and related market turmoil, Power Financial's subsidiaries' operations could be adversely impacted and the trading price of Power Financial's securities may be adversely affected.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Corporation's 2010 Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying the Corporation's 2010 Consolidated Financial Statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Corporation's businesses and operations. The significant accounting estimates are as follows:

FAIR VALUE MEASUREMENT

Financial and other instruments held by the Corporation and its subsidiaries include portfolio investments, various derivative financial instruments, and debentures and other debt instruments.

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

In accordance with CICA 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.

> 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 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability.

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

Please refer to Note 22 to the Corporation's 2010 Consolidated Financial Statements for disclosure of the Corporation's financial instruments fair value measurement as at December 31, 2010.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. 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.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Corporation reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

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 be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Corporation does not have the intent to hold the investment until the value has recovered. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating impairment.

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

Current market conditions have resulted in an increase in the inherent risks of future impairment of invested assets. The Corporation monitors economic conditions closely in its assessment of impairment of individual loans.

GOODWILL AND INTANGIBLES IMPAIRMENT TESTING

Under GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level by applying a two-step fair value-based test annually, or more frequently, if an event or change in circumstances indicates that the asset might be impaired. 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 (determined as a residual value after determining the fair value of the assets and liabilities of the 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.

For purposes of impairment testing, the fair values of the reporting units are derived from internally developed valuation models using a market or income approach consistent with models used when the business was acquired.

Acquired intangible assets are separately recognized if the benefits of the intangible assets are obtained through contractual or other legal rights, or if the intangible assets can be sold, transferred, licensed, rented or exchanged.

Intangible assets can have a finite life or an indefinite life. Determining the useful lives of intangible assets requires judgment and fact-based analysis.

Intangible assets with an indefinite life are not amortized and are assessed for impairment annually or more frequently if an event or change in circumstances indicates that the asset might be impaired. Similar to goodwill impairment testing, the fair value of the indefinite life intangible asset is compared to its carrying value to determine impairment, if any.

Intangible assets with a finite life are amortized over their estimated useful lives. These assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized to the extent that fair value is less than the carrying value. Amortization estimates and methods are also reviewed. Indicators of impairment include such things as a significant adverse change in legal factors or in the general business climate, a decline in operating performance indicators, a significant change in competition, or an expectation that significant assets will be sold or otherwise disposed of.

The fair value of intangible assets for customer contracts, the shareholder portion of acquired future participating account profits and certain property leases are estimated using an income approach, as described for goodwill above. The fair value of brands and trademarks are estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements. The key assumptions under this valuation approach are royalty rates, expected future revenues and discount rates. The fair value of intangible assets for distribution channels and technology are estimated using the replacement cost approach. Management estimates the time and cost of personnel required to duplicate the asset acquired.

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 the Corporation's subsidiaries. The Appointed Actuaries of the Corporation's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provisions for the Corporation's subsidiaries' obligations to policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to the 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.

In the computation of Lifeco's policy liabilities, valuation assumptions have been made by Lifeco and its subsidiaries 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.

Additional detail regarding these estimates can be found in Note 9 to the Corporation's 2010 Consolidated Financial Statements.

INCOME TAXES

The Corporation is subject to income tax laws in various jurisdictions. The Corporation's operations are complex and related tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As multinational life insurance companies, the Corporation's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act* (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the provision for income taxes represents the applicable company's management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. Future tax assets and liabilities are recorded based on expected future tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Corporation has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

The audit and review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the amounts of income taxes payable or receivable, future income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that taxes will be payable as anticipated and/or the amount and timing of receipt or use of the tax-related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived tax issues and have increased the resources they put to these efforts.

EMPLOYEE FUTURE BENEFITS

The Corporation and its subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The defined contribution pension plans provide pension benefits based on accumulated employee and Corporation contributions. The Corporation and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Corporation's pension plans and other post-retirement benefits refer to Note 21 to the Corporation's 2010 Consolidated Financial Statements.

Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in healthcare costs, the period of time over which benefits will be paid, as well as the appropriate discount rate for accrued benefit obligations. These assumptions are determined by management using actuarial methods and are reviewed and approved annually. Emerging experience, different from the assumptions, will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

DEFERRED SELLING COMMISSIONS

Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven 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.

OFF-BALANCE SHEET ARRANGEMENTS

SECURITIZATIONS

Through IGM's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. IGM retains servicing responsibilities and, in some cases, certain elements of recourse with respect to credit losses on transferred loans. During 2010, IGM entered into securitization transactions with Canadian bank-sponsored securitization trusts and the Canada Mortgage Bond Program through its mortgage banking operations with proceeds of $1.2 billion compared with $1.3 billion in 2009 as discussed in Note 4 to the 2010 Consolidated Financial Statements. Securitized loans serviced at December 31, 2010 totalled $3.5 billion compared with $3.3 billion at December 31, 2009. The fair value of IGM's retained interest was $107 million at December 31, 2010 compared with $174 million at December 31, 2009. Additional information related to IGM's securitization activities can be found in the "Financial Instruments" section below and in Notes 1 and 4 of the 2010 Consolidated Financial Statements.

GUARANTEES

In the normal course of their businesses, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements 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.

LETTERS OF CREDIT

In the normal course of their reinsurance business, Lifeco's subsidiaries provide letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for reserves ceded to or amounts due from Lifeco's subsidiaries. A letter of credit may be drawn upon demand. If an amount is drawn on a letter of credit by a beneficiary, the bank issuing the letter of credit will make a payment to the beneficiary for the amount drawn, and Lifeco's subsidiaries will become obligated to repay this amount to the bank.

Lifeco, through certain of its operating subsidiaries, has provided letters of credit to both external and internal parties, which are described in Note 26 to the Corporation's 2010 Consolidated Financial Statements.

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.

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 were at market terms and conditions.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

The following table provides a summary of future consolidated contractual obligations.

	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
Long-term debt[1]	6,044	451	304	5,289
Operating leases[2]	755	146	393	216
Purchase obligations[3]	143	55	84	4
Contractual commitments[4]	414	414		
Total	7,356	1,066	781	5,509
Letters of credit[5]				

[1] Please refer to Note 10 to the Corporation's 2010 Consolidated Financial Statements for further information.

[2] Includes office space and certain equipment used in the normal course of business. Lease payments are charged to operations in the period of use.

[3] Purchase obligations are commitments of Lifeco to acquire goods and services, essentially related to information services.

[4] Represents commitments by Lifeco. These contractual commitments are essentially commitments of investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

[5] Please refer to Note 26 to the Corporation's 2010 Consolidated Financial Statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is 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 (please refer to Note 22 to the Corporation's 2010 Consolidated Financial Statements).

AS AT DECEMBER 31	2010		2009	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
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
Total financial assets	120,795	122,214	117,225	117,691
LIABILITIES				
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
Total financial liabilities	13,952	14,491	13,602	13,903

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the companies. The Corporation and its subsidiaries have each established operating policies and processes relating to the use of derivative financial instruments, which in particular aim at:

> prohibiting the use of derivative instruments for speculative purposes;

> documenting transactions and ensuring their consistency with risk management policies;

> demonstrating the effectiveness of the hedging relationships; and

> monitoring the hedging relationship.

There were no major changes to the Corporation's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2010. There has been an increase in the notional amount outstanding ($18,337 million at December 31, 2010, compared with $17,393 million at December 31, 2009) and in the exposure to credit risk ($1,067 million at December 31, 2010, compared with $837 million at December 31, 2009) that represents the market value of those instruments, which are in a gain position. See Note 24 to the Corporation's 2010 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

REVIEW OF FINANCIAL PERFORMANCE

DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as of December 31, 2010, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2010.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Based on their evaluations as of December 31, 2010, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal controls over financial reporting were effective as at December 31, 2010. During the fourth quarter of 2010, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2010	2009	2008
Revenues from continuing operations [1]	**32,427**	32,697	36,500
Operating earnings before other items [2]	**1,733**	1,533	1,974
per share — basic	**2.31**	2.05	2.69
Net earnings	**1,584**	1,439	1,337
per share — basic	**2.10**	1.92	1.79
per share — diluted	**2.10**	1.91	1.78
Earnings from discontinued operations			503
per share — basic			0.71
per share — diluted			0.71
Earnings from continuing operations [3]	**1,584**	1,439	834
per share — basic	**2.10**	1.92	1.08
per share — diluted	**2.10**	1.91	1.07
Consolidated assets	**143,255**	140,231	141,546
Consolidated financial liabilities	**13,952**	13,602	15,316
Debentures and other borrowings	**6,348**	5,967	5,658
Shareholders' equity	**13,184**	13,207	13,419
Book value per share	**15.79**	16.27	16.80
Number of common shares outstanding [millions]	**708.0**	705.7	705.0
Dividends per share [declared]			
Common shares	**1.4000**	1.4000	1.3325
First preferred shares			
Series A	**0.45238**	0.42744	0.8431
Series C [4]	**0.9750**	1.3000	1.3000
Series D	**1.3750**	1.3750	1.3750
Series E	**1.3125**	1.3125	1.3125
Series F	**1.4750**	1.4750	1.4750
Series H	**1.4375**	1.4375	1.4375
Series I	**1.5000**	1.5000	1.5000
Series J [5]	**0.5875**	1.1750	1.1750
Series K	**1.2375**	1.2375	1.2375
Series L	**1.2750**	1.2750	1.2750
Series M [6]	**1.5000**	1.7538	
Series O [7]	**1.4500**	0.45288	
Series P [8]	**0.6487**		

[1] Revenues from continuing operations represent consolidated revenues, excluding revenues of Lifeco's U.S. healthcare business.

[2] Operating earnings and operating earnings per share are non-GAAP financial measures. Operating earnings include Power Financial's share of Lifeco's U.S. healthcare business of $31 million in 2008.

[3] Earnings from continuing operations represent net earnings, excluding Power Financial's share of Lifeco's U.S. healthcare business.

[4] Redeemed in October 2010.

[5] Redeemed in July 2010.

[6] Issued in November 2008.

[7] Issued in October 2009.

[8] Issued in June 2010.