Review of Financial Performance

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

MARCH 14, 2012

This Annual Report is intended 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 (MD&A). Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's website 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 report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows 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, 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 applicable Canadian 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 and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including its most recent MD&A and its Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

Readers are reminded that a list of the abbreviations used throughout can be found at the beginning of this Annual Report. In addition, the following abbreviations are used in the Review of Financial Performance and in the Financial Statements and Notes thereto: Audited Consolidated Financial Statements of Power Financial and Notes thereto for the year ended December 31, 2011 (the 2011 Consolidated Financial Statements or the Financial Statements); International Financial Reporting Standards (IFRS); previous Canadian generally accepted accounting principles (previous Canadian GAAP or previous CGAAP).

Overview

Power Financial, a subsidiary of Power Corporation, is a holding company with substantial interests in the financial services industry through its controlling interests in Lifeco and IGM. Power Financial also holds, together with the Frère group of Belgium, an interest in Pargesa.

As at December 31, 2011, Power Financial and IGM held 68.2% 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, 2011, Power Financial and Great-West Life, a subsidiary of Lifeco, held 57.6% and 3.6%, 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, which, as at December 31, 2011, held a 56.5% equity interest in Pargesa, representing 76.0% of the voting rights of that company. These figures 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 through its affiliated Belgian holding company, Groupe Bruxelles Lambert. As at December 31, 2011, Pargesa held a 50.0% equity interest in GBL, representing 52.0% of the voting rights.

As at December 31, 2011, Pargesa's portfolio was composed of interests in various sectors, including primarily oil and gas through Total; energy and energy services through GDF Suez; water and waste management services through Suez Environnement; industrial minerals through Imerys; cement and building materials through Lafarge; and wines and spirits through Pernod Ricard. Also as at December 31, 2011, GBL had a 10% interest in Arkema, a global chemical producer based in France. On March 14, 2012, GBL announced the sale of its interest in Arkema for proceeds of €432 million and a gain of €220 million. Also, on March 14, 2012, GBL announced it had launched the sale of a maximum of 6.2 million shares of Pernod Ricard, representing approximately 2.3% of the share capital of 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.

Basis of Presentation and Summary of Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian GAAP for publicly accountable enterprises would be replaced by International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011.

The Corporation developed and implemented an IFRS changeover plan which addressed key areas, including accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training, and other business activities. The Corporation commenced reporting under IFRS for the quarter ending March 31, 2011, including presenting a transitional balance sheet at January 1, 2010 and reporting under IFRS for comparative periods, with the required reconciliations presented. The Corporation's presentation currency is the Canadian dollar.

The information for prior periods presented herein, including information relating to comparative periods in 2010, has been restated or reclassified to conform to IFRS and to financial statement presentations adopted for the current period being reported, unless otherwise noted as being presented under previous Canadian GAAP and not IFRS. Included in the Corporation's 2011 Consolidated Financial Statements is the IFRS 1 transitional note including reconciliations of the balance sheet and equity at transition to IFRS, and reconciliations of net earnings and comprehensive income at December 31, 2010 for the figures previously presented under Canadian GAAP.

The impact to shareholders' equity at transition (January 1, 2010) from previous Canadian GAAP to IFRS was a net decrease of $385 million. The impact to 2010 earnings was a decrease of $17 million, consisting of a decrease in operating earnings of $22 million and an increase in other items of $5 million.

For a complete listing of relevant IFRS accounting policies and details of the impact of the initial adoption of IFRS on the presentation of the financial statements, refer to Notes 2 and 3 of the Corporation's 2011 Consolidated Financial Statements. Further information is also available on the Corporation's website at www.powerfinancial.com.

INCLUSION OF PARGESA'S RESULTS

The investment in Pargesa, an associate of the Corporation as defined under IFRS, 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, Pernod Ricard and Arkema, which are held through GBL, which is consolidated in Pargesa. Imerys' results are consolidated in the financial statements of GBL, while the contribution from Total, GDF Suez, Suez Environnement, Pernod Ricard and Arkema 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 earnings and non operating earnings are presented separately by Pargesa. Power Financial's share of non-operating earnings of Pargesa, after adjustments or reclassifications if necessary, is included as part of other items in the Corporation's financial statements.

NON-IFRS FINANCIAL MEASURES

In analyzing 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 or non-operating earnings, 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 its subsidiaries. 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-IFRS 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-IFRS measures to results reported in accordance with IFRS, 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-IFRS financial measures used herein for the periods indicated, with the reported results in accordance with IFRS for net earnings attributable to common shareholders and earnings per share.

TWELVE MONTHS ENDED DECEMBER 31	2011	2010
Contribution to operating earnings from subsidiaries and investment in associates		
Lifeco	1,298	1,249
IGM	480	432
Pargesa	110	121
	1,888	1,802
Results from corporate activities	(55)	(78)
Dividends on perpetual preferred shares	(104)	(99)
Operating earnings attributable to common shareholders	1,729	1,625
Other items	(7)	(157)
Net earnings attributable to common shareholders	1,722	1,468
Earnings per share attributable to common shareholders		
— operating earnings	2.44	2.30
— non-operating earnings	(0.01)	(0.22)
— net earnings	2.43	2.08

OPERATING EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

Operating earnings attributable to common shareholders for the year ended December 31, 2011 were $1,729 million or $2.44 per share, compared with $1,625 million or $2.30 per share in the corresponding period in 2010 (an increase of 6.2% on a per share basis).

CONTRIBUTION TO OPERATING EARNINGS FROM SUBSIDIARIES AND INVESTMENT IN ASSOCIATES

Power Financial's share of operating earnings from its subsidiaries and investment in associates increased by 4.8% for the year ended December 31, 2011, compared with the same period in 2010, from $1,802 million to $1,888 million.

Lifeco's contribution to Power Financial's operating earnings was $1,298 million for the year ended December 31, 2011, compared with $1,249 million for the corresponding period in 2010. Details are as follows:

> Lifeco reported operating earnings attributable to common shareholders of $1,898 million or $2.000 per share for the twelve-month period ended December 31, 2011, compared with $1,819 million or $1.920 per share in the corresponding period in 2010. This represents an increase of 4.2% on a per share basis.

> Operating earnings of Lifeco exclude the net impact of two unrelated litigation provisions which increased earnings of Lifeco by $124 million after tax. The provisions are described fully in the "Other Items" section below. Operating earnings for the twelve months ended December 31, 2010 exclude the impact of an incremental litigation provision in the amount of $225 million after tax ($204 million attributable to common shareholders).

> Despite challenging market conditions, Lifeco delivered strong consistent operating earnings in all regions.

IGM's contribution to Power Financial's operating earnings was $480 million for the twelve-month period ended December 31, 2011, compared with $432 million for the corresponding period in 2010. Details are as follows:

> IGM reported operating earnings available to common shareholders of $833 million or $3.22 per share for the twelve-month period ended December 31, 2011, compared with $759 million or $2.89 per share in the same period in 2010, an increase of 11.4% on a per share basis.

> IGM's earnings are primarily dependent on the level of assets under management. Average daily mutual fund assets were $105.7 billion in 2011, compared with $101.4 billion in 2010.

> On September 2, 2011, Mackenzie Financial Corporation, a subsidiary of IGM, announced that it had entered into an agreement to sell M.R.S. Trust Company and M.R.S. Inc. (collectively, MRS). The operating earnings of Power Financial include the earnings of MRS which have been classified as discontinued operations in the Corporation's Consolidated Statement of Earnings but exclude the after-tax gain on the sale of the investment for an amount of $30 million, recorded in the fourth quarter of 2011, as well as a $29 million one-time positive tax adjustment recorded in the third quarter of 2011.

The contribution from Pargesa to Power Financial's operating earnings was $110 million in the twelve-month period ended December 31, 2011, compared with $121 million in the corresponding period in 2010. Details are as follows:

> Pargesa's operating earnings for the twelve-month period ended December 31, 2011 were SF343 million, compared with SF466 million in the corresponding period in 2010. Pargesa's operating results, which are reported in Swiss francs, were negatively impacted by the weakening of the euro against the Swiss franc.

> Although the results of Imerys for the twelve-month period ended December 31, 2011 were 25% higher than in the corresponding period in 2010, the contribution from Imerys to Pargesa's earnings decreased by 13% in 2011, due to a smaller percentage of ownership as Pargesa's direct interest in Imerys was sold to GBL in April 2011 and due to the weakening of the euro against the Swiss franc.

> The contribution of Lafarge to Pargesa's operating earnings decreased for the twelve-month period ended December 31, 2011, due to lower operating earnings at Lafarge and the effect of currency, as explained above.

> The results of Pargesa also include a foreign currency loss of SF55 million on the sale of the euros resulting from the proceeds of the disposal of the Imerys shareholding. This loss was partly offset by gains in GBL's private equity portfolio for an amount of SF19 million.

RESULTS FROM CORPORATE ACTIVITIES

Results from corporate activities include income from investments, operating expenses, financing charges, depreciation and income taxes.

Corporate activities were a net charge of $55 million in the twelve-month period ended December 31, 2011, compared with a net charge of $78 million in the corresponding period in 2010.

The improvements in corporate activities result mainly from a decrease in financing charges of $15 million due to the redemption of the Corporation's Series J preferred shares in July 2010 and the Series C preferred shares in October 2010, and from the recognition, in the fourth quarter of 2011, of an amount representing the tax advantage of losses carry forward transferred to IGM under a loss consolidation transaction.

OTHER ITEMS

For the twelve-month period ended December 31, 2011, other items represented a charge of $7 million, compared with a charge of $157 million in the corresponding period in 2010.

Other items in 2011 include a contribution of $88 million representing the Corporation's share of non-operating earnings of Lifeco. In the fourth quarter of 2011, Lifeco re-evaluated and reduced a litigation provision established in the third quarter of 2010 which positively impacted Lifeco's common shareholders' net earnings by $223 million. Additionally, in the fourth quarter of 2011, Lifeco established a provision of $99 million after tax in respect of the settlement of litigation relating to its ownership in a U.S.-based private equity firm. The net impact to Lifeco of these two unrelated matters was $124 million.

Other items in 2011 also include a charge of $133 million representing the Corporation's share of GBL's €650 million write-down of its investment in Lafarge recorded in the third quarter. The persistence of Lafarge's share price at a level significantly below its consolidated carrying value rendered an impairment test necessary.

Other items in 2010 were primarily composed of the Corporation's share of the litigation provision referred to above recorded by Lifeco in the third quarter of 2010 representing an amount of $144 million.

The following table provides additional information on other items for the periods indicated:

TWELVE MONTHS ENDED DECEMBER 31	2011	2010
Share of Lifeco's		
Litigation provisions	88	(144)
Share of IGM's		
Gain on disposal of MRS	18	
Changes in the status of certain income tax filings	17	
Employee benefits and restructuring costs		(13)
Share of Pargesa's		
Impairment charge	(133)	(4)
Other	3	4
	(7)	(157)

NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

Net earnings attributable to common shareholders for the twelve-month period ended December 31, 2011 were $1,722 million or $2.43 per share, compared with $1,468 million or $2.08 per share in the corresponding period in 2010.

Condensed Consolidated Balance Sheets

CONDENSED SUPPLEMENTARY BALANCE SHEETS	CONSOLIDATED BASIS		EQUITY BASIS[1]	
AS AT DECEMBER 31	2011	2010	2011	2010
ASSETS				
Cash and cash equivalents[2]	3,385	3,656	707	713
Investment in associates	2,222	2,448	13,369	12,660
Investments	117,042	109,990		
Funds held by ceding insurers	9,923	9,856		
Reinsurance assets	2,061	2,533		
Intangible assets	5,023	5,024		
Goodwill	8,786	8,717		
Other assets	7,654	7,593	104	94
Segregated funds for the risk of unit holders	96,582	94,827		
Total assets	252,678	244,644	14,180	13,467
LIABILITIES				
Insurance and investment contract liabilities	115,512	108,196		
Obligations to securitization entities	3,827	3,505		
Debentures and other borrowings	5,888	6,313	250	250
Capital trust securities	533	535		
Other liabilities	7,521	9,716	409	406
Insurance and investment contracts on account of unit holders	96,582	94,827		
Total liabilities	229,863	223,092	659	656
EQUITY				
Perpetual preferred shares	2,005	2,005	2,005	2,005
Common shareholders' equity	11,516	10,806	11,516	10,806
Non-controlling interests	9,294	8,741		
Total equity	22,815	21,552	13,521	12,811
Total liabilities and equity	252,678	244,644	14,180	13,467

[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 $430 million ($470 million at December 31, 2010) of fixed income securities with maturities of more than 90 days. In the 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 $252.7 billion at December 31, 2011, compared with $244.6 billion at December 31, 2010.

The investment in associates of $2.2 billion represents the Corporation's carrying value in Parjointco. The components of the decrease from 2010 are shown in the "Equity Basis" section below.

Investments at December 31, 2011 were $117.0 billion, a $7.1 billion increase from December 31, 2010 primarily related to Lifeco. See also the discussion in the "Cash Flows" section below.

Liabilities increased from $223.1 billion at December 31, 2010 to $229.9 billion at December 31, 2011, mainly due to an increase in Lifeco's insurance and investment contract liabilities.

Debentures and other borrowings decreased by $425 million during the twelve-month period ended December 31, 2011, as further explained in the "Cash Flows—Consolidated" section below.

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 of Lifeco and IGM are as follows:

AS AT DECEMBER 31 [IN BILLIONS OF CANADIAN DOLLARS]	2011	2010
Assets under management of Lifeco		
Invested assets	114.6	106.6
Other corporate assets	27.6	27.9
Segregated funds net assets	96.6	94.8
Proprietary mutual funds and institutional net assets	125.4	126.1
	364.2	355.4
Assets under management of IGM	118.7	129.5
Total assets under management	482.9	484.9
Other assets under administration of Lifeco	137.8	131.5
Total assets under administration	620.7	616.4

Total assets under administration at December 31, 2011 increased by $4.3 billion (an increase at Lifeco of $15.1 billion and a decrease at IGM of $10.8 billion) from December 31, 2010:

> Total assets under administration by Lifeco at December 31, 2011 increased by $15.1 billion from December 31, 2010, primarily due to an increase in fair value of invested assets as a result of lower government bond rates and an increase in other assets under administration due to new plan sales and positive currency movement.

> IGM's assets under management, at market value, were $118.7 billion at December 31, 2011, compared with $129.5 billion at December 31, 2010.

EQUITY BASIS

Under the equity basis presentation, Lifeco and IGM are accounted for by the Corporation 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 $707 million at December 31, 2011, compared with $713 million at the end of December 2010. The amount of quarterly dividends declared by the Corporation but not yet paid was $274 million at December 31, 2011. The amount of dividends declared by IGM but not yet received by the Corporation was $80 million at December 31, 2011.

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, 2011, essentially all of the $707 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 increased to $13,369 million at December 31, 2011, compared with $12,660 million at December 31, 2010. This increase is explained as follows:

	LIFECO	IGM	PARJOINTCO	TOTAL
Carrying value, at the beginning	7,726	2,454	2,480	12,660
Repayment of advance	–	–	(32)	(32)
Share of operating earnings	1,298	480	110	1,888
Share of other items	86	37	(130)	(7)
Share of change in other comprehensive income	156	4	(222)	(62)
Dividends	(797)	(311)	–	(1,108)
Other	7	7	16	30
Carrying value, at the end	8,476	2,671	2,222	13,369

EQUITY

Common shareholders' equity was $11,516 million at December 31, 2011, compared with $10,806 million at December 31, 2010. The increase of $710 million is mainly due to:

> A $761 million increase in retained earnings, reflecting primarily net earnings of $1,826 million, less dividends declared of $1,095 million and other items of positive $30 million.

> Changes to accumulated other comprehensive income in the negative amount of $57 million, which represents the Corporation's share of other comprehensive income of its subsidiaries and associates.

In 2011, 160,000 common shares were issued by the Corporation pursuant to the Corporation's Employee Stock Option Plan for an aggregate amount of $3 million.

As a result of the above, book value per common share of the Corporation was $16.26 at December 31, 2011, compared with $15.26 at the end of 2010.

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 708,173,680 Common Shares of the Corporation outstanding, compared with 708,013,680 at December 31, 2010. As of the date hereof, options were outstanding to purchase up to an aggregate of 9,097,618 Common Shares of the Corporation under the Corporation's Employee Stock Option Plan.

Cash Flows

CONDENSED CASH FLOWS — CONSOLIDATED

FOR THE YEARS ENDED DECEMBER 31	2011	2010
Cash flow from operating activities	5,505	6,533
Cash flow from financing activities	(2,406)	(1,268)
Cash flow from investing activities	(3,106)	(6,268)
Effect of changes in exchange rates on cash and cash equivalents	24	(215)
Increase (decrease) in cash and cash equivalents—continuing operations	17	(1,218)
Cash and cash equivalents, at the beginning	3,656	4,855
Less: cash and cash equivalents—discontinued operations, beginning of year	(288)	(269)
Cash and cash equivalents—continuing operations, end of year	3,385	3,368

On a consolidated basis, cash and cash equivalents from continuing operations increased by $17 million in the twelve-month period ended December 31, 2011, compared with a decrease of $1,218 million in the corresponding period in 2010.

Operating activities produced a net inflow of $5,505 million in the twelve-month period ended December 31, 2011, compared with a net inflow of $6,533 million in the corresponding period in 2010.

Operating activities during the twelve-month period ended December 31, 2011, compared to the same period in 2010, included:

> Lifeco's cash flow from operations was a net inflow of $4,844 million, compared with a net inflow of $5,797 million in the corresponding period in 2010. Cash provided by operating activities is used by Lifeco primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested by Lifeco to support future liability cash requirements.

> Operating activities of IGM, after payment of commissions, generated $777 million, compared with $824 million in the corresponding period in 2010.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation, as well as dividends paid by subsidiaries to non-controlling interests, resulted in a net outflow of $2,406 million in the twelve-month period ended December 31, 2011, compared with a net outflow of $1,268 million in the corresponding period in 2010.

Financing activities during the twelve-month period ended December 31, 2011, compared to the same period in 2010, included:

> Dividends paid by the Corporation and its subsidiaries to non-controlling interests were $1,735 million, compared with $1,718 million in the corresponding period in 2010.

> Issuance of common shares of the Corporation in the amount of $3 million, compared to issuance in the amount of $31 million in the corresponding period in 2010, pursuant to the Corporation's Employee Stock Option Plan.

> Issuance of common shares by subsidiaries of the Corporation for an amount of $61 million, compared with $84 million in the corresponding period in 2010.

> No issuance of preferred shares by the Corporation, compared to an issuance for an amount of $280 million in the corresponding period in 2010.

> No issuance of preferred shares by subsidiaries of the Corporation, compared to issuance for an amount of $400 million in the corresponding period in 2010.

> No redemption of preferred shares by the Corporation, compared to redemption in the amount of $305 million in the corresponding period in 2010.

> No redemption of preferred shares by subsidiaries of the Corporation, compared to redemption in the amount of $507 million in the corresponding period in 2010.

> Repurchase for cancellation by subsidiaries of the Corporation of their common shares amounted to $186 million, compared with $157 million in the corresponding period in 2010.

> No issuance of debentures and other debt instruments at Lifeco, compared to an issuance for an amount of $500 million in the corresponding period in 2010.

> Net repayment of other borrowings at Lifeco for an amount of $6 million, compared with net repayment of debentures and other borrowings of $254 million in the corresponding period in 2010.

> Repayment of debentures by IGM for an amount of $450 million, compared with issuance of debentures of $200 million in the corresponding period in 2010.

> Increase in obligations to securitization entities at IGM for an amount of $319 million, compared with an increase of $193 million in the corresponding period in 2010.

> A net payment of $408 million by IGM in 2011 arising from obligations related to assets sold under repurchase agreements, compared to net receipts of $5 million in 2010. The net payment in 2011 included the settlement of $428 million in obligations related to the sale of $426 million in Canada Mortgage Bonds, which are reported in investing activities.

Cash flows from investing activities resulted in a net outflow of $3,106 million in the twelve-month period ended December 31, 2011, compared with a net outflow of $6,268 million in the corresponding period in 2010.

Investing activities during the twelve-month period ended December 31, 2011, compared to the same period in 2010, included:

> Investing activities at Lifeco resulted in a net outflow of $3,407 million, compared with a net outflow of $6,099 million in the corresponding period in 2010.

> Investing activities at IGM resulted in a net inflow of $229 million, compared with a net inflow of $60 million in the corresponding period in 2010.

> In addition, the Corporation reduced its level of fixed income securities with maturities of more than 90 days, resulting in a net inflow of $40 million, compared with a net outflow of $197 million in the corresponding period in 2010.

CASH FLOWS — CORPORATE

FOR THE YEARS ENDED DECEMBER 31	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings	1,826	1,567
Earnings from subsidiaries and Pargesa not received in cash	(776)	(488)
Other	4	(2)
	1,054	1,077
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid on common and preferred shares	(1,095)	(1,086)
Issuance of perpetual preferred shares		280
Issuance of common shares	3	31
Redemption of preferred shares		(305)
Other		(8)
	(1,092)	(1,088)
CASH FLOW FROM INVESTING ACTIVITIES		
Repayment from (advance to) Parjointco	32	(32)
	32	(32)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6)	(43)
Cash and cash equivalents, beginning of year	713	756
Cash and cash equivalents, end of year	707	713

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 associates 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 during the twelve-month period ended December 31, 2011 on their common shares amounted to $1.23 and $2.10 per share, respectively, compared with $1.23 and $2.05 per share, respectively, in the corresponding period in 2010. IGM increased its quarterly dividend in the third quarter of 2011 from $0.5125 to $0.5375.

Pargesa pays its annual dividends in the second quarter. The dividend paid to Parjointco in 2011 amounted to SF2.72 per bearer share, unchanged from the 2010 dividend. None of the Pargesa dividend received by Parjointco in 2011 was paid as dividend to the Corporation; Parjointco used part of these funds to repay its advance from the Corporation in the amount of $32 million.

In the twelve-month period ended December 31, 2011, dividends declared on the Corporation's Common Shares amounted to $1.40 per share, the same as in the corresponding period in 2010.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Corporation's 2011 Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying the Corporation's 2011 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 IFRS 7, *Financial Instruments—Disclosure*, 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.

Refer to Note 29 to the Corporation's 2011 Consolidated Financial Statements for disclosure of the Corporation's financial instruments fair value measurement as at December 31, 2011.

Fair values for bonds classified as fair value through profit or loss 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.

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. 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 fair value through profit or loss are already recorded in income, therefore a reduction due to impairment of assets will be recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

GOODWILL AND INTANGIBLES IMPAIRMENT TESTING

Goodwill and intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Corporation would be required to reverse the impairment charge or a portion thereof.

Goodwill has been allocated to cash generating units (CGU), representing the lowest level in which goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment by comparing carrying value of the CGU groups to the recoverable amount to which the goodwill has been allocated. Intangible assets are tested for impairment by comparing the asset's carrying amount to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less cost to sell and value in use, which is generally calculated using the present value of estimated future cash flows expected to be generated.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the insurance and investment contract 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 (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

Additional detail regarding these estimates can be found in Note 2 to the Corporation's 2011 Consolidated Financial Statements.

INCOME TAXES

The Corporation is subject to income tax laws in various jurisdictions. The Corporation's and its subsidiaries' operations are complex and related tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. Lifeco'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. Deferred 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 deferred income tax assets. The recognition of deferred 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 employment health, dental and life insurance benefits to eligible employees and advisors. For further information on the Corporation's pension plans and other post-employment benefits refer to Note 27 to the Corporation's 2011 Consolidated Financial Statements.

Accounting for pension and other post-employment benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in healthcare costs, and 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, which may differ 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, 2011, there were no indications of impairment to deferred selling commissions.

Future Accounting Changes

The Corporation continues to monitor the potential changes proposed by the IASB and to consider the impact changes in the standards may have on the Corporation's operations.

In addition, the Corporation may be impacted in the future by the following IFRS and is currently evaluating the impact these future standards will have on its consolidated financial statements when they become effective:

> **IFRS 4 – Insurance Contracts** The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of Lifeco. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.
>
> Lifeco will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; Lifeco continues to actively monitor developments in this area.

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

> **IFRS 9 – Financial Instruments** The IASB approved the adoption of the proposed new *Financial Instruments* standard to be effective January 1, 2015.
>
> The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables.
>
> The new standard also requires:
>
> - embedded derivatives to be assessed for classification together with their financial asset host;
> - a single expected loss impairment method be used for financial assets; and
> - amendments to the criteria for hedge accounting and measuring effectiveness.
>
> The full impact of IFRS 9 on the Corporation will be evaluated after the remaining stages of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*—impairment methodology, hedge accounting, and asset and liability offsetting—are finalized. The Corporation continues to actively monitor developments in this area.

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

> **IFRS 11 – Joint Arrangements** Effective for the Corporation on January 1, 2013, IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation in accounting for interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures.

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

As a consequence of the issuance of IFRS 10, 11 and 12, the IASB also issued amended and re-titled IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*. The new requirements are effective for the Corporation on January 1, 2013.

> **IFRS 13 – Fair Value Measurement** Effective for the Corporation on January 1, 2013, IFRS 13, *Fair Value Measurement* provides guidance for the measurement and disclosure of assets and liabilities held at fair value. The standard refines the measurement and disclosure requirements and aims to achieve consistency with other standard setters to improve visibility to financial statement users.

> **IAS 1 – Presentation of Financial Statements** Effective for the Corporation on January 1, 2013, IAS 1, *Presentation of Financial Statements* includes requirements that other comprehensive income be classified by nature and grouped between those items that will be classified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation.

> **IAS 19 – Employee Benefits** The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through other comprehensive income while the net pension asset or liability would reflect the full funded status of the plan on the balance sheets. Further, the standard includes 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 will continue to use the corridor method until January 1, 2013, when the revised IAS for employee benefits becomes effective.

> **IAS 32 – Financial Instruments: Presentation** In December 2011, the IASB issued amendments to IAS 32 which clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments will be effective for the Corporation on January 1, 2014.

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 MD&A, 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 significant or prolonged, 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.

Off-Balance Sheet Arrangements

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 32 to the Corporation's 2011 Consolidated Financial Statements.

Contingent Liabilities

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

A subsidiary of Lifeco declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plan. In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of $97 million after tax established by Lifeco's subsidiaries in the third quarter of 2007 have been reduced to $68 million. Actual results could differ from these estimates.

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

The Court of Appeal made adjustments to the original trial judgment. The impact is expected to be favourable to the Corporation's overall financial position. Any monies to be returned to the participating accounts will be dealt with in accordance with the companies' participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members.

The plaintiffs have filed an application seeking leave to appeal to the Supreme Court of Canada.

During the fourth quarter of 2011, Lifeco re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholder net earnings of Lifeco by $223 million after tax. 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 further appeal, is not expected to have a material adverse effect on the consolidated financial position of Lifeco.

Subsidiaries of Lifeco have an ownership interest in a U.S.-based private equity partnership wherein a dispute arose over the terms of the partnership agreement. Lifeco acquired the ownership interest in 2007 for purchase consideration of US$350 million. The dispute was resolved on January 10, 2012 and Lifeco has established a provision of $99 million after tax.

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

On January 3, 2012, the plaintiffs filed an application in the Supreme Court of Canada for leave to appeal the Appeal Decision.

Related Party Transactions

In the normal course of business during 2011, Great-West Life entered into various transactions with related companies which included providing insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During 2011, IGM sold residential mortgage loans to Great-West Life and London Life for $202 million (2010–$226 million). These 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]	5,888	609	2	5,277
Deposits and certificates	151	131	15	5
Obligations to securitization entities	3,827	547	3,261	19
Operating leases[2]	710	149	395	166
Purchase obligations[3]	136	65	71	
Contractual commitments[4]	675	555	120	
Total	11,387	2,056	3,864	5,467
Letters of credit[5]				

[1] Please refer to Note 16 to the Corporation's 2011 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 32 to the Corporation's 2011 Consolidated Financial Statements.

Financial Instruments

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 29 to the Corporation's 2011 Consolidated Financial Statements).

AS AT DECEMBER 31	2011		2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents	3,385	3,385	3,656	3,656
Investments (excluding investment properties)	113,841	116,170	107,033	108,533
Funds held by ceding insurers	9,923	9,923	9,856	9,856
Derivative financial instruments	1,056	1,056	1,029	1,029
Other financial assets	3,539	3,539	3,666	3,666
Total financial assets	131,744	134,073	125,240	126,740
LIABILITIES				
Deposits and certificates	151	152	835	840
Funds held under reinsurance contracts	169	169	149	149
Obligation to securitization entities	3,827	3,930	3,505	3,564
Debentures and other borrowings	5,888	6,502	6,313	6,823
Capital trust securities	533	577	535	596
Derivative financial instruments	427	427	244	244
Other financial liabilities	4,189	4,189	6,167	6,167
Total financial liabilities	15,184	15,946	17,748	18,383

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 2011. There has been a slight increase in the notional amount outstanding ($14,948 million at December 31, 2011, compared with $14,923 million at December 31, 2010) and an increase in the exposure to credit risk ($1,056 million at December 31, 2011, compared with $1,029 million at December 31, 2010) that represents the market value of those instruments, which are in a gain position. See Note 28 to the Corporation's 2011 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2011, 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, 2011.

Internal Control Over Financial Reporting

Based on their evaluations as of December 31, 2011, 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, 2011. During the fourth quarter of 2011, 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.

Subsequent Events

On February 23, 2012, the Corporation issued 10,000,000 5.5% Non-Cumulative First Preferred Shares, Series R for gross proceeds of $250 million.

On February 22, 2012, Lifeco issued 10,000,000 5.4% Non-Cumulative First Preferred Shares, Series P for gross proceeds of $250 million.

Selected Annual Information

FOR THE YEARS ENDED DECEMBER 31	2011	2010	2009
	(IFRS)	(IFRS)	(PREVIOUS CANADIAN GAAP)
Total revenue including discontinued operations	32,433	32,559	32,697
Operating earnings attributable to common shareholders [1]	1,729	1,625	1,533
per share—basic	2.44	2.30	2.05
Net earnings attributable to common shareholders	1,722	1,468	1,351
per share—basic	2.43	2.08	1.92
per share—diluted	2.41	2.06	1.91
Earnings from discontinued operations attributable to common shareholders	38	1	2
per share—basic	0.05		
per share—diluted	0.05		
Earnings from continuing operations attributable to common shareholders	1,684	1,467	1,349
per share—basic	2.38	2.08	1.92
per share—diluted	2.36	2.06	1.91
Consolidated assets	252,678	244,644	140,231
Total financial liabilities	15,184	17,748	13,602
Debentures and other borrowings	5,888	6,313	5,967
Shareholders' equity	13,521	12,811	13,207
Book value per share	16.26	15.26	16.27
Number of common shares outstanding (millions)	708.2	708.0	705.7
Dividends per share (declared)			
Common shares	1.4000	1.4000	1.4000
First preferred shares			
Series A	0.5250	0.45238	0.42744
Series C [2]		0.9750	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 [3]		0.5875	1.1750
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series M	1.5000	1.5000	1.7538
Series O [4]	1.4500	1.4500	0.45288
Series P [5]	1.1000	0.6487	

[1] Operating earnings and operating earnings per share are non-IFRS financial measures.
[2] Redeemed in October 2010.
[3] Redeemed in July 2010.
[4] Issued in October 2009.
[5] Issued in June 2010.