POWER FINANCIAL CORPORATION

GREAT-WEST LIFECO

GREAT-WEST LIFE + LONDON LIFE + CANADA LIFE

GREAT-WEST LIFE & ANNUITY + PUTNAM

IGM FINANCIAL

INVESTORS GROUP + MACKENZIE

PARGESA

THE PHOTOGRAPHS IN THIS ANNUAL REPORT HIGHLIGHT EXAMPLES OF ARCHITECTURE IN SEVERAL OF THE COUNTRIES IN WHICH POWER FINANCIAL GROUP COMPANIES ARE PRESENT.

ON THE COVER

MONTREAL MUSEUM OF FINE ARTS,
JEAN-NOËL DESMARAIS PAVILION
MONTRÉAL, QUÉBEC, CANADA
PHOTOGRAPHY © ANDRÉ RIDER/2M2 AGENCY

PAGE 7

GRANDE BIBLIOTHÈQUE
MONTRÉAL, QUÉBEC, CANADA
PHOTOGRAPHY © ANDRÉ RIDER/2M2 AGENCY

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DENVER ART MUSEUM,
FREDERIC C. HAMILTON BUILDING
DENVER, COLORADO, UNITED STATES
PHOTOGRAPHY © ERNIE SANTELLA

PAGE 19

THE GREAT COURT, BRITISH MUSEUM
LONDON, ENGLAND
© THE TRUSTEES OF THE BRITISH MUSEUM

PAGE 23

UNION STATION
WINNIPEG, MANITOBA, CANADA
PHOTOGRAPHY © DEZENE HUBER

PAGE 27

LA GRANDE ARCHE
PARIS, FRANCE
© JOHAN OTTO VON SPRECKELSEN
PHOTOGRAPHY © MASTERFILE

This Annual Report is designed to provide interested shareholders and other interested persons 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. 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.

Readers should also review the note further in this report, in the Review of Financial Performance section, concerning the use of Forward-Looking Statements, which applies to the entirety of this Annual Report.

In addition, selected information concerning the business, operations, financial condition, priorities, ongoing objectives, strategies and outlook of Power Financial Corporation's subsidiaries and investment at equity is derived from public information published by such subsidiaries and investment at equity and is provided here for the convenience of the shareholders of Power Financial Corporation. For further information concerning such subsidiaries and investment at equity, shareholders and other interested persons should consult the Web sites of, and other publicly available information published by, such subsidiaries and investment at equity.

The selected performance measures shown on pages 2, 3, 5, 10, 12, 14, 16, 18, 20, 21, 22, 24, 25 and 26 are as of December 31, 2010 unless otherwise noted.

The following abbreviations are used throughout this report: Power Financial Corporation (Power Financial or the Corporation); Great-West Life & Annuity Insurance Company (Great-West Life & Annuity or GWL&A); Great-West Lifeco Inc. (Great-West Lifeco or Lifeco); Groupe Bruxelles Lambert (GBL); IGM Financial Inc. (IGM Financial or IGM); Imerys S.A. (Imerys); Investment Planning Counsel Inc. (Investment Planning Counsel); Investors Group Inc. (Investors Group); Lafarge S.A. (Lafarge); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie Financial or Mackenzie); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Pernod Ricard S.A. (Pernod Ricard); Power Corporation of Canada (Power Corporation); Putnam Investments, LLC (Putnam Investments or Putnam); Suez Environnement Company (Suez Environnement); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life); Total S.A. (Total). In addition, Canadian GAAP or GAAP refers to Canadian generally accepted accounting principles, while EBITDA is the abbreviation used herein for earnings before interest, taxes, depreciation and amortization.

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31 [in millions of Canadian dollars, except per share amounts]	2010	2009
Revenues	32,427	32,697
Operating earnings	1,733	1,533
Operating earnings per common share	2.31	2.05
Net earnings	1,584	1,439
Net earnings per common share	2.10	1.92
Dividends declared per common share	1.40	1.40
Total assets	143,255	140,231
Total assets and assets under management	490,839	471,775
Shareholders' equity	13,184	13,207
Book value per common share	15.79	16.27
Common shares outstanding (in millions)	708.0	705.7

The Corporation uses operating earnings as a performance measure in analysing its financial performance. For a discussion of the Corporation's use of non-GAAP financial measures, please refer to the Review of Financial Performance section in this Annual Report.

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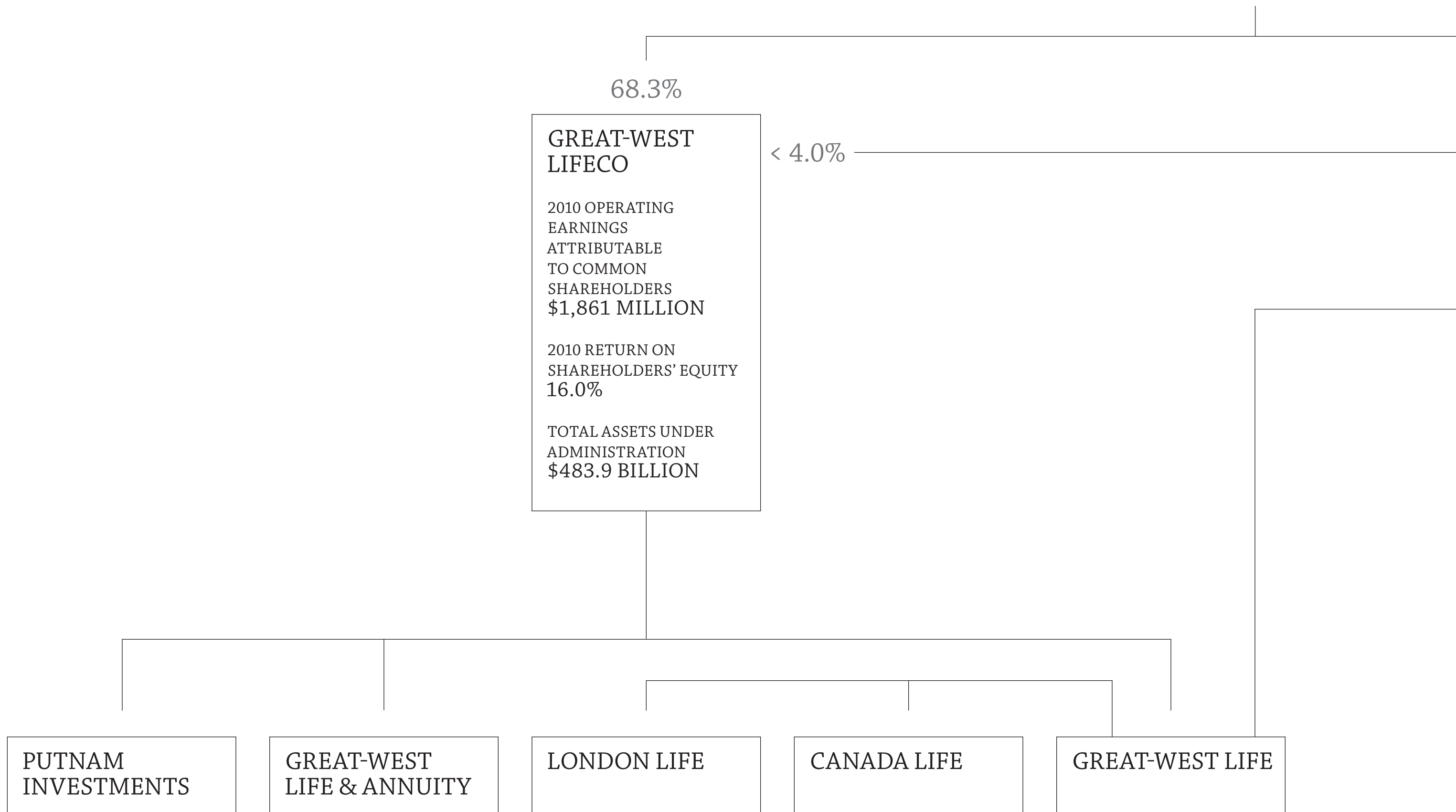
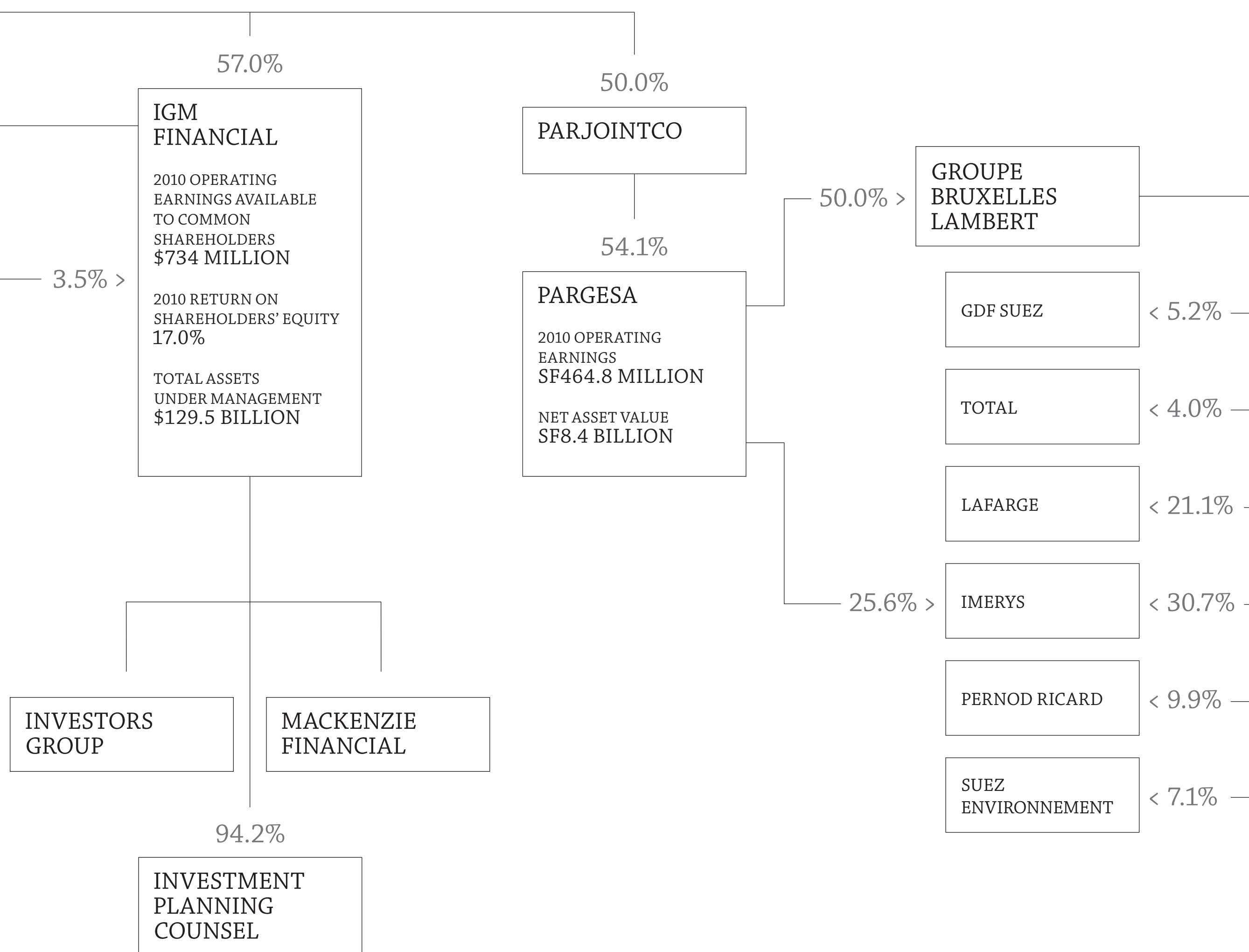
GROUP ORGANIZATION CHART



Power Financial Corporation is a diversified management and holding company that has interests, directly or indirectly, in companies in the financial services sector in Canada, the United States and Europe. It also has substantial holdings in a diversified industrial group based in Europe.

CORPORATION



Companies are wholly owned unless otherwise noted.

Percentages denote participating equity interest as at December 31, 2010.

Operating earnings is a non-GAAP financial measure.

Return on shareholders' equity is calculated using operating earnings.

2010 OPERATING EARNINGS	2010 RETURN ON SHAREHOLDERS' EQUITY	TOTAL ASSETS AND ASSETS UNDER MANAGEMENT	TOTAL ASSETS UNDER ADMINISTRATION
$1,733 MILLION	14.6%	$490.8 BILLION	$613.4 BILLION

BUSINESS SUMMARY

GREAT-WEST LIFECO

GREAT-WEST LIFE

LONDON LIFE

FREEDOM 55 FINANCIAL™

CANADA LIFE

GREAT-WEST LIFE & ANNUITY

PUTNAM INVESTMENTS

PRODUCTS & SERVICES

CANADA

> Life, disability and critical illness insurance for individuals, business owners and families
> Retirement savings and income plans for individuals and groups
> Fund management, investment and advisory services
> Comprehensive benefit solutions for small, medium and large employer groups
> Creditor insurance, including life, disability, job loss and critical illness coverage
> Life, health, accident and critical illness insurance for members of affinity groups

UNITED STATES

> Employer-sponsored defined contribution plans
> Administrative and record-keeping services for financial institutions and retirement plans
> Fund management, investment and advisory services
> Individual and business-owned life insurance, annuities and executive benefits products
> Global asset management in mutual funds and institutional portfolios
> 401(k)s, IRAs, other retirement plans and variable annuities

EUROPE

> Protection and wealth management products and related services in the United Kingdom, the Isle of Man, Ireland and Germany
> Reinsurance and retrocession business, primarily in the United States and European markets

IGM FINANCIAL

INVESTORS GROUP

MACKENZIE FINANCIAL

INVESTMENT PLANNING COUNSEL

PRODUCTS & SERVICES

> Financial advice and planning for individual Canadians
> Family of exclusive mutual funds with multiple sub-brands
> Institutional asset management mandates
> Insurance, *Solutions Banking*, mortgage and trust company products and services

PARGESA

PRODUCTS & SERVICES

> Core shareholder investing in Europe
> Concentrated positions in a limited number of large industrial companies based in Europe
> Seeking to exercise significant influence or control over its investments

DISTRIBUTION CHANNELS

- Gold Key financial security advisors associated with Great-West Life
- Freedom 55 Financial™ and Wealth & Estate Planning Group financial security advisors associated with London Life
- Independent advisors associated with managing general agencies
- National accounts, including Investors Group
- Great-West Life group insurance and retirement sales and service staff in offices across Canada that support independent advisors, brokers and benefit consultants distributing its group products

MARKET POSITION

- Serves the financial security needs of more than 12 million Canadians
- 26% market share of individual life insurance measured by premium [1]
- 26% market share of individual living benefits measured by premium [1]
- 26% market share of individual segregated funds [2]
- 22% market share of group insurance [3]
- 20% market share of group capital accumulation plans, serving 1.2 million member accounts [4]
- Leading market share for creditor insurance revenue premium

[1] As at September 30, 2010
[2] As at December 31, 2010
[3] As at December 31, 2009
[4] As at June 30, 2010; *Benefits Canada* 2010 CAP report data

- Brokers, consultants, advisors and third-party administrators
- Financial institutions
- Sales and service staff and specialized consultants
- Services institutional and retail clients and consultants worldwide through joint ventures, dedicated account management teams and intermediary relationships

- 10.9 million U.S. customers
- 4.4 million U.S. participant accounts in defined contribution plans
- Putnam earned the No. 1 ranking in the 2009 *Lipper/Barron's* Fund Families Survey based on dramatic gains by individual funds and advancements across the entire fund complex, and was again ranked among the top 15 U.S. mutual fund families by *Lipper/Barron's* in their 2010 Fund Families report.
- Over 165,000 advisors distribute Putnam funds

- Independent financial advisors and employee benefit consultants in the U.K. and Isle of Man
- Independent brokers and direct sales force in Ireland
- Independent brokers and multi-tied agents in Germany
- Independent reinsurance brokers
- Direct placements

U.K. and Isle of Man [1]
- 33% share of group life market
- 20% share of group income protection market
- 16% share of offshore single premium investment product market
- Among the top insurers in payout annuities, with 7% market share

Ireland [1]
- Among top six insurers by new business market share
- 5% of life assurance market

Germany [1]
- Among the top eight in the overall unit-linked market

- Among top ten life reinsurers in the U.S. by assumed business

[1] Market shares for Europe as at September 30, 2010

DISTRIBUTION CHANNELS

- Investors Group network of 4,686 consultants
- Mackenzie sales and service for financial advisors across all wealth management channels (over 30,000 financial advisors)
- Investment Planning Counsel has over 900 independent financial planners
- Institutional asset management sales force
- Relationship with Canadian Medical Association

MARKET POSITION

- $129.5 billion in assets under management
- Market-share leader in long-term mutual fund assets under management
- $24.9 billion in institutional, sub-advised and other mandates with Mackenzie

GROUP HOLDINGS

Lafarge	One of the world leaders in cement, aggregates, concrete and gypsum
Imerys	A world leader in industrial minerals
Total	An international integrated oil and gas company
GDF Suez	A leading energy provider in electricity and natural gas
Suez Environnement	An international water and waste management company
Pernod Ricard	The world co-leader in wines and spirits

PERFORMANCE RECORD

- Strong and consistent dividend payout; $2.5 billion over 15 years
- Consistent outperformance of relevant equity market indices over the long term
- Fifteen-year total return to shareholders of 10.2% (SF), compared with 6.9% (SF) for the Swiss SPI index and 7.7% (€) for the French CAC 40 index

DIRECTORS' REPORT TO SHAREHOLDERS

During 2010, Power Financial and its subsidiaries experienced higher sales, gains in market share and increased levels of profitability. The companies in the group benefited by having continued to invest in their distribution and product capabilities throughout the financial crisis and by the financial strength and stability they have demonstrated during these past several years.

Strengthening economic activity and stronger financial market levels helped drive higher revenues in 2010, which, coupled with the group's long-standing focus on cost containment and good investment quality, resulted in the increase in profitability.

R. JEFFREY ORR

President and
Chief Executive Officer,
Power Financial Corporation

The improvements in profitability and sales were experienced across most business units of Great-West Lifeco and IGM Financial. The companies in the Pargesa group also experienced improvements in their operating results following the difficult economic environment of the previous year.

While economic recovery and confidence continue to progress, a number of structural challenges remain for the global economy. Initiatives by financial regulators in developed nations to avoid future financial crises, although well intentioned and in many cases welcomed, have created their own uncertainty for financial services companies with respect to a number of issues such as required levels of capital in the future.

In this environment, the companies in the Power Financial group have been focused on growing sales and profitability within their given markets, while maintaining financial strength at all times. In this regard, a number of capital market issues were undertaken in 2010 to extend and diversify debt maturities and ensure healthy liquidity levels across the group. Dividends paid in 2010 were also kept at the levels paid in 2009.

FINANCIAL RESULTS

Power Financial's 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 per cent on a per share basis.

The increase in operating earnings reflects primarily the increase in the contribution from the Corporation's subsidiaries, Great-West Lifeco and IGM Financial.

Other items for 2010 were a charge of $149 million and consisted mainly of Power Financial's share of a litigation provision established by Lifeco in the third quarter. In 2009, other items were a charge of $94 million and consisted essentially of the Corporation's share of non-recurring amounts recorded by IGM and Pargesa.

Net earnings including other items were $1,584 million or $2.10 per share for the year ended December 31, 2010, compared with $1,439 million or $1.92 per share in 2009.

Dividends paid by Power Financial Corporation totalled $1.40 per common share in 2010, unchanged from 2009.

During 2010, Power Financial and its subsidiaries experienced higher sales, gains in market share and increased levels of profitability.

GROUP COMPANIES' RESULTS

GREAT-WEST LIFECO

Great-West Lifeco experienced strong earnings and sales results in 2010 from all business segments despite the continued currency headwinds due to the strengthening of the Canadian dollar against the U.S. dollar, British pound and euro during the year. Great-West Lifeco's capital base and liquidity position are strong, and the company is well positioned for continued growth.

Great-West Lifeco reported operating earnings attributable to common shareholders of $1,861 million for 2010, compared with $1,627 million for 2009, an increase of 14.4 per cent. This represents $1.964 per common share for 2010, compared with $1.722 per common share in 2009.

Operating earnings, a non-GAAP financial measure, exclude the impact of an incremental litigation provision established in the third quarter of 2010 in the amount of $225 million after tax ($204 million attributable to the common shareholders of Great-West Lifeco and $21 million to its non-controlling interests).

Return on common shareholders' equity was 16.0 per cent based on operating earnings and 14.4 per cent on net earnings.

Premiums and deposits were $59.1 billion, compared with $56.7 billion in 2009. General fund assets increased from $128.4 billion to $131.6 billion in 2010.

Total assets under administration at December 31, 2010 were $483.9 billion, compared with $458.6 billion a year ago.

The dividend on Great-West Lifeco's common shares remained unchanged in 2010.

Great-West Lifeco's capital position remains very strong. Its Canadian operating subsidiary, Great-West Life, reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 203 per cent at December 31, 2010. At December 31, 2010 Great-West Lifeco held, at the holding company level, approximately $800 million in liquid assets derived from capital-raising initiatives since the fourth quarter of 2008, which is not reflected in the Great-West Life MCCSR ratio.

RAYMOND L. MCFEETORS

Vice-Chairman,
Power Financial Corporation
and Chairman of the Board,
Great-West Lifeco

In Canada, Great-West Lifeco's companies maintained leading market positions in their individual and group businesses. The Canadian operations continue to experience strong organic growth by focusing on diversified distribution, product and service enhancements and expense management.

In Canada, net earnings attributable to Great-West Lifeco's common shareholders for 2010 were $940 million, compared with $883 million in 2009. Total sales in Canada for 2010 were up 23 per cent to $9.5 billion, compared with $7.7 billion after adjusting the 2009 twelve-month period for the impact of the group retirement assets acquired from Fidelity Investments Canada. This growth was driven by strong sales of proprietary retail investment funds which were up 31 per cent, payout annuity products which were up 11 per cent, and individual life product sales which increased 26 per cent, compared to the twelve-month period in 2009.

Total assets under administration at December 31, 2010 were $125.5 billion, compared with $114.6 billion at December 31, 2009.

In the United States, Great-West Lifeco's Financial Services businesses continued to grow, with a 34 per cent increase in sales over 2009 on a constant currency basis. Strong sales across defined contribution markets and of single-premium life and business-owned life insurance led to record sales in both business segments. Net earnings attributable to common shareholders for 2010 were $343 million, compared with $228 million in 2009. Total sales for 2010 were $38.1 billion, compared with $32.4 billion in 2009. As a result of currency movement, net earnings were negatively impacted by $32 million compared to 2009.

Total assets under administration at December 31, 2010 were $293.7 billion, compared with $277.8 billion at December 31, 2009.

In 2010, Putnam Investments and its clients enjoyed another year of excellent investment performance which, together with innovative product launches, resulted in very strong market share gains in U.S. mutual fund sales. Putnam's assets under management, including PanAgora, increased to US$121 billion at year-end from US$115 billion a year earlier. Putnam's suite of absolute return funds, first offered in 2009, reached US$2.7 billion at the end of 2010. Putnam continued to introduce new products and services across its offering in 2010. A key area of focus and investment is the defined contribution marketplace, and in particular 401(k) plans, where Putnam's award-winning offering is experiencing strong momentum with U.S. employers.

In Europe, net earnings attributable to common shareholders increased to $578 million, compared with $529 million in 2009, in spite of currency movements which negatively impacted results by $71 million compared to 2009.

In 2010, Great-West Lifeco's European Operations continued to face challenging credit markets as well as a general loss of consumer confidence in investments, due to a sharp decline in equity markets in late 2008 and early 2009. Although conditions continued to generally improve in 2010, these pressures affected sales volumes in a number of areas. Earnings were impacted by the required strengthening of reserves for future asset default risk and asset impairments.

Total sales for 2010 were $4.5 billion, compared with $4.0 billion in 2009. Sales increased by 27 per cent in local currency; however, this was partly offset by the negative effect of currency movement.

Total assets under administration in Europe at December 31, 2010 were $64.7 billion, compared with $66.2 billion at December 31, 2009.

IGM FINANCIAL

IGM Financial and its operating companies experienced an increase in total assets under management during 2010. Net earnings for the company grew substantially compared with 2009.

Investors Group and Mackenzie Financial, IGM's principal businesses, generated business growth through product innovation, investment management success, resource management and distribution expansion throughout the year.

Operating earnings available to common shareholders of IGM for 2010 were $734 million or $2.79 per share, compared with $622 million or $2.35 per share in 2009. This represents an increase of 18.7 per cent on a per share basis.

Net earnings available to common shareholders were $726 million or $2.76 per share in 2010, compared with $559 million or $2.12 per share in 2009.

Total assets under management at December 31, 2010 were $129.5 billion, an increase of 7.4 per cent.

Return on average common equity based on operating earnings for 2010 was 17.0 per cent, compared with 14.8 per cent in 2009. Dividends declared remained unchanged in 2010.

The Investors Group consultant network expanded to 4,686 consultants at December 31, 2010, up from 4,633 at December 31, 2009.

Investors Group's mutual fund sales for the year were $5.7 billion, compared with $5.0 billion in the prior year, and mutual fund net sales were $253 million, compared with $404 million a year ago. Mutual fund assets under management at December 31, 2010 were $61.8 billion, compared with $57.7 billion at December 31, 2009, an increase of 7.2 per cent.

PAUL DESMARAIS, JR., O.C., O.Q.

Co-Chairman of the Board,
Power Financial Corporation

Mackenzie's total sales for 2010 were $12.2 billion, compared with $11.6 billion in the prior year. Total net redemptions were $1.5 billion, compared with total net redemptions of $1.4 billion a year ago.

Investment performance of Mackenzie's mutual fund family remained strong, with 60 per cent of its fund assets ranked in the first or second quartile of their respective asset categories over the last three years.

Mackenzie's total assets under management at December 31, 2010 were $68.3 billion, compared with $63.6 billion at December 31, 2009, an increase of 7.5 per cent. Mutual fund assets under management at the 2010 year-end were $43.5 billion, compared with $40.6 billion a year earlier, an increase of 7.0 per cent.

17.7%
ANNUAL COMPOUND TOTAL RETURN TO SHAREHOLDERS OVER FIFTEEN YEARS

$2.9 TO $21.8 BILLION
FIFTEEN-YEAR GROWTH IN MARKET CAPITALIZATION

$7.3 BILLION
AGGREGATE DIVIDENDS PAID TO SHAREHOLDERS OVER FIFTEEN YEARS

PARGESA

The Pargesa group holds significant positions directly and through the Belgian holding company Groupe Bruxelles Lambert (GBL) in six large companies based in Europe: Lafarge, which produces cement and building materials; Imerys, a producer of industrial minerals; Total, in the oil and gas industry; GDF Suez, in electricity and gas; Suez Environnement, in water and waste management; and Pernod Ricard, a leading producer of wines and spirits.

The Pargesa group's strategy is to establish a limited number of substantial interests in which it can acquire a position of control or significant influence. In 2010, there were no major changes in Pargesa's investment portfolio. Overall, the companies in the group experienced improvements in operating performance, following the very difficult economic conditions of 2009.

During 2010, Pargesa and GBL carried out several transactions designed to extend their debt maturity profile and reduce borrowing costs. In June, GBL issued a €350 million 7.5-year 3.7 per cent bond and, during the course of the year, repurchased convertible bonds for €126 million. In October, Pargesa issued bonds bearing interest at 2.5 per cent per annum with a six-year term for SF150 million, and repurchased convertible bonds for SF6 million due in 2013 and SF132 million due in 2014. Also in 2010, GBL purchased €122 million of Pernod Ricard shares in the marketplace, raising its equity interest to 9.9 per cent as at December 31, 2010.

Pargesa's net operating earnings declined 9.2 per cent in 2010 to €465 million, mainly due to an 8.5 per cent decrease in the euro against the Swiss franc, the reporting currency used in Pargesa's financial statements. The 2009 results also reflected a number of non-recurring items, including an exceptional dividend from GDF Suez.

ANDRÉ DESMARAIS, O.C., O.Q.

Co-Chairman of the Board, Power Financial Corporation

At the end of December 2010, Pargesa's adjusted net asset value was SF8.4 billion. This represents a value of SF99.8 per Pargesa share, compared with SF127.1 at the end of 2009, a decrease of 21.5 per cent expressed in Swiss francs.

At the annual meeting of shareholders of Pargesa, scheduled for May 5, 2011, its board of directors will propose maintaining the dividend at SF2.72 per bearer share, for a total distribution of SF230 million.

GROUP DEVELOPMENTS

The companies in the Power Financial group were active in the capital markets in 2010, with the goal of improving the quality of capital or extending debt maturities.

In June, Power Financial issued $280 million of 4.40% non-cumulative rate reset First Preferred Shares, Series P. In July, the Corporation redeemed all $150 million of its outstanding 4.70% Series J First Preferred Shares, and in October it redeemed all $150 million of its outstanding 5.20% Series C First Preferred Shares.

Great-West Lifeco issued 4.65% debentures in the amount of $500 million due in 2020, and redeemed $200 million of outstanding 6.75% debentures due 2015. It also issued $250 million of First Preferred Shares, Series M, and $150 million of First Preferred Shares, Series N, and redeemed $198 million of First Preferred Shares, Series D. During 2010, IGM issued $200 million of 6.0% 30-year debentures.

INDUSTRY MATTERS

Power Financial and its subsidiaries are engaged in dialogue throughout Canada with regard to a number of important topics which impact the well-being of Canadians and the financial services industry. These topics include the public debate regarding the retirement readiness of Canadians and a number of related matters.

Canada's retirement system is among the strongest in the OECD, both in terms of income adequacy and system sustainability. One of its key strengths is that it is well balanced between government-provided programs, employer-sponsored plans and individual savings. Notwithstanding the system's relative strength, research suggests that a number of Canadians across different age and income brackets may still not be adequately prepared for retirement. The public debate about retirement is therefore required and welcome. Enhancements to the system can and should be made, but should be based upon well-founded research and should seek to build upon the many elements of the current system which are already working well.

$1,733 MILLION OPERATING EARNINGS IN 2010

$13,184 MILLION SHAREHOLDERS' EQUITY

$490.8 BILLION TOTAL ASSETS AND ASSETS UNDER MANAGEMENT

Canadians' use of financial advisors is an important factor in enabling them to plan for and live comfortably in retirement. Research by the Investment Funds Institute of Canada demonstrates that people who use a financial advisor have substantially higher investment assets than non-advised households, in each income range and age bracket. Advised households also have approximately double the participation rate in tax-advantaged programs such as RRSPs and are more confident they will have enough money to retire comfortably.

Mutual funds are one of the principal investment vehicles used by Canadians to save. A comprehensive research study commissioned by Mackenzie Financial and conducted by Bain Consulting demonstrates that for mutual funds purchased with financial advice, the cost of mutual fund ownership for the vast majority of investors in Canada is comparable with their counterparts in the United States. A number of other published studies have failed to account for the significant differences in the way in which mutual fund fees are reported in the two countries and for differences in the manner in which mutual funds are distributed. The company believes that mutual funds, together with the advice of a professional financial advisor, will remain a very effective way for millions of Canadians to provide for their financial futures.

Power Financial and its subsidiaries believe the current public debate about the retirement readiness of Canadians is important and beneficial. A combination of public and private initiatives can build upon an already successful system to increase the number of Canadians who are financially prepared for the future.

BOARD OF DIRECTORS

At the May 2011 Annual Meeting, shareholders will be asked to elect Mr. Timothy Ryan to the Board. Mr. Ryan is President and Chief Executive Officer of SIFMA, the Securities Industry and Financial Markets Association, the leading trade association representing global financial market participants. He is also a director of Great-West Lifeco and several of its major subsidiaries, and has had broad international involvement in the financial services industry.

THE POWER FINANCIAL GROUP

Power Financial is focused on the economic drivers underlying demand for protection products, retirement savings, asset management and core shareholder investing. Our governance model involves a high degree of engagement in all of our companies through their boards of directors. And as we emerge from challenging times, your Directors believe that Power Financial's business model will continue to serve our shareholders well. Our companies have strong balance sheets, strategic distribution channels, competitive products and effective growth strategies.

Your Directors and Management team seek to provide attractive long-term shareholder returns. We believe that the results of this effort are reflected in the improvement in profitability, the maintenance of our dividend throughout the crisis and our strong and very stable credit ratings.

Our companies have strong balance sheets, strategic distribution channels, competitive products and effective growth strategies.

Significant effort is being directed by the management teams throughout the group at pursuing growth opportunities in their markets, while continuing to position their balance sheets and liquidity positions prudently.

Your Directors wish to express gratitude on behalf of the shareholders for the important contribution of the management and employees of our Corporation and its associated companies to the successful results achieved in 2010 in an improving but challenging operating environment.

ON BEHALF OF THE BOARD OF DIRECTORS,

Signed
R. Jeffrey Orr
President and
Chief Executive Officer

Signed
Paul Desmarais, Jr., O.C., O.Q.
Co-Chairman of the Board

Signed
André Desmarais, O.C., O.Q.
Co-Chairman of the Board

March 10, 2011

GREAT WEST LIFECO

Great-West Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses. Lifeco has operations in Canada, the United States, Europe and Asia through Great-West Life, London Life, Canada Life, Great-West Life & Annuity and Putnam Investments. Lifeco and its companies have approximately $484 billion in assets under administration.

Great-West Lifeco experienced strong earnings and sales results in 2010 from all business segments despite the continued currency headwinds caused by the strengthening of the Canadian dollar against the U.S. dollar, British pound and euro during the year. Lifeco's capital base and liquidity position remain strong, and the company is well positioned for continued growth.

D. ALLEN LONEY

President and Chief Executive Officer, Great-West Lifeco

Operating earnings attributable to common shareholders were $1.9 billion, or $1.964 per share, compared with $1.6 billion or $1.722 per share in 2009. Operating earnings, a non-GAAP financial measure, exclude the impact of an incremental litigation provision.

Great-West Lifeco's return on equity (ROE) of 16.0 per cent on operating earnings and 14.4 per cent on net earnings for the twelve months ended December 31, 2010 continued to rank among the strongest in the financial services sector.

The quarterly dividend on Lifeco's common shares remained unchanged in 2010.

17.7%
ANNUAL COMPOUND TOTAL RETURN TO SHAREHOLDERS OVER FIFTEEN YEARS

$2.3 TO $25.0 BILLION
FIFTEEN-YEAR GROWTH IN MARKET CAPITALIZATION

$8.4 BILLION
AGGREGATE DIVIDENDS PAID TO SHAREHOLDERS OVER FIFTEEN YEARS

Other measures of Lifeco's performance in 2010 include:

> Premiums and deposits were $59.1 billion, compared with $56.7 billion in 2009.

> General fund assets increased from $128.4 billion to $131.6 billion in 2010.

> Total assets under administration at December 31, 2010 were $483.9 billion, compared with $458.6 billion a year ago.

Great-West Lifeco's companies have benefited from their prudent and conservative investment policies and practices with respect to the management of their consolidated assets. In addition, conservative product underwriting standards and a disciplined approach to introducing new products have proven beneficial for Lifeco and its companies over the long term. In Canada, Lifeco's companies continue to offer segregated fund guarantees in a prudent and disciplined manner, thereby limiting risk exposure. As a result of these disciplines, Lifeco's balance sheet is one of the strongest in the industry.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 203 per cent on a consolidated basis at December 31, 2010. This measure of capital strength remains at the upper end of the company's target operating range.

Great-West Lifeco experienced strong earnings and sales results in 2010 from all business segments despite the currency headwinds caused by the strengthening of the Canadian dollar.

At December 31, 2010, Great-West Lifeco held cash and cash equivalents of approximately $800 million, the net result of capital transactions since the third quarter of 2008. As this cash is held at the holding company, it is not reflected in the regulatory capital ratios of Lifeco's operating subsidiaries. It augments Great-West Lifeco's capital and liquidity position, thereby enhancing its capability to take advantage of market opportunities.

The companies have a high-quality bond portfolio, with 98 per cent rated investment grade at December 31, 2010.

Credit ratings are another important indicator of Great-West Lifeco's financial strength. Relative to its peer group in North America, Great-West Lifeco and its major operating subsidiaries enjoy strong ratings from five major rating agencies.

GEOGRAPHICAL DISTRIBUTION

CANADA
GREAT-WEST LIFE
LONDON LIFE
CANADA LIFE

UNITED STATES
GREAT-WEST LIFE & ANNUITY
PUTNAM INVESTMENTS

EUROPE
CANADA LIFE
PUTNAM INVESTMENTS

ASIA
PUTNAM INVESTMENTS

CANADA

GREAT-WEST LIFE | LONDON LIFE | CANADA LIFE

GREAT-WEST LIFE

Great-West Life is a leading Canadian insurer, with interests in the life and health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions and serve the financial security needs of more than 12 million people.

PAUL A. MAHON

President and Chief Operating Officer, Canada

$125.5 BILLION IN ASSETS UNDER ADMINISTRATION IN CANADA

3.3 MILLION INDIVIDUAL POLICYHOLDERS IN CANADA

Great-West Life's products include a wide range of investment, savings and retirement income plans, and payout annuities, as well as life, disability, critical illness and health insurance for individuals and families. These products and services are distributed through a diverse network of financial security advisors and brokers associated with Great-West Life; financial security advisors associated with London Life's Freedom 55 Financial™ division and the Wealth & Estate Planning Group; and the channels Canada Life supports, including independent advisors associated with managing general agencies, as well as national accounts, including Investors Group.

For large and small businesses and organizations, Great-West Life offers a variety of group benefit plan solutions featuring options such as life, healthcare, dental care, critical illness, disability and wellness, and international benefit plans, plus convenient online services. Great-West Life also offers group retirement and savings plans that are tailored to the unique needs of businesses and organizations. These products and services are distributed through financial security advisors associated with Great-West Life and its subsidiaries, as well as independent advisors, brokers and consultants.

In 2010, Great-West Life and its subsidiaries continued to see strong sustained performance in their Canadian businesses. Their individual life insurance business grew significantly faster than the market; the group retirement services business recorded strong growth; the group insurance business continued to experience strong persistency; and the individual segregated fund and mutual fund businesses maintained positive net deposits.

The Canadian operations continued to focus on enhancing their distribution capabilities throughout 2010 with refinement of their multi-channel strategy, including enhanced support for advisors in the exclusive and independent distribution channels.

LONDON LIFE

London Life offers financial security advice and planning through its more than 3,300-member Freedom 55 Financial division. Freedom 55 Financial offers London Life's own brand of investment, savings and retirement income, annuity, life insurance and mortgage products. Within Freedom 55 Financial, the Wealth & Estate Planning Group is a specialized segment of advisors focused on meeting the complex needs of affluent Canadians.

In addition, financial security advisors associated with London Life offer a broad range of financial products from other financial institutions. These include individual disability insurance and critical illness insurance underwritten by Great-West Life. A London Life subsidiary, Quadrus Investment Services Ltd., offers 43 exclusive mutual funds under the *Quadrus Group of Funds*™ brand and over 3,500 third-party mutual funds.

Recruiting and retention of financial security advisors continued to be a significant focus in 2010, with Freedom 55 Financial showing consistent growth in the number of advisors year over year.

In 2010, London Life's strong growth in individual life insurance sales significantly outpaced that of the industry. Together, London Life, Great-West Life and Canada Life remain Canada's number one provider of individual life insurance. London Life has the largest number of participating life insurance policies in Canada.

In addition to its domestic operations, London Life participates in international reinsurance markets through London Reinsurance Group.

CANADA LIFE

In Canada, Canada Life offers a broad range of insurance and wealth management products and services for individuals, families and business owners from coast to coast. These include investments, savings and retirement income, and annuities, as well as life, disability and critical illness insurance. Canada Life's products are distributed through independent advisors associated with managing general agencies, as well as national accounts, including Investors Group.

In 2010, Canada Life continued to see strong sustained performance in all lines of business. The company's individual life insurance and living benefits businesses grew faster than the market, while its individual retirement and investment services businesses maintained positive net cash flows.

Together, Canada Life, Great-West Life and London Life remain Canada's number one provider of individual life insurance and a leading provider of individual segregated funds. Canada Life, together with Great-West Life, is a leading provider of individual disability insurance and critical illness insurance for Canadians. Canada Life is the leading provider of creditor insurance in Canada for mortgages, loans, credit cards, lines of credit and leases through leading financial institutions, automobile dealerships and other lending institutions. Canada Life is a leading provider of traditional mortality, structured and annuity reinsurance solutions for life insurers in the U.S. and in international markets through its Canada Life Reinsurance Division.

EUROPE

CANADA LIFE

Canada Life, with roots in Europe dating back to 1903, provides individuals and their families with a broad range of insurance and wealth management products. These include: payout annuities, investments and group insurance in the United Kingdom, distributed through independent financial advisors and employee benefit consultants; savings and individual insurance in the Isle of Man, distributed through independent financial advisors in the United Kingdom and other selected territories; individual insurance and savings, and pension products in Ireland, distributed through independent brokers and a direct sales force; and fund-based pensions, critical illness and essential ability insurance in Germany, distributed through independent brokers and multi-tied agents.

WILLIAM L. ACTON

President and
Chief Executive Officer,
Canada Life Capital Corporation

$64.7 BILLION IN ASSETS UNDER ADMINISTRATION IN EUROPE

$9.3 BILLION IN ANNUAL PREMIUMS AND DEPOSITS IN EUROPE IN 2010

4.2 MILLION INDIVIDUALS COVERED IN EUROPE

In 2010, Canada Life continued to face challenging credit markets as well as a general loss of consumer confidence in investments, due to a sharp decline in equity markets in late 2008 and early 2009. Although conditions continued to generally improve in 2010, these pressures continued to affect sales volumes. As well, earnings were again impacted by the required strengthening of reserves for future asset default risk and asset impairments.

As a result of Canada Life's continued focus on credit and expense controls, Canada Life's European operations were in a strong position coming into 2010, and this focus was maintained throughout the year. Additionally, there was a renewed focus on risk and risk management as the company prepared for the advent of Solvency II in Europe.

In Germany, Canada Life operates in the independent broker market and is one of the leading insurers for guaranteed unit-linked products in the broker segment. In 2010, Canada Life launched a series of new pension products which improved the company's market competitiveness, and increased sales towards the end of the year. Canada Life's industry-leading guaranteed withdrawal benefit product, launched in 2009, continued to gain support and became the leading product in its category, as reported in a recent poll of insurance intermediaries.

In the U.K., Canada Life continued to grow premium volumes, especially in the Isle of Man product range, despite economic challenges which adversely affected Canada Life's Group insurance business. Sales of payout annuities were very strong in the early part of 2010, though competitive pressures and a lack of quality investment opportunities resulted in slower sales throughout the rest of the year.

Great-West Lifeco's companies have benefited from their prudent and conservative investment policies and practices.

Canada Life is a leading provider of traditional mortality, financial and annuity reinsurance solutions to life insurers in the U.S. and in international markets through its Canada Life Reinsurance division. In 2010, reinsurance demand remained strong, although growth rates moderated in light of improving economic and capital conditions. Canada Life continued to leverage its financial strength, disciplined risk management practices and excellent client relationships to achieve strong business results.

UNITED STATES

GREAT-WEST LIFE & ANNUITY

In the United States, Great-West Life & Annuity is a leading provider of employer-sponsored retirement savings plans. It also provides annuities and life insurance for individuals and businesses, as well as fund management, investment and advisory services. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions.

In its Retirement Services segment, GWL&A offers retirement savings products and services for public, non-profit and corporate employers, as well as private label record-keeping, administrative and asset management services for other providers of defined contribution plans. GWL&A also provides business-owned life insurance, executive benefits products, and individual life insurance and annuity products through its Individual Markets segment.

MITCHELL T.G. GRAYE

President and
Chief Executive Officer,
Great-West Life & Annuity

US$172
BILLION
IN ASSETS UNDER ADMINISTRATION

4.9
MILLION
U.S. CUSTOMERS

NO. 1
RANKING IN STATE 457 PLANS

In 2010, strong sales across defined contribution markets and of single-premium life and business-owned life insurance led to record sales results in both of GWL&A's business segments. Higher account balances resulting from an overall rise in the U.S. equities market contributed to increased fee income.

Robust sales in the corporate 401(k) and large-case public/non-profit markets helped increase GWL&A's number of retirement participant accounts to 4.4 million. Contracts with three additional states resulted in an industry-leading total of 18 state governmental 457 plans.

The introduction of Maxim® SecureFoundation℠ funds, a guaranteed lifetime withdrawal benefit product, builds upon a strategy to enhance GWL&A's retirement product array and increase assets under management. The Maxim Lifetime Asset Allocation Series®, a suite of target date funds (TDFs) introduced in 2009, exceeded $1 billion in assets. Combined assets in those funds and the Maxim SecureFoundation target date portfolios propelled GWL&A subsidiary Maxim Series Fund, Inc. into the top 10 U.S. fund families by TDF net asset flow in 2010, according to Morningstar Direct data.

GWL&A also completed a comprehensive planning process which identified a number of key initiatives across the organization to accelerate the growth of the business.

Its asset portfolio continued to perform well, following a two-year period during which investment losses from bonds and mortgages were among the lowest of U.S. life insurance companies as a percentage of invested assets, according to Moody's Investors Service.

Putnam Investments is a global asset manager and retirement plan record keeper serving individual and institutional investors worldwide through its offices and strategic alliances in North America, Europe and Asia. Since 1937, the firm has practised an active approach to pursuing client mandates. Today, Putnam provides investment services across a range of fixed income, equity, absolute return and alternative strategies, and distributes those services primarily through intermediaries, including pension consultants and financial advisors.

Putnam was recognized by a number of industry observers for excellent performance in 2010. The firm was named "Mutual Fund Manager of the Year" by *Institutional Investor* magazine, and—based on its asset-weighted performance—was again ranked among the top 15 U.S. mutual fund families by *Barron's* in their "Best Fund Families in 2010" report.

ROBERT L. REYNOLDS

President and
Chief Executive Officer,
Putnam Investments

Putnam enhanced its equity product line during the year with the introduction of Putnam Global Sector Fund, a fund of funds employing the full breadth of Putnam's global sector expertise. The firm also launched a suite of multi-cap equity funds that provides investors with exposure to a dynamic array of U.S. stocks within the value, core/blend and growth styles.

Building on its strategic alliances, Putnam signed an exclusive agreement with the state of Nevada to manage its 529 college savings plan, Putnam 529 for America℠, on an advisor-sold platform. Outside the United States, Putnam extended its agreement to distribute funds in Japan through Nissay Asset Management, and was awarded several new institutional mandates by sovereign wealth managers.

Putnam strengthened its commitment to the retirement market in 2010 through new products and services for 401(k)s and other defined contribution plans, earning 25 "Best-in-Class" awards in *PLANSPONSOR* magazine's 2010 survey of defined contribution plan sponsors. Putnam also led the industry by announcing prior to a U.S. Department of Labor mandate that it will offer comprehensive disclosure of fees and expenses to participants in the 401(k) plans it administers.

Upholding a heritage of service excellence, Putnam won a DALBAR Service Award for the 21st consecutive year for providing the highest levels of investor service to mutual fund shareholders.

US$121
BILLION
TOTAL ASSETS UNDER MANAGEMENT

APPROXIMATELY
6 MILLION
SHAREHOLDERS AND RETIREMENT PLAN PARTICIPANTS

130
INSTITUTIONAL MANDATES

OVER
165,000
ADVISORS
DISTRIBUTE PUTNAM PRODUCTS

IGM FINANCIAL

IGM Financial and its operating companies experienced an increase in total assets under management during 2010. Net earnings for the company grew substantially compared with 2009.

Investors Group and Mackenzie Financial, IGM Financial's principal businesses, continued to generate business growth through product innovation, investment management, resource management and distribution expansion throughout the year.

The company is well diversified through its multiple distribution channels, product types, investment management units and fund brands. Assets under management are diversified by country of investment, industry sector, security type and management style.

A primary theme in IGM Financial's business approach is to support financial advisors as they work with clients to plan for and achieve their financial goals. The importance of financial advice became clearer throughout the financial industry in 2010 based on emerging research and continued public interest in enhanced financial literacy.

15.3%
ANNUAL COMPOUND TOTAL RETURN TO SHAREHOLDERS OVER FIFTEEN YEARS

$1.8 TO $11.3 BILLION
FIFTEEN-YEAR GROWTH IN MARKET CAPITALIZATION

$4.1 BILLION
AGGREGATE DIVIDENDS PAID TO SHAREHOLDERS OVER FIFTEEN YEARS

The scope of its business and association with other members of the Power Financial Corporation group of companies have placed the company in a position of leadership and strength in the financial services industry. Together, these elements will enable IGM Financial to create long-term value for its clients, consultants, advisors, employees and shareholders over time.

Market fluctuations since 2008 have left investors with many questions on how best to manage their resources for the future. In this context, a strong relationship with an advisor to keep focused on long-term financial goals is important.

The significant role of an advisor in helping with financial planning is appreciated by the vast majority of investing Canadians. The Investment Funds Institute of Canada (IFIC) has now published five annual surveys since 2006 indicating that approximately 85 per cent of mutual fund investors preferred to invest through an advisor and they highly rated the support and advice provided by their advisors.

The positive impact that financial advisors have on Canadians' preparations for retirement and the lives of Canadians in retirement is particularly noteworthy. The Organization for Economic Co-operation and Development (OECD) recently revealed that Canada is among the world leaders in income replacement after retirement.

The Investors Group consultant network continued to expand to its highest level on record of 4,686 consultants at December 31, 2010. Since June 30, 2004, there has been 26 consecutive calendar quarters of net growth in the consultant network. With a further six region office openings announced in 2010, it has 101 region offices across Canada. Investors Group continued to respond to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice.

A primary theme in IGM Financial's business approach is to support financial advisors as they work with clients to plan for and achieve their financial goals.

Mackenzie Financial maintained its focus on delivering consistent long-term investment performance true to the multiple styles deployed in the investment process, while emphasizing product innovation and communication with advisors and investors. Its focus is evidenced by the strength of Mackenzie's relationships with financial advisors, the work undertaken with investor and advisor education programs and its commitment to focusing on active investment management strategies. During 2010, Mackenzie broadened its investment choices for Canadians by adding several new funds and more options, including tax-deferred solutions.

IGM Financial continues to build its business through a strategic focus on multiple distribution opportunities delivering high-quality advice, innovative investment and service solutions for investors.

INVESTORS GROUP

Investors Group is committed to comprehensive planning delivered through long-term client and consultant relationships. The company provides advice and services through a network of approximately 4,700 consultants to nearly one million Canadians.

In 2010, Investors Group continued to make progress in a number of key areas. Growth in the consultant network, combined with industry-low redemption rates, is strong evidence of client and consultant satisfaction with the calm and steady approach being taken to their long-term financial planning needs.

MURRAY J. TAYLOR

President and Chief Executive Officer, Investors Group and Co-President and Chief Executive Officer, IGM Financial

$61.8 BILLION MUTUAL FUND ASSETS UNDER MANAGEMENT

PROVIDING PERSONAL FINANCIAL SERVICES TO CLOSE TO 1 MILLION CANADIANS

4,686 INVESTORS GROUP CONSULTANTS

The company's commitment to training and support is integral to its consultants' ability to deliver effective financial advice in an increasingly complex and volatile market. The Investors Group culture provides consultants with an entrepreneurial environment and unique support structure to deliver personalized service and knowledgeable advice to their clients, who enhance their financial literacy and gain financial confidence as the company's consultants assist them with the development and deployment of their financial plans.

Investors Group is committed to the ongoing evolution and expansion of its product and service offering. In November 2009, working jointly with Great-West Life, Investors Group introduced a new line of segregated fund policies known as Investors Group Guaranteed Investment Funds which provide long-term investment growth potential with protective guarantee features to help minimize risk. In July two new equity mandates sub-advised by Fidelity Investments Canada ULC, through its affiliate Pyramis Global Advisors, LLC, were introduced. In December the company announced a new fixed income mandate—Investors Fixed Income Flex Portfolio—which provides current income by investing in a diversified set of underlying funds that invest primarily in fixed income securities with the flexibility to adapt to a changing environment by adjusting the underlying type of investments as the interest rate and credit environment evolves.

Investors Group continues to focus on its strengths as building blocks for the future. In 2010, the consultant network growth, the active engagement of over 1,600 employees, increased communication in response to the global financial situation, the continual refinement of financial planning, and the expanding product and service offerings demonstrate the company's commitment to meet the evolving financial needs of Canadians.

MACKENZIE FINANCIAL

Mackenzie Financial provides investment advisory services utilizing proprietary investment research and experienced investment professionals. The company distributes its services through multiple distribution channels focused on the provision of independent financial planning through a wide range of investment solutions to meet investor needs. In 2010, Mackenzie and its subsidiaries continued to focus on business growth, product innovation, client service effectiveness and strategic partnerships.

Mackenzie's product lineup continued to evolve with a number of fund launches during the year, including the Mackenzie Universal Gold Bullion Class, the Mackenzie All-Sector Canadian Balanced Fund and three Saxon corporate funds: Mackenzie Saxon Balanced Class, Mackenzie Saxon Stock Class and Mackenzie Saxon Small Cap Class. Specifically designed for taxable investors, the corporate funds are designed to maximize after-tax returns by minimizing taxable distributions and investors have the flexibility to switch between more than 50 Mackenzie corporate funds on a tax-deferred basis. The Mackenzie Founders Global Equity Class was added to Mackenzie's product shelf in November. Mackenzie expanded its relationship with existing strategic partners by offering a segregated fund offering in partnership with Canada Life.

CHARLES R. SIMS

President and
Chief Executive Officer,
Mackenzie Financial
and Co-President and
Chief Executive Officer,
IGM Financial

$68.3
BILLION
TOTAL ASSETS UNDER MANAGEMENT

OVER
30,000
INDEPENDENT FINANCIAL ADVISORS

PROVIDING INVESTMENT ADVISORY SERVICES TO MORE THAN
1.4
MILLION
CANADIANS

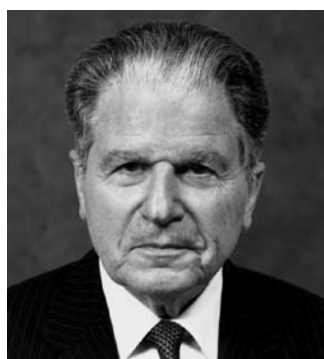
The strength of Mackenzie's retail distribution network is built on long-standing and expanding relationships with financial advisors and representatives across the breadth of distribution channels. These relationships allow the company's products to be efficiently distributed through retail brokers, financial advisors, insurance agents, banks, and financial institutions, giving Mackenzie one of the broadest retail distribution platforms of any investment company in Canada. With the adjustments to the distribution model, Mackenzie now has dedicated sales teams focused in the traditional retail wholesale channel working with financial advisors; the platform, sub-advisory and strategic partnership group; and its institutional team, focused on the needs of pension plan sponsors, foundations, trusts and other institutional investors.

Mackenzie products are distributed widely through the financial advice channel and the company is proud of the partnership it has established with financial advisors over its history. Through the dedicated efforts of employees, these relationships continue to grow as Mackenzie now reaches more than 30,000 advisors and 1.4 million investors across Canada.

PARGESA GROUP

The Pargesa group holds significant positions in six large companies based in Europe: Lafarge (cement and building materials), Imerys (industrial minerals), Total (oil and gas), GDF Suez (electricity and gas), Suez Environnement (water and waste management) and Pernod Ricard (wines and spirits).

Power Financial, through its wholly owned subsidiary, Power Financial Europe B.V., and the Frère family group of Belgium each hold a 50 per cent interest in Parjointco, a Netherlands-based company. Parjointco's principal holding is a 54.1 per cent equity interest (62.9 per cent of the voting rights) in Pargesa Holding SA, the Pargesa group's parent company based in Geneva, Switzerland.



JACQUES DRIJARD

Managing Director,
Pargesa

The Pargesa group's strategy is to establish a limited number of substantial interests in which it can acquire a position of control or significant influence. In 2010, there were no major changes in Pargesa's investment portfolio. Overall, the companies in the Pargesa group experienced improvements in operating performance, following the very difficult economic conditions of 2009.

According to the economic presentation of the group's results, net operating earnings declined 9.2 per cent in 2010 to €465 million, impacted by an 8.5 per cent decrease in the euro against the Swiss franc, the reporting currency used in Pargesa's financial statements. The 2009 results also included a number of non-recurring items, including an exceptional dividend from GDF Suez.

10.2%
ANNUAL COMPOUND TOTAL RETURN TO SHAREHOLDERS OVER FIFTEEN YEARS (SF)

$7.2
BILLION
MARKET CAPITALIZATION

$2.5
BILLION
AGGREGATE DIVIDENDS PAID TO SHAREHOLDERS OVER FIFTEEN YEARS

IMERYS

A world leader in mineral processing, Imerys holds leading positions in each of its sectors: Performance and Filtration Minerals; Materials and Monolithics; Pigments for Papers; Ceramics, Refractaries, Abrasives and Foundry.

Imerys' markets improved in 2010 even though, overall, 2010 volumes remained about 15 per cent lower than pre-crisis levels. In these circumstances, sales grew by 20.7 per cent to €3.3 billion, current operating income rose 68.4 per cent to €419 million and net income, after non-recurring items, stood at €241 million, compared with €41 million in 2009.

LAFARGE

With operations in more than 78 countries, Lafarge holds leading positions in each of its markets: it is the world's largest producer of cement, second largest producer of aggregates and third largest producer of ready-mix concrete and gypsum.

The companies in the Pargesa group experienced improvements in operating performance following the very difficult economic conditions of 2009.

In 2010, sales edged up by 1.8 per cent to €16.2 billion, sustained by upward trending volumes for the cement and aggregates branches, favourable exchange rates and new capacities in Brazil. Current operating income slipped 1.5 per cent to €2.4 billion. Net income, after non-recurring items, was €827 million, compared with €736 million in 2009.

TOTAL

Created from the successive mergers of Total, PetroFina and Elf Aquitaine, Total is one of the largest international oil and gas groups and a major player in chemicals.

Conditions were more favorable to the oil business in 2010. The price of crude oil shot up 29 per cent from the previous year to reach an average of $79.5/barrel, the European Refinery Margin Indicator moved up to $27.4/tonne from $17.8/tonne in 2009 and the average gas selling price was stable. Also fuelled by 4.3 per cent growth in hydrocarbon production, net income stood at €10.6 billion, compared with €8.4 billion in 2009.

GDF SUEZ

GDF Suez, created from the 2008 merger of Suez and Gaz de France, is an international industrial and services group active across the entire energy value chain, in electricity and natural gas, upstream to downstream. GDF Suez develops its core business in electricity and heat generation, trading, transmission and distribution of electricity and gas (natural and liquified), and energy and industrial services.

The company reported growth in results in 2010, despite the impact of the decorrelation of gas and oil prices on the Global Gas and LNG business line. Sales grew by 5.7 per cent to €84.5 billion, EBITDA reached €15.1 billion, a 7.7 per cent increase, and net income was up 3.1 per cent to €4.6 billion. With key positions on domestic markets, GDF Suez stepped up its international development in 2010 and announced that it was combining its international operations with International Power plc, a leading independent power generation company.

SUEZ ENVIRONNEMENT

Suez Environnement integrates water and waste management operations that were formerly within the scope of Suez before it merged with Gaz de France. In the Water sector, the group designs and manages drinking water production and distribution systems and wastewater treatment systems, carries out engineering work and supplies a wide range of services to industry. In the Waste sector, Suez Environnement is active in managing (collecting, sorting, recycling, treating, recovering and storing) industrial and household waste.

In 2010, in a gradually reviving economy, the group's sales stood at €13.9 billion, up 12.8 per cent from the previous year. Net operating income totalled €2.3 billion, an increase of 13.6 per cent. Net income, after non-recurring items, stood at €565 million, compared with €403 million in 2009.

PERNOD RICARD

Since the creation of Pernod Ricard in 1975, significant organic growth and a series of acquisitions, particularly Seagram in 2001, Allied Domecq in 2005 and Vin & Sprit in 2008, have made the company the world co-leader in wines and spirits.

In 2009–2010, Pernod Ricard's sales declined 1.7 per cent to €7.1 billion, up 1.8 per cent at constant exchange rates and scope of consolidation. The gross margin after logistics costs was stable at €4.2 billion. Net income stood at €951 million, compared with €945 million the previous year.

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

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.

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 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.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

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

Approved by the Board of Directors

Signed
Raymond Royer
Director

Signed
R. Jeffrey Orr
Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

The principal subsidiaries of the Corporation are:

> Great-West Lifeco Inc. (Lifeco) (direct interest of 68.3% (2009 — 68.6%)), whose major operating subsidiary companies are Great-West Life & Annuity Insurance Company (GWL&A), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), The Great-West Life Assurance Company (Great-West Life) and Putnam Investments, LLC (Putnam).

> IGM Financial Inc. (IGM) (direct interest of 57.0% (2009 — 56.3%)), whose major operating subsidiary companies are Investors Group Inc. (Investors Group) and Mackenzie Financial Corporation (Mackenzie).

> IGM holds 4.0% (2009 — 4.0%) of the common shares of Lifeco, and Great-West Life holds 3.5% (2009 — 3.5%) of the common shares of IGM.

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

USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

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

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

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

REVENUE RECOGNITION

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

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

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

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

Investment income is recognized on an accrual basis.

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT

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

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

BONDS – HELD FOR TRADING AND AVAILABLE FOR SALE

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

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

SHARES – HELD FOR TRADING AND AVAILABLE FOR SALE

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

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

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

IMPAIRMENT

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

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

TRANSACTION COSTS

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

LOANS TO POLICYHOLDERS

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

SECURITIZATIONS

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

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

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

FIXED ASSETS

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

DEFERRED SELLING COMMISSIONS

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

GOODWILL AND INTANGIBLE ASSETS

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

IMPAIRMENT TESTING – GOODWILL

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

IMPAIRMENT TESTING – INDEFINITE LIFE INTANGIBLES

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

POLICY LIABILITIES

Policy liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provision for Lifeco's obligations to policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

FINANCIAL LIABILITIES

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

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

STOCK-BASED COMPENSATION PLANS

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

REPURCHASE AGREEMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

FOREIGN CURRENCY TRANSLATION

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

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

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation and its subsidiaries maintain defined benefit pension plans as well as defined contribution pension plans for certain employees and advisors.

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

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

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

FUNDS HELD BY CEDING INSURERS/ FUNDS HELD UNDER REINSURANCE CONTRACTS

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

INCOME TAXES

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

EARNINGS PER SHARE

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

COMPARATIVE FIGURES

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Corporation is in the final stages of aggregating and analysing potential adjustments required to the opening balance sheet as at January 1, 2010 for changes to accounting policies resulting from identified differences between Canadian GAAP and IFRS. The impact of adopting IFRS and the related effects on the Corporation's consolidated financial statements will be reported in the Corporation's 2011 interim and annual financial statements.

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

NOTE 2 ACQUISITIONS AND DISPOSALS

[a] During the fourth quarter of 2010, Investment Planning Counsel Inc., a subsidiary of IGM, acquired Partners in Planning Group Ltd. and related entities. The purchase price was allocated to indefinite life intangible assets and goodwill.

[b] During the second quarter of 2009, IGM acquired the 27.6% non-controlling interest in Investment Planning Counsel Inc. IGM accounted for the transaction as a step acquisition and the aggregate purchase price, after elimination of non-controlling interest, was allocated to indefinite life intangible assets and goodwill.

[c] On January 19, 2009, PanAgora, a subsidiary of Putnam, sold its equity investment in Union PanAgora Asset Management GmbH to Union Asset Management. Gross proceeds received of approximately US$75 million recorded in net investment income resulted in a gain to Putnam of approximately US$33 million after taxes and non-controlling interests.

NOTE 3 INVESTMENTS

CARRYING VALUES AND ESTIMATED MARKET VALUES OF INVESTMENTS

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

NOTE 3 INVESTMENTS (CONTINUED)

Included in investments are the following:

IMPAIRED INVESTMENTS FOR LIFECO

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

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

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

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

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

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

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

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

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

NOTE 4 SECURITIZATIONS

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

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

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

NOTE 4 SECURITIZATIONS (CONTINUED)

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

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

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

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

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

NOTE 5 INVESTMENT AT EQUITY

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

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

NOTE 6 GOODWILL AND INTANGIBLE ASSETS

GOODWILL

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

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

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

NOTE 6 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

INTANGIBLE ASSETS

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

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

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

NOTE 7 INCOME TAXES

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

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

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

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

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

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

NOTE 8 OTHER ASSETS

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

NOTE 9 POLICY LIABILITIES

COMPOSITION OF POLICY LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of policy liabilities of Lifeco is as follows:

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

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

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

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

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

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

CHANGES IN POLICY LIABILITIES

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

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

Under fair value accounting, movement in the market value of the supporting assets is a major factor in the movement of policy liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the policy liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

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

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

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

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

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

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

ACTUARIAL ASSUMPTIONS

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

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

MORTALITY

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

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

MORBIDITY

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

PROPERTY AND CASUALTY REINSURANCE

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

NOTE 9 POLICY LIABILITIES (CONTINUED)

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

INVESTMENT RETURNS

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

EXPENSES

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

POLICY TERMINATION

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's persistency assumption for these products as Lifeco's own experience is very limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately $452 million, causing a decrease in net earnings of Lifeco of approximately $320 million (Power Financial's share – $226 million).

UTILIZATION OF ELECTIVE POLICY OPTIONS

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

POLICYHOLDER DIVIDENDS AND ADJUSTABLE POLICY FEATURES

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

CEDED REINSURANCE

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

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

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

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

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

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

NOTE 10 DEBENTURES AND OTHER BORROWINGS

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

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

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

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

On November 16, 2009, Lifeco issued $200 million principal amount of 5.998% debentures and an additional principal amount of $144 million on December 18, 2009 (refer to Note 11). The debentures are due November 16, 2039 and bear an interest rate of 5.998% until they are due. The debentures may be redeemed by Lifeco at the greater of the Canadian Yield Price or par plus any unpaid and accrued interest on not less than 30 and no more than 60 days notice.

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

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

NOTE 10 DEBENTURES AND OTHER BORROWINGS (CONTINUED)

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

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

NOTE 11 CAPITAL TRUST SECURITIES AND DEBENTURES

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

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

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

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

NOTE 12 OTHER LIABILITIES

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

NOTE 13 NON-CONTROLLING INTERESTS

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

NOTE 14 STATED CAPITAL

AUTHORIZED

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

ISSUED AND OUTSTANDING

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

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

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

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

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

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

NOTE 14 STATED CAPITAL (CONTINUED)

[vi] The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.475 per share per annum. The Corporation may redeem for cash the Series F First Preferred Shares in whole or in part, at the Corporation's option, at $25.25 per share if redeemed prior to July 17, 2011 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[vii] The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.4375 per share per annum. The Corporation may redeem for cash the Series H First Preferred Shares in whole or in part, at the Corporation's option, at $25.25 per share if redeemed prior to December 10, 2011 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[viii] The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum. The Corporation may redeem for cash the Series I First Preferred Shares in whole or in part, at the Corporation's option, at $25.50 per share if redeemed prior to April 30, 2011, $25.25 if redeemed thereafter and prior to April 30, 2012 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[ix] The 4.95% Non-Cumulative First Preferred Shares, Series K are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2375 per share per annum. The Corporation may redeem for cash the Series K First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2011, $25.75 if redeemed thereafter and prior to October 31, 2012, $25.50 if redeemed thereafter and prior to October 31, 2013, $25.25 if redeemed thereafter and prior to October 31, 2014 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[x] The 5.10% Non-Cumulative First Preferred Shares, Series L are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2750 per share per annum. On and after October 31, 2011, the Corporation may redeem for cash the Series L First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2012, $25.75 if redeemed thereafter and prior to October 31, 2013, $25.50 if redeemed thereafter and prior to October 31, 2014, $25.25 if redeemed thereafter and prior to October 31, 2015, $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[xi] The 6.00% Non-Cumulative First Preferred Shares, Series M are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum. On January 31, 2014 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series M First Preferred shares in whole or in part, at the Corporation's option, at $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series M First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series N, at the option of the holders on January 31, 2014 or on January 31 every five years thereafter.

[xii] The 5.80% Non-Cumulative First Preferred Shares, Series O are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.45 per share per annum. On and after October 31, 2014, the Corporation may redeem for cash the Series O First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2015, $25.75 if redeemed on or after October 31, 2015 and prior to October 31, 2016, $25.50 if redeemed on or after October 31, 2016 and prior to October 31, 2017, $25.25 if redeemed on or after October 31, 2017 and prior to October 31, 2018 and $25.00 if redeemed on or after October 31, 2018, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[xiii] In the second quarter of 2010, the Corporation issued 11,200,000 4.40% Non-Cumulative 5-Year Rate Reset First Preferred Shares, Series P for cash proceeds of $280 million. The 4.40% Non-Cumulative First Preferred Shares, Series P are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.10 per share per annum. On January 31, 2016 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series P First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series P First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series Q, at the option of the holders on January 31, 2016 or on January 31 every five years thereafter. Transaction costs incurred in connection with the Series P First Preferred Shares of $8 million were charged to retained earnings.

[xiv] During the year, 2,287,000 common shares (713,000 in 2009) were issued under the Corporation's Employee Stock Option Plan for a consideration of $31 million ($10 million in 2009).

NOTE 15 STOCK-BASED COMPENSATION

[i] On October 1, 2000, the Corporation established a deferred share unit plan for the Directors of the Corporation to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Common Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Common Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable, at the time a Director's membership on the Board is terminated or in the event of the death of a Director, by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2010, the value of the deferred share units outstanding was $9.8 million ($8.8 million in 2009). In addition, Directors may also participate in the Directors Share Purchase Plan.

[ii] Effective May 1, 2000, an Employee Share Purchase Program was implemented, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have the Corporation invest, on the employee's behalf, up to an equal amount. The amount paid on behalf of employees was $0.2 million in 2010 ($0.2 million in 2009).

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

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

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

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

[iv] Under the Corporation's Employee Stock Option Plan, 17,581,600 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from date of grant and no later than five years from date of grant. Options recently granted have the following vesting conditions: grants of 972,395 options in 2008 which vest equally over a period of five years beginning in 2009; a grant of 136,182 options in 2009 which vest equally over a period of five years beginning in 2010; grants of 38,293 options in 2010 which vest as follows: the first 50% three years from the date of grant and the remaining 50% four years from the date of grant; a grant of 679,525 options in 2010 which vest equally over a period of five years beginning in 2011.

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

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

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

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

NOTE 16 CAPITAL MANAGEMENT

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

> To provide sufficient financial flexibility to pursue its growth strategy and support its group companies and other investments.

> To maintain an appropriate credit rating to achieve access to the capital markets at the lowest overall cost of capital.

> To provide attractive long-term returns to shareholders of the Corporation

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

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

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

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

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

> In Canada, the Office of the Superintendent of Financial Institutions has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2010, the MCCSR ratio for Great-West Life was 203%.

> At December 31, 2010, the Risk Based Capital ratio (RBC) of GWL&A, Lifeco's regulated U.S. operating company, is estimated to be 393% of the Company Action Level set by the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. insurance regulators.

> As at December 31, 2010 and 2009, Lifeco maintained capital levels above the minimum local requirements in its other foreign operations.

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

NOTE 17 RISK MANAGEMENT

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

LIQUIDITY RISK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

> Investors Mortgage and Short Term Income Fund;

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

> Institutional investors through private placements.

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

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

IGM's contractual maturities were as follows:

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

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

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

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

CREDIT RISK

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

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

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

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

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

> Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

> Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.

NOTE 17 RISK MANAGEMENT (CONTINUED)

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

MAXIMUM EXPOSURE TO CREDIT RISK FOR LIFECO

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

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

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

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

CONCENTRATION OF CREDIT RISK FOR LIFECO

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

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

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

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

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

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

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

ASSET QUALITY

BOND PORTFOLIO QUALITY

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

NOTE 17 RISK MANAGEMENT (CONTINUED)

DERIVATIVE PORTFOLIO QUALITY

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

LOANS OF LIFECO PAST DUE, BUT NOT IMPAIRED

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

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

PERFORMING SECURITIES SUBJECT TO DEFERRED COUPONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, IGM enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by IGM. The fair value of these interest rate swaps totalled $1 million at December 31, 2010. The outstanding notional amount of these derivative contracts was $118 million at December 31, 2010, compared to $75 million at December 31, 2009. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was $1 million at December 31, 2010, compared to $3 million at December 31, 2009.

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

MARKET RISK

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

CURRENCY RISK

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

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

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

> Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.

> Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.

> Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.

> A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating policy liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating policy liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change in net earnings.

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

NOTE 17 RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK

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

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

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

> Lifeco utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.

> Interest rate risk is managed by investing in assets that are suitable for the products sold.

> Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

> For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.

> For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.

> The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

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

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

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

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

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

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

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

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

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

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

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

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

> As part of the securitization transactions with bank-sponsored securitization trusts, IGM enters into interest rate swaps with the trusts, which transfers the interest rate risk to IGM. IGM enters into offsetting interest rate swaps with Schedule I chartered banks to hedge this risk. Under these securitization transactions with bank-sponsored securitization trusts, IGM is exposed to asset-backed commercial paper rates and, after effecting its interest rate hedging activities, remains exposed to the basis risk that asset-backed commercial paper rates are greater than bankers' acceptance rates.

> As part of the securitization transactions under the CMB Program, IGM enters into interest rate swaps with Schedule I chartered bank counterparties that transfer the interest rate risk associated with the program, including reinvestment risk, to IGM. To manage these interest rate and reinvestment risks, IGM enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates.

> IGM is exposed to the impact that changes in interest rates may have on the value of its investments in Canada Mortgage Bonds. IGM enters into interest rate swaps with Schedule I chartered bank counterparties to hedge interest rate risk on these bonds.

> IGM is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by IGM. IGM may enter into interest rate swaps to hedge this risk.

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

EQUITY PRICE RISK

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

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

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

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

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

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

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

NOTE 18 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

NOTE 19 FINANCING CHARGES

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

NOTE 20 OTHER INCOME (CHARGES), NET

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

NOTE 21 PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

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

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

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

[i] The aggregate accrued benefit obligations and aggregate fair value of plan assets of individual pension plans that had accrued benefit obligations in excess of the fair value of their related plan assets at December 31, 2010 amounted to $1,317 million ($811 million in 2009) and $1,097 million ($622 million in 2009), respectively. In addition, the Corporation and its subsidiaries maintain unfunded supplementary retirement plans for certain employees. The obligation for these plans, which is included above, was $315 million at December 31, 2010 ($286 million in 2009).

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

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

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

COSTS RECOGNIZED

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

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

MEASUREMENT AND VALUATION

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

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

CASH PAYMENTS

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

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

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

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

SIGNIFICANT ASSUMPTIONS

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

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

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

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties under no compulsion to act, and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2010		2009	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
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

Fair value is determined using the following methods and assumptions:

> The fair value of short-term financial instruments approximates carrying value due to their short-term maturities. These include cash and cash equivalents, dividends, interest and other receivables, premiums in course of collection, accounts payable, repurchase agreements, dividends and interest payable, and income tax payable.

> Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risks and maturities (refer to Note 1).

> Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks and maturities.

> Debentures and other borrowings are determined by reference to current market prices for debt with similar terms, risks and maturities.

> Preferred shares are valued using quoted prices from active markets.

> Derivative financial instruments' fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

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

> Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities and mutual and segregated funds which have available prices in an active market with no redemption restrictions, liquid open-end investment fund units, and investments in Government of Canada Bonds and Canada Mortgage Bonds in instances where there are quoted prices available from active markets.

> Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, certain asset-backed securities and some over the counter derivatives.

> Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single-broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over-the-counter derivatives, non-bank-sponsored asset-backed commercial paper, securitization receivables and derivative instruments.

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

NOTE 23 EARNINGS PER SHARE

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

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

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

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

NOTE 24 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter traded with counterparties that are credit-worthy financial intermediaries.

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

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

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

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

NOTE 24 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

SWAPS

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

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

FOREIGN EXCHANGE CONTRACTS

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

OTHER DERIVATIVE CONTRACTS

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

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

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

NOTE 25 CONTINGENT LIABILITIES

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

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

The Ontario Superior Court of Justice released a decision on October 1, 2010 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of London Insurance Group Inc. (LIG) in 1997. Lifeco believes there are significant aspects of the lower court judgment that are in error and Notice of Appeal has been filed. Notwithstanding the foregoing, Lifeco has established an incremental provision in the third quarter of 2010 in the amount of $225 million after tax ($204 million and $21 million attributable to Lifeco's common shareholder and to Lifeco's non-controlling interests, respectively). Lifeco now holds $310 million in after-tax provisions for these proceedings. Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured. Based on information presently known, the original decision, if sustained on appeal, is not expected to have a material adverse effect on the consolidated financial position of Lifeco.

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

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

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

NOTE 26 COMMITMENTS AND GUARANTEES

GUARANTEES

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

SYNDICATED LETTERS OF CREDIT

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

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

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

PLEDGING OF ASSETS

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

COMMITMENTS

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

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

NOTE 27 RELATED PARTY TRANSACTIONS

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

NOTE 28 SEGMENTED INFORMATION

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

> Lifeco offers, in Canada, the United States and in Europe, a wide range of life insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations.

> IGM offers a comprehensive package of financial planning services and investment products to its client base. IGM derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenue from fees charged to its mutual funds for administrative services.

> Parjointco holds the Corporation's interest in Pargesa, a holding company which holds diversified interests in companies based in Europe active in various sectors, including specialty minerals, water, waste services, energy, and wines and spirits.

> The segment entitled Other is made up of corporate activities of the Corporation and also includes consolidation elimination entries.

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

NOTE 28 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

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

INFORMATION ON ASSET MEASURE

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

GEOGRAPHIC INFORMATION

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

NOTE 28 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

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

INFORMATION ON ASSET MEASURE

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

GEOGRAPHIC INFORMATION

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

Signed
Deloitte & Touche LLP[1]

March 10, 2011
Montréal, Québec

[1] Chartered accountant auditor permit No. 18383

POWER FINANCIAL CORPORATION

FIVE-YEAR FINANCIAL SUMMARY

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

QUARTERLY FINANCIAL INFORMATION

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

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[2] MEMBER OF THE AUDIT COMMITTEE

[3] MEMBER OF THE COMPENSATION COMMITTEE

[4] MEMBER OF THE RELATED PARTY AND CONDUCT REVIEW COMMITTEE

[5] MEMBER OF THE GOVERNANCE AND NOMINATING COMMITTEE

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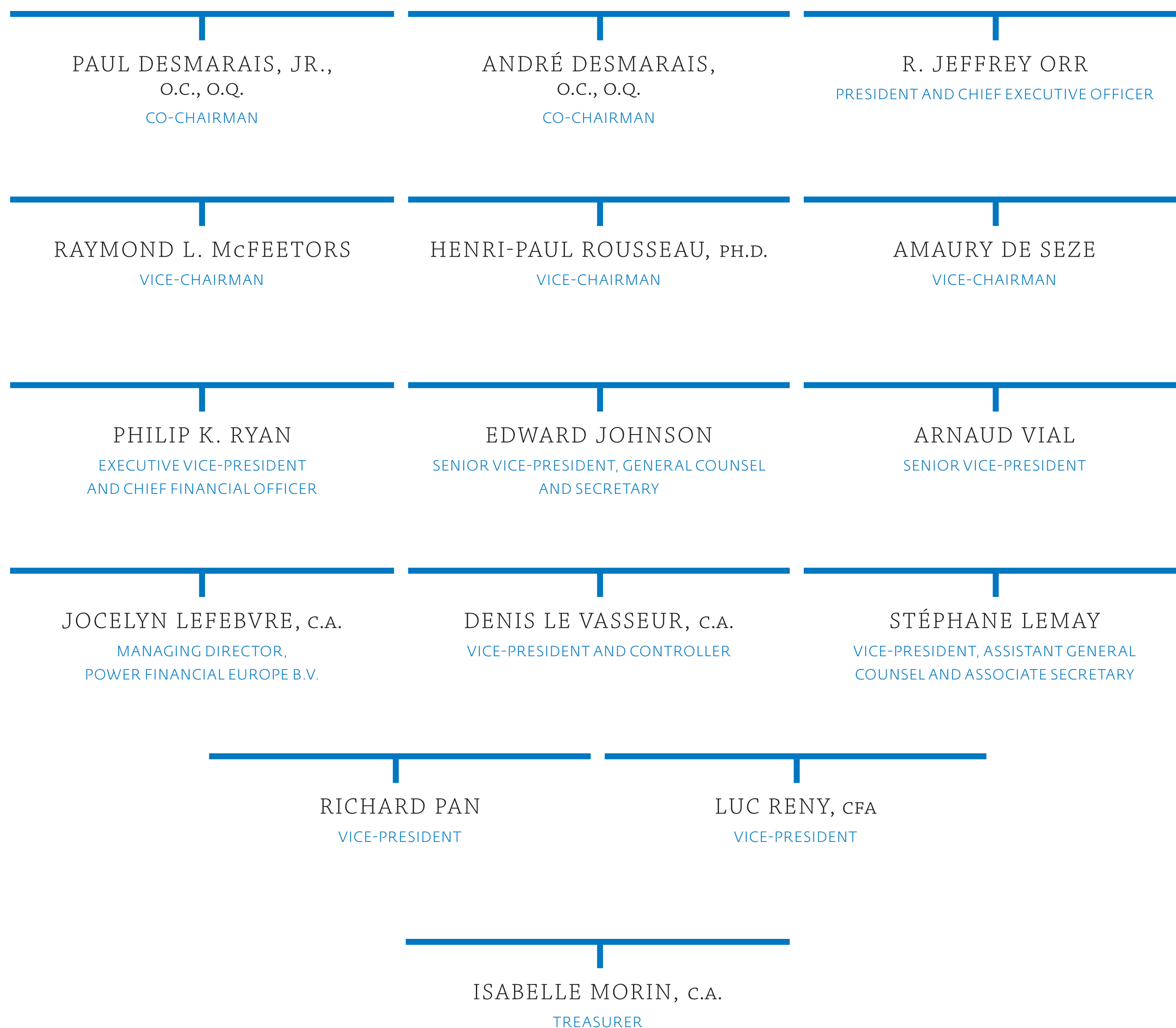

CORPORATE INFORMATION

Additional copies of this Annual Report, as well as copies of the annual report of Power Corporation of Canada, are available from the Secretary:

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Suite 2600, Richardson Building
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Winnipeg, Manitoba
Canada R3B 0X5

STOCK LISTINGS

Shares of Power Financial Corporation are listed on the Toronto Stock Exchange, under the following listings:

COMMON SHARES: PWF

FIRST PREFERRED SHARES:

Series A: PWF.PR.A
Series D: PWF.PR.E
Series E: PWF.PR.F
Series F: PWF.PR.G
Series H: PWF.PR.H
Series I: PWF.PR.I
Series K: PWF.PR.K
Series L: PWF.PR.L
Series M: PWF.PR.M
Series O: PWF.PR.O
Series P: PWF.PR.P

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.
Offices in:
Montreal (QC); Toronto (ON)
www.computershare.com

SHAREHOLDER SERVICES

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent:

Computershare Investor Services Inc.
Shareholder Services
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.) or 514-982-7555
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