Annual Report 2011

Confidence in the future

POWER FINANCIAL CORPORATION

Confidence in the future

In a world of constant change and difficult challenges, it can often seem that having confidence in the future requires a leap of faith. Yet what it really requires is good preparation.

The companies in the Power Financial group, through the efforts of thousands of employees and financial advisors, working one-on-one with individual clients or through workplace group programs, provide the services, products and the discipline to help millions of people be well prepared.

Confidence in the future—it's based on being prepared, not on a leap of faith.

This Annual Report is intended 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. Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's website at www.powerfinancial.com, or from the Office of the Secretary at the addresses shown at the end of this report.

Readers should also review the note further in this report, in the section entitled Review of Financial Performance, 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, financial performance, priorities, ongoing objectives, strategies and outlook of Power Financial Corporation's subsidiaries and associates is derived from public information published by such subsidiaries and associates and is provided here for the convenience of the shareholders of Power Financial Corporation. For further information concerning such subsidiaries and associates, shareholders and other interested persons should consult the websites of, and other publicly available information published by, such subsidiaries and associates.

The selected performance measures shown on pages 2, 3 and 5 are as of December 31, 2011 unless otherwise noted.

The following abbreviations are used throughout this report: Power Financial Corporation (Power Financial or the Corporation); Arkema Inc. (Arkema); 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, IFRS refers to International Financial Reporting Standards.

Financial Highlights

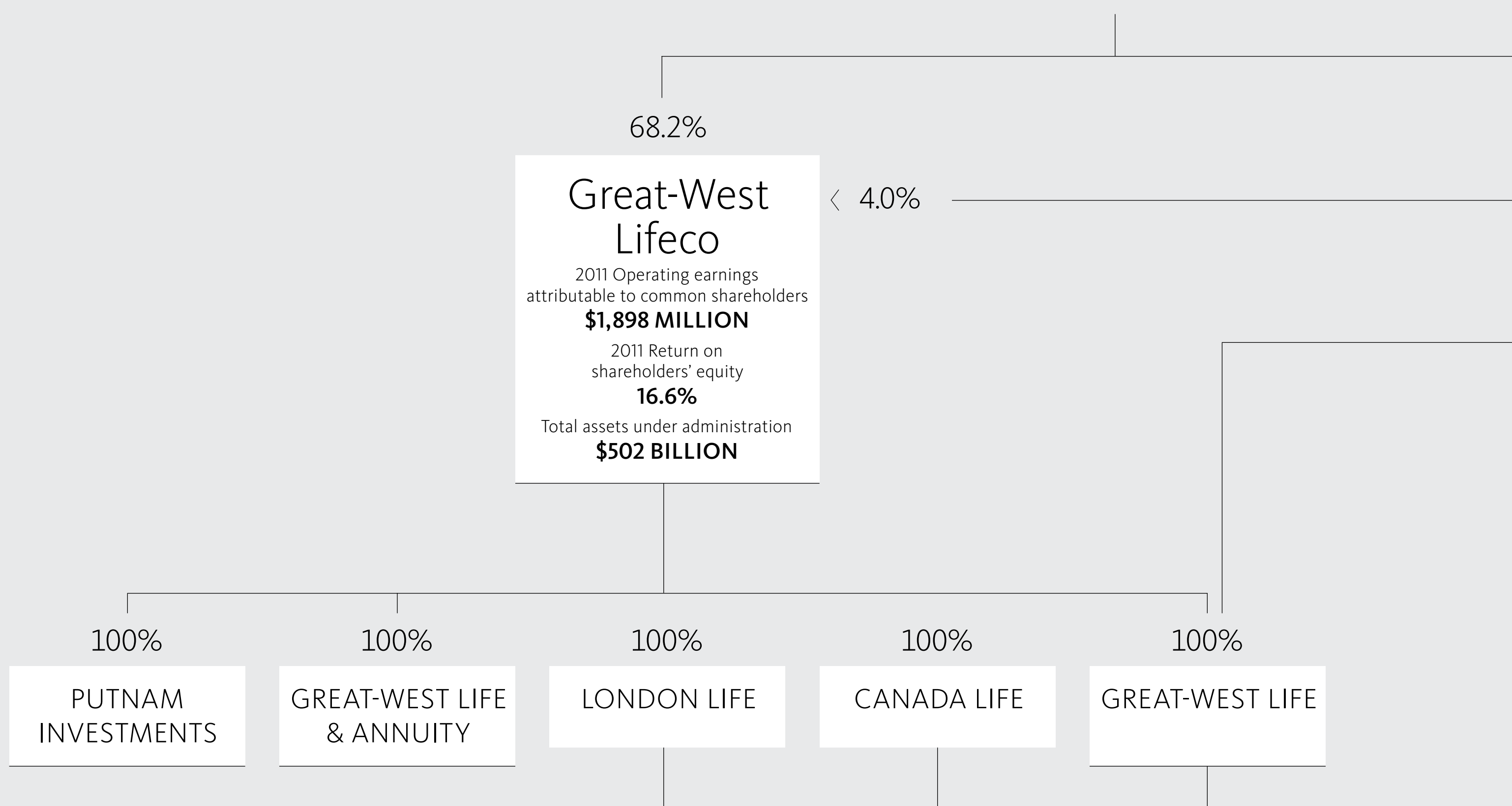
FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS]	2011	2010
Revenues	32,400	32,522
Operating earnings attributable to common shareholders	1,729	1,625
Operating earnings per common share	2.44	2.30
Net earnings attributable to common shareholders	1,722	1,468
Net earnings per common share	2.43	2.08
Dividends declared per common share	1.40	1.40
Total assets	252,678	244,644
Consolidated assets and assets under management	496,781	500,181
Shareholders' equity	13,521	12,811
Total equity	22,815	21,522
Book value per common share	16.26	15.26
Common shares outstanding (in millions)	708.2	708.0

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

TABLE OF CONTENTS

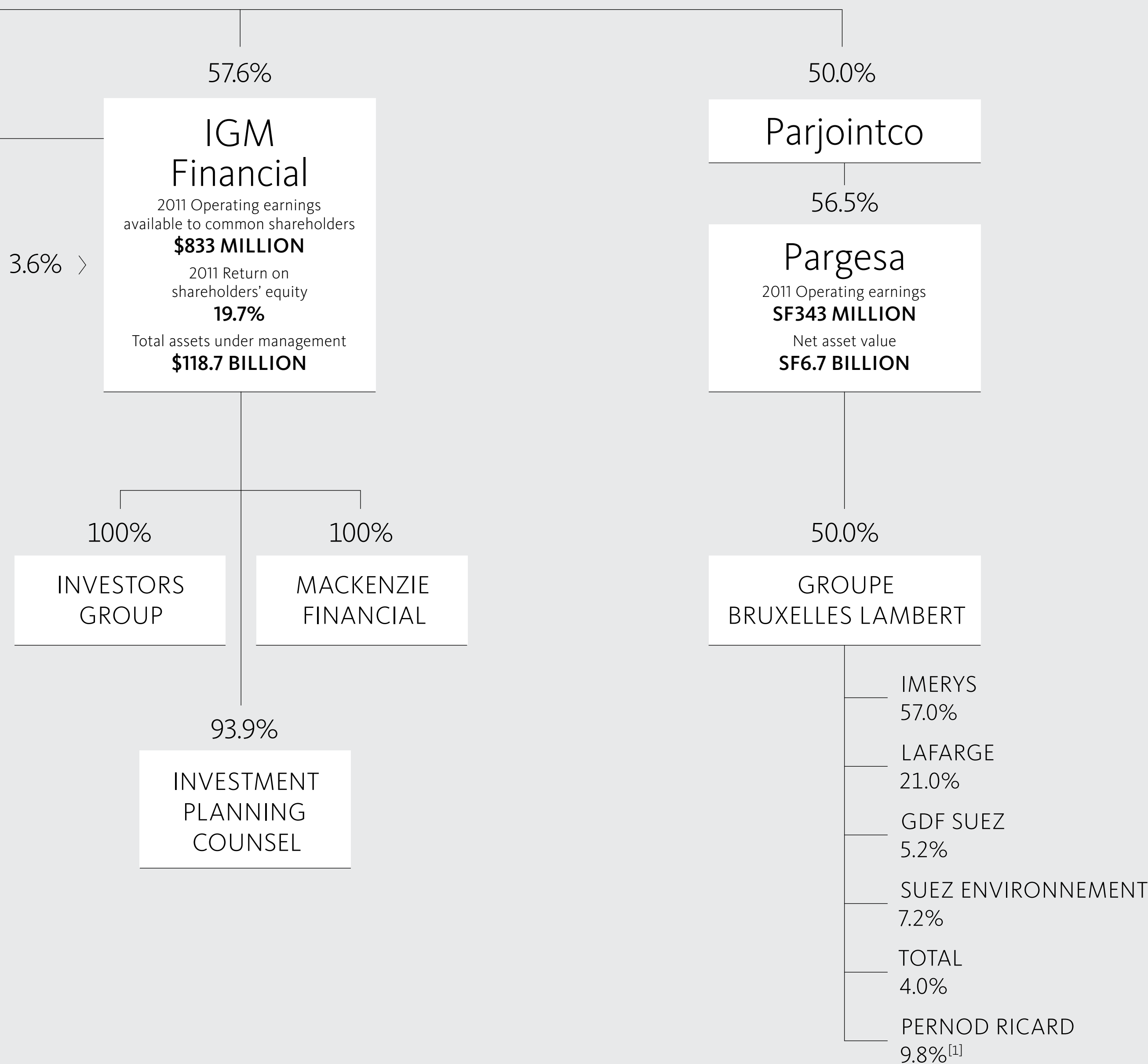
Financial Highlights 1
Group Organization Chart 2
Business Summary 4
Directors' Report to Shareholders 6
Responsible Management 16
Great-West Lifeco 18
Great-West Life, London Life, Canada Life 19
Canada Life – Europe 21
Great-West Life & Annuity 22
Putnam Investments 23
IGM Financial 24
Investors Group 26
Mackenzie Financial 27
Pargesa group 28
Review of Financial Performance 31
Consolidated Financial Statements and Notes 45
Five-Year Financial Summary 111
Board of Directors 112
Officers 113
Corporate Information 114

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.

2011 OPERATING EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS	2011 RETURN ON SHAREHOLDERS' EQUITY
$1,729 MILLION	15.5%
CONSOLIDATED ASSETS AND ASSETS UNDER MANAGEMENT	TOTAL ASSETS UNDER ADMINISTRATION
$496.8 BILLION	$620.7 BILLION



Percentages denote participating equity interest as at December 31, 2011.

Operating earnings is a non-IFRS financial measure.

Return on shareholders' equity is calculated using operating earnings.

[1] On March 15, 2012, GBL reduced its equity interest in Pernod Ricard to 7.5%.

Business Summary

Products & Services

Great-West Lifeco

Great-West Life

London Life

Freedom 55 Financial™

Canada Life

Great-West Life & Annuity

Putnam Investments

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 retirement accounts, life insurance, annuities, business-owned life insurance and executive benefits products
- Global asset management offering mutual funds, institutional portfolios, college savings plans, 401(k)s, IRAs and other retirement plans
- Investment capabilities include fixed income, equities (both U.S. and global), absolute return and global asset allocation

Europe

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

[1] As at September 30, 2011
[2] As at December 31, 2011
[3] As at December 31, 2010
[4] As at June 30, 2011; *Benefits Canada* 2011 CAP report data

Products & Services

IGM Financial

Investors Group

Mackenzie Financial

Investment Planning Counsel

- 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

Products & Services

Pargesa

- 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	Market Position
› 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	› Serves the financial security needs of more than 12 million Canadians › 26% market share of individual life insurance measured by premium[1] › 25% market share of individual living benefits measured by premium[1] › 27% market share of individual segregated funds[1] › 22% market share of group insurance[3] › 18% market share of group capital accumulation plans, serving 1.2 million member accounts[4] › Leading market share for creditor insurance revenue premium
› Brokers, consultants, advisors and third-party administrators › Financial institutions › Sales and service staff and specialized consultants › Services global institutional, domestic retail, defined contribution, and registered investment advisor markets	› GWL&A and its subsidiaries provide services to nearly 25,000 defined contribution plans › Putnam has nearly 5 million shareholders and retirement plan participants and nearly 150 institutional client accounts around the world › More than 170,000 advisors distribute Putnam products
› 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 › 30% share of group life market[3] › 20% share of group income protection market[3] › Among the top offshore life companies in the U.K. market with 22% share[1] › Among the top insurers in payout annuities, with 6% market share[1] IRELAND › Among the top seven insurers by new business market share[4] GERMANY › One of the top two insurers in the independent intermediary unit-linked market[1] › Among the top six in the overall unit-linked market[2] REINSURANCE › Among top ten life reinsurers in the U.S. by assumed business

Distribution Channels	Market Position
› Investors Group network of 4,608 consultants › Mackenzie sales and service for financial advisors across all wealth management channels (over 30,000 financial advisors) › Investment Planning Counsel has over 850 independent financial planners › Institutional asset management sales force › Relationship with Canadian Medical Association	› $118.7 billion in assets under management › Significant market position in mutual fund management, with 13.3% of industry long-term mutual fund assets under management › Among Canada's leading providers of financial planning services › $22.5 billion in institutional, sub-advised and other mandates with Mackenzie

Group Holdings		Performance Record
LAFARGE	› One of the world leaders in cement, aggregates and concrete	› Strong and consistent dividend payout; $2.7 billion over 15 years
IMERYS	› A world leader in industrial minerals	› Consistent outperformance of relevant equity market indices over the long term
TOTAL	› An international integrated oil and gas company	› Fifteen-year total return to shareholders of 7.7% (SF), compared with 5.2% (SF) for the Swiss SPI index and 4.9% (€) for the French CAC 40 index
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	

Directors' Report to Shareholders

Power Financial Corporation and its subsidiaries continued to produce strong financial results in the face of challenging economic and financial market conditions in 2011. It was a year of two halves, with investor sentiment and market levels improving substantially in the first half and then deteriorating sharply in the second. Turmoil in Europe weakened markets across the globe and presented a particular challenge to growth in our United Kingdom and European businesses. It also contributed to a lowering of interest rates globally, which puts pressure on the profitability of a number of life insurance products. The strength of our approach to balance sheet management, our strong risk-management culture and credit investing skills, and the resilience of our distribution channels helped us grow our earnings in 2011, in spite of these challenges.

Throughout the year, the companies in our group maintained their focus on strengthening their products, as well as their distribution and client service capabilities, in order to provide enhanced value to their clients and take advantage of the growth opportunities in their respective markets.

Our businesses are focused on helping individuals achieve and maintain financial security throughout their lifetimes. We do so by serving individuals both one-on-one and through employer-based group programs. Our research indicates that the need for products and services that help people prepare for and live comfortably in retirement will continue to grow.

Our research also indicates that savings rates are by far the most important determinant of retirement preparedness. It shows clearly that individuals with a financial advisor save more and are better prepared for retirement, at all income and age levels. We therefore continue to invest in businesses centered on delivering financial services and products through financial advisors.

In 2011, our companies picked up the pace of investing in technology, for both improved efficiency and enhanced client interfaces. In many of their lines of business, our companies invested in sales tools, financial planning tools and enhancements to the customer experience.

We believe our corporate governance structures and practices have been essential in creating and maintaining strong business franchises capable of performing in good times and in bad. Our governance is rooted in a long-term perspective towards shareholder returns, and focuses upon key factors such as strategy, people, capital and risk. We oversee our principal investments through boards of directors made up of a mix of experienced individuals both from within our group and from the outside.

Our group companies also have a long and proud history of contributing to the well-being of the communities in which they operate. We are building upon these well-ingrained practices by adopting a more structured approach to our corporate social responsibilities. The principles underlying our approach in this area are outlined later in this report under "Responsible Management".

FINANCIAL RESULTS

Power Financial's operating earnings attributable to common shareholders for the year ended December 31, 2011 were $1,729 million or $2.44 per share, compared with $1,625 million or $2.30 per share in the corresponding period in 2010. This represents an increase of 6.2 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.

The need for products and services that help people prepare for and live comfortably in retirement will continue to grow.

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

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

Other items in 2011 also include a charge of $133 million representing the Corporation's share of GBL's €650 million write-down of its investment in Lafarge.

Net earnings attributable to common shareholders, including other items, were $1,722 million or $2.43 per share for the year ended December 31, 2011, compared with $1,468 million or $2.08 per share in 2010.

Dividends paid by Power Financial Corporation totalled $1.40 per common share in 2011, unchanged from 2010.

GROUP COMPANIES' RESULTS

GREAT-WEST LIFECO

Great-West Lifeco's financial condition remains very solid as a result of its continued strong performance in 2011. The company delivered superior results compared to peer companies in its industry due to strong organic growth of premiums and deposits, and solid investment performance, despite challenging market conditions.

Great-West Lifeco reported operating earnings attributable to common shareholders of $1,898 million for 2011, compared with $1,819 million for 2010.

Great-West Lifeco's return on equity (ROE) of 16.6 per cent on operating earnings and 17.6 per cent on net earnings for the twelve months ended December 31, 2011 continued to rank among the strongest in the financial services sector.

Other measures of Great-West Lifeco's performance in 2011 include:

> Premiums and deposits of $62.3 billion, compared with $59.1 billion in 2010.

> An increase in general fund and segregated fund assets from $229.4 billion to $238.8 billion in 2011.

> Total assets under administration at December 31, 2011 of $502 billion, compared to approximately $487 billion a year ago.

The dividend on Great-West Lifeco's common shares remained unchanged in 2011.

Great-West Lifeco's capital position remains very strong. The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 204 per cent on a consolidated basis at December 31, 2011. This measure of capital strength remains at the upper end of the target operating range.

At December 31, 2011, Great-West Lifeco held cash and cash equivalents of approximately $600 million, the net result of capital transactions since the third quarter of 2008. As this cash is held at Great-West Lifeco, it is not reflected in the regulatory capital ratios of its operating subsidiaries. It augments Great-West Lifeco's capital and liquidity position, thereby enhancing the company's capability to take advantage of market opportunities.

In Canada, Great-West Lifeco's companies maintained leading market positions in their individual and group businesses. Individual insurance sales in Canada increased 6 per cent and sales of proprietary retail investment funds increased 3 per cent year over year. The Canadian operations have experienced strong organic growth by focusing on diversified distribution, prudent product and service enhancements, and expense management.

Group retirement services recorded strong growth and group insurance continued to experience strong persistency, while individual segregated funds and mutual funds maintained positive net cash flows.

Together, Great-West Lifeco's operating companies remain Canada's number one provider of individual insurance solutions.

In the United States, Great-West Lifeco's Financial Services businesses continued to post solid results in 2011. While overall sales were down from 2010's record-setting year, a focus on expanded distribution and diverse product offerings contributed to a 23 per cent increase in corporate 401(k) plan sales and a strong jump in regional and national business-owned life insurance cases in 2011.

In 2011, Putnam continued to rebuild its brand and position in the marketplace by focusing on investment performance and innovation, and introduced new ways for investors to cope with volatile markets. For example, the firm launched Putnam Dynamic Risk Allocation Fund, which Putnam believes may achieve higher returns than a traditional balanced fund with approximately the same volatility and risk. Putnam also established itself as one of the leaders in using social media as a means to interact with its clients and strengthen its brand.

In Europe, Great-West Lifeco has operations through Canada Life in the United Kingdom, Isle of Man, Ireland and Germany.

In 2011, the company continued to face challenging credit markets as well as a general loss of consumer confidence in investments due to volatility in equity markets. These pressures continued to affect sales volumes. Earnings were again impacted by the required strengthening of reserves for future asset default risk and asset impairments. The earnings impact was somewhat mitigated by both the company's credit risk reduction activities and the opportunity for yield enhancement of gilt holdings (U.K. government-issued securities) due to wider credit spreads.

IGM FINANCIAL

IGM Financial and its operating companies experienced an increase in net earnings in 2011. Average total assets under management increased year over year.

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

Operating earnings available to common shareholders for the year ended December 31, 2011 were $833 million or $3.22 per share compared to operating earnings available to common shareholders of $759 million or $2.89 per share in 2010.

Net earnings available to common shareholders, including other items, for the year ended December 31, 2011 were $901 million or $3.48 per share compared to net earnings available to common shareholders, including other items, of $731 million or $2.78 per share in 2010.

Total assets under management at December 31, 2011 totalled $118.7 billion. This compared with total assets under management of $129.5 billion at December 31, 2010, a decrease of 8.3 per cent. The decrease was driven primarily by declining stock market levels in the last half of the year.

Dividends were $2.10 per share for the year, up from $2.05 in the prior year.

The Investors Group Consultant network continued to expand by opening five new region offices during 2011. The company now has 106 region offices across Canada. There were 4,608 Consultants at December 31, 2011.

Investors Group mutual fund assets under management were $57.7 billion at the end of 2011, compared with $61.8 billion in 2010. Mutual fund sales were $6.0 billion, compared with mutual fund sales in 2010 of $5.7 billion. The redemption rate on long-term mutual funds for 2011 was 8.8 per cent compared to 8.3 per cent at December 31, 2010. Net sales of mutual funds in 2011 were $39 million.

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. Throughout the year, consultants worked with clients to help them understand the impact of financial market volatility on their long-term financial planning.

Mackenzie's total assets under management were $61.7 billion at the end of 2011, compared with $68.3 billion at December 31, 2010. Total sales were $10.3 billion, down from the prior year's level of $12.2 billion. Total net redemptions for the year were $2.5 billion, compared with $1.5 billion in 2010.

Mackenzie 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 2011, Mackenzie broadened its investment choices for Canadians by adding several new funds and more options, including tax-deferred solutions.

Individuals with a financial advisor save more and are better prepared for retirement, at all income and age levels.

PARGESA

Directly and through the Belgian holding company Groupe Bruxelles Lambert (GBL), the Pargesa group holds significant positions 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.

Pargesa's operating earnings stood at SF343 million in 2011 versus SF466 million in 2010. The decline in income was mainly due to a weakening of the euro against the Swiss franc, Pargesa's reporting currency. The average 2011 rate declined 13.0 per cent and Pargesa recorded a SF55 million exchange loss on the sale of euros resulting from the sale of its interest in Imerys to GBL. Moreover, although Imerys' income rose, its contribution at the Pargesa level declined due to the latter's decreased economic interest in this holding. After the assumption of a SF416 million write-down on GBL's interest in Lafarge, net income showed a SF65 million loss. The write-down had no impact on the group's cash or adjusted net assets.

At the end of December 2011, Pargesa's adjusted net asset value was SF6.7 billion. This represents a value of SF80.0 per Pargesa share, compared with SF99.8 at the end of 2010, a decrease of 19.8 per cent expressed in Swiss francs.

The 2011 financial crisis put a stop to the cyclical upturn in industrial production and international trade that began in 2010. After rebounding sharply in 2010, economic growth slowed again in the second half of last year. The European debt crisis spread to the real economy as the weakening of European banking systems led to a slowdown in lending, and drastic emergency public spending cuts in some countries had a negative impact on growth. By the end of fiscal 2011, the euro zone had entered a recession.

At the next annual meeting of shareholders on May 16, 2012, Pargesa's board of directors will propose paying a dividend of SF2.57 per holder's share, for a total distribution of SF217.5 million. The dividend per share of SF2.57 represents a 5.5 per cent decrease, in Swiss francs, but a 2.4 per cent increase when expressed in euros, the currency in which the portfolio of the group is denominated.

GROUP DEVELOPMENTS

One of the most notable group developments this year was the sale of Pargesa's stake in Imerys to GBL. In April 2011, Pargesa sold its 25.6 per cent interest in Imerys for €1,087 million to GBL, thereby concentrating the ownership and oversight of Imerys within GBL. The position stood at 57.0 per cent as at December 31, 2011. The purpose of this transaction from Pargesa's perspective was to ensure that it had adequate cash resources to meet debt maturities coming due over the next two years. Pargesa's only holding now consists of its 50 per cent investment in GBL. GBL also took action to extend upcoming maturing debt during the year.

The companies in the Power Financial group were active in the capital markets in February 2012 with the issuance of perpetual preferred shares to improve the quality of capital: Great-West Lifeco issued $250 million of First Preferred Shares, Series P, and Power Financial issued $250 million of First Preferred Shares, Series R.

CANADA'S RETIREMENT READINESS

The evolving savings and retirement readiness of Canadians are matters of vital importance in an environment of volatile economic and market conditions, and the demographic pressures of an aging work force, longer life expectancies and shorter working careers.

Studies show that 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, mainly because they do not save enough or do not benefit from participation in a retirement plan. Enhancements to the system can and should be made in order to facilitate and incent Canadians to save more. The retirement readiness of Canadians is best enhanced through targeted, incremental changes to an already well-balanced retirement system which blends public and private responsibility.

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. Moreover, the relationship with a financial advisor generally starts early in life and, contrary to popular belief, begins when the individual has a relatively low level of financial assets. The value of advice is based upon the impact of a long-term relationship between an individual or household and a financial advisor where saving habits and market discipline are built over time.

BOARD OF DIRECTORS

Several Directors will not stand for re-election at the May 2012 Annual Meeting of Shareholders.

Mr. Brian Aune joined the Board of Power Financial Corporation in 2006. He had been Chairman and Chief Executive Officer of Nesbitt Thomson for over ten years, and brought to the Board the benefit of his involvement in the financial services industry and in many other Canadian business sectors.

The Right Honourable Donald F. Mazankowski was first elected to the Board in 1996, following a distinguished career of public service during which he held the posts of Deputy Prime Minister of Canada, Minister of Finance, President of the Treasury Board, Minister of Transport, Minister of Agriculture and President of the Queen's Privy Council for Canada. He served on the Executive Committee of the Board. He has also served for many years on the Boards and Board Committees of Power Corporation, Great-West Lifeco and subsidiaries, and IGM Financial and subsidiaries, where he chaired the Audit Committee.

Mr. Jerry E. A. Nickerson, Chairman of the Board of H.B. Nickerson and Sons Limited, has been a Director of Power Financial Corporation since 1999, bringing with him many years of business experience. In recent years, he sat on the Audit Committee of the Board. Mr. Nickerson has also served as a Director of Power Corporation and Great-West Lifeco and subsidiaries, and as a member of several committees of these companies' boards. He chaired the Audit Committees of Great-West Lifeco and the Great-West Life Assurance Company from 1994 to 2009 and of other subsidiaries at various times during that period.

In addition, and in keeping with the Corporation's practice of maintaining a majority of Directors who are independent of management, several Directors who are also, and will remain, senior officers of the Corporation or its affiliates will not stand for re-election. They are Messrs. Raymond L. McFeetors, Michel Plessis-Bélair (who will be named a Vice-Chairman of the Corporation), Dr. Henri-Paul Rousseau, and Mr. Amaury de Seze.

On behalf of the Board and the shareholders, we wish to thank all of these Directors for their valuable service to Power Financial Corporation and its affiliates over many years. During their tenure and with the benefit of their judgment and wise counsel, the Power Financial group made several important acquisitions and dispositions, successfully confronted the economic challenges of recent years, and achieved long-term performance of which they should be justifiably proud.

FUTURE OUTLOOK

The last several years have been extremely challenging for the developed economies of the world and for the financial services industry in particular. Despite great progress on many fronts, many structural imbalances remain to be resolved, including the large fiscal or trade deficits in many countries. In the financial services industry, there is the added risk that the regulatory reform pendulum may swing back so hard that it exacerbates the resolution of these problems.

Despite the obstacles, the need for products and services that help individuals prepare for and live comfortably in retirement will continue to grow in the future. Against this backdrop, Power Financial continues to pursue its strategy based on a long-term view of the opportunities that lie ahead for our group companies.

We do so with confidence in the future.

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 2011 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 14, 2012

Responsible Management

Responsible management has long been an intrinsic corporate value at our company and is a constant priority that we believe is essential to long-term profitability and value creation. Responsible management defines our approach at Power Financial, in all facets of our business. It informs our efforts when dealing with corporate social responsibility (CSR) issues and initiatives relating to our portfolio companies. The same is true with the manner in which we manage our relationships with the communities where we are established and the ethical way in which we treat our customers, employees and business partners.

OVERSIGHT: WE REMAIN COMMITTED TO FURTHERING OUR RESPONSIBLE MANAGEMENT PHILOSOPHY, PREDICATED ON A STRONG FOUNDATION OF INTEGRITY AND ETHICAL CONDUCT.

Our CSR Statement, which can be found on our website, reflects our philosophy of responsible management. It helps shape the corporate culture we foster throughout the Power Financial group of companies.

A Power Financial officer has been tasked with overseeing the implementation of our CSR Statement and will be providing annual progress reports on our CSR initiatives to the Governance and Nominating Committee of the Board of Directors.

We encourage and support the efforts of our portfolio companies to develop initiatives consistent with our CSR Statement. We also work with our operating subsidiaries on group-wide CSR strategic issues.

PEOPLE: WE SUPPORT OUR PEOPLE BY PROVIDING AN ENRICHING, RESPECTFUL, BALANCED AND REWARDING WORK ENVIRONMENT.

We rely on all the people in our group of companies for the success of our business. A motivated work force respected by management is one of the most effective means we have to create long-term value for our shareholders. We actively support a culture of development and performance. We seek to create flexible and balanced workplaces that recognize the value of diversity and personal well-being.

Our people are the ambassadors of our core values. Our management philosophy is based on teamwork and trust, especially critical in our business environment where they are charged with earning the trust of our customers. We will continue to ensure they benefit from positive working relationships and opportunities for personal growth.

SOCIETY: WE CONTRIBUTE TO SOCIETY BY OFFERING SOUND PRODUCTS AND SERVICES, AND BY SUPPORTING THE COMMUNITIES WHERE WE ARE ESTABLISHED.

The mainstay of our business is financial services. Our companies help customers achieve their financial and retirement goals by providing financial advice and planning products and services. We believe that the companies in which we invest have sound and well-structured products that meet customer needs and provide value. Our primary areas of focus are life and health protection, retirement savings and investment advisory services. Our companies operate in a financially prudent manner and have sustainable business models within their relative markets.

In the context of our responsible management and active ownership approach, we recognize the importance of integrating environmental, social and governance considerations when interacting with our portfolio companies.

As part of our CSR values, we strive to be responsible corporate citizens and make a positive contribution to the communities where the Corporation is established. Through our parent company, Power Corporation, we have generously contributed to more than 800 organizations through the years and supported many employee volunteering initiatives. We will continue to support our communities with a focus on health, education, arts and culture, community development, and the environment.

ENVIRONMENT: WE WORK TO REDUCE THE ENVIRONMENTAL IMPACT OF OUR BUSINESSES THROUGH CONTINUOUS IMPROVEMENT.

Sound environmental practices and behaviours are well-rooted in how the Corporation approaches its business activities, and we remain committed to conducting our activities in an environmentally-responsible manner.

As a holding company, our limited direct environmental impact is primarily related to the activities of our head office, which has no production, manufacturing or service operations. Over the years, we have focused our efforts on resource conservation, energy efficiency and waste management. We remain committed to continuously reducing our limited impact while working with our group companies to support their environmental management initiatives.

COLLABORATION AND TRANSPARENCY: WE ARE COMMITTED TO RESPONSIBLE DISCLOSURE.

We believe in enhancing our disclosure to better communicate our responsible management activities. We realize this is an area that continues to grow in importance for our stakeholders. Over the coming years, we will be improving the quality of our CSR reporting to provide meaningful information to our stakeholders.

Our group companies have a long and proud history of contributing to the well-being of the communities in which they operate.

Great-West Lifeco

Great-West Lifeco is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Great-West 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. Great-West Lifeco and its companies have over $502 billion in total assets under administration.

Great-West Lifeco's financial condition remains very solid as a result of its continued strong performance in 2011. The company delivered superior results compared to peer companies in its industry due to strong organic growth of premiums and deposits, as well as solid investment performance, despite challenging market conditions.

Great-West Lifeco's companies continue to benefit from 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 Great-West Lifeco and its companies over the long term. Great-West Lifeco's approach to asset and liability management has minimized exposure to interest rate movements. In Canada, Great-West Lifeco continued to offer segregated fund guarantees in a judicious and disciplined manner, thereby limiting risk exposure. As a result of these practices, Great-West 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 204 per cent on a consolidated basis at December 31, 2011. This measure of capital strength remains at the upper end of the company's target operating range.

At December 31, 2011, Great-West Lifeco held cash and cash equivalents of approximately $600 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 Great-West Lifeco's operating subsidiaries. It augments Great-West Lifeco's capital and liquidity position, thereby enhancing its capability to take advantage of market opportunities.

Great-West Life
London Life | Canada Life

CANADA

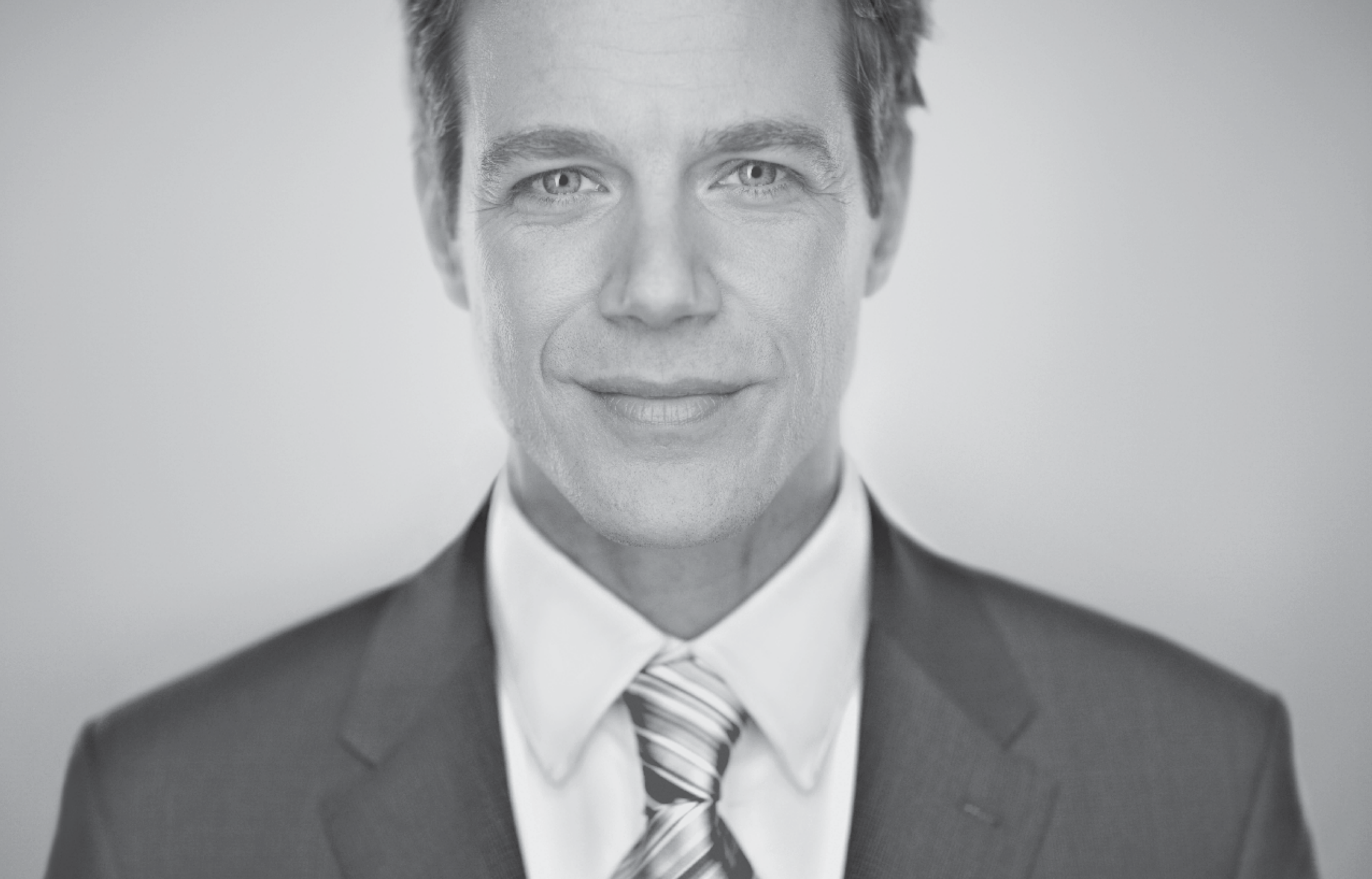
Great-West Life—founded in Winnipeg, Manitoba in 1891, is a leading Canadian insurer, with interests in life insurance, health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe. In Canada, Great-West Life and its subsidiaries, London Life 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.
London Life—founded in London, Ontario in 1874, has been helping Canadians meet their financial security needs for more than 135 years.
Canada Life—founded in 1847, was Canada's first domestic life insurance company.

GREAT-WEST LIFE

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 distribution 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, health care, dental care, critical illness, disability, wellness and international benefits, plus convenient online services. The company 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 our companies, as well as independent advisors, brokers and consultants.

In 2011 Great-West Life and its subsidiaries continued to see strong sustained performance in their Canadian businesses. Their individual insurance business grew slightly faster than the market; the group retirement services business recorded solid growth; the group insurance business continued to experience strong persistency; and the individual segregated fund and mutual fund businesses maintained positive net cash flows.



Our businesses are focused on helping individuals achieve and maintain financial security throughout their lifetimes.

LONDON LIFE

London Life offers financial security advice and planning through its more than 3,150-member Freedom 55 Financial division. Freedom 55 Financial offers London Life's own brand of investment, savings and retirement income, annuities, 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. A London Life subsidiary, Quadrus Investment Services Ltd., offers 43 exclusive mutual funds under the *Quadrus Group of Funds*™ brand.

The relationship the company has with advisors supports the very strong persistency of its business, provides a strategic advantage and contributes to strong market share across multiple lines of business.

CANADA LIFE

In Canada, the company offers a broad range of insurance and wealth management products and services for individuals, families and business owners from coast to coast. These products include investments, savings and retirement income, annuities, life, disability and critical illness insurance.

Canada Life, together with Great-West Life, is a leading provider of individual disability and critical illness insurance in Canada.

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 | EUROPE

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; savings and individual insurance in the Isle of Man; individual insurance, savings and pension products in Ireland; and fund-based pensions, critical illness and disability insurance in Germany. Through its Reinsurance Division, Canada Life is a leading provider of traditional mortality, structured and annuity reinsurance solutions for life insurers in the United States and in international markets.

As a result of its continued emphasis on credit and expense controls, Canada Life was in a strong position coming into 2011, and this focus was maintained throughout the year. Additionally, there was renewed attention on risk and risk management, as Canada Life prepares for the advent of Solvency II in Europe.

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 the group insurance business. Sales of payout annuities were very strong in the early part of 2011.

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. Despite challenging market conditions for unit-linked providers, retirement savings product sales, and in particular sales of the market-leading Guaranteed Minimum Withdrawal Benefit (GMWB) product, showed strong growth in 2011. Canada Life's serious illness and GMWB products retained their status as the leaders in their categories in a recent poll of insurance intermediaries.

In Ireland, Canada Life became the first company to launch a guaranteed variable annuity product, and also launched a new Income Opportunities Fund, managed by Setanta Asset Management, the group's asset manager in Ireland.

In 2011, reinsurance demand remained strong, particularly for structured reinsurance solutions with U.S. life insurers. Canada Life continued to leverage its financial strength, disciplined risk management practices and excellent client relationships to achieve strong business results in the face of significant catastrophe impacts early in the year. The company continues to follow capital developments globally for potential business opportunities.

Great-West Life & Annuity

UNITED STATES

Great-West Life & Annuity is a leading provider of employer-sponsored retirement savings plans. GWL&A and its subsidiaries offer fund management, investment and advisory services, as well as record-keeping and administrative services for other plan providers. GWL&A also offers business-owned life insurance, executive benefits products, individual retirement accounts, life insurance and annuities. The company markets its products and services nationwide through its sales force and distribution partners.

In 2011, GWL&A made significant progress on its strategic plan. Key initiatives to increase sales and assets under management, enhance service and launch new products laid the groundwork for accelerated growth.

Expanded distribution and diverse product offerings contributed to a 23 per cent increase in corporate 401(k) plan sales and a jump in regional and national business-owned life insurance cases to nine in 2011 from three the previous year. An agreement with a nationwide financial distributor created a high-potential channel for corporate 401(k) sales, while GWL&A also added distribution partners to drive additional sales of individual life insurance products.

A new online sales tool aggregated information about 401(k) prospects, advisors, plans and sales metrics to increase opportunities and sales force productivity. A new customer relationship management system consolidated legacy databases to improve service to plan sponsors and partners and enhance client retention.

The Maxim Lifetime Asset Allocation Series mutual funds, which provide retirement target date options, and the Maxim SecureFoundation Portfolios, which offer guaranteed lifetime income within retirement plans, together ranked 10th in net flows among U.S. target date offerings in 2011. An individual retirement account rollover initiative helped increase asset retention.

A new hybrid product accounted for 26 per cent of business-owned life insurance sales in 2011. A collective trust product introduced in 2011 provides target date asset allocation investment solutions to large corporate and government plan markets.

Putnam Investments

UNITED STATES
EUROPE
ASIA

This year, Putnam celebrates 75 years of managing money for individual and institutional investors. Inspired by balance, the firm has practised an active, risk-conscious approach to pursuing client mandates since the launch of the George Putnam Balanced Fund in 1937. Putnam today provides investment services across a range of equity, fixed income, absolute return and alternative strategies. The global asset manager and retirement plan provider distributes those services largely through intermediaries via its offices and strategic alliances in North America, Europe and Asia.

Putnam made significant progress in 2011 as the firm continued to focus on further bolstering its investment and distribution capabilities, retirement offerings, brand strength in the marketplace, state-of-the-art technology and innovative product offerings, while maintaining award-winning customer service.

The firm expanded its product line during the year with funds that seek to help advisors and their clients manage the challenges of the current investment era, through the introduction of Putnam Dynamic Risk Allocation Fund, Putnam Short Duration Income Fund, and the Putnam Retirement Income Lifestyle Funds.

Putnam continued to bring value-added thought leadership and differentiated practice management services to the marketplace last year. Putnam launched the acclaimed FundVisualizer™ tool and Wealth Management Center for financial advisors, as well as the Putnam Institute, which aims to critically examine key investment theories and issues of importance to individual and institutional investors, consultants, plan sponsors and financial advisors.

In 2011, Putnam was recognized by a number of industry observers for strong investment results, service and business leadership. The firm received six Lipper Fund Awards based on performance excellence across multiple asset classes for periods of three years or more. Additionally, Putnam won the DALBAR Service Award for the 22nd consecutive year for providing the highest levels of investor service to mutual fund shareholders, and was named Retirement Leader of the Year by a major industry publication.

IGM Financial

IGM Financial is one of Canada's premier personal financial services companies, and one of the country's largest managers and distributors of mutual funds and other managed asset products, with over $118 billion in total assets under management at December 31, 2011. The company serves the financial needs of Canadians through multiple distinct businesses, including Investors Group, Mackenzie Financial and Investment Planning Counsel. Fundamental to its activities is the belief in the value of advice in contributing to the advancement of the financial literacy and financial security of Canadians.

IGM Financial and its operating companies experienced an increase in net earnings in 2011. Average total assets under management increased year over year. Investors Group Inc. and Mackenzie Financial Corporation, the company'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 component of the company'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 industry in the last few years as a result of emerging research and continued public interest in enhanced financial literacy.

The scope of the company's business and its association with other members of the Power Financial Corporation group of companies have placed IGM Financial 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.

IGM Financial is committed to the principles of corporate social responsibility. The company has a long-standing practice of corporate giving through a range of philanthropic activities at IGM Financial and within each of its operating companies. Their people contribute to communities across Canada through active participation in volunteer organizations, industry

committees and professional associations. The company conducts its business in a manner that respects the long-term financial, economic, environmental and social interests of the communities in which it operates. IGM Financial is committed to the principles of good governance practices which consider the long-term returns to the company's shareholders and its responsibilities to its clients. In keeping with this commitment, IGM Financial has adopted an extensive written code of conduct that governs its directors, officers and employees.

The Investors Group consultant network continued to expand by opening five new region offices during 2011. The company now has 106 region offices across Canada. There were 4,608 consultants at December 31, 2011. 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.

Mackenzie 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. This focus is evidenced by the strength of Mackenzie's relationships with financial advisors, the work undertaken with investor and advisor education programs, and the company's commitment to focusing on active investment management strategies. During 2011, Mackenzie added 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, as well as innovative investment and service solutions for investors.

The value of advice is based upon a long-term relationship between a household and a financial advisor where saving habits are built over time.

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 4,600 consultants to nearly one million Canadians. Investors Group offers investment management, securities, insurance, mortgage and other financial services to its clients through integrated financial planning. The company's commitment to training and support is integral to consultants' ability to deliver effective financial advice. Investors Group's culture provides consultants with an entrepreneurial environment and unique support structure to deliver personalized service and knowledgeable advice to clients.

In 2011, 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.

Clients enhance their financial literacy and gain financial confidence as 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 2011, the company implemented a number of enhancements to its fixed income offering in order to address the current low interest rate environment and provide appropriate diversification opportunities for clients. Investors Fixed Income Flex Portfolio was introduced in February and Investors Canadian Corporate Bond Fund in May.

In November, three new equity mandates were added—Investors Core Canadian Equity, Investors Core U.S. Equity, and IG Putnam U.S. Growth. The company also announced the proposed merger of eight funds with similar investment mandates. These proposed mergers are intended to provide more effective management and, in some cases, broader, more diversified investment mandates, which in turn will provide the potential for more stable long-term performance.

In 2011, the consultant network growth, the active engagement of over 1,700 employees, the increased communication in response to the global financial situation, the continual refinement of financial planning, and the expanding product and service offerings demonstrated the company's commitment to meet the evolving financial needs of Canadians.

Mackenzie Financial

Mackenzie is a multidimensional financial services company with more than 150 mutual funds and is recognized as one of Canada's premier investment managers, providing investment advisory and related services in North America. The company provides investment management services through multiple product offerings utilizing proprietary investment research and experienced investment professionals. The company distributes its investment services through multiple distribution channels to both retail and institutional investors. Mackenzie is dedicated to providing clients with high-quality, innovative investment solutions, and strives to maintain strong long-term investment performance across its multiple product offerings.

In 2011, Mackenzie continued to focus on business growth, innovation and responsiveness, and professional growth.

On September 2, Mackenzie entered into an agreement with B2B Trust, a subsidiary of Laurentian Bank, under which B2B Trust would acquire 100 per cent of M.R.S. Trust Company and M.R.S. Inc. in a share purchase transaction. The transaction closed on November 16. This sale allows the company to focus all of its energy and resources moving forward on its core business of investment management.

Mackenzie's product lineup continued to evolve with a number of product launches during the year, including Mackenzie Saxon Dividend Income Class, a tax-efficient version of Mackenzie Saxon Dividend Income Fund, and the Canadian Shield Fund was converted from a closed-end investment fund to Mackenzie Universal Canadian Shield Fund, an open-end mutual fund. In November, Mackenzie became one of the few mutual fund distributors to offer the Registered Disability Savings Plan (RDSP). The strength of Mackenzie's retail distribution network is built on long-standing and expanding relationships. These relationships allow the company's products to be efficiently distributed through retail brokers, financial advisors, insurance agents, banks, pension consulting firms and financial institutions, giving Mackenzie one of the broadest retail distribution platforms of any investment company in Canada. With the realignment of its sales teams to focus on strategic alliances and the retail and institutional channels, Mackenzie is positioned to serve the needs of different types of investors across the insurance channel, group retirement platforms, sub-advisory needs, pension plans, corporations and individuals working with a financial advisor.

Pargesa group

The Pargesa group holds significant positions in six large companies based in Europe: Imerys (industrial minerals), Lafarge (cement, aggregates and concrete), 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 56.5 per cent equity interest (76.0 per cent of the voting rights) in Pargesa Holding SA, the Pargesa group's parent company based in Geneva, Switzerland.

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 April 2011, Pargesa sold its 25.6 per cent stake in Imerys to GBL for €1,087 million so as to concentrate within the latter the oversight of its controlling stake, which was 57.0 per cent as at December 31, 2011. There were no other major changes in the group's investment portfolio in 2011.

In 2011, the group's holdings all posted increases in revenues. Their operating performance also improved, except for Lafarge, which was impacted by high cost inflation and by negative foreign exchange.

At the level of Pargesa, according to the economic presentation of results, net operating earnings declined 26.5 per cent to SF342 million, mainly due to a decrease in the euro against the Swiss franc, the reporting currency used in Pargesa's financial statements. After a write-down of SF416 million of GBL's interest in Lafarge, Pargesa recorded a loss of SF65 million.

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 and Packaging, and Ceramics, Refractaries, Abrasives and Foundry.

In 2011, Imerys' end markets held up well overall compared to 2010, a year of strong rebound and inventory rebuilding. Sales grew by 9.8 per cent to €3.7 billion, current operating income rose 15.5 per cent to €487 million and net income, after non-recurring items, was up 25.3 per cent to €303 million.

LAFARGE

With operations in more than 64 countries, Lafarge, a world leader in building materials, holds leading positions in each of its markets: cement, aggregates and concrete.

In 2011, the group's sales were up 3 per cent to €15.3 billion, sustained by growing volumes in emerging markets and favourable weather conditions in the last quarter. High cost inflation and negative foreign exchange impacts weighed on current operating income, which fell 8.9 per cent to €2.2 billion. Net income, after non-recurring items, stood at €593 million, compared to €827 million in 2010.

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.

Despite a backdrop of economic slowdown, ongoing pressure on global oil supplies drove the average price of crude oil above US$111/barrel, a 40 per cent increase over the previous year. This environment was favourable for upstream operations, but difficult for downstream operations in Europe. The European refining margin indicator (ERMI) fell to US$17.4/tonne from US$27.4/tonne in 2010, while the average gas selling price rose 27 per cent. In this context, net income stood at €12.3 billion versus €10.6 billion in 2010.

Contrary to popular belief, the relationship with a financial advisor generally starts when an individual has a relatively low level of financial assets.

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.

In 2011, the company recorded sales of €90.7 billion, up 7.3 per cent, despite exceptionally mild weather in Europe and a gas rate freeze in France. EBITDA was up 9.5 per cent to €16.5 billion, reflecting the contribution of International Power, which was integrated into the group in February 2011. Net income, after non-recurring items, stood at €4.0 billion versus €4.6 billion the previous year.

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 2011, the group's sales stood at €14.8 billion, up 6.9 per cent from the previous year. Current operating income, which rose 1.4 per cent to €1.0 billion, was impacted by additional construction costs for the Melbourne desalination plant. Net income, after non-recurring items, stood at €323 million versus €565 million in 2010.

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 global co-leader in wines and spirits.

In 2010–2011, Pernod Ricard's sales grew 8 per cent to €7.6 billion. The gross margin after logistics costs was up 9.3 per cent to €4.6 billion. Net income stood at €1,045 million compared to €951 million the previous year.

Review of Financial Performance

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

MARCH 14, 2012

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

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

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the foregoing list of factors, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including its most recent MD&A and its Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

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

Overview

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

As at December 31, 2011, Power Financial and IGM held 68.2% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. As at December 31, 2011, Power Financial and Great-West Life, a subsidiary of Lifeco, held 57.6% and 3.6%, respectively, of IGM's common shares.

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère group each hold a 50% interest in Parjointco, which, as at December 31, 2011, held a 56.5% equity interest in Pargesa, representing 76.0% of the voting rights of that company. These figures do not reflect the dilution which could result from the potential conversion of outstanding debentures convertible into new bearer shares issued by Pargesa in 2006 and 2007.

The Pargesa group has holdings in major companies based in Europe. These investments are held by Pargesa through its affiliated Belgian holding company, Groupe Bruxelles Lambert. As at December 31, 2011, Pargesa held a 50.0% equity interest in GBL, representing 52.0% of the voting rights.

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

In addition, Pargesa and GBL have also invested, or committed to invest, in the area of private equity, including in the French private equity funds Sagard 1 and Sagard 2, whose management company is a subsidiary of Power Corporation.

Basis of Presentation and Summary of Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

INCLUSION OF PARGESA'S RESULTS

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

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

NON-IFRS FINANCIAL MEASURES

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

> operating earnings; and

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

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

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

Results of Power Financial Corporation

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

EARNINGS SUMMARY — CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

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

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

OPERATING EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

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

CONTRIBUTION TO OPERATING EARNINGS FROM SUBSIDIARIES AND INVESTMENT IN ASSOCIATES

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

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

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

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

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

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

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

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

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

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

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

- Although the results of Imerys for the twelve-month period ended December 31, 2011 were 25% higher than in the corresponding period in 2010, the contribution from Imerys to Pargesa's earnings decreased by 13% in 2011, due to a smaller percentage of ownership as Pargesa's direct interest in Imerys was sold to GBL in April 2011 and due to the weakening of the euro against the Swiss franc.
- The contribution of Lafarge to Pargesa's operating earnings decreased for the twelve-month period ended December 31, 2011, due to lower operating earnings at Lafarge and the effect of currency, as explained above.
- The results of Pargesa also include a foreign currency loss of SF55 million on the sale of the euros resulting from the proceeds of the disposal of the Imerys shareholding. This loss was partly offset by gains in GBL's private equity portfolio for an amount of SF19 million.

RESULTS FROM CORPORATE ACTIVITIES

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

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

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

OTHER ITEMS

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

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

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

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

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

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

NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

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

Condensed Consolidated Balance Sheets

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

[1] Condensed supplementary balance sheets of the Corporation using the equity method to account for Lifeco and IGM.
[2] Under the equity basis presentation, cash equivalents include $430 million ($470 million at December 31, 2010) of fixed income securities with maturities of more than 90 days. In the Consolidated Financial Statements, this amount of cash equivalents is classified in investments.

CONSOLIDATED BASIS

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

Total assets of the Corporation increased to $252.7 billion at December 31, 2011, compared with $244.6 billion at December 31, 2010.

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

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

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

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

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

Assets under administration of Lifeco and IGM are as follows:

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

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

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

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

EQUITY BASIS

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

Cash and cash equivalents held by Power Financial amounted to $707 million at December 31, 2011, compared with $713 million at the end of December 2010. The amount of quarterly dividends declared by the Corporation but not yet paid was $274 million at December 31, 2011. The amount of dividends declared by IGM but not yet received by the Corporation was $80 million at December 31, 2011.

In managing its own cash and cash equivalents, Power Financial may hold cash balances or invest in short-term paper or equivalents, as well as deposits, denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may, from time to time, enter into currency-hedging transactions with financial institutions with high credit ratings. As at December 31, 2011, essentially all of the $707 million of cash and cash equivalents was denominated in Canadian dollars or in foreign currencies with currency hedges in place.

The carrying value at equity of Power Financial's investments in Lifeco, IGM and Parjointco increased to $13,369 million at December 31, 2011, compared with $12,660 million at December 31, 2010. This increase is explained as follows:

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

EQUITY

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

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

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

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

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

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

OUTSTANDING NUMBER OF COMMON SHARES

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

Cash Flows

CONDENSED CASH FLOWS — CONSOLIDATED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CASH FLOWS — CORPORATE

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

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends, are principally made up of dividends received from its subsidiaries and associates and income from investments, less operating expenses, financing charges, and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations generally and pay dividends depends in particular upon receipt of sufficient funds from their subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital standards be maintained. As well, the capitalization of Lifeco's principal subsidiaries takes into account the views expressed by the various credit rating agencies that provide ratings related to financial strength and other measures relating to those companies. The payment of dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital and liquidity requirements established by regulatory authorities.

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

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

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

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Corporation's 2011 Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying the Corporation's 2011 Consolidated Financial Statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Corporation's businesses and operations. The significant accounting estimates are as follows:

FAIR VALUE MEASUREMENT

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

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

In accordance with IFRS 7, *Financial Instruments—Disclosure*, the Corporation's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

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

> Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

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

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

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

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

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

IMPAIRMENT

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

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

GOODWILL AND INTANGIBLES IMPAIRMENT TESTING

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

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

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

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

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

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

INCOME TAXES

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

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

EMPLOYEE FUTURE BENEFITS

The Corporation and its subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The defined contribution pension plans provide pension benefits based on accumulated employee and Corporation contributions. The Corporation and its subsidiaries also provide post employment health, dental and life insurance benefits to eligible employees and advisors. For further information on the Corporation's pension plans and other post-employment benefits refer to Note 27 to the Corporation's 2011 Consolidated Financial Statements.

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

DEFERRED SELLING COMMISSIONS

Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2011, there were no indications of impairment to deferred selling commissions.

Future Accounting Changes

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

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

> IFRS 4 – Insurance Contracts The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of Lifeco. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.

Lifeco will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; Lifeco continues to actively monitor developments in this area.

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

> IFRS 9 – Financial Instruments The IASB approved the adoption of the proposed new *Financial Instruments* standard to be effective January 1, 2015.

The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables.

The new standard also requires:

- embedded derivatives to be assessed for classification together with their financial asset host;
- a single expected loss impairment method be used for financial assets; and
- amendments to the criteria for hedge accounting and measuring effectiveness.

The full impact of IFRS 9 on the Corporation will be evaluated after the remaining stages of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*—impairment methodology, hedge accounting, and asset and liability offsetting—are finalized. The Corporation continues to actively monitor developments in this area.

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

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

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

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

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

- **IAS 1 – Presentation of Financial Statements** Effective for the Corporation on January 1, 2013, IAS 1, *Presentation of Financial Statements* includes requirements that other comprehensive income be classified by nature and grouped between those items that will be classified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation.
- **IAS 19 – Employee Benefits** The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through other comprehensive income while the net pension asset or liability would reflect the full funded status of the plan on the balance sheets. Further, the standard includes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity.

  The Corporation will continue to use the corridor method until January 1, 2013, when the revised IAS for employee benefits becomes effective.
- **IAS 32 – Financial Instruments: Presentation** In December 2011, the IASB issued amendments to IAS 32 which clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments will be effective for the Corporation on January 1, 2014.

Risk Factors

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

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

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

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

Off-Balance Sheet Arrangements

GUARANTEES

In the normal course of their businesses, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

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

Lifeco, through certain of its operating subsidiaries, has provided letters of credit to both external and internal parties, which are described in Note 32 to the Corporation's 2011 Consolidated Financial Statements.

Contingent Liabilities

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

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

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

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

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

During the fourth quarter of 2011, Lifeco re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholder net earnings of Lifeco by $223 million after tax. Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured. Based on information presently known, the original decision, if sustained on further appeal, is not expected to have a material adverse effect on the consolidated financial position of Lifeco.

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

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

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

Related Party Transactions

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

During 2011, IGM sold residential mortgage loans to Great-West Life and London Life for $202 million (2010–$226 million). These transactions were at market terms and conditions.

Commitments/Contractual Obligations

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

PAYMENTS DUE BY PERIOD	TOTAL	LESS THAN 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
Long-term debt[1]	5,888	609	2	5,277
Deposits and certificates	151	131	15	5
Obligations to securitization entities	3,827	547	3,261	19
Operating leases[2]	710	149	395	166
Purchase obligations[3]	136	65	71	
Contractual commitments[4]	675	555	120	
Total	11,387	2,056	3,864	5,467
Letters of credit[5]				

[1] Please refer to Note 16 to the Corporation's 2011 Consolidated Financial Statements for further information.
[2] Includes office space and certain equipment used in the normal course of business. Lease payments are charged to operations in the period of use.
[3] Purchase obligations are commitments of Lifeco to acquire goods and services, essentially related to information services.
[4] Represents commitments by Lifeco. These contractual commitments are essentially commitments of investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.
[5] Please refer to Note 32 to the Corporation's 2011 Consolidated Financial Statements.

Financial Instruments

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment (please refer to Note 29 to the Corporation's 2011 Consolidated Financial Statements).

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

> prohibiting the use of derivative instruments for speculative purposes;

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

> demonstrating the effectiveness of the hedging relationships; and

> monitoring the hedging relationship.

There were no major changes to the Corporation's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2011. There has been a slight increase in the notional amount outstanding ($14,948 million at December 31, 2011, compared with $14,923 million at December 31, 2010) and an increase in the exposure to credit risk ($1,056 million at December 31, 2011, compared with $1,029 million at December 31, 2010) that represents the market value of those instruments, which are in a gain position. See Note 28 to the Corporation's 2011 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2011, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2011.

Internal Control Over Financial Reporting

Based on their evaluations as of December 31, 2011, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal controls over financial reporting were effective as at December 31, 2011. During the fourth quarter of 2011, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Subsequent Events

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

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

Selected Annual Information

FOR THE YEARS ENDED DECEMBER 31	2011	2010	2009
	(IFRS)	(IFRS)	(PREVIOUS CANADIAN GAAP)
Total revenue including discontinued operations	32,433	32,559	32,697
Operating earnings attributable to common shareholders [1]	1,729	1,625	1,533
per share—basic	2.44	2.30	2.05
Net earnings attributable to common shareholders	1,722	1,468	1,351
per share—basic	2.43	2.08	1.92
per share—diluted	2.41	2.06	1.91
Earnings from discontinued operations attributable to common shareholders	38	1	2
per share—basic	0.05		
per share—diluted	0.05		
Earnings from continuing operations attributable to common shareholders	1,684	1,467	1,349
per share—basic	2.38	2.08	1.92
per share—diluted	2.36	2.06	1.91
Consolidated assets	252,678	244,644	140,231
Total financial liabilities	15,184	17,748	13,602
Debentures and other borrowings	5,888	6,313	5,967
Shareholders' equity	13,521	12,811	13,207
Book value per share	16.26	15.26	16.27
Number of common shares outstanding (millions)	708.2	708.0	705.7
Dividends per share (declared)			
Common shares	1.4000	1.4000	1.4000
First preferred shares			
Series A	0.5250	0.45238	0.42744
Series C [2]		0.9750	1.3000
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series J [3]		0.5875	1.1750
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series M	1.5000	1.5000	1.7538
Series O [4]	1.4500	1.4500	0.45288
Series P [5]	1.1000	0.6487	

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

Consolidated Financial Statements

Consolidated Balance Sheets

[IN MILLIONS OF CANADIAN DOLLARS]	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
ASSETS			
Cash and cash equivalents [Note 5]	3,385	3,656	4,855
Investments [Note 6]			
Bonds	78,759	73,582	67,388
Mortgages and other loans	21,518	20,209	20,613
Shares	6,402	6,415	6,392
Investment properties	3,201	2,957	2,615
Loans to policyholders	7,162	6,827	6,957
	117,042	109,990	103,965
Funds held by ceding insurers [Note 7]	9,923	9,856	10,984
Reinsurance assets [Note 13]	2,061	2,533	2,800
Investment in associates [Note 8]	2,222	2,448	2,829
Owner-occupied properties [Note 9]	541	489	479
Capital assets [Note 9]	197	176	190
Derivative financial instruments [Note 28]	1,056	1,029	775
Other assets [Note 10]	4,653	4,679	4,774
Deferred tax assets [Note 19]	1,207	1,220	1,262
Intangible assets [Note 11]	5,023	5,024	5,206
Goodwill [Note 11]	8,786	8,717	8,655
Segregated funds for the risk of unit holders [Note 12]	96,582	94,827	87,495
Total assets	252,678	244,644	234,269
LIABILITIES			
Insurance contract liabilities [Note 13]	114,730	107,405	105,028
Investment contract liabilities [Note 13]	782	791	841
Deposits and certificates [Note 14]	151	835	907
Funds held under reinsurance contracts	169	149	331
Obligation to securitization entities [Note 15]	3,827	3,505	3,310
Debentures and other borrowings [Note 16]	5,888	6,313	5,931
Capital trust securities [Note 17]	533	535	540
Derivative financial instruments [Note 28]	427	244	359
Preferred shares of the Corporation [Note 20]	–	–	300
Preferred shares of subsidiaries	–	–	199
Other liabilities [Note 18]	5,516	7,383	6,608
Deferred tax liabilities [Note 19]	1,258	1,105	978
Insurance and investment contracts on account of unit holders [Note 12]	96,582	94,827	87,495
Total liabilities	229,863	223,092	212,827
EQUITY			
Stated capital [Note 20]			
Perpetual preferred shares	2,005	2,005	1,725
Common shares	639	636	605
Retained earnings	10,743	9,982	9,523
Reserves	134	188	969
Total shareholders' equity	13,521	12,811	12,822
Non-controlling interests [Note 22]	9,294	8,741	8,620
Total equity	22,815	21,552	21,442
Total liabilities and equity	252,678	244,644	234,269

Approved by the Board of Directors

Signed,
Raymond Royer
Director

Signed,
R. Jeffrey Orr
Director

Consolidated Statements of Earnings

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS]	2011	2010
REVENUES		
Premium income		
Gross premiums written	20,013	20,404
Ceded premiums	(2,720)	(2,656)
Total net premiums	17,293	17,748
Net investment income [Note 6]		
Regular net investment income	5,610	5,815
Change in fair value	4,154	3,785
	9,764	9,600
Fee income	5,343	5,174
Total revenues	32,400	32,522
EXPENSES		
Policyholder benefits		
Insurance and investment contracts		
Gross	16,591	17,550
Ceded	(1,217)	(2,208)
	15,374	15,342
Policyholder dividends and experience refunds	1,424	1,466
Change in insurance and investment contract liabilities	6,245	6,417
Total paid or credited to policyholders	23,043	23,225
Commissions	2,312	2,216
Operating and administrative expenses [Note 25]	3,006	3,837
Financing charges [Note 26]	409	432
Total expenses	28,770	29,710
	3,630	2,812
Share of earnings (losses) of investment in associates [Note 8]	(20)	121
Earnings before income taxes—continuing operations	3,610	2,933
Income taxes [Note 19]	706	523
Net earnings—continuing operations	2,904	2,410
Net earnings—discontinued operations [Note 4]	63	2
Net earnings	2,967	2,412
Attributable to		
Non-controlling interests [Note 22]	1,141	845
Perpetual preferred shareholders	104	99
Common shareholders	1,722	1,468
	2,967	2,412
Earnings per common share [Note 30]		
Net earnings attributable to common shareholders		
—Basic	2.43	2.08
—Diluted	2.41	2.06
Net earnings from continuing operations attributable to common shareholders		
—Basic	2.38	2.08
—Diluted	2.36	2.06

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2011	2010
Net earnings	2,967	2,412
Other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	226	169
Income tax (expense) benefit	(48)	(46)
Realized (gains) losses transferred to net earnings	(116)	(88)
Income tax expense (benefit)	30	18
	92	53
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	(24)	77
Income tax (expense) benefit	10	(27)
Realized (gains) losses transferred to net earnings	2	2
Income tax expense (benefit)	(1)	(1)
	(13)	51
Net unrealized foreign exchange gains (losses) on translation of foreign operations	214	(574)
Share of other comprehensive income of associates	(222)	(446)
Other comprehensive income (loss)	71	(916)
Total comprehensive income	3,038	1,496
Attributable to		
Non-controlling interests	1,269	713
Perpetual preferred shareholders	104	99
Common shareholders	1,665	684
	3,038	1,496

Consolidated Statements of Changes in Equity

YEAR ENDED DECEMBER 31, 2011 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES					
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance, beginning of year	2,005	636	9,982	108	856	(776)	188	8,741	21,552
Net earnings	–	–	1,826	–	–	–	–	1,141	2,967
Other comprehensive income	–	–	–	–	(162)	105	(57)	128	71
Total comprehensive income	–	–	1,826	–	(162)	105	(57)	1,269	3,038
Dividends to shareholders									
Perpetual preferred shares	–	–	(104)	–	–	–	–	–	(104)
Common shares	–	–	(991)	–	–	–	–	–	(991)
Dividends to non-controlling interests	–	–	–	–	–	–	–	(640)	(640)
Share-based compensation	–	–	–	8	–	–	8	2	10
Stock options exercised	–	3	–	(5)	–	–	(5)	(2)	(4)
Effects of changes in ownership and capital on non-controlling interests	–	–	–	–	–	–	–	(76)	(76)
Other	–	–	30	–	–	–	–	–	30
Balance, end of year	2,005	639	10,743	111	694	(671)	134	9,294	22,815

YEAR ENDED DECEMBER 31, 2010 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES					
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance, beginning of year	1,725	605	9,523	105	864	–	969	8,620	21,442
Net earnings	–	–	1,567	–	–	–	–	845	2,412
Other comprehensive income	–	–	–	–	(8)	(776)	(784)	(132)	(916)
Total comprehensive income	–	–	1,567	–	(8)	(776)	(784)	713	1,496
Issue of perpetual preferred shares	280	–	–	–	–	–	–	–	280
Dividends to shareholders									
Perpetual preferred shares	–	–	(99)	–	–	–	–	–	(99)
Common shares	–	–	(991)	–	–	–	–	–	(991)
Dividends to non-controlling interests	–	–	–	–	–	–	–	(637)	(637)
Share-based compensation	–	–	–	5	–	–	5	3	8
Stock options exercised	–	31	–	(2)	–	–	(2)	(2)	27
Effects of changes in ownership and capital on non-controlling interests	–	–	–	–	–	–	–	44	44
Other	–	–	(18)	–	–	–	–	–	(18)
Balance, end of year	2,005	636	9,982	108	856	(776)	188	8,741	21,552

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2011	2010
OPERATING ACTIVITIES—CONTINUING OPERATIONS		
Earnings before income taxes—continuing operations	3,610	2,933
Income tax paid, net of refunds received	(4)	(197)
Adjusting items		
Change in insurance and investment contract liabilities	6,029	6,654
Change in funds held by ceding insurers	464	649
Change in funds held under reinsurance contracts	25	(121)
Change in deferred acquisition costs	(15)	(49)
Change in reinsurance contracts	415	160
Change in fair value of financial instruments	(4,182)	(3,838)
Other	(837)	342
	5,505	6,533
FINANCING ACTIVITIES—CONTINUING OPERATIONS		
Dividends paid		
By subsidiaries to non-controlling interests	(640)	(632)
Perpetual preferred shares	(104)	(96)
Common shares	(991)	(990)
	(1,735)	(1,718)
Issue of common shares by the Corporation [Note 20]	3	31
Issue of common shares by subsidiaries	61	84
Issue of perpetual preferred shares by the Corporation [Note 20]	–	280
Issue of preferred shares by subsidiaries	–	400
Repurchase of preferred shares by the Corporation [Note 20]	–	(305)
Repurchase of common shares by subsidiaries	(186)	(157)
Redemption of preferred shares by subsidiaries	–	(507)
Changes in other debt instruments	(6)	(54)
Issue of debentures [Note 16]	–	700
Repayment of debentures [Note 16]	(450)	(200)
Change in obligations related to assets sold under repurchase agreements	(408)	5
Change in obligations to securitization entities	319	193
Change in deposits and certificates	(4)	(4)
Other	–	(16)
	(2,406)	(1,268)
INVESTMENT ACTIVITIES—CONTINUING OPERATIONS		
Bond sales and maturities	20,486	19,832
Mortgage loan repayments	1,756	2,102
Sale of shares	2,355	2,653
Change in loans to policyholders	(198)	(135)
Change in repurchase agreements	(1,053)	559
Investment in bonds	(20,510)	(26,624)
Investment in mortgage loans	(3,361)	(2,088)
Investment in shares	(2,643)	(2,116)
Proceeds on disposal of business [Note 4]	199	–
Investment in investment properties and other	(137)	(451)
	(3,106)	(6,268)
Effect of changes in exchange rates on cash and cash equivalents—continuing operations	24	(215)
Increase (decrease) in cash and cash equivalents—continuing operations	17	(1,218)
Cash and cash equivalents, beginning of year	3,656	4,855
Less: Cash and cash equivalents—discontinued operations, beginning of year [Note 5]	(288)	(269)
Cash and cash equivalents—continuing operations, end of year	3,385	3,368
NET CASH FROM CONTINUING OPERATING ACTIVITIES INCLUDE		
Interest and dividends received	5,044	5,044
Interest paid	493	503

Notes to the Consolidated Financial Statements

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

NOTE 1 Corporate Information

Power Financial Corporation (Power Financial or the Corporation) is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada. The registered address of the Corporation is 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services industry in Canada, the United States and Europe and, through its indirect investment in Pargesa, has substantial holdings in companies based in Europe, active in the following industries: oil and gas, electricity, energy services, water and waste management services, industrial minerals, cement and building materials, and wines and spirits.

The Consolidated Financial Statements (financial statements) of Power Financial for the year ended December 31, 2011 were approved for issue by the Board of Directors on March 14, 2012. The Corporation is controlled by 171263 Canada Inc., which is wholly owned by Power Corporation of Canada.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

The financial statements of Power Financial at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements are prepared using IFRS accounting policies, which were adopted by the Corporation for fiscal periods beginning on January 1, 2011, with an effective transition date of January 1, 2010. These accounting policies are based on IFRS and the interpretations of the IFRS Interpretations Committee that the Corporation applied consistently to all periods presented throughout these financial statements.

The Corporation's financial statements were previously prepared in accordance with previous Canadian generally accepted accounting principles—Part V (previous Canadian GAAP), which differs in some areas from IFRS. See Note 3 for an explanation of how the adoption of IFRS has affected the reported financial position, financial performance and accounting policies of the Corporation. This note includes reconciliations and descriptions of the effect of the transition from previous Canadian GAAP to IFRS.

The financial statements include the accounts of Power Financial and all its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries of the Corporation are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases.

The principal subsidiaries of the Corporation are:

> Great-West Lifeco Inc. (direct interest of 68.2% (2010 – 68.3%)), whose major operating subsidiary companies are The Great-West Life Assurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company, The Canada Life Assurance Company, and Putnam Investments, LLC.

> IGM Financial Inc. (direct interest of 57.6% (2010 – 57.0%)), whose major operating subsidiary companies are Investors Group Inc. and Mackenzie Financial Corporation.

> IGM Financial Inc. holds 4.0% (2010 – 4.0%) of the common shares of Great-West Lifeco Inc., and The Great-West Life Assurance Company holds 3.6% (2010 – 3.5%) of the common shares of IGM Financial Inc.

The Corporation also holds a 50% (2010—50%) interest in Parjointco N.V. Parjointco holds a 56.5% (2010—54.1%) equity interest in Pargesa Holding SA. 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 IFRS requires management to exercise judgement in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in those financial statements and accompanying notes. Actual results may differ from these estimates. Areas where estimates are exercised by management include: the valuation and classification of insurance and investment contract liabilities, determination of the fair value and classification for certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes, deferred selling commissions, contingencies, and pension plans and other post-employment benefits. The reported amounts and note disclosures are determined using management's best estimates.

The key areas where judgment has been applied include: the classification of insurance and investment contracts, the classification of financial instruments, deferred income reserves (DIR) and deferred acquisition costs (DAC), the valuation of deferred income tax assets, the determination of which financial assets should be derecognized, the level of componentization of property, plant and equipment, the determination of relationships with subsidiaries and special purpose entities and the identification of cash generating units.

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 insurance and investment contract liabilities relies upon investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available.

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, insurance contract liabilities are computed with the result that benefits and expenses are matched with such revenue.

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 fees derived from mutual fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. These management, administration and distribution fees are included in fee income in the statements of earnings.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits with original maturities 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.

INVESTMENTS

Investments include bonds, mortgages and other loans, shares, investment properties, and loans to policyholders. Investments are classified as either fair value through profit or loss, available for sale, held to maturity, loans and receivables or as non-financial instruments, based on management's intention relating to the purpose and nature for which the instruments were acquired or the characteristics of the investments. The Corporation currently has not classified any investments as held to maturity.

Investments in bonds and shares normally actively traded on a public market are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis. Fixed income securities are included in bonds on the Consolidated Balance Sheets (balance sheets). Fair value through profit or loss investments are recognized at fair value on the balance sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings (statements of earnings). Available-for-sale investments are recognized at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold or impaired. Interest income earned on both fair value through profit or loss and available-for-sale bonds is recorded as investment income earned in the statements of earnings. Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.

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

Investments in mortgages and other loans 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 using the effective interest rate method, 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.

Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. All changes in fair value are recorded as investment income earned in the statements of earnings. Fair values for investment properties are determined using independent qualified appraisal services. Property that is leased that would otherwise be classified as investment property if owned by the Corporation is also included with investment properties.

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 at fair value through profit or loss and available for sale Fair values for bonds classified as fair value through profit or loss 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 fair value through profit or loss 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 at fair value through profit or loss 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 sheets dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

Mortgages and other loans, and Bonds classified as Loans and receivables Disclosure of fair 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.

Investment properties Fair values for investment properties are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment Investments are reviewed regularly on an individual basis to determine impairment status. The Corporation considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The market value of an investment is not 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 other loans, and bonds classified as loans and receivables, provisions are established or impairments recorded 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 bonds, recorded at fair value, the accumulated loss recorded in the investment revaluation reserves is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in earnings, therefore, a reduction due to impairment of these assets will be recorded in earnings. As well, when determined to be impaired, contractual interest is no longer accrued and previous interest accruals are reversed.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (CONTINUED)

TRANSACTION COSTS

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. 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 method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and taken into net earnings using the effective interest method.

INVESTMENT IN ASSOCIATES

Associates are all entities in which the Corporation exercises significant influence over the entity's management and operating and financial policy, without exercising control, and generally implies holding 20% to 50% of the voting rights. Investment in associates are accounted for using the equity method and are initially measured at cost. Subsequently, the share in earnings or losses of the associate attributable to equity holders of the Corporation is recognized in net earnings and the change in equity attributable to equity holders of the Corporation is recognized in equity.

LOANS TO POLICYHOLDERS

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

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is both a user and a provider of reinsurance in order to limit the potential for losses arising from certain exposures. Assumed reinsurance refers to the acceptance of certain insurance risks by Lifeco underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, Lifeco remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Impairment occurs when there is objective evidence that Lifeco will not be able to collect amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement of earnings immediately at the date of purchase and are not amortized.

Premiums and claims ceded for reinsurance are deducted from premiums earned and insurance and investment contract benefits. Assets and liabilities related to reinsurance are reported on a gross basis in the balance sheets. The amount of reserves ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

DERECOGNITION

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

CAPITAL ASSETS AND OWNER-OCCUPIED PROPERTIES

Capital assets and property held for own use are carried at cost less accumulated depreciation and impairments. Depreciation is charged so as to write off the cost of assets, using the straight-line method, over their estimated useful lives, which vary from 3 to 50 years. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

> Buildings, owner-occupied properties, and components	10–50 years
> Equipment, furniture and fixtures	3–10 years
> Other capital assets	3–10 years

OTHER ASSETS

Trading account assets consist of investments in Putnam-sponsored funds, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the balance sheet with realized and unrealized gains and losses reported in the statements of earnings.

Also included in other assets are deferred acquisition costs relating to investment contracts. Deferred acquisition costs are recognized if the costs are incremental and incurred due to the contract being issued.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Following recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets represent finite life and indefinite life intangible assets acquired and software acquired or internally developed. Finite life intangible assets include the value of software, some customer contracts, distribution channels, distribution contracts, technology, deferred selling commissions, and property leases. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 30 years.

Deferred selling commissions Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a mutual fund client redeems certain units in mutual funds, a redemption fee is paid by the client and is recorded as revenue by IGM. The remaining unamortized deferred selling commission asset attributable to the initial sale of these mutual fund units is recorded as a disposal. 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.

Indefinite life intangible assets include brands and trademarks, some customer contracts, the shareholders' portion of acquired future participating account profits, trade names and mutual fund management contracts. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Corporation. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position.

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

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

SEGREGATED FUNDS FOR THE RISK OF UNIT HOLDERS

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by unit holders and are presented separately in the balance sheets at fair value. Investment income and changes in market value of the segregated fund assets are offset by a corresponding change in the segregated fund liabilities.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification Lifeco's products are classified at contract inception, for accounting purposes, as insurance, service or investment contracts, depending on the existence of significant insurance risk. Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing are unknown. When significant insurance risk exists, the contract is accounted for as an insurance contract in accordance with IFRS 4, *Insurance Contracts*. Refer to Note 13 for discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features. Service contracts mainly relate to Group administrative services only (ASO) contracts and are accounted for under IAS 18, *Revenue Recognition*.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 24 on Risk Management.

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

Investment contract liabilities are measured at fair value through profit and loss, while certain annuity products are measured at amortized cost.

DEFERRED INCOME RESERVES

Included in other liabilities are deferred income reserves relating to investment contract liabilities. Deferred income reserves are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years, to release revenue as it is earned over the policy term.

POLICYHOLDER BENEFITS

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, and settlement of claims, as well as changes in the gross valuation of insurance contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

FINANCIAL LIABILITIES

Financial liabilities, other than insurance and investment contract liabilities, are classified as other liabilities. Debentures and other debt instruments, capital trust securities and 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.

SHARE-BASED PAYMENTS

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 share-based compensation reserves. When the stock options are exercised, the proceeds, together with the amount recorded in share-based compensation reserves, are added to the stated capital of the entity issuing the corresponding shares.

Lifeco follows the liability method of accounting for share-based awards issued by its subsidiaries Putnam and PanAgora Asset Management, Inc. Compensation expense is recognized as an increase to operating expenses in the statements of earnings and a liability is recognized on the balance sheets over the vesting period of the share-based awards. The liability is remeasured at fair value at each reporting period and is settled in cash when the shares are purchased from employees.

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. As substantially all of the risks and rewards of ownership of assets are retained, Lifeco does not derecognize the assets. 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 are recorded at fair value on the balance sheets. 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

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (CONTINUED)

and realized gains and losses are recorded in net investment income on the statements of earnings. 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.

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 sheets 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 correlation testing.

Fair value hedges 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.

Cash flow hedges 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 cash flow hedges reserves 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 cash flow hedges reserves to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

Net investment hedges Foreign exchange forward contracts may be 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.

EMBEDDED DERIVATIVES

Embedded derivatives are treated as separate contracts and are recorded at fair value on the balance sheets with changes in fair value in the statements of earnings if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

For the purpose of presenting financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates 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 foreign operations and associates are presented separately as a component of other comprehensive income. Unrealized gains and losses are recognized in earnings when there has been a disposal of a foreign operation or associates.

All other assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates 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-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain defined benefit pension plans as well as defined contribution pension plans for eligible 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, and imputed interest on the accrued benefit obligation, less expected returns on plan assets, which are valued at market value. Past service costs are amortized on a straight-line basis over the average period until the benefits become vested. Vested past service costs are recognized immediately in pension expense. For the Corporation's defined benefit plans, actuarial gains and losses are amortized into the statements of earnings using the straight-line method over the average remaining working life of employees covered by the plan to the extent that the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed corridor limits. The corridor is defined as ten per cent of the greater of the present value of the defined benefit obligation or the fair value of plan assets. The amortization charge is reassessed at the beginning of each year. 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-employment healthcare, dental, and life insurance benefits to eligible retirees, employees and advisors. The current cost of post-employment health, dental and life benefits is charged to earnings using the projected unit credit 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.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (CONTINUED)

INCOME TAXES

On December 20, 2010, the International Accounting Standards Board (IASB) issued "Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)" concerning the determination of deferred tax on investment property measured at fair market value. IAS 12 was updated to include a rebuttable presumption that a deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. The amendments are mandatory for annual periods beginning on or after January 1, 2012, but early adoption is permitted. Lifeco has elected to adopt the amendment effective January 1, 2010.

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current income tax Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current income tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Deferred income tax Deferred income tax is the tax expected to be payable or recoverable on tax loss carry forwards and on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

Under the IFRS liability method, a provision for tax uncertainties which meet the probable threshold for recognition is measured. Measurement of the provision is based on the probability weighted average approach.

LEASES

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation is the lessee, are charged to net earnings over the period of use.

Where the Corporation is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

EARNINGS PER SHARE

Basic earnings per share is determined by dividing net earnings available to common shareholders by the weighted 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 weighted average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

FUTURE ACCOUNTING CHANGES

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

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

IFRS 4 – Insurance Contracts The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of Lifeco. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.

Lifeco will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; Lifeco continues to actively monitor developments in this area.

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

IFRS 9 – Financial Instruments The IASB approved the adoption of the proposed new Financial Instruments standard to be effective January 1, 2015.

The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables.

The new standard also requires:

> embedded derivatives to be assessed for classification together with their financial asset host

> a single expected loss impairment method be used for financial assets

> amendments to the criteria for hedge accounting and measuring effectiveness

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (CONTINUED)

The full impact of IFRS 9 on the Corporation will be evaluated after the remaining stages of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*—impairment methodology, hedge accounting, and asset and liability offsetting—are finalized. The Corporation continues to actively monitor developments in this area.

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

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

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

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

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

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

IAS 19 – Employee Benefits The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through other comprehensive income while the net pension asset or liability would reflect the full funded status of the plan on the balance sheets. Further, the standard includes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity.

The Corporation will continue to use the corridor method until January 1, 2013, when the revised IAS for employee benefits becomes effective.

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

NOTE 3 Transition to IFRS

Power Financial's annual financial statements have been prepared in accordance with IFRS, adopted by the Accounting Standards Board of Canada for financial reporting periods beginning on or after January 1, 2011. References made to International Accounting Standards (IAS) throughout refer to the application of IAS and relate to the interpretations of the IFRS Interpretations Committee.

These are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS, with 2010 comparative figures restated accordingly. Prior to the adoption of IFRS, the consolidated financial statements were prepared in accordance with previous Canadian GAAP.

The effects of the transition to IFRS as of January 1, 2010 on the financial position, financial performance and cash flows are noted below.

RECONCILIATIONS OF PREVIOUS CANADIAN GAAP TO IFRS

At transition to IFRS, the Corporation applied IFRS 1, which requires the Corporation to reconcile shareholders' equity and total comprehensive income for prior periods presented. The adoption of IFRS has not substantially changed the presentation of the Corporation's cash flows, however, it has resulted in certain changes to the Corporation's reported financial position and results of operations. IFRS has also resulted in a number of presentation changes to the Corporation's financial statements. In order for readers to understand the effects of adopting IFRS, reconciliations of the Corporation's financial statements from previous Canadian GAAP to IFRS, along with narrative explanations, have been provided below.

IFRS does not allow the use of hindsight to recreate or revise estimates and consequently the estimates previously made by the Corporation under previous Canadian GAAP were not revised when converting to IFRS, except where necessary to reflect any difference in accounting policies.

The following reconciliations of previous Canadian GAAP to IFRS have been prepared:

i) Reconciliation of the opening balance sheet as at January 1, 2010

ii) Reconciliation of net earnings attributable to shareholders for the year ended December 31, 2010

iii) Reconciliation of total comprehensive income (loss) for the year ended December 31, 2010

iv) Reconciliation of equity as at January 1, 2010, and December 31, 2010

NOTE 3 Transition to IFRS (CONTINUED)

i) RECONCILIATION OF THE OPENING BALANCE SHEET AS AT JANUARY 1, 2010

	REFERENCE	REPORTED UNDER PREVIOUS CGAAP DECEMBER 31, 2009	CONVERSION ADJUSTMENTS	PRESENTATION AND RECLASSIFICATION ADJUSTMENTS	DATE OF TRANSITION TO IFRS JANUARY 1, 2010
ASSETS					
Cash and cash equivalents		4,855	–	–	4,855
Investments					
Bonds		67,388	–	–	67,388
Mortgages and other loans	m	17,356	3,257	–	20,613
Shares		6,392	–	–	6,392
Investment properties	f, g, r	3,101	(85)	(401)	2,615
Loans to policyholders		6,957	–	–	6,957
		101,194	3,172	(401)	103,965
Funds held by ceding insurers	s	10,839	–	145	10,984
Reinsurance assets	s	–	–	2,800	2,800
Investment in associates	o	2,675	154	–	2,829
Owner-occupied properties	d, r	–	40	439	479
Capital assets	d	228	–	(38)	190
Derivative financial instruments	m	837	(62)	–	775
Other assets	a, i, m, n, p, t	5,314	(140)	(400)	4,774
Deferred tax assets	q	1,268	(6)	–	1,262
Intangible assets	l, n	4,366	(7)	847	5,206
Goodwill		8,655	–	–	8,655
Segregated funds for the risk of unit holders	v	–	–	87,495	87,495
Total assets		140,231	3,151	90,887	234,269
LIABILITIES					
Insurance contract liabilities	f, g, h, s, t, u	102,651	(29)	2,406	105,028
Investment contract liabilities	s, t, u	–	–	841	841
Deposits and certificates		907	–	–	907
Funds held under reinsurance contracts	s	186	–	145	331
Obligation to securitization entities	m	–	3,310	–	3,310
Debentures and other borrowings	p	5,967	(36)	–	5,931
Capital trust securities		540	–	–	540
Derivative financial instruments	m	364	(5)	–	359
Preferred shares of the Corporation		300	–	–	300
Preferred shares of subsidiaries	p	203	(4)	–	199
Other liabilities	a, g, h, i, j, k, m, p	5,930	678	–	6,608
Deferred tax liabilities	q	1,098	(120)	–	978
Non-controlling interests	p, w	8,878	(258)	(8,620)	–
Insurance and investment contracts on account of unit holders	v	–	–	87,495	87,495
Total liabilities		127,024	3,536	82,267	212,827
EQUITY					
Stated capital					
Perpetual preferred shares		1,725	–	–	1,725
Common shares		605	–	–	605
Retained earnings		11,165	(1,642)	–	9,523
Contributed surplus	p	102	3	–	105
Accumulated other comprehensive income (loss)	b, c, p, q	(390)	1,254	–	864
Total shareholders' equity		13,207	(385)	–	12,822
Non-controlling interests	w	–	–	8,620	8,620
Total equity		13,207	(385)	8,620	21,442
Total liabilities and equity		140,231	3,151	90,887	234,269

NOTE 3 Transition to IFRS (CONTINUED)

ii) RECONCILIATION OF NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS

FOR THE YEAR ENDED DECEMBER 31	REFERENCE	2010
As reported under previous Canadian GAAP		
Net earnings before non-controlling interests		2,444
Net earnings attributable to non-controlling interests		(860)
Net earnings attributable to shareholders under previous Canadian GAAP		1,584
Adjustments to net earnings as a result of IFRS		
Derecognition of deferred net realized gains	g	(12)
Deferred acquisition costs and deferred income reserves on investment contracts	h	18
Employee benefits	a, i	(26)
Uncertain income tax provisions	j	(26)
Derecognition	m	36
Deferred selling commissions	n	13
Investment in associates	o	7
Recognition of contingent liabilities	k	(10)
Business combinations	e	(8)
Other adjustments	p	(19)
Tax impact of IFRS adjustments	q	(5)
		(32)
Attributable to non-controlling interests		15
Total adjustments to net earnings attributable to shareholders		(17)
Net earnings attributable to shareholders under IFRS		1,567

iii) RECONCILIATION OF TOTAL COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31	REFERENCE	2010
As reported under previous Canadian GAAP		
Total comprehensive income (loss) before non-controlling interests		1,485
Total comprehensive income (loss) attributable to non-controlling interests		(714)
Total comprehensive income (loss) attributable to shareholders under previous Canadian GAAP		771
Adjustments to net earnings as a result of IFRS (as reconciled above)		(17)
Adjustments to other comprehensive income (loss)		
Redesignation of financial assets	c	(29)
Tax impact on redesignation of financial assets	c, q	9
Cumulative translation losses of foreign operations	b	63
		43
Attributable to non-controlling interests		(14)
		29
Adjustments to total comprehensive income attributable to shareholders		12
Total comprehensive income (loss) attributable to shareholders under IFRS		783

NOTE 3 Transition to IFRS (CONTINUED)

iv) RECONCILIATION OF EQUITY

	REFERENCE	DATE OF TRANSITION TO IFRS JANUARY 1, 2010	DECEMBER 31, 2010
Equity under previous Canadian GAAP		13,207	13,184
Total adjustments to equity at date of transition—January 1, 2010		–	8,235
		13,207	21,419
Changes in retained earnings			
IFRS 1 optional elections/exemptions			
Employee benefits—cumulative unamortized actuarial gains and losses	a	(316)	–
Cumulative translation losses of foreign operations	b	(1,650)	–
Redesignation of financial assets	c	(127)	–
Fair value as deemed cost for owner-occupied properties	d	40	–
Mandatory adjustments			
Measurement of investment properties at fair value	f	119	–
Derecognition of deferred net realized gains	g	110	(12)
Deferred acquisition costs and deferred income reserves on investment contracts	h	(508)	18
Unamortized vested past service costs and other employment benefits	i	123	(26)
Uncertain income tax provisions	j	(240)	(26)
Derecognition	m	(127)	36
Intangible assets/Deferred selling commissions	l, n	(10)	13
Investment in associates	o	154	7
Recognition of contingent liabilities	k	(25)	(10)
Business combinations	e	–	(8)
Other adjustments	p	(8)	(19)
Tax impact of IFRS adjustments	q	135	(5)
Attributable to non-controlling interests	p	688	15
		(1,642)	(17)
Changes in contributed surplus			
Graded vesting method for share-based payments	p	5	1
Attributable to non-controlling interests	p	(2)	(1)
		3	–
Changes in accumulated other comprehensive income			
Redesignation of financial assets	c	127	(29)
Tax impact on redesignation of financial assets	c, q	(34)	9
Cumulative translation losses of foreign operations	b	1,650	63
Attributable to non-controlling interests	p	(489)	(14)
		1,254	29
Changes in non-controlling interests			
Presentation of non-controlling interests in equity	p, w	8,620	121
Total changes in equity for the period		8,235	133
Total equity under IFRS, end of period		21,442	21,552

NOTE 3 Transition to IFRS (CONTINUED)

STATEMENT OF CASH FLOWS

Under IFRS, the statement of cash flows continues to be presented using the indirect method with limited presentation differences of operating earnings being presented before tax and cash flows related to tax expense presented separately within operating cash flows. The cash flows reported under the previous Canadian GAAP for operating, financing, and investing activities have not been substantially impacted by the adoption of IFRS requirements.

IFRS 1 FIRST-TIME ADOPTION OF IFRS

In preparing the annual consolidated financial statements, the Corporation has applied IFRS 1, which requires retrospective application of IFRS, except for certain optional exemptions and mandatory exceptions provided in the standard. The optional exemptions adopted by the Corporation and the mandatory exceptions that apply to the Corporation are described below.

IFRS OPTIONAL EXEMPTIONS

a) Employee benefits—cumulative unamortized actuarial gains and losses

The Corporation elected to apply the exemption available to recognize all cumulative unamortized actuarial gains and losses of the Corporation's defined benefit plans in equity upon transition to IFRS. This adjustment, referred to as the "fresh start adjustment", decreased equity by $316 million before tax (decrease of $210 million in shareholders' equity and $106 million in non-controlling interests). Subsequent to transition, the Corporation continues to use the corridor approach available under the present IAS 19, *Employee Benefits* standard for deferring recognition of actuarial gains and losses that reside within the corridor.

b) Cumulative translation adjustments of foreign operations

The Corporation elected to reset its cumulative translation adjustment account for all foreign operations to zero as of January 1, 2010. Future gains or losses on disposal of any foreign operations and associates will therefore exclude translation differences that arose before January 1, 2010. The balance of the cumulative loss to be reclassified from accumulated other comprehensive income (AOCI) to opening retained earnings at January 1, 2010 was $1,188 million (the adjustment of cumulative translation adjustment before non-controlling interests amounted to $1,650 million). As a result of the foreign exchange revaluation of the transitional IFRS adjustments, the total impact to the cumulative translation adjustment was an increase of $63 million for the year ended December 31, 2010.

c) Redesignation of financial assets

Lifeco elected to redesignate certain non-participating available-for-sale financial assets to the fair value through profit or loss classification and certain financial assets classified as fair value through profit or loss under previous Canadian GAAP to available for sale. The redesignation had no overall impact on the Corporation's opening equity at transition but resulted in a reclassification within equity of $127 million before tax and non-controlling interests, between retained earnings and accumulated other comprehensive income.

For the year ended December 31, 2010 the redesignation decreased other comprehensive income by $29 million before tax.

The financial assets carried at fair value in the most recent previous Canadian GAAP consolidated financial statements and at transition to IFRS are as follows:

AS AT JANUARY 1, 2010	FAIR VALUE	UNREALIZED GAINS RECLASSIFIED TO AOCI
Financial assets redesignated to fair value through profit or loss	373	38
Financial assets redesignated to available for sale	360	89

d) Fair value as deemed cost for owner-occupied properties

The Corporation elected to measure some owner-occupied properties at fair value as its deemed cost at the January 1, 2010 transition date, which resulted in an increase to equity of $40 million before tax (increase of $26 million in shareholders' equity and $14 million in non-controlling interests). Subsequent to this date, owner-occupied properties are carried at amortized cost. The total fair value as at January 1, 2010 for owner-occupied properties, which includes a transitional adjustment of $40 million, amounted to $479 million.

e) Business combinations

The Corporation applied the IFRS 1 business combinations exemption and did not restate business combinations that took place prior to the January 1, 2010 transition date, which had no impact on operating figures. The Corporation will apply IFRS 3, *Business Combinations*, prospectively for business combinations occurring on or after January 1, 2010.

Under IFRS, restructuring provisions are only included as part of the acquired liabilities when the acquiree has recognized an existing liability for restructuring in accordance with the applicable IFRS. As a result, restructuring provisions recorded as part of the purchase price allocation under previous Canadian GAAP are charged to earnings under IFRS. This represented an amount of $8 million for the year ended December 31, 2010.

MANDATORY CHANGES IN ACCOUNTING POLICIES AT CONVERSION TO IFRS

MEASUREMENT AND RECOGNITION DIFFERENCES

f) Measurement of investment properties at fair value

Under previous Canadian GAAP, real estate was carried at cost net of write-downs and allowance for loss, plus a moving average market value adjustment. Under IFRS, real estate held for investment purposes is classified as investment property and is measured at fair value. This measurement change increased equity at January 1, 2010 by $119 million before tax (increase of $81 million in shareholders' equity and $38 million in non-controlling interests), with no effect on earnings, offset by the change in accounting for owner-occupied properties, for the year ended December 31, 2010.

g) Deferred net realized gains

Under previous Canadian GAAP, net realized gains and losses associated with the sale of real estate were deferred and included in deferred net realized gains on the balance sheets. These deferred net realized gains and losses were amortized to earnings at a rate of 3% per quarter on a declining balance basis. Under IFRS, gains and losses associated with the sale of investment properties are immediately recognized in earnings and consequently the balance of the unrecognized net deferred realized gains was recognized in equity at transition. This recognition change increased equity at January 1, 2010 by $110 million before tax (increase of $33 million in shareholders' equity and $77 million in non-controlling interests), and decreased earnings by $12 million before tax for the year ended December 31, 2010.

h) Deferred acquisition costs (DAC) and deferred income reserves (DIR) on investment contracts

Under previous Canadian GAAP, DAC relating to policyholder liabilities were deferred in policy liabilities and amortized into consolidated net earnings over the anticipated period of benefit. Under IFRS, DAC on policyholder liabilities reclassified as investment contract liabilities are no longer deferred and amortized into earnings over the anticipated period of benefit but rather recognized through earnings in the period incurred for those costs not incremental to issuing the contract. In addition to DAC, DIR related to fee income on investment contracts will also be deferred and recognized over the term of the contract. The change in measurement for both DAC and DIR decreased equity at January 1, 2010 by $508 million before tax (decrease of $360 million in shareholders' equity and $148 million in non-controlling interests), and increased earnings by $18 million before tax for the year ended December 31, 2010.

i) Unamortized vested past service costs and other employment benefits

Previous Canadian GAAP and IFRS differ in their treatment of other employee benefits, including the timing of recognition of unamortized vested past service costs and certain service awards. The change in recognition for these vested past service costs and other employee benefits under IFRS increased equity at January 1, 2010 by $123 million before tax (increase of $74 million in shareholders' equity and $49 million in non-controlling interests), and decreased earnings by $26 million before tax for the year ended December 31, 2010.

j) Uncertain income tax provisions

The difference in the recognition and measurement of uncertain income tax provisions between previous Canadian GAAP and IFRS decreased equity at January 1, 2010 by $240 million (decrease of $164 million in shareholders' equity and $76 million in non-controlling interests), and has decreased earnings by $26 million for the year ended December 31, 2010.

k) Recognition of contingent liabilities

Under previous Canadian GAAP, a contingent liability was recognized as a result of a past transaction or event if it was likely that it would result in a loss and the amount of the loss could be reasonably estimated.

Under IFRS, a provision is recognized when there is a present obligation as a result of a past transaction or event, it is "probable" that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. The previous Canadian GAAP recognition criterion of "likely" was a higher threshold than "probable" which results in additional provisions being recognized under IFRS. IFRS also provides for the use of the weighted average of all possible outcomes or the midpoint where there is a range of equally possible outcomes. The change in recognition of contingent liabilities decreased equity at January 1, 2010 by $25 million before tax (decrease of $15 million in shareholders' equity and $10 million in non-controlling interests) and decreased earnings by $10 million before tax for the year ended December 31, 2010.

l) Goodwill and intangible asset measurement and impairment testing

Goodwill and intangible assets under IFRS are 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 is greater than or approximates the previous Canadian GAAP carrying value at January 1, 2010 and therefore no transitional adjustment was required.

At each reporting date, the Corporation reviews goodwill and intangible assets for indicators of impairment or reversals of impairment on the intangible assets. In the event that certain conditions have been met, the Corporation is required to reverse the impairment charge, or a portion thereof, on intangible assets.

Under previous Canadian GAAP, goodwill was tested for impairment by comparing the fair value of the reporting unit to which the goodwill was associated with its carrying value. Under IFRS, the carrying value of goodwill is tested for impairment by reference to the cash generating unit in which goodwill is associated. A cash generating unit represents the lowest level in which goodwill is monitored for internal reporting purposes. This change in impairment testing had no impact on the Corporation's financial statements at transition.

Under IFRS, the cost of assets acquired outside of a business combination is not adjusted for the tax effect on any differences between the accounting cost and the tax cost at the time of the acquisition. Opening equity was adjusted by $7 million to reflect the difference in amortization expense related to certain intangible assets where deferred taxes increased the cost of the asset acquired.

m) Derecognition

Under previous Canadian GAAP, derecognition focused on surrendering control over the transferred assets in order to derecognize the assets and recognize a sale.

Under IFRS, derecognition focuses to a greater extent on the transfer of the risks and rewards of ownership in order to derecognize the asset and recognize a sale. As a result, IGM's securitization transactions are accounted for as secured borrowings under IFRS rather than sales, which results in an increase in total assets and liabilities recorded on the balance sheets. The increase in the mortgage balances was $3.5 billion at December 31, 2010 (January 1, 2010—$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, were adjusted. At December 31, 2010, the decrease in other assets was $91 million (January 1, 2010—$129 million) and in other liabilities was $85 million (January 1, 2010—$55 million).

In addition, as these transactions are treated as financing transactions rather than sale transactions, a transitional adjustment to opening retained earnings is required to reflect this change in accounting treatment. Opening retained earnings, revenue and expenses have been adjusted to reflect this change. The change related to derecognition decreased equity at January 1, 2010 by $127 million before tax (decrease of $75 million in shareholders' equity and $52 million in non-controlling interests), and increased earnings by $36 million before tax for the year ended December 31, 2010.

n) Deferred selling commissions

Under previous Canadian GAAP, deferred selling commissions were finite life intangible assets and were presented in other assets. Previous Canadian GAAP did not specifically address the accounting for disposals of finite life intangible assets and as a result, IGM utilized a shorter amortization period in order to account for disposals.

Under IFRS, deferred selling commissions are finite life intangible assets. IFRS more specifically addresses the approach to recording amortization and disposals of intangible assets. The change related to deferred selling commissions decreased equity at January 1, 2010 by $3 million before tax (decrease of $2 million in shareholders' equity and $1 million in non-controlling interests), and has increased earnings by $13 million before tax for the year ended December 31, 2010.

o) Investment in associates

The Corporation increased the carrying value of its investment in associates and its shareholders' equity by an amount of $154 million to reflect amounts previously recognized under IFRS by Pargesa which were not recognized under previous Canadian GAAP as at January 1, 2010. The largest component of this adjustment consists of the Corporation's share of the reversal in 2009 of an impairment charge recorded by Groupe Bruxelles Lambert for an amount of $139 million. Other adjustments during 2010 resulted in an increase of $7 million for the year ended December 31, 2010.

NOTE 3 Transition to IFRS (CONTINUED)

p) Other adjustments

In addition to the items described above, several other items have been identified where the transition from previous Canadian GAAP to IFRS resulted in measurement changes. These adjustments mainly include (i) the capitalization of transaction costs on other than held-for-trading financial liabilities under IFRS, as opposed to being charged to earnings under previous Canadian GAAP, (ii) the adoption of the graded vesting method to account for all stock options for some subsidiaries, and the adoption and classification as liabilities for certain share-based payments and (iii) Lifeco's preferred shares previously recorded at fair value are recorded at amortized cost under IFRS.

Furthermore, the total impact of all the adjustments related to IFRS 1 and mandatory changes in accounting policies at conversion (as listed from a) to q)) to non-controlling interests amounted to $258 million as at January 1, 2010.

q) Tax impact of IFRS adjustments

The tax effect of the above adjustments, excluding the uncertain tax provisions, is a decrease to tax liabilities of $120 million at transition (increase of $92 million in shareholders' equity and of $28 million in non-controlling interests), and has decreased earnings by $5 million for the year ended December 31, 2010.

PRESENTATION AND CLASSIFICATION DIFFERENCES

r) Presentation of real estate properties

Properties classified as real estate under previous Canadian GAAP are reclassified to investment properties ($2,615 million) and to owner-occupied properties ($401 million) in the balance sheets under IFRS.

s) Presentation of reinsurance accounts

Reinsurance accounts are presented on a gross basis on the balance sheets, totalling $2,800 million of reinsurance assets with an offsetting increase to insurance and investment contract liabilities and no impact to equity. Funds-withheld asset and liability accounts have also been adjusted and are presented as a gross amount of $145 million. Presentation of gross reinsurance revenues and expenses is also required within the statements of earnings.

t) Reclassification of deferred acquisition costs

The deferred acquisition costs of $447 million recognized on investment contracts that were included within policy liabilities under previous Canadian GAAP have been reclassified to other assets on the balance sheets.

u) Presentation of insurance and investment contract liabilities

Under previous Canadian GAAP, all policyholder-related liabilities were classified as actuarial liabilities and valued using the Canadian Asset Liability Method (CALM). Under IFRS 4, *Insurance Contracts*, contracts are classified and measured depending on the existence of significant insurance risk. If significant insurance risk exists, the contract is classified as an insurance contract and IFRS permits the Corporation to continue to measure insurance contract liabilities using CALM. If significant insurance risk does not exist, then the contract is classified as an investment contract and measured at either fair value or amortized cost. The change in reclassification had no impact on opening equity at January 1, 2010, or consolidated earnings and comprehensive income at December 31, 2010.

The reconciled amount of policy liabilities under previous Canadian GAAP to insurance and investment contract liabilities under IFRS at transition is as follows:

Policy liabilities under previous Canadian GAAP at December 31, 2009:	
Actuarial liabilities	98,059
Provision for claims	1,308
Provision for policyholder dividends	606
Provision for experience rating refunds	317
Policyholder funds	2,361
	102,651
IFRS conversion adjustments:	
Remeasurement of deferred acquisition costs	151
Fair value of investment properties backing liabilities	(203)
Recognition of deferred net realized gains	23
Subtotal—IFRS conversion adjustments	(29)
IFRS reclassification adjustments:	
Deferred acquisition costs to other assets	447
Reinsurance assets offset by reinsurance liabilities	2,800
Subtotal—IFRS reclassification adjustments	3,247
Total investment and insurance contract liabilities under IFRS at January 1, 2010	105,869
Attributable to	
Insurance contract liabilities	105,028
Investment contract liabilities	841
	105,869

v) Presentation of segregated funds on the balance sheets

Under IFRS, the assets and liabilities of the segregated funds, totalling $87.5 billion at January 1, 2010, are included at fair value on the balance sheets as a line item within both assets and liabilities. There was no measurement change impacting equity.

w) Presentation of non-controlling interests within equity

Under previous Canadian GAAP, non-controlling interests were presented between liabilities and equity, whereas under IFRS non-controlling interests are presented within the equity section of the balance sheet. This reclassification of non-controlling interests represents an increase of $8,878 million to equity as a result of this change in presentation at transition to IFRS.

NOTE 4 Discontinued Operations

On November 16, 2011, IGM completed the sale of 100% of the common shares of M.R.S. Trust Company and M.R.S. Inc. (MRS). Cash consideration was $199 million in addition to the repayment of $20 million of subordinated debt and the assumption of the liability related to amounts held on deposit with MRS by Investors Group Securities Inc.

In accordance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, the operating results and cash flows of MRS, which were previously included in the IGM reportable segment, have been classified as discontinued operations.

Net earnings from discontinued operations are as follows:

	PERIOD ENDED NOVEMBER 15, 2011	YEAR ENDED DECEMBER 31, 2010
REVENUES		
Net investment income	14	14
Fee income	19	23
	33	37
EXPENSES		
Operating and administrative expenses	27	31
Income taxes (recovery)	(27)	4
	–	35
	33	2
Gain on sale, net of tax	30	–
Net earnings—discontinued operations	63	2
Attributable to		
Non-controlling interests	25	1
Common shareholders	38	1
	63	2

Cash flows from discontinued operations are as follows:

	PERIOD ENDED NOVEMBER 15, 2011	YEAR ENDED DECEMBER 31, 2010
Net cash flows from operating activities	7	6
Net cash flows from financing activities	(33)	(69)
Net cash flows from investing activities	165	82
Net increase in cash and cash equivalents	139	19

NOTE 5 Cash and Cash Equivalents

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Cash	912	678	1,026
Cash equivalents	2,473	2,690	3,560
Cash and cash equivalents—continuing operations	3,385	3,368	4,586
Cash and cash equivalents—discontinued operations	–	288	269
	3,385	3,656	4,855

NOTE 6 Investments

CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Bonds						
Designated as fair value through profit or loss[1]	60,112	60,112	55,251	55,251	51,269	51,269
Classified as fair value through profit or loss[1]	1,853	1,853	1,748	1,748	1,759	1,759
Available for sale	7,050	7,050	7,293	7,293	5,195	5,195
Loans and receivables	9,744	10,785	9,290	9,942	9,165	9,421
	78,759	79,800	73,582	74,234	67,388	67,644
Mortgages and other loans						
Loans and receivables	21,226	22,514	19,985	20,833	20,372	20,682
Designated as fair value through profit or loss[1]	292	292	224	224	241	241
	21,518	22,806	20,209	21,057	20,613	20,923
Shares						
Designated as fair value through profit or loss[1]	5,502	5,502	5,364	5,364	4,928	4,928
Available for sale	900	900	1,051	1,051	1,464	1,464
	6,402	6,402	6,415	6,415	6,392	6,392
Investment properties	3,201	3,201	2,957	2,957	2,615	2,615
Loans to policyholders	7,162	7,162	6,827	6,827	6,957	6,957
	117,042	119,371	109,990	111,490	103,965	104,531

[1] Investments can be categorized as fair value through profit or loss in two ways; designated as fair value through profit or loss at the option of management, or classified as fair value through profit or loss if they are actively traded for the purpose of earning investment income.

BONDS AND MORTGAGES

Carrying value of bonds and mortgages due over the current and non-current term are as follows:

	CARRYING VALUE			
	TERM TO MATURITY			
DECEMBER 31, 2011	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL
Bonds	7,627	17,450	53,367	78,444
Mortgage loans	2,042	8,916	10,249	21,207
	9,669	26,366	63,616	99,651

	CARRYING VALUE			
	TERM TO MATURITY			
DECEMBER 31, 2010	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL
Bonds	8,299	16,122	48,833	73,254
Mortgage loans	1,900	8,201	9,855	19,956
	10,199	24,323	58,688	93,210

	CARRYING VALUE			
	TERM TO MATURITY			
JANUARY 1, 2010	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL
Bonds	6,977	15,719	44,435	67,131
Mortgage loans	1,871	7,987	10,464	20,322
	8,848	23,706	54,899	87,453

The above table excludes the carrying value of impaired bonds and mortgages, as the ultimate timing of collectability is uncertain.

NOTE 6 Investments (CONTINUED)

IMPAIRED INVESTMENTS, ALLOWANCE FOR CREDIT LOSSES, INVESTMENTS WITH RESTRUCTURED TERMS

The carrying amount of impaired investments is as follows:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Impaired amounts by type [1]			
Fair value through profit or loss	290	302	239
Available for sale	51	29	23
Loans and receivables	36	51	71
Total	377	382	333

[1] Excludes amounts in funds held by ceding insurers of nil at December 31, 2011, $11 million at December 31, 2010 and $6 million at January 1, 2010.

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

	2011	2010
Balance, beginning of year	68	88
Net provision (recovery) for credit losses	(13)	(5)
Write-offs, net of recoveries	(15)	(8)
Other (including foreign exchange rate changes)	(3)	(7)
Balance, end of year	37	68

The allowance for credit losses is supplemented by the provision for future credit losses included in policy liabilities.

Lifeco holds investments with restructured terms or which have been exchanged for securities with amended terms. These investments are performing according to their new terms. The carrying value of these investments is as follows:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Bonds	16	23	36
Bonds with equity conversion features	119	150	169
Mortgages	17	18	1
	152	191	206

NET INVESTMENT INCOME

2011	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income:						
Investment income earned	3,780	940	190	254	396	5,560
Net realized gains (losses) (available for sale)	119	–	7	–	–	126
Net realized gains (losses) (other classifications)	11	33	–	–	–	44
Net recovery (provision) for credit losses (loans and receivables)	20	(7)	–	–	–	13
Other income and expenses	–	(2)	–	(65)	(66)	(133)
	3,930	964	197	189	330	5,610
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) (classified fair value through profit or loss)	74	–	–	–	–	74
Net realized/unrealized gains (losses) (designated fair value through profit or loss)	4,166	(7)	(280)	143	58	4,080
	4,240	(7)	(280)	143	58	4,154
Net investment income (loss)	8,170	957	(83)	332	388	9,764

NOTE 6 Investments (CONTINUED)

2010	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income:						
Investment income earned	3,818	960	209	242	578	5,807
Net realized gains (losses) (available for sale)	72	–	12	–	–	84
Net realized gains (losses) (other classifications)	14	36	–	–	–	50
Net recovery (provision) for credit losses (loans and receivables)	5	(3)	–	–	–	2
Other income and expenses	–	6	–	(64)	(70)	(128)
	3,909	999	221	178	508	5,815
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) (classified fair value through profit or loss)	40	–	–	–	–	40
Net realized/unrealized gains (losses) (designated fair value through profit or loss)	3,012	(39)	603	162	7	3,745
	3,052	(39)	603	162	7	3,785
Net investment income	6,961	960	824	340	515	9,600

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from shares includes dividends and distributions. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties.

INVESTMENT PROPERTIES

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

	2011	2010
Balance, beginning of year	2,957	2,615
Additions	161	353
Change in fair value through profit or loss	143	162
Disposals	(99)	(18)
Foreign exchange rate changes	39	(155)
Balance, end of year	3,201	2,957

NOTE 7 Funds Held by Ceding Insurers

Included in funds held by ceding insurers of $9,923 million at December 31, 2011 ($9,856 million at December 31, 2010 and $10,984 million at January 1, 2010) is an agreement with Standard Life Assurance Limited (Standard Life). During 2008, Canada Life International Re Limited (CLIRE), Lifeco's indirect wholly owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K.-based provider of life, pension and investment products, to assume a large block of payout annuities by way of indemnity reinsurance. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit. These amounts on deposit are included in funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreement are included in net investment income on the statements of earnings.

NOTE 7 Funds Held by Ceding Insurers (CONTINUED)

At December 31, 2011 CLIRE had amounts on deposit of $9,411 million ($9,333 million at December 31, 2010 and $10,329 million at January 1, 2010). The details of the funds on deposit and related credit risk on the funds are as follows:

Carrying values and estimated fair values

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents	49	49	138	138	25	25
Bonds	9,182	9,182	9,031	9,031	10,121	10,121
Other assets	180	180	164	164	183	183
	9,411	9,411	9,333	9,333	10,329	10,329
Supporting:						
Reinsurance liabilities	9,082	9,082	8,990	8,990	9,999	9,999
Surplus	329	329	343	343	330	330
	9,411	9,411	9,333	9,333	10,329	10,329

Included in the amount on deposit are impaired investments with a carrying amount of nil at December 31, 2011 ($11 million at December 31, 2010 and $6 million at January 1, 2010) that are net of impairments of nil at December 31, 2011 ($17 million at December 31, 2010 and $4 million at January 1, 2010).

The following table provides details of the carrying value of bonds included in the funds on deposit by industry sector:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Bonds issued or guaranteed by:			
Provincial, state and municipal governments	88	37	41
Other foreign governments	3,074	3,250	3,913
Government-related	369	252	292
Supranationals	128	107	115
Asset-backed securities	242	244	242
Residential mortgage-backed securities	73	54	81
Banks	1,807	2,040	2,232
Other financial institutions	747	652	681
Basic materials	21	19	16
Communications	239	241	278
Consumer products	404	464	517
Industrial products/services	26	14	13
Natural resources	220	147	218
Real estate	381	373	393
Transportation	117	94	97
Utilities	1,135	950	962
Miscellaneous	111	93	30
Total bonds	9,182	9,031	10,121

The following table provides details of the carrying value of bonds by asset quality:

BOND PORTFOLIO QUALITY	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
AAA	3,520	3,542	4,318
AA	1,819	1,725	1,843
A	3,116	3,019	3,181
BBB	468	396	409
BB and lower	259	349	370
Total bonds	9,182	9,031	10,121

NOTE 8 Investment in Associates

As at December 31, 2011, Parjointco, 50% held by the Corporation, held a 56.5% equity interest in Pargesa (54.1% as at December 31, 2010).

Pargesa's financial information as at December 31, 2011 can be obtained in its publicly available information.

The carrying value of the investment in associates is as follows:

	2011	2010
Carrying value, beginning of year	2,448	2,829
Share of earnings (losses)	(20)	121
Share of other comprehensive income (loss)	(222)	(446)
Dividends	–	(56)
Other	16	–
Carrying value, end of year	2,222	2,448

During 2011, Pargesa recorded an impairment charge on its investment in Lafarge S.A. An impairment test was performed as Lafarge's share price has persistently been at a level significantly below its carrying value. In 2011, the test was renewed in a weakened economic environment, and led to determining a value in use below the existing carrying value. The impairment recorded results in a reduction of the carrying value of Lafarge. The Corporation's share of this charge was $133 million.

The net asset value of the Corporation's interest in Pargesa is $2,047 million as at December 31, 2011. The carrying value of the investment in Pargesa, adjusted for other comprehensive income amounts, is $2,046 million.

NOTE 9 Owner-Occupied Properties and Capital Assets

The carrying value of owner-occupied properties and capital assets and the changes in the carrying value of owner-occupied properties and capital assets are as follows:

	2011		2010	
DECEMBER 31	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS
Cost, beginning of year	521	802	507	793
Additions	52	77	24	47
Disposal	–	(33)	–	(16)
Change in foreign exchange rates	4	(18)	(10)	(22)
Cost, end of year	577	828	521	802
Accumulated amortization, beginning of year	(32)	(626)	(28)	(603)
Amortization	(4)	(52)	(5)	(50)
Disposal	–	28	–	10
Change in foreign exchange rates	–	19	1	17
Accumulated amortization, end of year	(36)	(631)	(32)	(626)
Carrying value, end of year	541	197	489	176

The following table provides details of the carrying value of owner-occupied properties and capital assets by geographic location:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Canada	536	474	453
United States	175	166	187
Europe	27	25	29
	738	665	669

NOTE 10 Other Assets

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Premiums in course of collection	422	393	403
Accrued benefit asset [Note 27]	456	355	309
Accounts receivable	965	900	952
Interest due and accrued	1,106	1,042	1,068
Prepaid expenses	129	150	144
Income taxes receivable	181	580	793
Deferred acquisition costs	529	508	501
Other	865	751	604
	4,653	4,679	4,774

It is expected that $3,363 million of other assets will be realized within 12 months from the reporting date. This amount due within 12 months excludes deferred acquisition costs.

Changes in deferred acquisition costs for investment contracts are as follows:

	2011	2010
Balance, beginning of year	508	501
Additions	123	136
Amortization	(71)	(47)
Foreign exchange	6	(41)
Disposals	(37)	(41)
Balance, end of year	529	508

NOTE 11 Goodwill and Intangible Assets

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

	2011			2010		
DECEMBER 31	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Balance, beginning of year	9,607	(890)	8,717	9,599	(944)	8,655
Additions	–	–	–	29	–	29
Change in foreign exchange rates	31	(27)	4	(60)	54	(6)
Other, including effect of repurchase of common shares by subsidiaries	65	–	65	39	–	39
Balance, end of year	9,703	(917)	8,786	9,607	(890)	8,717

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

i) INDEFINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2011	BRANDS AND TRADEMARKS	CUSTOMER CONTRACT-RELATED	SHAREHOLDER PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	714	2,264	354	285	740	4,357
Change in foreign exchange rates	12	57	–	–	–	69
Cost, end of year	726	2,321	354	285	740	4,426
Accumulated impairment, beginning of year	(91)	(801)	–	–	–	(892)
Change in foreign exchange rates	(3)	(24)	–	–	–	(27)
Accumulated impairment, end of year	(94)	(825)	–	–	–	(919)
Carrying value, end of year	632	1,496	354	285	740	3,507

NOTE 11 Goodwill and Intangible Assets (CONTINUED)

DECEMBER 31, 2010	BRANDS AND TRADEMARKS	CUSTOMER CONTRACT-RELATED	SHAREHOLDER PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	746	2,378	354	285	737	4,500
Additions	–	–	–	–	3	3
Change in foreign exchange rates	(32)	(114)	–	–	–	(146)
Cost, end of year	714	2,264	354	285	740	4,357
Accumulated impairment, beginning of year	(97)	(849)	–	–	–	(946)
Change in foreign exchange rates	6	48	–	–	–	54
Accumulated impairment, end of year	(91)	(801)	–	–	–	(892)
Carrying value, end of year	623	1,463	354	285	740	3,465

JANUARY 1, 2010	BRANDS AND TRADEMARKS	CUSTOMER CONTRACT-RELATED	SHAREHOLDER PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost	746	2,378	354	285	737	4,500
Accumulated impairment	(97)	(849)	–	–	–	(946)
Carrying value	649	1,529	354	285	737	3,554

ii) FINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2011	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost, beginning of year	564	100	103	25	449	1,623	2,864
Additions	–	–	4	–	38	238	280
Disposal/redemption	–	–	–	–	(1)	(104)	(105)
Change in foreign exchange rates	7	–	–	–	5	–	12
Other, including write-off of assets fully amortized	–	(2)	–	–	54	(206)	(154)
Cost, end of year	571	98	107	25	545	1,551	2,897
Accumulated amortization, beginning of year	(169)	(24)	(26)	(17)	(240)	(829)	(1,305)
Amortization	(34)	(3)	(7)	(5)	(61)	(237)	(347)
Impairment	–	–	–	–	(4)	–	(4)
Disposal/redemption	–	–	–	–	–	60	60
Change in foreign exchange rates	(1)	–	–	–	(3)	–	(4)
Other, including write-off of assets fully amortized	–	–	–	–	13	206	219
Accumulated amortization, end of year	(204)	(27)	(33)	(22)	(295)	(800)	(1,381)
Carrying value, end of year	367	71	74	3	250	751	1,516

NOTE 11 Goodwill and Intangible Assets (CONTINUED)

DECEMBER 31, 2010	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost, beginning of year	579	108	95	27	400	1,633	2,842
Additions	–	–	8	–	32	239	279
Disposal/redemption	–	–	–	–	–	(109)	(109)
Change in foreign exchange rates	(15)	(8)	–	(2)	(10)	–	(35)
Other, including write-off of assets fully amortized	–	–	–	–	27	(140)	(113)
Cost, end of year	564	100	103	25	449	1,623	2,864
Accumulated amortization, beginning of year	(138)	(22)	(19)	(12)	(213)	(786)	(1,190)
Amortization	(33)	(4)	(7)	(6)	(57)	(244)	(351)
Disposal/redemption	–	–	–	–	–	61	61
Change in foreign exchange rates	2	2	–	1	7	–	12
Other, including write-off of assets fully amortized	–	–	–	–	23	140	163
Accumulated amortization, end of year	(169)	(24)	(26)	(17)	(240)	(829)	(1,305)
Carrying value, end of year	395	76	77	8	209	794	1,559

JANUARY 1, 2010	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost	579	108	95	27	400	1,633	2,842
Accumulated impairment	(138)	(22)	(19)	(12)	(213)	(786)	(1,190)
Carrying value	441	86	76	15	187	847	1,652

Recoverable amount The recoverable amount of all cash generating units is determined as the higher of fair value less cost to sell and value-in-use. Fair value is determined using a combination of commonly accepted valuation methodologies, namely comparable trading multiples, comparable transaction multiples and discounted cash flow analysis. Comparable trading and transaction multiples methodologies calculate value by applying multiples observed in the market against historical results or projections approved by management as applicable. Value calculated by discounted cash flow analysis uses cash flow projections based on financial budgets approved by management covering an initial period (typically four or five years). Value beyond the initial period is derived from applying a terminal value multiple to the final year of the initial projection period. The terminal value multiple is a function of the discount rate and the estimated terminal growth rate. The estimated terminal growth rate is not to exceed the long-term average growth rate (inflation rate) of the markets in which the subsidiaries of the Corporation operates.

For Lifeco, the key assumptions used for the discounted cash flow calculations are based on past experience and external sources of information. The key assumptions are as follows:

> Risk-adjusted discount rates used for the calculation of present value are based on Lifeco's weighted average cost of capital.

> Economic assumptions are based on market yields on risk-free interest rates at the end of each reporting period.

> Terminal growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth; it ranges between 1.5% and 3.0%, depending on the nature of the business.

For IGM, the valuation models used to assess fair value utilized assumptions that include levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data from comparable transactions.

The fair value less cost to sell was compared with the carrying amount of goodwill and indefinite life intangible assets and it was determined there was no impairment in the value of these assets.

NOTE 11 Goodwill and Intangible Assets (CONTINUED)

Allocation to cash generating units Goodwill and indefinite life intangible assets have been assigned to cash generating units as follows:

	2011			2010		
DECEMBER 31	GOODWILL	INTANGIBLES	TOTAL	GOODWILL	INTANGIBLES	TOTAL
LIFECO						
Canada						
Group	1,142	–	1,142	1,142	–	1,142
Individual insurance/wealth management	3,028	973	4,001	3,028	973	4,001
Europe						
Insurance and annuities	1,563	107	1,670	1,563	106	1,669
Reinsurance	1	–	1	–	–	–
United States						
Financial services	127	–	127	124	–	124
Asset management	–	1,402	1,402	–	1,361	1,361
IGM						
Investors Group	1,500	–	1,500	1,464	–	1,464
Mackenzie	1,302	1,003	2,305	1,273	1,003	2,276
Other and corporate	123	22	145	123	22	145
	8,786	3,507	12,293	8,717	3,465	12,182

NOTE 12 Segregated Funds for the Risk of Unit Holders

SEGREGATED FUNDS — CONSOLIDATED NET ASSETS

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Bonds	21,594	19,270	16,056
Mortgage loans	2,303	2,058	1,744
Shares	63,885	64,468	59,111
Investment properties	5,457	5,598	6,012
Cash and cash equivalents	5,334	5,414	5,658
Accrued income	287	245	195
Other liabilities	(2,278)	(2,226)	(1,281)
	96,582	94,827	87,495

SEGREGATED FUNDS — CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31	2011	2010
Segregated funds net assets, beginning of year	94,827	87,495
Additions (deductions):		
Policyholder deposits	13,462	14,074
Net investment income	755	1,009
Net realized capital gains (losses) on investments	1,048	1,565
Net unrealized capital gains (losses) on investments	(3,539)	4,801
Unrealized gains (losses) due to changes in foreign exchange rates	887	(3,441)
Policyholder withdrawals	(10,876)	(10,830)
Net transfer from General Fund	18	154
	1,755	7,332
Segregated funds net assets, end of year	96,582	94,827

NOTE 13 Insurance and Investment Contract Liabilities

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

DECEMBER 31, 2011	GROSS	CEDED	NET
Insurance contract liabilities	114,730	2,061	112,669
Investment contract liabilities	782	–	782
	115,512	2,061	113,451

DECEMBER 31, 2010	GROSS	CEDED	NET
Insurance contract liabilities	107,405	2,533	104,872
Investment contract liabilities	791	–	791
	108,196	2,533	105,663

JANUARY 1, 2010	GROSS	CEDED	NET
Insurance contract liabilities	105,028	2,800	102,228
Investment contract liabilities	841	–	841
	105,869	2,800	103,069

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

DECEMBER 31, 2011	GROSS	CEDED	NET
Participating			
Canada	26,470	(50)	26,520
United States	8,639	18	8,621
Europe	1,230	–	1,230
Non-participating			
Canada	27,099	919	26,180
United States	16,657	276	16,381
Europe	35,417	898	34,519
	115,512	2,061	113,451

DECEMBER 31, 2010	GROSS	CEDED	NET
Participating			
Canada	25,093	5	25,088
United States	8,137	20	8,117
Europe	1,209	–	1,209
Non-participating			
Canada	25,415	1,265	24,150
United States	14,896	301	14,595
Europe	33,446	942	32,504
	108,196	2,533	105,663

JANUARY 1, 2010	GROSS	CEDED	NET
Participating			
Canada	23,113	(12)	23,125
United States	8,280	30	8,250
Europe	1,456	–	1,456
Non-participating			
Canada	23,673	1,219	22,454
United States	14,190	363	13,827
Europe	35,157	1,200	33,957
	105,869	2,800	103,069

NOTE 13 Insurance and Investment Contract Liabilities (CONTINUED)

The composition of the assets supporting insurance and investment contract liabilities and equity of Lifeco is as follows:

DECEMBER 31, 2011	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Carrying value						
Participating liabilities						
Canada	11,862	6,686	3,864	507	3,551	26,470
United States	4,059	152	–	–	4,428	8,639
Europe	855	56	176	22	121	1,230
Non-participating liabilities						
Canada	16,674	4,738	1,329	20	4,338	27,099
United States	13,523	2,369	–	–	765	16,657
Europe	20,449	2,506	119	2,092	10,251	35,417
Other	6,563	484	–	6	100,099	107,152
Total equity	4,088	441	1,216	554	9,805	16,104
Total carrying value	78,073	17,432	6,704	3,201	133,358	238,768
Fair value	79,114	18,662	6,772	3,201	133,358	241,107

DECEMBER 31, 2010	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Carrying value						
Participating liabilities						
Canada	10,872	6,158	3,775	419	3,869	25,093
United States	3,823	169	–	–	4,145	8,137
Europe	804	66	185	27	127	1,209
Non-participating liabilities						
Canada	15,956	5,069	1,431	13	2,946	25,415
United States	12,695	1,474	–	–	727	14,896
Europe	18,970	2,189	108	1,914	10,265	33,446
Other	5,163	511	–	19	100,716	106,409
Total equity	3,920	479	1,201	565	8,651	14,816
Total carrying value	72,203	16,115	6,700	2,957	131,446	229,421
Fair value	72,855	16,880	6,769	2,957	131,446	230,907

JANUARY 1, 2010	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Carrying value						
Participating liabilities						
Canada	10,244	6,025	3,535	324	2,985	23,113
United States	3,763	216	–	–	4,301	8,280
Europe	784	77	224	33	338	1,456
Non-participating liabilities						
Canada	14,309	5,327	991	21	3,025	23,673
United States	11,915	1,451	–	–	824	14,190
Europe	18,923	2,535	131	1,683	11,885	35,157
Other	2,374	483	243	4	95,463	98,567
Total equity	3,835	570	1,318	548	8,437	14,708
Total carrying value	66,147	16,684	6,442	2,613	127,258	219,144
Fair value	66,403	16,891	6,503	2,613	127,258	219,668

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

NOTE 13 Insurance and Investment Contract Liabilities (CONTINUED)

CHANGES IN INSURANCE CONTRACT LIABILITIES

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

	PARTICIPATING			NON-PARTICIPATING			
DECEMBER 31, 2011	GROSS LIABILITY	REINSURANCE ASSET	NET	GROSS LIABILITY	REINSURANCE ASSET	NET	TOTAL NET
Balance, beginning of year	34,398	25	34,373	73,007	2,508	70,499	104,872
Crown Ancillary reclassification	(89)	–	(89)	89	–	89	–
Impact of new business	133	–	133	3,088	(329)	3,417	3,550
Normal change in force	1,719	(14)	1,733	1,910	476	1,434	3,167
Management actions and changes in assumptions	(139)	(45)	(94)	(806)	(583)	(223)	(317)
Impact of foreign exchange rate changes	281	2	279	1,139	21	1,118	1,397
Balance, end of year	36,303	(32)	36,335	78,427	2,093	76,334	112,669

	PARTICIPATING			NON-PARTICIPATING			
DECEMBER 31, 2010	GROSS LIABILITY	REINSURANCE ASSET	NET	GROSS LIABILITY	REINSURANCE ASSET	NET	TOTAL NET
Balance, beginning of year	32,798	18	32,780	72,230	2,782	69,448	102,228
Impact of new business	193	–	193	5,139	141	4,998	5,191
Normal change in force	2,021	9	2,012	(87)	(199)	112	2,124
Management actions and changes in assumptions	(5)	–	(5)	(520)	(96)	(424)	(429)
Business movement from/to external parties	–	–	–	(1)	–	(1)	(1)
Impact of foreign exchange rate changes	(609)	(2)	(607)	(3,754)	(120)	(3,634)	(4,241)
Balance, end of year	34,398	25	34,373	73,007	2,508	70,499	104,872

Under fair value accounting, movement in the market value of the supporting assets is a major factor in the movement of insurance contract 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 insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

In 2011, the major contributors to the increase in net insurance contract liabilities were the impact of new business ($3,550 million increase) and the normal change in the in-force business ($3,167 million increase), primarily due to the change in fair value.

Lifeco's net non-participating insurance contract liabilities decreased by $223 million in 2011 due to management actions and assumption changes including a $68 million decrease in Canada, a $132 million decrease in Europe and a $23 million decrease in the United States.

Lifeco adopted the revised Actuarial Standards of Practice for subsection 2350 relating to future mortality improvement in insurance contract liabilities for life insurance and annuities. The resulting decrease in net non-participating insurance contract liabilities for life insurance was $446 million, including a $182 million decrease in Canada, a $242 million decrease in Europe (primarily reinsurance) and a $22 million decrease in the United States. The resulting change in net insurance contract liabilities for annuities was a $47 million increase, including a $53 million increase in Canada, a $58 million decrease in Europe and a $52 million increase in the United States.

The remaining increase in Canada was primarily due to increased provisions for policyholder behaviour in Individual Insurance ($172 million increase), provision for asset liability matching ($147 million increase), updated base annuity mortality ($43 million increase) and a reclassification from miscellaneous liabilities ($29 million increase), partially offset by updated expenses and taxes ($137 million decrease), updated morbidity assumptions ($101 million decrease), updated base life insurance mortality ($38 million decrease), modelling refinements across the Canadian segment ($40 million decrease) and reinsurance-related management actions ($16 million decrease).

The remaining increase in Europe was primarily due to increased provisions for policyholder behaviour in reinsurance ($227 million increase), updated base life insurance mortality ($50 million increase) and updated morbidity assumptions ($15 million increase), partially offset by modelling refinements in the U.K. and Reinsurance Segments ($69 million decrease), updated base annuity mortality ($42 million decrease), and reduced provisions for asset liability matching ($16 million decrease).

The remaining decrease in the United States was primarily due to updated base annuity mortality ($28 million decrease) and updated base life insurance mortality ($23 million decrease).

Net participating insurance contract liabilities decreased by $94 million in 2011 due to management actions and assumption changes. The decrease was primarily due to decreases in the provision for future policyholder dividends ($1,556 million decrease), modelling refinements in Canada ($256 million decrease), improved Individual Life mortality ($256 million decrease, including $27 million from the Standards of Practice revision) and updated expenses and taxes ($15 million decrease), partially offset by lower investment returns ($1,952 million increase), and increased provisions for policyholder behaviour ($40 million increase).

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

NOTE 13 Insurance and Investment Contract Liabilities (CONTINUED)

Lifeco's net non-participating insurance contract liabilities decreased by $424 million in 2010 due to management actions and assumption changes, including a $246 million decrease in Canada, a $123 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 ($120 million decrease), modelling refinements across the division ($97 million decrease) and updated expenses ($25 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 net participating insurance contract 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).

CHANGES IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

			2011			2010
DECEMBER 31	GROSS	CEDED	NET	GROSS	CEDED	NET
Balance, beginning of year	791	–	791	841	–	841
Normal change in-force business	(54)	–	(54)	(28)	–	(28)
Investment experience	35	–	35	–	–	–
Impact of foreign exchange rate changes	10	–	10	(22)	–	(22)
Balance, end of year	782	–	782	791	–	791

The carrying value of investment contract liabilities approximates its fair value.

CANADIAN UNIVERSAL LIFE EMBEDDED DERIVATIVES

Lifeco bifurcated the index-linked component of the universal life contracts as this embedded derivative is not closely related to the insurance host and is not itself an insurance contract. The forward contracts are contractual agreements in which the policyholder is entitled to the performance of the underlying index. The policyholder may select one or more of the following indices: the TSX, the S&P and the AEX.

ACTUARIAL ASSUMPTIONS

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

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. The actuarial standards were amended to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumption be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

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.

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.

Property and casualty reinsurance Insurance contract 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, insurance contract liabilities have been established using cash flow valuation techniques, including discounting. The insurance contract 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, insurance contract 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.

NOTE 13 Insurance and Investment Contract Liabilities (CONTINUED)

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 insurance contract 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 24).

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.

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.

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 re-sets (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, 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 insurance contract 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 insurance contract 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.

RISK MANAGEMENT

Insurance risk Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns.

As an insurance company, Lifeco is in the business of accepting risk associated with insurance contract liabilities. The objective of Lifeco is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of Lifeco's underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following table provides information about Lifeco's insurance contract liabilities' sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine Lifeco's liability associated with these contracts.

			2011			2010
	CHANGES IN ASSUMPTIONS	IMPACT ON LIFECO PROFIT OR LOSS	POWER FINANCIAL'S SHARE	CHANGES IN ASSUMPTIONS	IMPACT ON LIFECO PROFIT OR LOSS	POWER FINANCIAL'S SHARE
Mortality	2%	(188)	(133)	2%	(159)	(112)
Annuitant mortality	2%	(176)	(124)	2%	(172)	(122)
Morbidity	5%	(181)	(128)	5%	(151)	(107)
Investment returns						
Parallel shift in yield curve						
Increase	1%	123	87	1%	25	(18)
Decrease	1%	(511)	(361)	1%	(279)	(197)
Change in equity markets						
Increase	10%	21	15	10%	(25)	18
Decrease	10%	(57)	(40)	10%	(54)	(38)
Change in best estimate returns for equities						
Increase	1%	292	206	1%	242	171
Decrease	1%	(316)	(223)	1%	(279)	(197)
Expenses	5%	(55)	(39)	5%	(51)	(36)
Policy termination	10%	(435)	(307)	10%	(320)	(226)

NOTE 13 Insurance and Investment Contract Liabilities (CONTINUED)

Concentration risk may arise from geographic regions, accumulation of risks and market risks. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	DECEMBER 31, 2011			DECEMBER 31, 2010			JANUARY 1, 2010		
	GROSS	CEDED	NET	GROSS	CEDED	NET	GROSS	CEDED	NET
Canada	53,569	869	52,700	50,508	1,270	49,238	46,786	1,207	45,579
United States	25,296	294	25,002	23,033	321	22,712	22,470	393	22,077
Europe	36,647	898	35,749	34,655	942	33,713	36,613	1,200	35,413
	115,512	2,061	113,451	108,196	2,533	105,663	105,869	2,800	103,069

Reinsurance risk 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.

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

NOTE 14 Deposits and Certificates

Included in the assets of the balance sheets are cash and cash equivalents, shares, loans, and accounts and other receivables amounting to $151 million (December 31, 2010—$835 million; January 1, 2010—$907 million) related to deposits and certificates

	TERM TO MATURITY						
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	DECEMBER 31, 2011 TOTAL	DECEMBER 31, 2010 TOTAL	JANUARY 1, 2010 TOTAL
Deposits	122	9	14	2	147	830	903
Certificates	–	–	1	3	4	5	4
	122	9	15	5	151	835	907

Deposits related to MRS were nil as at December 31, 2011 (December 31, 2010—$681 million; January 1, 2010—$750 million). The deposits were disposed of as part of the sale of MRS (Note 4).

NOTE 15 Obligation to Securitization Entities

IGM enters into transactions that result in the transfer of financial assets to third parties. IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. IGM has retained prepayment risk and certain elements of credit risk associated with the transferred assets. Accordingly, IGM has recorded these loans on the balance sheets at a carrying value of $3.76 billion at December 31, 2011 (December 31, 2010—$3.47 billion; January 1, 2010—$3.26 billion), and has recorded an offsetting liability, obligation to securitization entities, of $3.83 billion (December 31, 2010—$3.51 billion; January 1, 2010—$3.31 billion) which is carried at amortized cost.

IGM's credit risk on its securitization activities is limited through the use of insurance as substantially all securitized mortgages are insured. Additional information related to the management of credit risk can be found in the risk management discussion (Note 24).

NOTE 16 Debentures and Other Borrowings

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
OTHER BORROWINGS						
GREAT-WEST LIFECO INC.						
Commercial paper and other short-term debt instruments with interest rates from 0.20% to 0.39% (0.36% to 0.44% in 2010)	100	100	91	91	102	102
Revolving credit facility with interest equal to LIBOR rate plus 1% or U.S. prime rate loan (US$200 million)	204	204	213	213	273	273
TOTAL OTHER BORROWINGS	304	304	304	304	375	375
DEBENTURES						
POWER FINANCIAL CORPORATION						
6.90% debentures, due March 11, 2033, unsecured	250	295	250	285	250	258
IGM FINANCIAL INC.						
6.75% debentures 2001 Series, due May 9, 2011, unsecured	–	–	450	458	450	478
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	175	150	170	150	164
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	457	375	446	375	427
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	148	125	138	125	127
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	189	150	178	150	166
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	213	175	199	175	188
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	185	150	174	150	164
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	220	200	203	–	–
GREAT-WEST LIFECO INC.						
Term note due October 18, 2012, bearing an interest rate of LIBOR plus 0.30% (US$304 million), unsecured	304	308	301	297	319	319
6.75% debentures originally due August 10, 2015, redeemed August 10, 2010, unsecured	–	–	–	–	200	207
6.14% debentures due March 21, 2018, unsecured	199	229	199	226	199	218
4.65% debentures due August 13, 2020, unsecured	497	522	497	503	–	–
6.40% subordinated debentures due December 11, 2028, unsecured	100	115	100	110	100	105
6.74% debentures due November 24, 2031, unsecured	190	237	190	232	190	216
6.67% debentures due March 21, 2033, unsecured	397	472	397	463	397	431
6.625% deferrable debentures due November 15, 2034, unsecured (US$175 million)	175	170	169	161	180	138
5.998% debentures due November 16, 2039, unsecured	343	383	343	375	342	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)	310	298	295	297	312	277
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	994	1,028	993	1,044	991	1,018
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	497	551	496	556	496	554
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	3	3	4	4	5	5
TOTAL DEBENTURES	5,584	6,198	6,009	6,519	5,556	5,805
	5,888	6,502	6,313	6,823	5,931	6,180

NOTE 16 Debentures and Other Borrowings (CONTINUED)

On May 9, 2011, IGM repaid the $450 million 2001 Series 6.75% debentures which had matured.

On December 9, 2010, IGM issued $200 million of 2010 Series 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.

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

2012	609
2013	1
2014	1
2015	–
2016	–
Thereafter	5,277

NOTE 17 Capital Trust Securities

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Capital trust securities						
5.995% capital trust securities due December 31, 2052, unsecured (GWLCT)	350	363	350	375	350	383
6.679% capital trust securities due June 30, 2052, unsecured (CLCT)	300	307	300	320	300	331
7.529% capital trust securities due June 30, 2052, unsecured (CLCT)	150	197	150	198	150	186
	800	867	800	893	800	900
Acquisition-related fair value adjustment	15	–	17	–	19	–
Trust securities held by Lifeco as temporary investments	(44)	(44)	(44)	(44)	(41)	(41)
Trust securities held by Lifeco as long-term investments	(238)	(246)	(238)	(253)	(238)	(258)
	533	577	535	596	540	601

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 statements of earnings (refer to Note 26). The fair value for capital trust securities is determined by the bid-ask price. Refer to Note 24 for financial instrument risk management disclosures.

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.

Subject to regulatory approval, GWLCT and CLCT may redeem the GREATs and CLiCS, in whole or in part, at any time. The CLiCS Series A securities are callable at par on June 30, 2012 and the GREATs Series A securities are callable at par on December 31, 2012.

NOTE 18 Other Liabilities

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Income taxes payable	513	497	482
Repurchase agreements	250	1,677	1,162
Accrued benefit liability [Note 27]	867	785	697
Accounts payable	1,506	1,576	1,235
Deferred income reserves	406	377	357
Bank overdraft	437	429	341
Dividends payable	330	328	324
Other	1,207	1,714	2,010
	5,516	7,383	6,608

NOTE 18 Other Liabilities (CONTINUED)

It is expected that $3,619 million of other liabilities will be realized within 12 months from the reporting date. This amount due within 12 months excludes deferred income reserves.

Changes in deferred income reserves are as follows:

	2011	2010
Balance, beginning of year	377	357
Additions	97	108
Amortization	(38)	(27)
Foreign exchange	5	(33)
Disposals	(35)	(28)
Balance, end of year	406	377

NOTE 19 Income Taxes

EFFECTIVE INCOME TAX RATE

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

	2011	2010
YEARS ENDED DECEMBER 31	%	%
Combined basic Canadian federal and provincial tax rates	28.0	30.4
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(3.4)	(3.8)
Lower effective tax rates on income not subject to tax in Canada	(2.5)	(2.2)
Earnings of investment in associates	(0.4)	(1.9)
Impact of rate changes on deferred income taxes	(0.2)	(0.2)
Loss consolidation transaction	(0.4)	–
Other	(1.5)	(4.5)
Effective income tax rate	19.6	17.8

As of January 1, 2011, the federal corporate tax rate decreased from 18% to 16.5%. As of July 1, 2011, the Ontario provincial corporate tax rate decreased from 12% to 11.5%.

INCOME TAX EXPENSE

The components of income tax expense on continuing operations recognized in net earnings are:

YEARS ENDED DECEMBER 31	2011	2010
Current income taxes	519	474
Deferred income taxes	187	49
	706	523

DEFERRED INCOME TAXES

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

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Insurance and investment contract liabilities	(321)	(475)	(442)
Loss carry forwards	1,007	888	909
Investments	(788)	(540)	(78)
Deferred selling commissions	(197)	(214)	(238)
Intangible assets	162	208	238
Other	86	248	(105)
	(51)	115	284
Classified on the balance sheets as:			
Deferred income tax assets	1,207	1,220	1,262
Deferred income tax liabilities	(1,258)	(1,105)	(978)
	(51)	115	284

NOTE 19 Income Taxes (CONTINUED)

A deferred tax liability has not been recognized in respect of the investment in subsidiaries, branches and associates as the Corporation is able to control the timing, which is not probable in the foreseeable future, of the reversal of the temporary difference.

One of Lifeco's subsidiaries has had a history of recent losses. The subsidiary has a deferred tax asset balance of $1,078 million as at December 31, 2011 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for book accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files a consolidated U.S. income tax return will generate sufficient taxable income against which the unused U.S. losses and deductions will be utilized. The future taxable income is derived principally from tax planning strategies, some of which have already been executed. Certain state net operating losses in the amount of $17 million which were incurred before 2010 have been excluded from the deferred tax assets.

As at December 31, 2011, the Corporation and its subsidiaries have non-capital losses of $311 million ($459 million in 2010) available to reduce future taxable income for which the benefits have not been recognized. These losses expire at various dates to 2031. 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 2010) for which the benefits have not been recognized.

NOTE 20 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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Number of shares	Stated capital	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	4,000,000	100
Series D First Preferred Shares [iv]	6,000,000	150	6,000,000	150	6,000,000	150
Series E First Preferred Shares [v]	8,000,000	200	8,000,000	200	8,000,000	200
Series F First Preferred Shares [vi]	6,000,000	150	6,000,000	150	6,000,000	150
Series H First Preferred Shares [vii]	6,000,000	150	6,000,000	150	6,000,000	150
Series I First Preferred Shares [viii]	8,000,000	200	8,000,000	200	8,000,000	200
Series K First Preferred Shares [ix]	10,000,000	250	10,000,000	250	10,000,000	250
Series L First Preferred Shares [x]	8,000,000	200	8,000,000	200	8,000,000	200
Series M First Preferred Shares [xi]	7,000,000	175	7,000,000	175	7,000,000	175
Series O First Preferred Shares [xii]	6,000,000	150	6,000,000	150	6,000,000	150
Series P First Preferred Shares [xiii]	11,200,000	280	11,200,000	280	–	–
		2,005		2,005		1,725
COMMON SHARES [xiv]	708,173,680	639	708,013,680	636	705,726,680	605
COMMON SHARES						
Balance, beginning of year	708,013,680	636	705,726,680	605	705,726,680	605
Issued under Stock Option Plan	160,000	3	2,287,000	31	–	–
Balance end of year	708,173,680	639	708,013,680	636	705,726,680	605

NOTE 20 Stated Capital (CONTINUED)

[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.

[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 $25.00 per share 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 $25.00 per share, 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 $25.25 per share if redeemed prior to April 30, 2012, and $25.00 per share 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 $25.75 per share if redeemed prior to October 31, 2012, $25.50 per share if redeemed thereafter and prior to October 31, 2013, $25.25 per share if redeemed thereafter and prior to October 31, 2014, and $25.00 per share 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. 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 per share if redeemed thereafter and prior to October 31, 2013, $25.50 per share if redeemed thereafter and prior to October 31, 2014, $25.25 per share if redeemed thereafter and prior to October 31, 2015, and $25.00 per share 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 per share if redeemed on or after October 31, 2015 and prior to October 31, 2016, $25.50 per share if redeemed on or after October 31, 2016 and prior to October 31, 2017, $25.25 per share if redeemed on or after October 31, 2017 and prior to October 31, 2018, and $25.00 per share 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, 160,000 common shares (2,287,000 in 2010) were issued under the Corporation's Employee Stock Option Plan for a consideration of $3 million ($31 million in 2010).

For the year ended December 31, 2011, dividends declared on the Corporation's common shares amounted to $1.40 per share ($1.40 per share in 2010).

NOTE 21 Share-Based Compensation

Deferred share unit plan 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 the 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, 2011, the value of the deferred share units outstanding was $10.1 million ($9.8 million in 2010). In addition, Directors may also participate in the Directors Share Purchase Plan.

Employee Share Purchase Program 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 $0.1 million in 2011 ($0.2 million in 2010).

Stock Option Plan 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, 2011, 777,503 options (717,818 options in 2010) 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:

	2011	2010
Dividend yield	4.9%	4.5%
Expected volatility	19.2%	20.4%
Risk-free interest rate	2.3%	2.8%
Expected life (years)	9	9
Fair value per stock option ($/option)	$2.47	$3.61
Weighted-average exercise price ($/option)	$26.54	$28.36

For the year ended December 31, 2011, compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $10 million ($8 million in 2010).

Under the Corporation's Employee Stock Option Plan, 17,421,600 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, which are not fully vested, 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; grants of 743,080 options which vest equally over a period of five years beginning in 2012; grants of 34,423 options 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 summary of the status of the Corporation's Employee Stock Option Plan as at December 31, 2011 and 2010, and changes during the years ended on those dates is as follows:

	2011		2010	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE $	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE $
Outstanding at beginning of year	8,480,115	27.77	10,049,297	24.48
Granted	777,503	26.54	717,818	28.36
Exercised	(160,000)	16.87	(2,287,000)	13.50
Outstanding at end of year	9,097,618	27.85	8,480,115	27.77
Options exercisable at end of year	7,267,535	27.82	7,069,914	27.49

NOTE 21 Share-Based Compensation (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2011:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
$		(YRS)	$		$
21.65	3,000,000	1.6	21.65	3,000,000	21.65
26.22–28.13	1,608,787	8.8	27.12	240,378	27.45
29.05–30.18	865,403	6.7	29.63	498,588	29.60
31.59–32.46	2,567,777	4.1	32.11	2,529,484	32.10
34.46–37.13	1,055,651	6.2	34.81	999,085	34.68
	9,097,618	4.6	27.85	7,267,535	27.82

Equity incentive plan of Putnam Effective September 25, 2007 Putnam sponsors the Putnam Investments, LLC Equity Incentive Plan (the EIP). Under the terms of the EIP, Putnam is authorized to grant or sell Class B Shares of Putnam (the Putnam Class B Shares), subject to certain restrictions and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam at fair value at the time of the award. Fair value is determined under the valuation methodology outlined in the EIP. Awards vest over a period of up to five years and are specified in the individual's award letter. Holders of Putnam Class B Shares are not entitled to vote other than in respect of certain matters in regards to the EIP and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the EIP is limited to 10,000,000. The share-based payments awarded under the EIP are cash-settled and included within other liabilities on the balance sheets.

Lifeco uses the fair-value based method to account for restricted Class B Shares and options on Class B Shares granted to employees under the EIP. The fair value of restricted Class B Shares and options on Class B Shares is determined on each grant date. During 2011, Putnam granted 1,189,169 (225,998 in 2010) restricted Class B common shares and no options in 2011 or 2010 to certain members of senior management and key employees.

Compensation expense recorded for the year ended December 31, 2011 related to restricted Class B common shares and Class B stock options earned was $3 million ($43 million in 2010) and is recorded in operating and administrative expenses in the statements of earnings. At December 31, 2011, the carrying value and intrinsic value of the restricted Class B Share liability is $98 million.

NOTE 22 Non-Controlling Interests

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Non-controlling interests include			
Participating account surplus in subsidiaries	2,227	2,045	2,045
Preferred shareholders of subsidiaries	2,044	2,047	1,951
Common shareholders of subsidiaries	5,023	4,649	4,624
	9,294	8,741	8,620

YEARS ENDED DECEMBER 31	2011	2010
Earnings attributable to non-controlling interests include		
Earnings attributable to common shareholders of subsidiaries	916	742
Dividends to preferred shareholders of subsidiaries	105	111
Earnings (losses) attributable to participating account surplus in subsidiaires	120	(8)
	1,141	845

NOTE 23 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 equity composed of stated capital, retained earnings and non-controlling interests 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 Great-West Life & Annuity 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, 2011, the MCCSR ratio for Great-West Life was 204%.

> At December 31, 2011, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was 430% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity reports its RBC ratio annually to U.S. insurance regulators.

> In the United Kingdom, Canada Life UK is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Financial Services Authority Handbook. The capital requirements are prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2011, Canada Life UK complied with the capital resource requirements in the United Kingdom.

> As at December 31, 2010 and 2011, 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 24 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 price).

The Corporation and its subsidiaries have also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors of the Corporation and the boards of directors of its subsidiaries review and approve all capital transactions undertaken by management.

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 associates, and income from investments, less operating expenses, financing charges and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations 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.

DECEMBER 31, 2011	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, 2010.

NOTE 24 Risk Management (CONTINUED)

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 72% of insurance and investment contract 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						
DECEMBER 31, 2011	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	AFTER 5 YEARS	TOTAL
Debentures and other debt instruments	609	1	1	–	–	3,702	4,313
Capital trust securities[1]	–	–	–	–	–	800	800
Purchase obligations	65	35	16	16	4	–	136
Pension contributions	150	–	–	–	–	–	150
	824	36	17	16	4	4,502	5,399

[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 or securitized to:

> Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;

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

> institutional investors through private placements.

Certain subsidiaries of Investors Group are approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and approved sellers 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 a trust subsidiary which engages in financial intermediary activities are based on policies approved by a committee of its board of directors. As at December 31, 2011, the trust subsidiary's liquidity was in compliance with these policies.

IGM's contractual maturities were as follows:

DECEMBER 31, 2011	DEMAND	LESS THAN 1 YEAR	1–5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	122	9	15	5	151
Derivative instruments	–	34	73	4	111
Obligations to securitization entities	–	547	3,261	19	3,827
Long-term debt	–	–	–	1,325	1,325
Operation leases	–	48	135	80	263
Total contractual obligations	122	638	3,484	1,433	5,677

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's operating lines of credit. IGM's operating lines of credit with various Schedule I Canadian chartered banks totalled $325 million as at December 31, 2011, unchanged from December 31, 2010. The operating lines of credit as at December 31, 2011 consisted of committed lines of $150 million (2010–$150 million) and uncommitted lines of $175 million (2010–$175 million). IGM has accessed its uncommitted operating lines of credit in the past; however, any advances made by the banks under the uncommitted operating lines are at the banks' sole discretion. As at December 31, 2011 and 2010, IGM was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

IGM accessed capital markets most recently in December 2010; IGM's ability to access capital markets to raise funds in future is dependent on market conditions.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2010.

NOTE 24 Risk Management (CONTINUED)

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 $277 million and fixed income securities amounting to $430 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.

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. 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 of these derivatives is limited to their fair values which was nil at December 31, 2011.

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.

> 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.

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Cash and cash equivalents	2,056	1,840	3,427
Bonds			
Fair value through profit or loss	61,709	56,333	52,375
Available for sale	6,620	6,580	4,607
Loans and receivables	9,744	9,290	9,165
Mortgage loans	17,432	16,115	16,684
Loans to policyholders	7,162	6,827	6,957
Funds held by ceding insurers[1]	9,923	9,856	10,984
Reinsurance assets	2,061	2,533	2,800
Other financial assets[1]	3,764	3,934	4,115
Derivative assets	968	984	717
Total balance sheet maximum credit exposure	121,439	114,292	111,831

[1] Includes $9,411 million ($9,333 million at December 31, 2010 and $10,329 million at January 1, 2010) of funds held by ceding insurers 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 $21 million of collateral received in 2011 ($24 million of collateral received at December 31, 2010 and $35 million of collateral received at January 1, 2010) 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.

NOTE 24 Risk Management (CONTINUED)

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

DECEMBER 31, 2011	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	4,328	2	42	4,372
Provincial, state and municipal governments	6,430	1,980	53	8,463
U.S. Treasury and other U.S. agencies	271	2,857	1,006	4,134
Other foreign governments	185	25	8,216	8,426
Government-related	1,293	–	955	2,248
Supranationals	443	12	211	666
Asset-backed securities	2,696	3,401	803	6,900
Residential mortgage-backed securities	26	638	146	810
Banks	2,168	416	1,858	4,442
Other financial institutions	855	1,449	1,615	3,919
Basic materials	233	748	214	1,195
Communications	508	221	501	1,230
Consumer products	1,848	1,813	1,771	5,432
Industrial products/services	695	825	212	1,732
Natural resources	1,127	560	554	2,241
Real estate	608	–	1,610	2,218
Transportation	1,721	672	624	3,017
Utilities	3,792	2,689	3,158	9,639
Miscellaneous	2,024	814	277	3,115
Total long-term bonds	31,251	19,122	23,826	74,199
Short-term bonds	2,980	323	571	3,874
	34,231	19,445	24,397	78,073

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	62	7,496
U.S. Treasury and other U.S. agencies	335	2,851	976	4,162
Other foreign governments	216	11	7,617	7,844
Government-related	1,057	–	946	2,003
Supranationals	381	11	223	615
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	464	2,584
Utilities	3,266	2,433	2,794	8,493
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
	30,883	18,663	22,657	72,203

NOTE 24 Risk Management (CONTINUED)

JANUARY 1, 2010	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	58	6,308
U.S. Treasury and other U.S. agencies	240	2,620	758	3,618
Other foreign governments	212	–	6,652	6,864
Government-related	937	–	916	1,853
Supranationals	516	4	436	956
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	495	2,494
Utilities	3,008	2,172	2,701	7,881
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
	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:

DECEMBER 31, 2011	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,591	3,407	7,022	12,020
United States	–	811	1,999	2,810
Europe	79	108	2,415	2,602
	1,670	4,326	11,436	17,432

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
	1,622	4,018	10,475	16,115

JANUARY 1, 2010	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
	1,695	4,479	10,510	16,684

NOTE 24 Risk Management (CONTINUED)

ASSET QUALITY

BOND PORTFOLIO QUALITY	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
AAA	29,612	28,925	24,653
AA	12,894	11,436	10,684
A	22,066	19,968	19,332
BBB	12,399	10,649	10,113
BB and lower	1,102	1,225	1,365
Total bonds	78,073	72,203	66,147

DERIVATIVE PORTFOLIO QUALITY	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Over-the-counter contracts (counterparty ratings):			
AAA	12	5	5
AA	361	491	338
A	595	488	374
Total	968	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:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Less than 30 days	3	7	45
30–90 days	1	2	6
Greater than 90 days	1	2	9
Total	5	11	60

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

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Participating	852	802	755
Non-participating	1,648	1,516	1,712
	2,500	2,318	2,467

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, 2011, cash and cash equivalents of $1,052 million consisted of cash balances of $97 million on deposit with Canadian chartered banks and cash equivalents of $955 million. Cash equivalents are composed primarily of Government of Canada treasury bills totalling $521 million, provincial government and government-guaranteed commercial paper of $340 million and bankers' acceptances issued by Canadian chartered banks of $94 million. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. IGM manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fair value through profit or loss securities include Canada Mortgage Bonds with a fair value of $227 million and fixed income securities comprising the restructured notes of the master asset vehicle conduits with a fair value of $29 million. These fair values represent the maximum exposure to credit risk of IGM at December 31, 2011.

IGM regularly reviews the credit quality of the mortgage portfolios related to IGM's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at December 31, 2011, mortgages related to continuing operations totalled $4.09 billion and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled $3.76 billion compared to $3.47 billion at December 31, 2010. In applying the derecognition criteria under IAS 39—Financial Instruments, IGM has recorded these loans on its balance sheet following securitization. An offsetting liability, Obligations to securitization entities, has been recorded and totalled $3.83 billion at December 31, 2011, compared to $3.51 billion at December 31, 2010.
- Related to IGM's mortgage banking operations which are classified as held for trading and totalled $292.1 million, compared to $187.3 million at December 31, 2010. These loans are held by IGM pending sale or securitization.
- Related to IGM's intermediary operations which are classified as loans and receivables and totalled $31.3 million at December 31, 2011, compared to $39.5 million at December 31, 2010.

NOTE 24 Risk Management (CONTINUED)

As at December 31, 2011, the mortgage portfolios related to IGM's intermediary operations were geographically diverse, 100% residential (2010–100%) and 99.4% insured (2010–99.0%). As at December 31, 2011, impaired and uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2010. The characteristics of the mortgage portfolios have not changed significantly during 2011.

IGM purchases portfolio insurance from CMHC on newly funded qualifying conventional mortgages. Under the NHA MBS and CMB Programs, it is a requirement that securitized mortgages be insured against default by an approved insurer, and IGM has also insured substantially all loans securitized through ABCP programs. At December 31, 2011, 93.0% of the securitized portfolio and the residential mortgages classified as held for trading were insured, compared to 94.1% at December 31, 2010. As at December 31, 2011, impaired loans on these portfolios were $1 million, compared to $1 million at December 31, 2010. At December 31, 2011, there were no uninsured non-performing mortgages over 90 days in these portfolios, compared to $0.3 million at December 31, 2010.

The collective allowance for credit losses related to continuing operations was $1 million at December 31, 2011, compared to $1 million at December 31, 2010, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios.

IGM retains certain elements of credit risk on securitized loans. At December 31, 2011, 96.2% of securitized loans were insured against credit losses. The fair value of IGM's retained interests in securitized mortgages was $24 million at December 31, 2011, compared to $107 million at December 31, 2010. Retained interests include:

> *Cash reserve accounts and rights to future net interest income*—which were $11 million and $91 million, respectively, at December 31, 2011. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

  The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of $45 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 previously discussed, and IGM's credit risk on insured loans is to the insurer. At December 31, 2011, 86.5% of the $1.1 billion in outstanding mortgages securitized under these programs were insured.

  Rights to future net interest income under the NHA MBS and CMB Programs totalled $56 million. Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the programs. Outstanding mortgages securitized under these programs are $2.7 billion.

> *Fair value of principal reinvestment account swaps*—had a negative fair value of $77 million at December 31, 2011 which is reflected on the balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby IGM pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was $556 million at December 31, 2011.

IGM's exposure to credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios has been significantly reduced since December 31, 2010 as a result of the sale of MRS. However, IGM's management of credit risk on its continuing operations has not changed materially since December 31, 2010.

IGM utilizes derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements.

IGM participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by IGM are between IGM and the Canadian Housing Trust. IGM receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. IGM also enters into interest rate swaps to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled $26 million at December 31, 2011 and the outstanding notional amount was $4.4 billion. Certain of these swaps relate to securitized mortgages that have been recorded on IGM's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of $2.7 billion and having a negative fair value of $33 million, are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of $1.7 billion and having fair value of $7 million, are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $87 million at December 31, 2011, compared to $22 million at December 31, 2010.

IGM utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled $23 million on an outstanding notional amount of $1.0 billion at December 31, 2011. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $1 million at December 31, 2011, compared to $1 million at December 31, 2010.

IGM also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The negative fair value of these interest rate swaps totalled $7 million on an outstanding notional amount of $200 million at December 31, 2011. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, was nil at December 31, 2011, compared to $15 million at December 31, 2010.

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 as well as total return swaps and forward agreements on IGM's common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was nil on an outstanding notional amount of $76 million at December 31, 2011, compared to a fair value of $1 million on an outstanding notional amount of $118 million at December 31, 2010. 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, 2011, unchanged from December 31, 2010.

The aggregate credit risk exposure related to derivatives that are in a gain position of $89 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was $0.3 million at December 31, 2011. Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2011. Management of credit risk has not changed materially since December 31, 2010.

NOTE 24 Risk Management (CONTINUED)

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 in associates 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, 2011, 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 insurance and investment contract 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. Lifeco has net investments in foreign operations. In addition, Lifeco's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total share capital and surplus. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted. The following policies and procedures are in place to mitigate Lifeco's 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 insurance and investment contract 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 insurance and investment contract 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.

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 insurance contract 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 insurance contract 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 0.19% (0.21% in 2010). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

NOTE 24 Risk Management (CONTINUED)

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 insurance and investment contract 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 decrease these insurance and investment contract liabilities by approximately $180 million, causing an increase in net earnings of Lifeco of approximately $123 million (Power Financial's share—$87 million).

> The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately $731 million, causing a decrease in net earnings of Lifeco of approximately $511 million (Power Financial's share—$360 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 insurance and investment contract liabilities.

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, 2011, the total gap between 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:

> IGM has funded fixed rate mortgages with ABCP as part of the securitization transactions with bank-sponsored securitization trusts. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, IGM remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptance rates that it receives on its hedges.

> IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages declines. As previously discussed, as part of the CMB Program, IGM also is entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. IGM hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.

> 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 Canadian 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, 2011, the impact to annual net earnings of IGM of a 100-basis-point change in interest rates would have been approximately $4 million (Power Financial's share—$3 million). IGM's exposure to and management of interest rate risk has not changed materially since December 31, 2010.

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 (GMWB) using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, 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 insurance and investment contract liabilities by approximately $27 million, causing an increase in net earnings of Lifeco of approximately $21 million (Power Financial's share—$15 million). A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $77 million, causing a decrease in net earnings of Lifeco of approximately $57 million (Power Financial's share—$40 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 insurance contract liabilities by approximately $389 million, causing an increase in net earnings of Lifeco of approximately $292 million (Power Financial's share—$206 million). A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $424 million, causing a decrease in net earnings of Lifeco of approximately $316 million (Power Financial's share—$223 million).

IGM is exposed to equity price risk on its 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, at which time they are recorded in the statements of earnings.

IGM sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. IGM hedges this risk through the use of forward agreements and total return swaps.

NOTE 24 Risk Management (CONTINUED)

Caution related to risk sensitivities In this document the Corporation and its subsidiaries have provided estimates of sensitivities and risk exposure measures for certain risks. These include the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

> assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;

> changes in actuarial, investment return and future investment activity assumptions;

> actual experience differing from the assumptions;

> changes in business mix, effective tax rates and other market factors;

> interactions among these factors and assumptions when more than one changes; and

> the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined below. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

Segregated funds guaranteed exposure Lifeco offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds. A significant decline in the market value of these funds could increase Lifeco's liability exposure for providing these guarantees. Lifeco's exposure to these guarantees at the balance sheet date was:

		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
DECEMBER 31, 2011	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	22,883	–	42	301	304
United States	8,013	641	–	119	760
Europe	2,214	1	121	134	134
Total	33,110	642	163	554	1,198

		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
DECEMBER 31, 2010	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	23,324	–	24	135	137
United States	7,985	342	–	113	454
Europe	2,095	–	118	119	119
Total	33,404	342	142	367	710

[1] A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2011 and December 31, 2010.

NOTE 25 Operating and Administrative Expenses

YEARS ENDED DECEMBER 31	2011	2010
Salaries and other employee benefits	2,019	2,041
Amortization and depreciation	170	162
Premium taxes	264	256
Other	553	1,378
	3,006	3,837

NOTE 26 Financing Charges

YEARS ENDED DECEMBER 31	2011	2010
Interest on debentures and other borrowings	351	353
Net interest on capital trust securities	33	32
Dividends on preferred shares classified as liabilities	–	12
Other	25	35
	409	432

NOTE 27 Pension Plans and Other Post-Employment 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 eligible employees and advisors. The Corporation and its subsidiaries provide post-employment health, dental and life insurance benefits to eligible retirees and advisors.

Subsidiaries of Lifeco have declared partial windups in respect of certain defined pension plans, the impact of which has not been reflected in the pension plan accounts.

PLAN ASSETS, BENEFIT OBLIGATIONS AND FUNDED STATUS

	2011		2010	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	3,363	–	3,154	–
Expected return on plan assets	208	–	195	–
Employee contributions	20	–	20	–
Employer contributions	101	18	96	18
Actuarial gain (losses)	(153)	–	108	–
Benefits paid	(193)	(18)	(159)	(18)
Settlement	–	–	(2)	–
Foreign exchange and other	13	–	(49)	–
Fair value of plan assets, end of year	3,359	–	3,363	–
CHANGE IN DEFINED BENEFIT OBLIGATIONS				
Defined benefit obligation, beginning of year	3,548	442	3,106	382
Employer current service cost	77	3	59	3
Employee contributions	20	–	20	–
Interest on defined obligations	194	24	189	23
Actuarial (gains) losses	197	(2)	376	51
Benefits paid	(193)	(18)	(159)	(18)
Past service cost	6	–	27	2
Settlement	–	–	(2)	–
Foreign exchange and other	19	–	(68)	(1)
Defined benefit obligation, end of year	3,868	449	3,548	442
FUNDED STATUS				
Fund surplus (deficit)	(509)	(449)	(185)	(442)
Unamortized past service costs	5	(33)	3	(41)
Unamortized net actuarial losses (credits)	599	47	247	51
Unrecognized amount due to limit on asset	(71)	–	(63)	–
Accrued benefit asset (liability)	24	(435)	2	(432)

The aggregate accrued benefit obligations of plan assets are as follows:

YEARS ENDED DECEMBER 31	2011	2010
Wholly or partly funded plans	3,491	3,200
Wholly unfunded plans	377	348

The Corporation and its subsidiaries expect to contribute $130 million to their funded and unfunded defined benefit pension and other post-employment benefit plans in 2012.

NOTE 27 Pension Plans and Other Post-Employment Benefits (CONTINUED)

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

AS AT DECEMBER 31	2011 PENSION PLANS	2011 OTHER POST-EMPLOYMENT BENEFITS	2011 TOTAL	2010 PENSION PLANS	2010 OTHER POST-EMPLOYMENT BENEFITS	2010 TOTAL
Accrued benefit asset [Note 10]	456	–	456	355	–	355
Accrued benefit liability [Note 18]	(432)	(435)	(867)	(353)	(432)	(785)
Accrued benefit asset (liability)	24	(435)	(411)	2	(432)	(430)

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

YEARS ENDED DECEMBER 31	2011 PENSION PLANS	2011 OTHER POST-EMPLOYMENT BENEFITS	2010 PENSION PLANS	2010 OTHER POST-EMPLOYMENT BENEFITS
Amounts arising from events in the period				
Defined benefit current service cost	97	3	79	3
Employee contribution	(20)	–	(20)	–
	77	3	59	3
Past service cost recognized	3	(8)	21	(8)
Interest on defined benefit obligations	194	24	189	23
Actuarial (gain) loss recognized	(1)	1	20	–
Expected return on plan assets	(208)	–	(195)	–
Amount recognized due to limit on asset	8	–	(14)	–
Amortization corridor	1	–	–	–
Defined contribution current service cost	29	–	29	–
	103	20	109	18

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS — DEFINED BENEFIT PENSION PLANS

	2011	2010
	%	%
Equity securities	47	51
Debt securities	41	37
All other assets	12	12
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. With respect to Lifeco, plan assets include investments in segregated funds managed by subsidiaries of Lifeco of $1,430 million ($1,438 million in 2010). Plan assets do not include any property occupied or other assets used by Lifeco.

NOTE 27 Pension Plans and Other Post-Employment Benefits (CONTINUED)

SIGNIFICANT ASSUMPTIONS

%	DEFINED BENEFIT PENSION PLANS 2011	2010	OTHER POST-EMPLOYMENT BENEFITS 2011	2010
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT COST				
Discount rate	5.5	6.2	5.5	6.3
Expected long-term rate of return on plan assets	6.2	6.3	–	–
Rate of compensation increase	3.7	3.9	–	–
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFIT OBLIGATION				
Discount rate	5.1	5.5	5.1	5.5
Rate of compensation increase	3.6	3.7	–	–
WEIGHTED AVERAGE HEALTHCARE TREND RATES				
Initial healthcare trend rate			6.7	7.0
Ultimate healthcare trend rate			4.5	4.5
Year ultimate trend rate is reached			2024	2024

The overall expected rate of return on plan assets for the year is determined based on long-term market expectations prevailing at the beginning of the year for each asset class, weighted by portfolio allocation, less an allowance in respect to all expenses expected to be charged to the fund. Anticipated future long-term performance of individual asset categories is considered, reflecting management's best estimates of expected future inflation and expected real yields on fixed income securities and equities. Since the prior year-end there have been no changes in the method used to determine the overall expected rate of return. In 2011, the actual return on plan assets was $55 million ($304 million in 2010).

The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future mortality improvement as appropriate, and reflect variations in such factors as age, gender and geographic location. The assumptions also take into consideration an estimation of future improvements in longevity. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice in Canada. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

IMPACT OF CHANGES TO ASSUMED HEALTHCARE RATES — OTHER POST-EMPLOYMENT BENEFITS

	IMPACT ON END-OF-YEAR ACCRUED POST-EMPLOYMENT BENEFIT OBLIGATION 2011	2010	IMPACT ON POST-EMPLOYMENT BENEFIT SERVICE AND INTEREST COST 2011	2010
1% increase in assumed healthcare cost trend rate	46	45	2	2
1% decrease in assumed healthcare cost trend rate	(38)	(37)	(2)	(2)

SUMMARIZED PLAN INFORMATION

	DEFINED BENEFIT PENSION PLANS 2011	2010	OTHER POST-EMPLOYMENT BENEFITS 2011	2010
Defined benefit obligation	(3,868)	(3,548)	(449)	(442)
Fair value of plan assets	3,359	3,363	–	–
Funded status of plan	(509)	(185)	(449)	(442)
Experience adjustment on plan liabilities	(197)	(376)	2	(51)
Experience adjustment on plan assets	(153)	108	–	–

NOTE 28 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:

	NOTIONAL AMOUNT					
2011	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Futures—long	–	55	–	55	–	–
Futures—short	–	5	–	5	–	–
Swaps	1,021	2,940	1,495	5,456	434	294
Options purchased	–	968	139	1,107	54	53
	1,021	3,968	1,634	6,623	488	347
Foreign exchange contracts						
Forward contracts	224	–	–	224	–	(1)
Cross-currency swaps	43	1,509	4,693	6,245	551	314
	267	1,509	4,693	6,469	551	313
Other derivative contracts						
Equity contracts	40	18	–	58	–	(16)
Futures—long	7	–	–	7	–	–
Futures—short	146	2	–	148	–	(1)
	193	20	–	213	–	(17)
	1,481	5,497	6,327	13,305	1,039	643
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	31	31	11	11
Foreign exchange contracts						
Cross-currency swaps	–	10	1,500	1,510	6	(23)
	–	10	1,531	1,541	17	(12)
FAIR VALUE HEDGES						
Interest rate contracts						
Swaps	–	10	92	102	–	(2)
	–	10	92	102	–	(2)
	1,481	5,517	7,950	14,948	1,056	629

NOTE 28 Derivative Financial Instruments (CONTINUED)

2010	NOTIONAL AMOUNT					
	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Futures—long	57	1	–	58	–	–
Futures—short	165	–	–	165	–	–
Swaps	1,199	3,135	1,321	5,655	250	153
Options purchased	226	846	221	1,293	31	31
	1,647	3,982	1,542	7,171	281	184
Foreign exchange contracts						
Forward contracts	221	–	–	221	5	5
Cross-currency swaps	70	1,284	4,454	5,808	704	589
	291	1,284	4,454	6,029	709	594
Other derivative contracts						
Equity contracts	43	21	–	64	–	(20)
Futures—long	8	–	–	8	–	–
Futures—short	38	–	–	38	–	–
	89	21	–	110	–	(20)
	2,027	5,287	5,996	13,310	990	758
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	58	58	12	12
Foreign exchange contracts						
Cross-currency swaps	–	–	1,500	1,500	27	15
	–	–	1,558	1,558	39	27
FAIR VALUE HEDGES						
Interest rate contracts						
Swaps	55	–	–	55	–	–
	55	–	–	55	–	–
	2,082	5,287	7,554	14,923	1,029	785

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.

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 insurance and investment contract 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 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 insurance and investment contract 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 also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating expenses in the statements of earnings for those instruments not designated as hedges.

NOTE 29 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 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.

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS						
Cash and cash equivalents	3,385	3,385	3,656	3,656	4,855	4,855
Investments (excluding investment properties)	113,841	116,170	107,033	108,533	101,350	101,916
Funds held by ceding insurers	9,923	9,923	9,856	9,856	10,984	10,984
Derivative financial instruments	1,056	1,056	1,029	1,029	775	775
Other financial assets	3,539	3,539	3,666	3,666	3,820	3,820
Total financial assets	131,744	134,073	125,240	126,740	121,784	122,350
LIABILITIES						
Deposits and certificates	151	152	835	840	907	916
Funds held under reinsurance contracts	169	169	149	149	331	331
Obligation to securitization entities	3,827	3,930	3,505	3,564	3,310	3,349
Debentures and other borrowings	5,888	6,502	6,313	6,823	5,931	6,180
Capital trust securities	533	577	535	596	540	601
Preferred shares of the Corporation	–	–	–	–	300	318
Preferred shares of subsidiaries	–	–	–	–	199	199
Derivative financial instruments	427	427	244	244	359	359
Other financial liabilities	4,189	4,189	6,167	6,167	5,519	5,519
Total financial liabilities	15,184	15,946	17,748	18,383	17,396	17,772

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. For mortgage and loans, bonds, loans and other receivables, the fair value is determined by discounting the expected future cash flows at market interest rates for loans with similar credit risks and maturities (refer to Note 2).

> 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.

> Obligations to securitization entities are valued by discounting the expected future cash flows by prevailing market yields for securities issued by these securitization entities having like maturities and characteristics.

> 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 IFRS 7, *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. Level 1 assets also include 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 rate 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, most asset-backed securities and most 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, certain asset-backed securities, some private equities and investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives and restructured notes of the master asset vehicle.

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.

NOTE 29 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, 2011, December 31, 2010 and January 1, 2010 and indicates the fair value hierarchy of the valuation techniques utilized by the Corporation to determine such fair value:

DECEMBER 31, 2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Shares				
Available for sale	132	7	1	140
Fair value through profit or loss	5,485	3	14	5,502
Bonds				
Available for sale	–	7,010	40	7,050
Fair value through profit or loss	227	61,406	332	61,965
Mortgage and other loans				
Fair value through profit or loss	–	292	–	292
Derivatives	–	1,056	–	1,056
	5,844	69,774	387	76,005
LIABILITIES				
Derivatives	–	350	77	427
Other liabilities	–	–	26	26
	–	350	103	453

DECEMBER 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Shares				
Available for sale	238	9	1	248
Fair value through profit or loss	4,947	–	417	5,364
Bonds				
Available for sale	–	7,251	42	7,293
Fair value through profit or loss	638	56,021	340	56,999
Mortgage and other loans				
Fair value through profit or loss	–	224	–	224
Derivatives	–	1,027	2	1,029
	5,823	64,532	802	71,157
LIABILITIES				
Derivatives	–	216	28	244
Other liabilities	–	–	18	18
	–	216	46	262

JANUARY 1, 2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Shares				
Available for sale	563	1	1	565
Fair value through profit or loss	4,783	–	145	4,928
Bonds				
Available for sale	–	5,128	67	5,195
Fair value through profit or loss	625	51,761	642	53,028
Mortgage and other loans				
Fair value through profit or loss	–	241	–	241
Derivatives	–	745	30	775
Other assets	10	7	–	17
	5,981	57,883	885	64,749
LIABILITIES				
Derivatives	–	353	6	359
Other liabilities	–	–	16	16
	–	353	22	375

NOTE 29 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, 2011 and 2010:

	SHARES		BONDS				
DECEMBER 31, 2011	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	TOTAL
Balance, beginning of year	1	417	42	340	(26)	(18)	756
Total gains (losses)							
In net earnings	–	35	1	54	(62)	(5)	23
In other comprehensive income	–	–	2	–	–	–	2
Purchases	–	65	–	–	–	(3)	62
Sales	–	(6)	–	(4)	–	–	(10)
Settlements	–	–	(5)	(58)	11	–	(52)
Transfers out of Level 3	–	(497)	–	–	–	–	(497)
Balance, end of year	1	14	40	332	(77)	(26)	284

	SHARES		BONDS				
DECEMBER 31, 2010	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	TOTAL
Balance, beginning of year	1	145	67	642	24	(16)	863
Total gains (losses)							
In net earnings	–	16	(2)	16	(61)	(1)	(32)
In other comprehensive income	–	–	2	–	–	–	2
Purchases	–	288	–	–	1	(6)	283
Sales	–	(30)	–	(76)	–	–	(106)
Settlements	–	–	(5)	(95)	7	5	(88)
Transfers in to Level 3	–	–	–	5	–	–	5
Transfers out of Level 3	–	(2)	(20)	(152)	3	–	(171)
Balance, end of year	1	417	42	340	(26)	(18)	756

NOTE 30 Earnings per Share

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

YEARS ENDED DECEMBER 31	2011	2010
Net earnings attributable to shareholders	1,826	1,567
Dividends on perpetual preferred shares	(104)	(99)
Net earnings attributable to common shareholders	1,722	1,468
Dilutive effect of subsidiaries	(12)	(7)
Diluted net earnings attributable to common shareholders	1,710	1,461
Weighted average number of common shares outstanding (millions)		
—Basic	708.1	707.0
Exercise of stock options	3.0	4.9
Shares assumed to be repurchased with proceeds from exercise of stock options	(2.3)	(3.9)
Weighted average number of common shares outstanding (millions)		
—Diluted	708.8	708.0

For 2011, 6,097,618 stock options (3,623,428 in 2010) have been excluded from the computation of diluted earnings per share as the exercise price was higher than the market price.

YEARS ENDED DECEMBER 31	2011	2010
Basic earnings per common share ($)		
From continuing operations	2.38	2.08
From discontinued operations	0.05	–
	2.43	2.08
Diluted earnings per common share ($)		
From continuing operations	2.36	2.06
From discontinued operations	0.05	–
	2.41	2.06

NOTE 31 Contingent Liabilities

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

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

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

The Appeal Decision made substantial adjustments to the original trial judgement (the "Trial Decision"). The impact is expected to be favourable to Lifeco's overall financial position. Any monies to be returned to the participating accounts will be dealt with in accordance with Lifeco's participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members.

During the fourth quarter of 2011, in response to the Appeal Decision, Lifeco re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholder net earnings of Lifeco by $223 million after tax (Power Financial's share—$158 million).

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 Trial Decision, if affirmed on further appeal, is not expected to have a material adverse effect on the consolidated financial position of Lifeco.

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

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

SUBSEQUENT EVENT

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

NOTE 32 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$479 million in letters of credit under the facility as at December 31, 2011 (US$507 million at December 31, 2010).

In addition, LRG has other bilateral letter of credit facilities totalling US$18 million (US$18 million in 2010). LRG issued US$7 million in letters of credit under these facilities as of December 31, 2011 (US$6 million at December 31, 2010).

NOTE 32 Commitments and Guarantees (CONTINUED)

PLEDGING OF ASSETS

With respect to Lifeco, the amounts of assets which have a security interest by way of pledging is $577 million at December 31, 2011 ($554 million at December 31, 2010 and $595 million at January 1, 2010) 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:

	2012	2013	2014	2015	2016	2017 AND THEREAFTER	TOTAL
Future lease payments	149	127	106	90	72	166	710

NOTE 33 Related Party Transactions

The ultimate controlling party of the Corporation is Power Corporation of Canada, which is incorporated and domiciled in Canada.

Principal subsidiaries The financial statements of the Corporation include the operations of the following subsidiaries:

CORPORATION	INCORPORATED IN	PRIMARY BUSINESS OPERATION	% HELD
Great-West Lifeco Inc.	Canada	Financial services holding company	68.2%
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.0%
London Life Insurance Company	Canada	Insurance and wealth management	100.0%
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.0%
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.0%
Putnam Investments, LLC	United States	Financial services	97.6%
IGM Financial Inc.	Canada	Financial services	57.6%
Investors Group Inc.	Canada	Financial services	100.0%
Mackenzie Financial Corporation	Canada	Financial services	100.0%
Parjointco N.V.	Netherlands	Holding company	50.0%
Pargesa Holding SA	Switzerland	Holding company	56.5%

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

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

During 2011, IGM sold residential mortgage loans to Great-West Life and London Life for $202 million (2010–$226 million).

Key management compensation Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and subsidiaries.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Corporation and its subsidiaries:

YEARS ENDED DECEMBER 31	2011	2010
Short-term employee benefits	15	14
Post-employment benefits	4	12
Share-based payment	9	7
	28	33

NOTE 34 Subsequent Events

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

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

NOTE 35 Segmented Information

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

> Lifeco offers, in Canada, the United States and 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, cement and building materials, 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 Note 2—Basis of Presentation and Summary of Significant Accounting Policies of the financial statements. 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 35 Segmented Information (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2011	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
REVENUES					
Premium income, net	17,293	–	–	–	17,293
Investment income, net	9,702	161	–	(99)	9,764
Fee income	2,903	2,571	–	(131)	5,343
	29,898	2,732	–	(230)	32,400
EXPENSES					
Total paid or credited to policyholders	23,043	–	–	–	23,043
Commissions	1,548	895	–	(131)	2,312
Operating and administrative expenses	2,314	638	–	54	3,006
Financing charges	289	103	–	17	409
	27,194	1,636	–	(60)	28,770
	2,704	1,096	–	(170)	3,630
Share of earnings (losses) of investment in associates	–	–	(20)	–	(20)
Earnings before income taxes—continuing operations	2,704	1,096	(20)	(170)	3,610
Income taxes	465	250	–	(9)	706
Contribution to net earnings—continuing operations	2,239	846	(20)	(161)	2,904
Contribution to net earnings—discontinued operations	–	63	–	–	63
Contribution to net earnings	2,239	909	(20)	(161)	2,967
Attributable to					
Non-controlling interests	855	392	–	(106)	1,141
Perpetual preferred shareholders	–	–	–	104	104
Common shareholders	1,384	517	(20)	(159)	1,722
	2,239	909	(20)	(161)	2,967

INFORMATION ON ASSETS AND LIABILITIES MEASURE

DECEMBER 31, 2011	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,861	2,925	–	–	8,786
Total assets	238,552	10,839	2,222	1,065	252,678
Total liabilities	222,664	6,625	–	574	229,863

GEOGRAPHIC INFORMATION

DECEMBER 31, 2011	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets	61,960	27,403	31,064	120,427
Investment in associates	–	–	2,222	2,222
Segregated funds for the risk of unit holders	49,622	22,359	24,601	96,582
Other assets	4,087	3,050	12,501	19,638
Goodwill and intangible assets	10,280	1,769	1,760	13,809
Total assets	125,949	54,581	72,148	252,678
Total revenues	17,064	6,123	9,213	32,400

NOTE 35 Segmented Information (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2010	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
REVENUES					
Premium income, net	17,748	–	–	–	17,748
Investment income, net	9,534	146	–	(80)	9,600
Fee income	2,821	2,468	–	(115)	5,174
	30,103	2,614	–	(195)	32,522
EXPENSES					
Total paid or credited to policyholders	23,225	–	–	–	23,225
Commissions	1,477	854	–	(115)	2,216
Operating and administrative expenses	3,150	636	–	51	3,837
Financing charges	288	111	–	33	432
	28,140	1,601	–	(31)	29,710
	1,963	1,013	–	(164)	2,812
Share of earnings (losses) of investment in associates	–	–	121	–	121
Earnings before income taxes—continuing operations	1,963	1,013	121	(164)	2,933
Income taxes	254	270	–	(1)	523
Contribution to net earnings—continuing operations	1,709	743	121	(163)	2,410
Contribution to net earnings—discontinued operations	–	2	–	–	2
Contribution to net earnings	1,709	745	121	(163)	2,412
Attributable to					
Non-controlling interests	600	330	–	(85)	845
Perpetual preferred shareholders	–	–	–	99	99
Common shareholders	1,109	415	121	(177)	1,468
	1,709	745	121	(163)	2,412

INFORMATION ON ASSETS AND LIABILITIES MEASURE

DECEMBER 31, 2010	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,857	2,860	–	–	8,717
Total assets	229,221	11,902	2,448	1,073	244,644
Total liabilities	214,605	7,920	–	567	223,092

GEOGRAPHIC INFORMATION

DECEMBER 31, 2010	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets	59,203	25,714	28,729	113,646
Investment in associates	–	–	2,448	2,448
Segregated funds for the risk of unit holders	50,001	21,189	23,637	94,827
Other assets	5,066	2,929	11,987	19,982
Goodwill and intangible assets	10,259	1,717	1,765	13,741
Total assets	124,529	51,549	68,566	244,644
Total revenues	16,779	6,522	9,221	32,522

GEOGRAPHIC INFORMATION

JANUARY 1, 2010	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets	54,911	24,632	29,277	108,820
Investment in associates	–	–	2,829	2,829
Segregated funds for the risk of unit holders	45,006	22,799	19,690	87,495
Other assets	4,148	13,888	3,228	21,264
Goodwill and intangible assets	10,247	1,721	1,893	13,861
Total assets	114,312	63,040	56,917	234,269

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, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Signed,

Deloitte & Touche LLP[1]

March 14, 2012
Montréal, Québec

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[1] Chartered accountant auditor permit No. 9569

Power Financial Corporation

Five-Year Financial Summary

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	2011	2010	PREVIOUS CANADIAN GAAP 2009	2008	2007
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	3,385	3,656	4,855	4,689	5,625
Total assets	252,678	244,644	140,231	141,546	130,114
Shareholders' equity	13,521	12,811	13,207	13,419	12,865
Consolidated assets and assets under management	496,781	500,181	471,775	452,158	521,439
CONSOLIDATED STATEMENTS OF EARNINGS					
REVENUES					
Premium income, net	17,293	17,748	18,033	30,007	18,753
Investment income, net	9,764	9,600	9,678	1,163	4,587
Fee income	5,343	5,174	4,998	5,540	5,327
	32,400	32,522	32,709	36,710	28,667
EXPENSES					
Total paid or credited to policyholders	23,043	23,225	23,809	26,774	19,122
Commissions	2,312	2,216	2,088	2,172	2,236
Operating and administrative expenses	3,006	3,837	3,607	3,675	3,199
Intangible and goodwill impairment	–	–	–	2,178	–
Financing charges	409	432	494	438	408
	28,770	29,710	29,998	35,237	24,965
	3,630	2,812	2,711	1,473	3,702
Share of earnings (losses) of investment in associates	(20)	121	71	(181)	171
Income taxes	706	523	565	16	938
Net earnings—continuing operations	2,904	2,410	2,217	1,276	2,935
Net earnings—discontinued operations	63	2	–	692	203
Net earnings	2,967	2,412	2,217	1,968	3,138
Attributable to					
Non-controlling interests	1,141	845	778	631	1,094
Perpetual preferred shareholders	104	99	88	74	75
Common shareholders	1,722	1,468	1,351	1,263	1,969
	2,967	2,412	2,217	1,968	3,138
PER SHARE					
Operating earnings before other items and discontinued operations	2.44	2.30	2.05	1.98	2.63
Net earnings from discontinued operations	0.05	–	–	0.71	0.21
Net earnings	2.43	2.08	1.92	1.79	2.79
Dividends	1.4000	1.4000	1.4000	1.3325	1.1600
Book value at year-end	16.26	15.26	16.27	16.80	16.26
MARKET PRICE (COMMON SHARES)					
High	31.98	34.23	31.99	40.94	42.69
Low	23.62	27.00	14.66	20.33	35.81
Year-end	25.54	30.73	31.08	23.90	40.77

Quarterly Financial Information

[IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	TOTAL REVENUES	NET EARNINGS	EARNINGS PER SHARE —BASIC	EARNINGS PER SHARE —DILUTED
2011				
First quarter	6,919	616	0.52	0.52
Second quarter	7,784	803	0.72	0.71
Third quarter	9,126	593	0.44	0.44
Fourth quarter	8,571	955	0.75	0.75
2010				
First quarter	8,937	608	0.51	0.51
Second quarter	7,996	689	0.60	0.59
Third quarter	9,711	485	0.42	0.41
Fourth quarter	5,878	630	0.55	0.55

Board of Directors

J. Brian Aune*
President, Aldervest Inc.

Marc A. Bibeau[2]
President and Chief Executive Officer,
Beauward Shopping Centres Ltd.

André Desmarais, O.C., O.Q.[1, 5]
Co-Chairman of the Corporation
and Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada

The Honourable Paul Desmarais, P.C., C.C., O.Q.[1, 5]
Chairman of the Executive Committee,
Power Corporation of Canada

Paul Desmarais, JR., O.C., O.Q.[1, 5]
Co-Chairman of the Corporation and
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada

Gérald Frère[3, 4]
Managing Director, Frère-Bourgeois S.A.

Anthony R. Graham, LL.D.[5]
President, Wittington Investments, Limited

Robert Gratton
Deputy Chairman,
Power Corporation of Canada

V. Peter Harder, LL.D.[3, 4]
Senior Policy Adviser,
Fraser Milner Casgrain LLP

The Right Honourable
Donald F. Mazankowski*, P.C., O.C., A.O.E.[1]
Company Director

Raymond L. McFeetors*
Vice-Chairman of the Corporation
and Chairman, Great-West Lifeco Inc.

Jerry E.A. Nickerson*[2]
Chairman of the Board,
H.B. Nickerson & Sons Limited

R. Jeffrey Orr[1]
President and Chief Executive Officer
of the Corporation

Michel Plessis-Bélair*, FCA
Vice-Chairman,
Power Corporation of Canada

Henri-Paul Rousseau*, PH.D.
Vice-Chairman of the Corporation
and of Power Corporation of Canada

Louise Roy, O.Q.
Invited Fellow, Centre interuniversitaire
de recherche en analyse des organisations
and President, Conseil des arts de Montréal

Raymond Royer, O.C., O.Q., FCA[1, 2, 3, 4, 5]
Company Director

T. Timothy Ryan, JR.
President and Chief Executive Officer,
Securities Industry and Financial Markets Association

Amaury de Seze*
Vice-Chairman of the Corporation

Emőke J.E. Szathmáry, C.M., O.M., PH.D., FRSC[2]
President Emeritus,
University of Manitoba

DIRECTORS EMERITUS

James W. Burns, O.C., O.M.

The Honourable P. Michael Pitfield, P.C., Q.C.

[1] Member of the Executive Committee
[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

* Not standing for re-election

Officers

Paul Desmarais, JR., O.C., O.Q.
Co-Chairman

André Desmarais, O.C., O.Q.
Co-Chairman

R. Jeffrey Orr
President and Chief Executive Officer

Raymond L. McFeetors
Vice-Chairman

Henri-Paul Rousseau, PH.D.
Vice-Chairman

Amaury de Seze
Vice-Chairman

Philip K. Ryan
Executive Vice-President
and Chief Financial Officer

Edward Johnson
Senior Vice-President, General Counsel
and Secretary

Arnaud Vial
Senior Vice-President

Jocelyn Lefebvre, C.A.
Managing Director,
Power Financial Europe B.V.

Denis Le Vasseur, C.A.
Vice-President and Controller

Stéphane Lemay
Vice-President, Assistant General
Counsel and Associate Secretary

Richard Pan
Vice-President

Luc Reny, CFA
Vice-President

Isabelle Morin, C.A.
Treasurer

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:

POWER FINANCIAL CORPORATION

751 Victoria Square
Montréal, Québec
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or

Suite 2600, Richardson Building
1 Lombard Place
Winnipeg, Manitoba
Canada R3B 0X5

STOCK LISTINGS

Shares of Power Financial Corporation are listed on the Toronto Stock Exchange:

COMMON SHARES: PWF

FIRST PREFERRED SHARES:

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

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, Canada M5J 2Y1
Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.) or 514-982-7555
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WEBSITE

www.powerfinancial.com

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