focused on our future

GREAT-WEST LIFECO INC.

Annual Report 2010

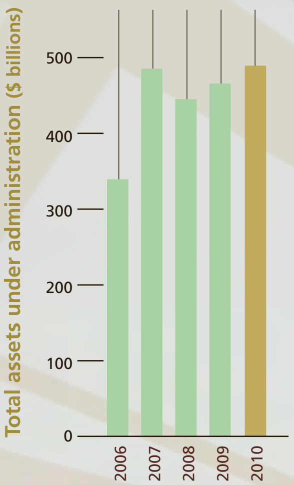
Corporate Profile

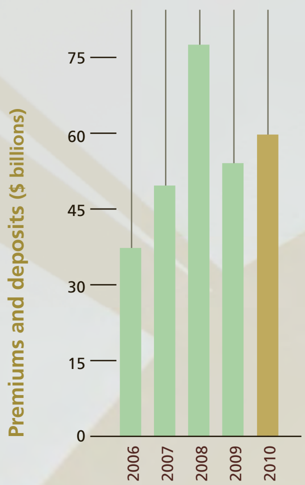
Great-West Lifeco Inc. (TSX:GWO) is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses. The Corporation has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company, London Life Insurance Company, The Canada Life Assurance Company, Great-West Life & Annuity Insurance Company and Putnam Investments, LLC. Lifeco and its companies have $484 billion in assets under administration, and are members of the Power Financial Corporation group of companies.

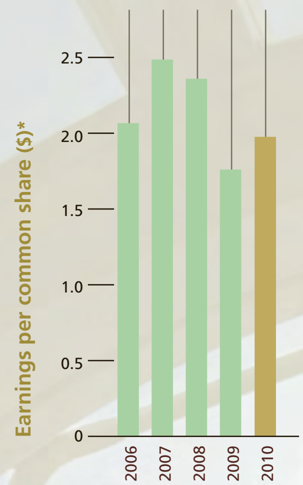
Assets as of December 31, 2010

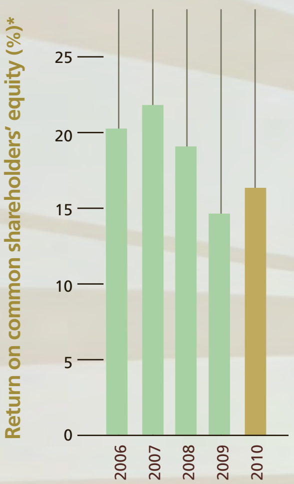
For more information on Great-West Lifeco, including current ratings, visit **www.greatwestlifeco.com**.

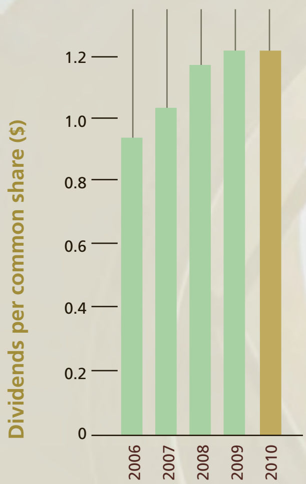
Key Performance Measures

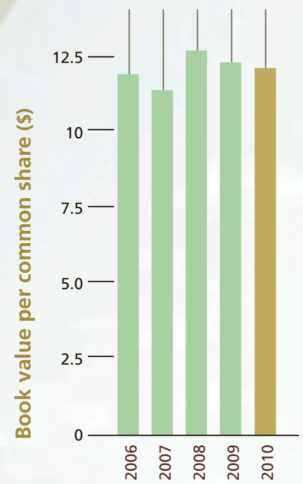












**Information is presented on an operating earnings basis, a non-GAAP financial measure*

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Readers are referred to the cautionary notes regarding forward-looking information and non-GAAP financial measures on page 6 of this report.

Directors' Report to Shareholders

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

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO

Performance Measures

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

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

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

Other measures of Lifeco's performance in 2010 include:

- Premiums and deposits were $59.1 billion, compared to $56.7 billion in 2009.
- General fund assets increased from $128.4 billion to $131.6 billion in 2010.
- Total assets under administration at December 31, 2010 were $484 billion, compared to approximately $459 billion a year ago.

Financial strength

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

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

At December 31, 2010, Lifeco held cash and cash equivalents of approximately $0.8 billion; 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 our operating subsidiaries. It augments our capital and liquidity position, thereby enhancing the Corporation's capability to take advantage of market opportunities.

We have a high quality bond portfolio, with 98% rated investment grade at December 31, 2010.

Credit ratings are another important indicator of our financial strength. Relative to its peer group in North America, Lifeco and its major operating subsidiaries enjoy strong ratings from the five agencies that rate them.

Diversified across Canada, the United States and Europe

Canada

In Canada, Lifeco's companies maintained leading market positions in their individual and group businesses. Total sales in Canada increased over 2009 driven by strong sales of individual life insurance, which increased 26% and grew significantly faster than the market; and proprietary retail investment funds, which increased 31%. The Canadian operations continue to experience strong organic growth by focusing on diversified distribution, product and service enhancements and expense management.

Our group retirement services business recorded strong growth; our group insurance business continued to experience strong persistency; and our individual segregated fund and mutual fund businesses maintained positive net deposits.

Our cover features the illuminating glass dome atop the historical Reichstag building in Berlin, Germany, which today houses the country's national parliament – the Bundestag.

2010 marks the 10-year anniversary of Great-West Lifeco subsidiary Canada Life entering the German market.

Directors' Report to Shareholders (cont'd)

Together, Lifeco's operating companies in Canada are the leading provider of individual life insurance, including participating life insurance. We continue to focus on excellence in managing and growing our participating business. Within our group of companies participating products have been offered as far back as 1847 and policyholder dividends have been paid every year since.

In addition to participating insurance, term and universal life insurance are important elements of the value proposition we offer. Our range of life insurance products gives advisors choice and flexibility in meeting clients' diverse individual needs.

The Canadian operations continued to focus on distribution support and development in 2010, both in the exclusive and independent distribution channels. The relationship we have with advisors supports the very strong persistency of our business, provides a strategic advantage for us and contributes to strong market share across our multiple lines of business.

Great-West Life is a leading provider of group insurance solutions for organizations of all sizes in Canada. Our product offering includes group life, healthcare, dentalcare, wellness and group disability, critical illness and international benefits plans, plus convenient online services. We are also the leading provider of group creditor insurance in Canada.

We offer group retirement and savings plans that are tailored to the unique needs of businesses and organizations. Group capital accumulation plans are a core business for Great-West Life.

Great-West Life continues to offer an important perspective on pension reform, to help ensure that Canadians save adequately and effectively for their retirement.

United States

Our Financial Services businesses continued to grow, with a 34% increase in sales over 2009 on a constant-currency basis. Strong sales across defined contribution markets and of single-premium life and business-owned life insurance led to record sales in both business segments, totalling US$12.4 billion in Retirement Services and US$1.1 billion in Individual Markets.

Higher average account balances resulting from an overall rise in the U.S. equities market contributed to increased fee income for both segments. Robust sales in the corporate 401(k) and large-case public/non-profit markets led an increase in retirement participant accounts to 4.4 million.

The introduction of the Maxim SecureFoundation℠ Portfolios, a guaranteed lifetime withdrawal benefit product, builds upon a strategy to enhance the retirement product array and increase assets under management.

Lifeco U.S. operations' asset portfolio continued to perform well, following a two-year period during which losses on its bond and mortgage loan portfolios were among the lowest of U.S. life insurance companies as a percentage of invested assets, as reported by Moody's Investors Service.

Great-West Life & Annuity also completed a comprehensive planning process which identified a number of key initiatives across the organization to accelerate the growth of the business.

Putnam's assets under management, including PanAgora, increased to US$121 billion at the end of December 2010 from US$115 billion a year earlier, reflecting improved market conditions and investment performance, a reduction in net outflows, and the introduction of new products. Putnam's suite of absolute return funds, launched in January 2009, reached US$2.7 billion in assets under management as of December 31, 2010.

In 2010, Putnam continued its focus on investment performance, innovation, and the firm's presence in the retirement market. Putnam launched a suite of three U.S. Multi-Cap Equity Funds to provide investors with an approach to investing by style – value, core/blend, and growth – regardless of the market capitalization of the underlying securities. Additionally, Putnam launched *Putnam 529 for America*℠, the only 529 plan to include absolute return funds.

In the retirement market space, Putnam introduced the Lifetime Income℠ Analysis Tool, which enables 401(k) plan participants to model how much income their savings might generate in retirement. Putnam also announced that it will offer industry-leading transparent and comprehensive disclosure of fees and expenses.

Europe

In Europe, the Corporation has operations through Canada Life in the United Kingdom, Isle of Man, Ireland and Germany.

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

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

William L. Acton
President and CEO
Canada Life Capital Corporation
Europe

Mitchell T. G. Graye
President and CEO
Great-West Life & Annuity

Paul A. Mahon
President and COO
Canada

Robert L. Reynolds
President and CEO
Putnam Investments

Lifeco participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life and property and casualty reinsurance in the United States and in international markets.

In 2010, reinsurance demand remained strong, although growth rates moderated in light of improving economic and capital conditions. The Corporation continued to leverage its financial strength, disciplined risk-management practices and excellent client relationships to achieve strong business results.

Board of Directors

At Great-West Lifeco's 2010 Annual Meeting of Shareholders it was announced that Donald Mazankowski would retire from the Corporation's Board of Directors after serving for many years. Mr. Mazankowski had been a Director of the Corporation since 1994. In addition to serving as Director, he has had a very distinguished career, during which he served as a Member of Parliament for 25 years and held several senior Cabinet positions.

Through his participation on the Board and various Board Committees, Mr. Mazankowski made a valuable contribution to the affairs of the Corporation, and we thank him sincerely for his years of service.

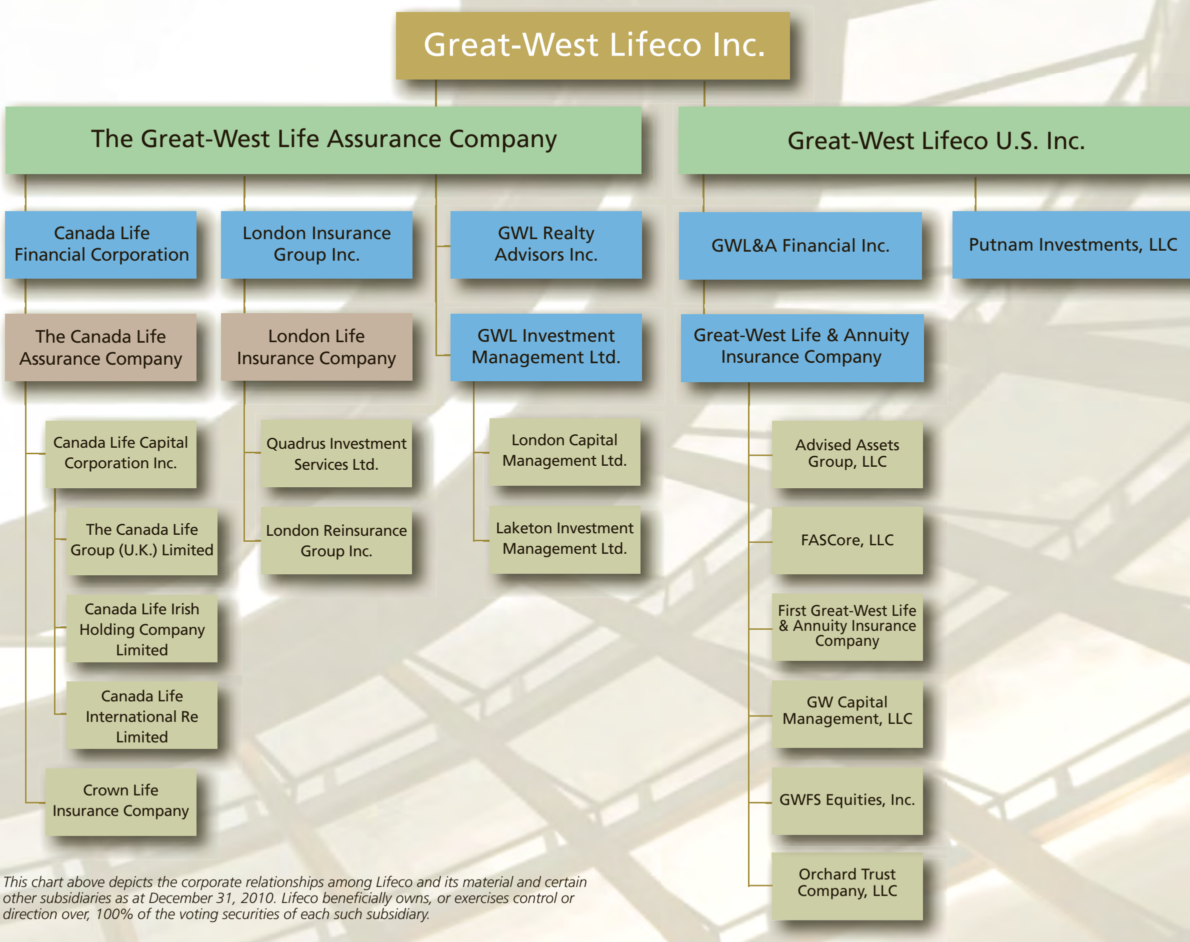
At the Annual Meeting one new individual was elected to the Board of Directors, namely Timothy Ryan, Jr. Mr. Ryan is President and Chief Executive Officer of the Securities Industry and Financial Markets Association.

On behalf of the Board of Directors, it is our pleasure to recognize the professionalism and continuing dedication of the people across our companies who serve our clients and distribution associates worldwide. We also thank our clients, distribution associates and shareholders for their continued support.

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO

Organization Chart



This chart above depicts the corporate relationships among Lifeco and its material and certain other subsidiaries as at December 31, 2010. Lifeco beneficially owns, or exercises control or direction over, 100% of the voting securities of each such subsidiary.

Business Overview

Operating Regions | **Major Brands** | **Products and Services**

Canada

Major Brands:

- Great-West Life
- London Life
- Canada Life
- Freedom 55 Financial
- Quadrus Investment Services Ltd.

Products and Services:

- Life, disability and critical illness insurance for individuals, business owners and families
- Retirement savings and income plans for individuals and groups, including segregated fund policies and payout annuities, as well as proprietary and third-party mutual funds through Quadrus Investment Services Ltd.
- Fund management, investment and advisory services through GWL Realty Advisors Inc., GWL Investment Management Ltd., London Capital Management Ltd. and Laketon Investment Management Ltd.
- Comprehensive benefit solutions for small, medium and large employer groups. Includes traditional benefit programs and services plus specialty services such as absence services, employee assistance plans, *Best Doctors*™ medical referral services and online services including plan administration, eClaims, and *Health SolutionsPlus*, Canada's first VISA® payment card for healthcare spending accounts
- 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

Major Brands:

- Great-West Life & Annuity
- First Great-West Life & Annuity
- Great-West Retirement Services
- FASCore
- Advised Assets Group
- Maxim Series Funds

Products and Services:

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and record-keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual term and single premium life insurance and individual annuity products
- Business-owned life insurance and executive benefits products

Putnam

- A global asset management firm offering a range of investment choices including mutual funds, institutional portfolios, college savings plans, 401(k)s, IRAs, and other retirement plans, variable annuities, and alternative investments
- Investment categories include fixed income, absolute return, domestic equity, international equity and global equity
- Innovative services include The Putnam Lifetime Income℠ Analysis Tool and the Roth IRA Conversion Tool

PanAgora Asset Management

- Active portfolio management and research capabilities utilizing quantitative investment techniques. Offers a broad range of strategies spanning regions, risk levels and asset classes, including equity, fixed income, currency, global macro, multi-asset and alternative investment approaches

Europe

Canada Life

Protection and wealth management products and related services in the United Kingdom, Isle of Man, Ireland and Germany:

- Individual life, disability and critical illness insurance
- Group life, income protection and critical illness insurance
- Pensions, savings, investments and payout annuities
- Fund Management through Setanta Asset Managers and Canada Life Asset Management Ltd.

Canada Life Reinsurance

London Reinsurance Group

Reinsurance and retrocession business primarily in the United States and European markets:

- Life – yearly renewable term, co-insurance and modified co-insurance
- Property and casualty – catastrophe retrocession
- Annuity – fixed and payout

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 that distribute Canada Life products and services • National accounts, including Investors Group, that distribute Canada Life products and services • Great-West group insurance and retirement sales and service staff in offices across Canada that support independent advisors, brokers and benefit consultants distributing our group products	• Serves the financial security needs of more than 12 million Canadians • 26% market share of individual life insurance measured by premium* **as at September 30, 2010* • 26% market share of individual living benefits measured by premium* **as at September 30, 2010* • 26.3% market share of individual segregated funds **as at December 31, 2010* • 22.1% market share for group insurance **as at December 31, 2009* • 20% market share of group capital accumulation plans, serving 1.2 million member accounts* **as at June 30, 2010, Benefits Canada 2010 CAP report data* • Leading market share for creditor insurance revenue premium
• Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks • FASCore record-keeping and administrative services distributed through institutional clients • Individual life and annuity products distributed through financial institutions • Business-owned life insurance and executive benefits products distributed through specialized consultants	• Fourth largest defined contribution record-keeper in the country, providing services for 4.4 million participant accounts • Significant market share in state and government deferred compensation plans • 19% market share in individual life insurance sold through the retail bank channel* **as at September 30, 2010* • 17% market share in business-owned life insurance purchased by financial institutions* **as at September 30, 2010*
• Services four markets including Global Institutional, Domestic Retail, Defined Contribution, and Registered Investment Advisor	• Approximately 6 million shareholders and retirement plan participants and 130 institutional mandates • More than 165,000 advisors distribute Putnam products • Provides services to over 425 defined contribution plans
• Institutional investors • Sub-advisory	• Serves over 100 institutional investors, including many of the world's top 300 plans
U.K. and Isle of Man • Independent financial advisors • Employee benefit consultants **Ireland** • Independent brokers and direct sales force **Germany** • Independent brokers and multi tied agents	**U.K. and Isle of Man** • Among top 20 life insurance companies • 33% share of group life market • 20% share of group income protection market • 16% share of offshore single premium investment product market • Among the top insurers in payout annuities, with 7% market share **Ireland** • Among top six insurers by new business market share • 5% of Irish life assurance market **Germany** • Among the top eight in the overall unit-linked market **market shares for Europe as at September 30, 2010*
Reinsurance • Independent reinsurance brokers • Direct placements	**Reinsurance** • Among top ten life reinsurers in the U.S. by assumed business • Niche positions in property and casualty and annuity business

The Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and twelve months ended December 31, 2010 compared with the same periods in 2009, and with the three months ended September 30, 2010. The MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States and Europe.

Businesses of Lifeco

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A), and Putnam Investments, LLC (Putnam).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC) respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors, managing general agencies and financial institutions.

In the U.S., GWL&A is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors. It also provides annuity and life insurance products for individuals and businesses, as well as fund management, investment and advisory services. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The Europe segment comprises two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, London Reinsurance Group Inc. (LRG) and their subsidiaries.

In Asia, Putnam has a 10% interest in Nissay Asset Management (NAM), a partnership with Nippon Life Insurance Company. Putnam predominantly acts as a sub-advisor for certain retail mutual funds distributed by NAM and also manages pension fund assets for NAM clients.

Lifeco currently has no other holdings and currently carries on no business or activities unrelated to its holdings in Great-West Life, London Life, Canada Life, GWL&A, Putnam and their subsidiaries. However, Lifeco is not restricted to investing in those companies and may make other investments in the future.

Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the annual consolidated financial statements.

Cautionary Note Regarding Forward-Looking Information

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. 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", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statements that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, taxes, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, changes in accounting policies and the effect of applying future accounting policy changes (including the adoption of International Financial Reporting Standards), unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out herein under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

Cautionary Note Regarding Non-GAAP Financial Measures

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include, but are not limited to, "operating earnings", "constant currency basis", "premiums and deposits", "sales", and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Please refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

CONSOLIDATED OPERATING RESULTS

Selected Consolidated Financial Information

(in $ millions except per share amounts)	For the three months ended Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	For the twelve months ended Dec. 31 2010	Dec. 31 2009
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	**$ 4,610**	$ 4,313	$ 4,324	**$ 17,748**	$ 18,033
Self-funded premium equivalents (ASO contracts)	**654**	619	632	**2,575**	2,499
Segregated funds deposits:					
Individual products	**2,158**	1,703	2,036	**7,284**	6,229
Group products	**1,385**	1,340	1,626	**6,790**	8,470
Proprietary mutual funds & institutional deposits	**6,667**	6,407	6,042	**24,654**	21,507
Total premiums and deposits	**15,474**	14,382	14,660	**59,051**	56,738
Fee and other income	**729**	691	765	**2,874**	2,839
Paid or credited to policyholders	**3,553**	7,317	4,283	**23,063**	23,809
Operating earnings – common shareholders	**508**	479	443	**1,861**	1,627
Net earnings – common shareholders	**508**	275	443	**1,657**	1,627
Per common share					
Operating earnings	**$ 0.535**	$ 0.505	$ 0.468	**$ 1.964**	$ 1.722
Basic earnings	**0.535**	0.289	0.468	**1.748**	1.722
Dividends paid	**0.3075**	0.3075	0.3075	**1.2300**	1.2300
Book value	**12.15**	12.35	12.17		
Return on common shareholders' equity (12 months)					
Net operating earnings	**16.0%**	15.5%	13.8%		
Net earnings	**14.4%**	13.8%	13.8%		
Total assets	**$ 131,514**	$ 135,567	$ 128,369		
Segregated funds net assets	**94,827**	92,167	87,495		
Proprietary mutual funds and institutional net assets	**123,273**	126,362	123,504		
Total assets under management	**349,614**	354,096	339,368		
Other assets under administration	**134,308**	131,557	119,207		
Total assets under administration	**$ 483,922**	$ 485,653	$ 458,575		
Share capital and surplus	**$ 13,420**	$ 13,361	$ 13,003		

The Company uses operating earnings, a non-GAAP financial measure, which excludes the impact of an incremental litigation provision described in note 25 to the Company's annual consolidated financial statements.

2010 Developments

Economic and Market Conditions

While economic conditions improved during 2010, foreign exchange, equity and credit markets experienced continued uncertainty and volatility. Factors contributing to the uncertainty included concerns with government and financial institution credits in Europe, increasing national debt levels, and the need for financial institutions to hold higher levels of capital due to regulatory reform.

Foreign exchange

Through its operating subsidiaries, the Company conducts its business in multiple currencies. The four primary currencies are the Canadian dollar, the United States dollar, the British pound and the euro. The Canadian dollar is both the functional and reporting currency of the Company; accordingly, foreign currency assets and liabilities are translated into Canadian dollars at the closing foreign exchange rate the end of the period throughout this document unless otherwise noted. All income and expenses items are translated at the average foreign exchange rate for the period. The translation rates employed are presented in the Translation of foreign currency table within this document.

In 2010, approximately 51% of the Company's operating earnings were denominated in Canadian dollars, 18% were denominated in U.S. dollars, and 31% in other currencies, primarily in the British pound and euro. The strengthening of the Canadian dollar against the United States dollar, the British pound and the euro had a significant dampening effect on the Company's financial results in 2010. For the twelve month period, currency translation had a negative impact of $32 million and $71 million in the United States and Europe segments respectively.

Equity markets

Despite significant fluctuations during the first six months of 2010, equity market indices increased during the year. Higher average index levels for the full year compared to 2009 had a positive impact on the operating results of the Company.

Year end 2010 levels for the S&P TSX, S&P 500 and the FTSE indices increased 14%, 13% and 9%, respectively, compared to year end 2009 levels, primarily from increases of 9%, 10% and 6%, respectively, during the last quarter of 2010. Comparing average index levels to 2009, the S&P TSX was up 19%, while the S&P 500 and the FTSE were up 20%.

In connection with its wealth management businesses, Lifeco derives fee income from the provision of investment management and other services. The asset base upon which fees are derived changes as the equity markets fluctuate, which results in variability of fee income. Some of the wealth management products offered by the Company provide for the guarantee of death, maturity, or income benefits to the policyholder. A decline in equity markets may result in the Company having to set aside capital and reserves in order to provide for potential future payment of guaranteed amounts.

In both the fourth quarter of 2010 and for the twelve month period ending December 31, 2010 average equity indices were higher than 2009 levels. The impact on higher equity markets in the fourth quarter of 2010 on fee income and actuarial liabilities positively impacted net earnings attributable to common shareholders by $32 million or $0.03 per common share compared to the fourth quarter of 2009. For the full year, the impact of the higher equity markets on fee income and actuarial liabilities positively impacted net earnings attributable to common shareholders by $160 million, or $0.17 per common share compared to 2009.

Equity markets impact on common shareholders' net earnings (after-tax)

For the periods ended December 31, 2010 compared to the periods ended December 31, 2009	For the three months ended			For the twelve months ended		
	(Reduction)/ increase in fee income	(Increase)/ decrease in actuarial liabilities	Total	(Reduction)/ increase in fee income	(Increase)/ decrease in actuarial liabilities	Total
Canada						
Individual Insurance and Investment Products	$ 11	$ 5	$ 16	$ 50	$ 15	$ 65
Group Insurance	–	–	–	–	–	–
	11	5	16	50	15	65
United States						
Financial Services	2	–	2	13	(1)	12
Asset Management	8	–	8	57	–	57
	10	–	10	70	(1)	69
Europe						
Insurance & Annuities	**2**	**4**	**6**	8	16	24
Reinsurance	–	–	–	1	1	2
	2	**4**	**6**	9	17	26
Total	**$ 23**	**$ 9**	**$ 32**	$ 129	$ 31	$ 160
Per common share			**$ 0.03**			$ 0.17

Interest rates and credit spreads

During the first nine months of 2010, falling interest rates resulted in an increase in the fair value of bonds. During the fourth quarter, the impact of narrowing credit spreads was more than offset by the impact of increases in yields on government bonds resulting in a decrease in the fair value of bonds.

Net investment income on general fund assets was negatively impacted in 2010 compared to 2009 as a result of changes in interest rate levels, but this impact was offset by changes in the value of actuarial liabilities since the company closely matches its general account assets and liabilities.

Net earnings in 2010 continued to benefit from favourable spread gains on assets purchased to support new business and trading gains on in-force business. Net earnings in 2010 also benefited from releases in interest rate margins that were previously held within actuarial liabilities and from realized gains on available for sale bonds held in surplus.

Guarantees associated with investment products

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds to which policyholders have directed deposits made under their policies.

The Company utilizes internal reinsurance treaties to aggregate the business as a risk mitigating tool. Aggregation enables the Company to benefit from diversification of segregated fund risks within one legal entity, a more efficient and cost-effective hedging process, and better management of liquidity risk associated with hedging. It also results in the Company holding lower required capital and actuarial liablilities, as aggregation of different risk profiles allows the Company to reflect the offsets at a consolidated level.

In Canada, the Company offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). These products are required to have minimum guarantees of 75% on death and 75% on maturity. The policyholder can choose to increase the level of guarantee up to 100%. The increased guarantee requires the policyholder to pay an additional premium for the enhanced guarantee ("rider"). On October 5, 2009, Great-West Life, London Life and Canada Life launched new retail segregated fund products which offer three levels of death and maturity guarantees, guarantee reset riders and lifetime guaranteed minimum withdrawal benefits (GMWB).

In Europe, the Company offers UWP products, which are similar to segregated fund products. The investment guarantees are reinsured on a stop-loss basis to Canada Life Reinsurance Ltd., a subsidiary of Canada Life. A GMWB product was introduced in Germany in the first quarter of 2009.

In the U.S., the Company offers variable annuities with GMDB through GWL&A and First Great-West Life & Annuity Insurance Company. Most are a return of premium on death with the guarantee expiring at age 70. A GMWB product offered through GWL&A was introduced in the U.S. in the second quarter of 2010.

The majority of the guarantees in connection with the Canadian retail segregated fund businesses of Great-West Life, London Life and Canada Life have been reinsured to London Reinsurance Group Inc. (LRG), not including the new products launched on October 5, 2009, which have been reinsured to London Life. In addition to the guarantees reinsured from Great-West Life, London Life and Canada Life, LRG also has a portfolio of GMDB, GMAB, and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance companies. LRG has reinsured, on a stop-loss basis, the guarantees it assumed from Great-West Life and Canada Life to the London Life Barbados branch.

For policies with these guarantees, the Company generally determines policy liabilities at a CTE75 (conditional tail expectation of 75) level. The CTE75 level determines the amount of policy liabilities as the amount required in excess of the policyholder funds in the average of the 25% worst scenarios tested, using scenario generating processes consistent with the Canadian Institute of Actuaries Standards of Practice. Policyholder funds include equities (common shares and real estate), and fixed income (bond, mortgage and money market) investment funds. Generally, if this amount is less than zero, then no policy liability is held for the guarantees.

For purposes of determining the required capital for these guarantees a Total Gross Calculated Requirement (TGCR) is determined and the required capital is equal to the TGCR less the policy liabilities held. The TGCR was nil at December 31, 2010 ($37 million at December 31, 2009). The Office of the Superintendent of Financial Institutions (OSFI) rules for the TGCR provide for a CTE98 level for cash flows within one year, CTE95 level for cash flows between one and five years, and between CTE90 level and CTE95 level for cash flows greater than five years. Guarantees on the Great-West Life originated business are valued using factors prescribed by OSFI.

The GMWB products offered by the Company in Canada, the U.S. and Germany provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the particular underlying segregated funds. Where the market value of the particular underlying funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed income market returns, interest rates, market volatility, policyholder behaviour and policyholder longevity.

The Company has a hedging program in place to mitigate certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets and interest rates. Equity derivative instruments are used to mitigate changes in the embedded option value attributable to equity market movements. In addition, interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to interest rate movements. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged, or cannot be hedged on a cost-effective basis. These risks include policyholder behaviour, policyholder longevity, basis risk and market volatility. Consequently, the dynamic hedging program will not mitigate all risks to the Company associated with the GMWB products, and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company's exposure to the risks it is not hedging or are otherwise inherent in this GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

A senior management committee is in place to monitor the day to day hedge performance analysis and to make adjustments as appropriate.

The GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2010, the amount of GMWB product in-force in Canada, the United States and Germany was $709 million ($119 million at December 31, 2009). Through its hedging program the Company, at December 31, 2010, had entered into index futures with an aggregate notional amount of $38 million ($5 million at December 31, 2009) to mitigate equity market risk, interest futures with an aggregate notional amount of $5 million to mitigate interest rate risk, interest rate swaps with an aggregate notional amount of $164 million ($19 million at December 31, 2009) to mitigate interest rate risk, and foreign currency forward contracts with an aggregate notional amount of $20 million ($3 million at December 31, 2009) to mitigate foreign currency translation risk.

Segregated funds guarantee exposure

	December 31, 2010			
		Deficiency by benefit type		
	Market value	Death	Maturity	Income
Canada				
Great-West Life/London Life/Canada Life	$ 23,240	$ 135	$ 22	$ –
London Reinsurance Group	84	–	2	–
Sub-total	23,324	135	24	–
United States				
GWL&A	6,845	71	–	–
London Reinsurance Group	1,140	42	–	342
Sub-total	7,985	113	–	342
Europe	2,020	92	–	–
Total	**$ 33,329**	**$ 340**	**$ 24**	**$ 342**

At December 31, 2010, the excess of policyholder GMDB over the market value of the policyholder funds was $340 million. This should be interpreted to mean that if all of the policyholders with in-the-money GMDB had died on December 31, 2010, the Company would have been obligated to pay death benefits of approximately $33.7 billion, or $340 million ($760 million at December 31, 2009) in excess of the market value of the policyholders' funds on that date. If markets were to remain at December 31, 2010 levels, the GMDB related payments over the next twelve months are estimated to be $5 million ($10 million at December 31, 2009).

2010 Lifeco Developments

During the year the Company's business segments launched a number of innovative new products and services.

- In the Canadian Group Insurance business segment, the Company launched Prelude, a voluntary, individually funded retiree health product in the second quarter. Also in Canada, the Company launched a number of new innovative technology services including the Provider eClaims, Member eClaims, which will enable plan members to submit their claims online and *Health SolutionsPlus* which provides for prepaid benefit card technology for Healthcare Spending Accounts.
- In the Canadian Individual Insurance & Investment Products (IIIP) business segment, Group Retirement Services (GRS) launched a new web landing page that plan members can customize based on their preferences. In addition, a new cashable payout annuity product was introduced in December.
- Within the U.S. Asset Management business segment, Putnam launched a number of new products including a suite of three Multi-Cap Equity Funds and *Putnam 529 for America*SM. The Multi-Cap funds provide investors with an approach to investing by style – value, core/blend, growth regardless of the market capitalization of the underlying securities. *Putnam 529 for America*SM provides tax-advantaged, innovative strategies, including the only absolute return funds available in a 529 college savings plan.
- In the U.S. Financial Services operations, GWL&A introduced a set of guaranteed income investments options, the Maxim Secure FoundationSM Portfolios, making it one of the first providers to offer a complete suite of services to help participants through each phase of their retirement planning life cycle.
- The Company completed strategic reviews within certain segments of its operations in Europe which will strengthen our position in the marketplace.
- The Company relaunched the German pension product to improve its competitiveness.

Contingent Liabilities

The Ontario Superior Court of Justice released a decision on October 1, 2010 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of LIG in 1997.

The Company believes there are significant aspects of the lower court judgment that are in error and a Notice of Appeal has been filed.

Notwithstanding the foregoing, the Company has established an incremental provision in the third quarter 2010 in the amount of $225 million after-tax ($204 million and $21 million attributable to the common shareholder and to the non-controlling interests, respectively). The Company now holds $310 million in after-tax provisions for these proceedings.

Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured.

Refer to note 25 to the Company's annual consolidated financial statements for additional disclosure of Contingent Liabilities.

Net Earnings

Consolidated net earnings of Lifeco include the net earnings of Great-West Life and its operating subsidiaries London Life and Canada Life, GWL&A and Putnam, together with Lifeco's corporate results.

Lifeco's net earnings attributable to common shareholders for the three month period ended December 31, 2010 were $508 million compared to $443 million reported a year ago. On a per share basis, this represents $0.535 per common share ($0.535 diluted) for the fourth quarter of 2010 compared to $0.468 per common share ($0.467 diluted) a year ago.

Fourth quarter results include a favourable $35 million adjustment of prior year overstatements of tax liabilities in the United States segment. Asset impairment provisions of $57 million and the related impact on actuarial liabilities of $71 million negatively impacted in-quarter earnings by $128 million, primarily in the Europe segment. There was also a positive in quarter contribution of $43 million from excess interest margins in actuarial liabilities in the Europe segment. Fourth quarter results also include the favourable after-tax impact of a $68 million adjustment relating to the cost of acquiring Canada Life Financial Corporation in 2003.

For the twelve months ended December 31, 2010, Lifeco's net earnings attributable to common shareholders were $1,657 million compared to $1,627 million reported a year ago, an increase of 1.8%. On a per share basis, this represents $1.748 per common share ($1.746 diluted) for 2010 compared to $1.722 per common share ($1.719 diluted) a year ago.

Operating earnings attributable to common shareholders for the twelve months ended December 31, 2010, were $1,861 million compared to $1,627 million reported a year ago, an increase of 14.4%. On a per share basis, this represents $1.964 per common share ($1.962 diluted) for 2010 compared to $1.722 per common share ($1.719 diluted) a year ago.

Operating earnings, a non-GAAP financial measure, exclude the impact of an incremental litigation provision in the amount of $225 million after-tax ($204 million attributable to the common shareholder or $0.216 per common share and $21 million to non-controlling interests) established in the third quarter.

The Company continued to achieve solid operating earnings results in all business segments despite continued currency head winds due to the strengthening of the Canadian dollar against the U.S. dollar, British pound and the euro in 2010.

For the three months ended December 31, 2010, the strengthening of the Canadian dollar against the U.S. dollar, the British pound and the euro had a negative currency impact on Lifeco's net earnings of $17 million or $0.02 per common share compared to the same period in 2009. For the twelve months ended December 31, 2010, negative currency impact on net earnings was $103 million or $0.11 per common share compared to 2009.

Return on common shareholders' equity (ROE) of 14.4% increased from 13.8% at December 31, 2009. The Company achieved a 16.0% ROE on operating earnings, which compares favourably with its long-term objective of 15.0%.

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Canada					
Individual Insurance & Investment Products	**$ 134**	$ 150	$ 139	**$ 608**	$ 572
Group Insurance	**102**	104	94	**395**	395
Canada Corporate	**2**	(22)	13	**(63)**	(84)
	238	232	246	**940**	883
United States					
Financial Services	**78**	92	78	**334**	320
Asset Management	**1**	(1)	(37)	**(43)**	(90)
U.S. Corporate	**54**	(3)	(5)	**52**	(2)
	133	88	36	**343**	228
Europe					
Insurance & Annuities	**98**	116	124	**441**	387
Reinsurance	**49**	44	43	**154**	153
Europe Corporate	**(9)**	(2)	(2)	**(17)**	(11)
	138	158	165	**578**	529
Lifeco Corporate	**(1)**	1	(4)	**–**	(13)
Operating earnings	**508**	479	443	**1,861**	1,627
Litigation provision	**–**	(204)	–	**(204)**	–
Net earnings	**$ 508**	$ 275	$ 443	**$ 1,657**	$ 1,627

The information in the table is a summary of results for net earnings of the Company. A detailed discussion regarding net earnings can be found in Segmented Operating Results.

Premiums and Deposits and Sales

Premiums and deposits includes premiums on risk-based insurance and annuity products, premium equivalents on self-funded group insurance administrative services only contracts, deposits on individual and group segregated fund products and deposits on proprietary mutual funds and institutional accounts.

Sales include 100% of single premium and annualized recurring premium on risk-based and annuity products, deposits on individual and group segregated fund products, deposits on proprietary mutual funds and institutional accounts and deposits on non-proprietary mutual funds.

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Canada					
Individual Insurance & Investment Products	**$ 3,122**	$ 2,696	$ 2,914	**$ 11,872**	$ 11,731
Group Insurance	**1,743**	1,709	1,671	**6,902**	6,658
	4,865	4,405	4,585	**18,774**	18,389
United States					
Financial Services	**1,540**	1,550	1,875	**6,903**	7,676
Asset Management	**6,503**	6,289	5,902	**24,038**	20,942
	8,043	7,839	7,777	**30,941**	28,618
Europe					
Insurance & Annuities	**1,691**	1,257	1,391	**5,846**	5,588
Reinsurance	**875**	881	907	**3,490**	4,143
	2,566	2,138	2,298	**9,336**	9,731
Total	**$ 15,474**	$ 14,382	$ 14,660	**$ 59,051**	$ 56,738

Sales

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Canada	**$ 2,569**	$ 2,020	$ 2,421	**$ 9,548**	$ 9,031
United States	**8,527**	11,084	9,489	**38,057**	32,383
Europe	**1,308**	992	990	**4,487**	3,976
Total	**$ 12,404**	$ 14,096	$ 12,900	**$ 52,092**	$ 45,390

The information in the table is a summary of results for premiums and deposits and sales of the Company. A detailed discussion regarding premiums and deposits and sales can be found in Segmented Operating Results.

Net investment income

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Investment income earned	**$ 1,435**	$ 1,479	$ 1,448	**$ 5,682**	$ 6,131
Amortization of net realized and unrealized gains/(losses) on real estate investments	**5**	5	1	**17**	(14)
(Provision)/recovery of credit losses on loans and receivables	**–**	3	(2)	**2**	(39)
Other net realized gains/(losses)	**55**	34	30	**116**	167
Regular investment income	**1,495**	1,521	1,477	**5,817**	6,245
Investment expenses	**(20)**	(17)	(16)	**(74)**	(66)
Regular net investment income	**1,475**	1,504	1,461	**5,743**	6,179
Changes in fair value of held for trading assets	**(1,555)**	2,595	(549)	**3,633**	3,490
Net investment income (loss)	**$ (80)**	$ 4,099	$ 912	**$ 9,376**	$ 9,669

Net investment income in the fourth quarter of 2010 decreased by $992 million compared to the same period last year. The year-over-year decrease in net investment income is primarily due to a decline in the fair value of held for trading assets of $1,555 million in 2010 compared to a smaller decline of $549 million in 2009. In the fourth quarter of 2010, fair values were unfavourably impacted by an increase in government bond rates. Regular net investment income increased $14 million in the quarter compared to 2009.

For the twelve months ended December 31, 2010 net investment income decreased by $293 million compared to the same period last year. The decrease in income from 2009 was primarily a result of lower regular net investment income of $436 million which resulted from currency movement of approximately $500 million as the Canadian dollar strengthened in year and the US$60 million pre-tax gain, after minority interests, on the sale of Union PanAgora Asset Management GmbH by Putnam in 2009. The decrease was partially offset by a larger increase in the fair value of held for trading assets of $143 million in 2010, higher amortization of net realized and unrealized gains/(losses) on real estate investments as a result of market value improvements on real estate and lower provisions for credit losses on loans and receivables.

Net investment income was lower in the fourth quarter of 2010 compared to the third quarter of 2010 primarily due to the decline in the fair value of held for trading assets, which decreased $1,555 million in the fourth quarter compared to an increase of $2,595 million in the third quarter.

Credit markets impact on common shareholders' net earnings (after-tax)

	For the three months ended December 31, 2010			For the twelve months ended December 31, 2010		
	Impairment (charges)/ recoveries	Charges for future credit losses in actuarial liabilities	Total	Impairment (charges)/ recoveries	Charges for future credit losses in actuarial liabilities	Total
Canada	$ (4)	$ (1)	$ (5)	$ (2)	$ (1)	$ (3)
United States	(2)	-	(2)	(8)	(5)	(13)
Europe	(37)	(13)	(50)	(3)	(8)	(11)
Total	**$ (43)**	**$ (14)**	**$ (57)**	**$ (13)**	**$ (14)**	**$ (27)**
Per common share			**$ (0.060)**			**$ (0.028)**

Investment impairment charges

During the three months ended December 31, 2010, the Company experienced market value changes on previously impaired securities (both realized and unrealized) and additional charges on newly impaired items including the recognition of accumulated losses on certain available for sale equities.

Fourth quarter investment impairment charges negatively impacted common shareholder earnings by $43 million primarily resulting from in quarter charges of $92 million, primarily related to Irish bank bonds, which were partly offset by a release of $46 million of related asset default provisions held in actuarial liabilities and pass through provisions. In certain circumstances impairment charges and recoveries may result in a change to interest rate credits on policyholder funds from pass through features in the particular policy. There was an additional net recovery of $3 million related to market value increases on previously impaired assets.

Charges for future credit losses in actuarial liabilities

The increase in provisions for future credit losses in the fourth quarter relating to credit rating changes and basis changes made by the Company regarding its methodology for calculating the provisions negatively impacted earnings attributable to common shareholders by $14 million.

The increase in provisions for future credit losses relating to the twelve months ended December 31, 2010 negatively impacted earnings attributable to common shareholders by $37 million. This charge was offset by a release of $23 million of actuarial credit default provisions established in 2009 in anticipation of the impact of significant ratings review activity by certain rating agencies which was completed in the first quarter of 2010. The net impact of changes in credit ratings and basis changes made by the Company regarding its methodology for calculating the provisions for the twelve months ended December 31, 2010 negatively impacted common shareholder earnings by $14 million.

Additional impact of impaired investments

Stemming from asset impairments and certain debt exchanges in the European segment, assets were replaced with investments producing lower cash flows, thereby requiring higher reserves which resulted in an additional $71 million after-tax charge.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, and administrative services only (ASO) contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Canada					
Segregated funds, mutual funds and other	**$ 228**	$ 217	$ 214	**$ 884**	$ 800
ASO contracts	**35**	34	35	**141**	138
	263	251	249	**1,025**	938
United States					
Segregated funds, mutual funds and other	**311**	311	358	**1,246**	1,240
Europe					
Segregated funds, mutual funds and other	**155**	129	158	**603**	661
	$ 729	$ 691	$ 765	**$ 2,874**	$ 2,839

The information in the table is a summary of results for fee and other income for the Company. A detailed discussion regarding fee and other income can be found in Segmented Operating Results.

Paid or Credited to Policyholders

Amounts paid or credited to policyholders include changes in policy liabilities, claims, surrenders, annuity and maturity payments, segregated funds guarantee payments and dividend and experience refund payments for risk-based products. The change in policy liabilities includes adjustments to actuarial liabilities for changes in fair value of certain invested assets backing those actuarial liabilities and changes in the provision for future credit losses in actuarial liabilities. These amounts do not include benefit payment amounts for ASO contracts or redemptions of segregated funds and mutual funds.

For the three months ended December 31, 2010, consolidated amounts paid or credited to policyholders were $3.6 billion, a decrease of $730 million from the same period in 2009. The amounts paid or credited to policyholders decreased $111 million in the United States and $692 million in Europe primarily due to smaller increases in the fair value of invested assets backing actuarial liabilities and the effect of currency movement, partly offset by commutation of reinsurance contracts in Europe. Amounts paid or credited to policyholders were $73 million higher in Canada mainly due to increased benefit payments.

For the twelve months ended December 31, 2010, consolidated amounts paid or credited to policyholders were $23.1 billion, a decrease of $746 million from 2009. The amounts paid or credited to policyholders in the United States were $169 million lower mainly due to currency movement and smaller increases in the fair value of invested assets backing actuarial liabilities partly offset by business growth. Europe was $888 million lower, mainly due to currency movement and commutation of reinsurance contracts, partly offset by increases in the fair value of invested assets backing actuarial liabilities and business growth. Canada increased $311 million mainly from higher benefit payments and increases in the fair value of invested assets backing actuarial liabilities.

Compared to the third quarter of 2010, amounts paid or credited to policyholders decreased $3.8 billion primarily due to a decrease in the fair value of invested assets backing actuarial liabilities.

Other Benefits and Expenses

Included in other benefits and expenses are operating expenses, commissions, interest expense on long-term debt and other borrowings, dividends on preferred shares and premium taxes.

Other benefits and expenses

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Total expenses	**$ 588**	$ 987	$ 689	**$ 2,871**	$ 2,666
Less: litigation provision	**–**	382	–	**382**	–
Sub-total	**588**	605	689	**2,489**	2,666
Less: investment expenses	**20**	17	16	**74**	66
Operating expenses	**568**	588	673	**2,415**	2,600
Commissions	**430**	366	391	**1,523**	1,370
Premium taxes	**59**	71	65	**256**	257
Financing charges	**71**	73	62	**283**	336
Total	**$ 1,128**	$ 1,098	$ 1,191	**$ 4,477**	$ 4,563

Operating expenses for the three months ended December 31, 2010 include the favourable impact of a $68 million adjustment related to the cost of acquiring Canada Life Financial Corporation in 2003. Operating expenses for the three months ended December 31, 2009 include the favourable impact of a $51 million reversal of a provision relating to litigation for certain Canadian retirement plans. The remaining operating expenses decrease of $88 million compared to the same period of 2009 relates primarily to the partial release of provisions related to legal proceedings and lower incentive compensation in the United States and currency movement in both Europe and the United States.

Operating expenses for the twelve months ended December 31, 2010 decreased $168 million excluding the favourable impact of a $68 million adjustment related to the cost of acquiring Canada Life Financial Corporation in 2003 and the favourable impact of a $51 million reversal of a provision relating to litigation for certain Canadian retirement plans in 2009. The decrease of $168 million from 2009 is primarily attributable to to the partial release of provisions related to legal proceedings in the United States and currency movement in both Europe and the United States.

Compared to the third quarter of 2010, operating expenses increased $48 million primarily due to the timing of expenses.

Income Taxes

The Company has a statutory tax rate of 30.5% which is primarily reduced by benefits related to non-taxable investment income and lower tax in foreign jurisdictions (see note 23 to the Company's annual consolidated financial statements). Also reducing the effective tax rate, but in a less significant manner, are the impacts of the application of future tax rates to temporary differences and changes to statutory rates on the calculation of actuarial reserves.

Income taxes for the three and twelve month periods ended December 31, 2010 were $41 million and $227 million, respectively, compared to $47 million and $345 million for the same periods in 2009. Income tax expense in the fourth quarter was reduced by a $35 million adjustment of prior year overstatements of tax liabilities in the United States segment. Net earnings before income taxes were $555 million and $1,984 million for the three and twelve month periods ended December 31, 2010, compared to $506 million and $2,080 million for the same periods in 2009.

The reduction of pre-tax income due to the litigation provision described in note 25 to the Company's annual consolidated financial statements amplified the resulting reduction of the 2010 effective tax rate.

Consolidated Financial Position

Assets

Assets under administration

	December 31, 2010			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 52,468**	**$ 25,836**	**$ 28,654**	**$ 106,958**
Goodwill and intangible assets	**5,086**	**1,717**	**1,702**	**8,505**
Other assets	**3,019**	**2,420**	**10,612**	**16,051**
Total assets	**60,573**	**29,973**	**40,968**	**131,514**
Segregated funds net assets	**50,001**	**21,189**	**23,637**	**94,827**
Proprietary mutual funds and institutional net assets	**3,272**	**120,001**	**–**	**123,273**
Total assets under management	**113,846**	**171,163**	**64,605**	**349,614**
Other assets under administration	**11,655**	**122,546**	**107**	**134,308**
Total assets under administration	**$ 125,501**	**$ 293,709**	**$ 64,712**	**$ 483,922**

	December 31, 2009			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 48,585	$ 24,762	$ 29,409	$ 102,756
Goodwill and intangible assets	5,093	1,830	1,721	8,644
Other assets	2,180	2,670	12,119	16,969
Total assets	55,858	29,262	43,249	128,369
Segregated funds net assets	45,005	19,690	22,800	87,495
Proprietary mutual funds and institutional net assets	2,811	120,693	–	123,504
Total assets under management	103,674	169,645	66,049	339,368
Other assets under administration	10,905	108,192	110	119,207
Total assets under administration	$ 114,579	$ 277,837	$ 66,159	$ 458,575

Total assets under administration at December 31, 2010 increased $25.3 billion from December 31, 2009. Invested assets increased by approximately $4.2 billion primarily due to an increase in fair value. Segregated funds and proprietary mutual funds and institutional net assets increased by approximately $7.1 billion from December 31, 2009 primarily as a result of improved equity market levels. Other assets under administration increased $15.1 billion as a result of improved equity market levels, and lower interest rates.

Invested assets

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Invested Asset Distribution

	December 31, 2010				
	Canada	United States	Europe	Total	
Bonds					
Government bonds	$ 12,281	$ 4,811	$ 7,920	$ 25,012	24%
Corporate bonds	18,602	13,852	14,737	47,191	44
Sub-total bonds	30,883	18,663	22,657	72,203	68
Mortgages	11,841	1,981	2,293	16,115	15
Stocks	5,939	434	327	6,700	6
Real estate	1,086	132	2,055	3,273	3
Sub-total portfolio investments	49,749	21,210	27,332	98,291	92
Cash and cash equivalents	301	295	1,244	1,840	2
Policy loans	2,418	4,331	78	6,827	6
Total invested assets	$ 52,468	$ 25,836	$ 28,654	$ 106,958	100%

	December 31, 2009				
	Canada	United States	Europe	Total	
Bonds					
Government bonds	$ 9,795	$ 3,970	$ 6,632	$ 20,397	20%
Corporate bonds	17,720	13,258	14,772	45,750	44
Sub-total bonds	27,515	17,228	21,404	66,147	64
Mortgages	12,031	1,994	2,659	16,684	16
Stocks	5,464	538	440	6,442	6
Real estate	948	140	2,011	3,099	3
Sub-total portfolio investments	45,958	19,900	26,514	92,372	89
Cash and cash equivalents	257	360	2,810	3,427	4
Policy loans	2,370	4,502	85	6,957	7
Total invested assets	$ 48,585	$ 24,762	$ 29,409	$ 102,756	100%

Invested assets are recorded at fair value and at December 31, 2010 were $107 billion, an increase of $4.2 billion from December 31, 2009 primarily due to an increase in fair value as a result of lower government bond rates and improved equity markets. The distribution of assets has not changed materially and remains heavily weighted to bonds and mortgages.

Bond portfolio quality

Estimated rating	December 31, 2010		December 31, 2009	
AAA	$ 28,925	40%	$ 24,653	37%
AA	11,436	16	10,684	16
A	19,968	28	19,332	29
BBB	10,649	14	10,113	16
BB or lower	1,225	2	1,365	2
Total	$ 72,203	100%	$ 66,147	100%

Bond portfolio – The total bond portfolio, including short-term investments, was $72.2 billion or 68% of invested assets at December 31, 2010 and $66.1 billion or 64% at December 31, 2009. Federal, provincial and other government securities represented 35% of the bond portfolio compared to 31% in 2009. The overall quality of the bond portfolio remained high, with 98% of the portfolio rated investment grade and 84% rated A or higher.

Non-investment grade bonds were $1.2 billion or 2% of the bond portfolio at December 31, 2010 compared with $1.4 billion or 2% of the bond portfolio at December 31, 2009. The net decrease in non-investment grade bonds resulted from repayments, dispositions and currency movement partly offset by net rating downgrades.

Mortgage portfolio

	December 31, 2010				December 31, 2009	
Mortgage loans by type	Insured	Non-insured	Total		Total	
Single family residential	$ 1,429	$ 193	$ 1,622	10%	$ 1,695	10%
Multi-family residential	2,630	1,388	4,018	25	4,479	27
Commercial	227	10,248	10,475	65	10,510	63
Total mortgages	$ 4,286	$ 11,829	$ 16,115	100%	$ 16,684	100%

Commercial mortgages

	December 31, 2010				December 31, 2009			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Retail & shopping centre	**$ 3,005**	**$ 336**	**$ 1,084**	**$ 4,425**	$ 2,793	$ 306	$ 1,203	$ 4,302
Office buildings	**1,385**	**233**	**536**	**2,154**	1,261	282	612	2,155
Industrial	**1,874**	**897**	**270**	**3,041**	1,857	869	311	3,037
Other	**427**	**51**	**377**	**855**	460	52	504	1,016
Total	**$ 6,691**	**$ 1,517**	**$ 2,267**	**$ 10,475**	$ 6,371	$ 1,509	$ 2,630	$ 10,510

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial loans meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk rating system, which it uses in its underwriting and credit monitoring processes for commercial mortgages. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region.

The total mortgage portfolio was $16.1 billion or 15% of invested assets at December 31, 2010 compared to $16.7 billion or 16% of invested assets at December 31, 2009. Total insured loans were $4.3 billion or 27% of the mortgage portfolio.

Equity portfolio

Equity portfolio by type	December 31, 2010		December 31, 2009	
Publicly traded stocks	**$ 5,878**	**59%**	$ 5,529	58%
Privately held equity (at cost)	**822**	**8**	913	10
Sub-total	**6,700**	**67%**	6,442	68%
Real estate	**3,273**	**33**	3,099	32
Total	**$ 9,973**	**100%**	$ 9,541	100%

Real estate

	December 31, 2010				December 31, 2009			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Head office	**$ 262**	**$ 123**	**$ 16**	**$ 401**	$ 240	$ 132	$ 18	$ 390
Office buildings	**559**	**–**	**428**	**987**	552	–	514	1,066
Industrial	**56**	**–**	**419**	**475**	58	–	420	478
Retail	**76**	**4**	**896**	**976**	29	4	792	825
Other	**133**	**5**	**296**	**434**	69	4	267	340
Total	**$ 1,086**	**$ 132**	**$ 2,055**	**$ 3,273**	$ 948	$ 140	$ 2,011	$ 3,099

Equity portfolio – The total equity portfolio was $10 billion or 9% of invested assets at December 31, 2010 compared to $9.5 billion or 9% of invested assets at December 31, 2009. The equity portfolio consists of public stocks, private equity and real estate. Publicly traded stocks increased in 2010 due to equity market value improvements, while privately held equities carried at cost declined as a result of redemptions. Real estate values increased from 2009 mostly due to in-year acquisitions.

Impaired investments – Impaired investments include bonds in default, bonds with deferred non-cumulative coupons, mortgages in default or in the process of foreclosure, real estate acquired by foreclosure, and other assets where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments

	December 31, 2010			December 31, 2009		
Impaired investments by type (1)	Gross amount	Other than temporary impairment	Carrying amount	Gross amount	Other than temporary impairment	Carrying amount
Held for trading	**$ 600**	**$ (287)**	**$ 313**	$ 527	$ (282)	$ 245
Available for sale	**58**	**(32)**	**26**	55	(36)	19
Loans and receivables	**114**	**(64)**	**50**	151	(81)	70
Total	**$ 772**	**$ (383)**	**$ 389**	$ 733	$ (399)	$ 334

(1) Includes impaired amounts on certain funds held by ceding insurers.

The gross amount of impaired investments totalled $772 million or 0.72% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2010 compared with $733 million or 0.72% at December 31, 2009 a net increase of $39 million. The main contributors to the increase were the first quarter impairment of $169 million of bonds that were subject to credit guarantees provided by Ambac Financial Group, Inc. (Ambac) and the fourth quarter impairment of $134 million of Bank of Ireland

and Allied Irish Bank subordinated debt. Sales and redemption activity and currency movement of $326 million mostly offset newly impaired assets. Significant impairments in 2009 included $273 million of bonds that were subject to credit guarantees provided by Financial Guaranty Insurance Company (FGIC).

Impairment provisions at December 31, 2010 were $383 million compared to $399 million at December 31, 2009, a decrease of $16 million. Investment impairment charges of $81 million related to Ambac insured bonds in the first quarter and $85 million related to Irish Banks in the fourth quarter were more than offset by year to date disposals that had provisions of $91 million, positive mark-to-market revaluation on previously impaired assets and currency movement.

Performing securities subject to deferred coupons

The Company holds certain securities issued by Lloyds Banking Group (Lloyds) and ABN Amro Bank N.V. (ABN Amro) that provide for the payment of coupons on a cumulative basis, and where the issuer has deferred the payment of those coupons. On August 16, 2010, ABN Amro announced the deferral of payment of coupons on certain securities. The ABN Amro securities held by the Company pay interest annually in February. The Company expects to receive the next payment due February 2011, but the payments due February 2012 and 2013 have been deferred to February 2014.

Performing securities subject to deferred coupons

	Gross amount	Unrealized gains (losses)	Carrying amount	Accrued income deferred	Deferral period
Cumulative					
Lloyds Banking Group	$ 111	$ (16)	$ 95	$ 10	2010–12
ABN Amro Bank N.V.	31	(6)	25	–	2012–14
	$ 142	**$ (22)**	**$ 120**	**$ 10**	

At December 31, 2010, the Company held securities with a gross amount of $142 million where the issuer has exercised its contractual right to defer the payment of coupons. Based on information presently available, management believes there is reasonable assurance of collection of the deferred coupons at the end of the deferral period. The actuarial cash flow valuation models used by the Company recognize the delay in receipt of these coupons in the reserve setting process and the Company's actuarial liabilities at December 31, 2010 include asset default provisions of $55 million in connection with these securities.

Unrealized mark-to-market losses

At December 31, 2010, gross unrealized bond losses totalled $1,542 million ($3,054 million at December 31, 2009), of which $1,454 million are held for trading bonds, held primarily in support of actuarial liabilities. The changes in the fair value of these held for trading bonds, excluding investment impairment charges, have been offset by a corresponding change in the value of the actuarial liabilities on the basis of management's assessment that the Company will ultimately receive all contractual cash flows on these bonds.

Gross unrealized bond losses (1)

	December 31, 2010		December 31, 2009	
Classification				
Held for trading	**$ 1,454**	**94%**	$ 2,909	95%
Available for sale	**88**	**6**	145	5
Total	**$ 1,542**	**100%**	$ 3,054	100%

(1) Includes unrealized bond losses on certain funds held by ceding insurers.

Provision for future credit losses

At December 31, 2010, the total provision for future credit losses in actuarial liabilities was $2,318 million, compared to $2,467 million at December 31, 2009, a decrease of $149 million.

The $149 million decrease was mostly as a result of the release of $131 million in connection with investments with an associated impairment charge, a $116 million net decrease due to currency movement partly offset by an increase of $98 million due to normal movement in the block of actuarial liabilities and in-year credit rating changes.

The aggregate of impairment provisions of $383 million ($399 million at December 31, 2009) and $2,318 million ($2,467 million at December 31, 2009) provision for future credit losses in actuarial liabilities represents 2.8% of bond and mortgage assets at December 31, 2010 (3.1% at December 31, 2009).

Exchange of debt securities

During 2010 the Company participated in exchange offers related to certain securities of financial institutions as follows:

On April 6, 2010, Royal Bank of Scotland announced an offer to exchange certain subordinated debt securities for new senior debt. In response to this offer, the Company exchanged holdings with an amortized cost of $208 million for $167 million of senior debt. The securities exchanged had been rated as below investment grade, and the $41 million difference between the securities exchanged and the senior debt received was recorded as an impairment charge. As a result of the exchange, the Company released $58 million of asset default provisions that were being held in actuarial liabilities against the exchanged assets, and established a $6 million asset default provision in actuarial liabilities against the investment grade rated senior debt. In addition a trading loss of $4 million was recognized in connection with the Company's cash flow valuation actuarial reserve determination as a result of lower net yields on the assets received. Based on information presently available, management's best estimate is that all contractual cash flows will be received on all Royal Bank of Scotland holdings.

On April 26, 2010, the Bank of Ireland announced an offer to exchange certain of its non US Tier 1 securities, as part of a wider capital raising exercise. In response, the Company exchanged Bank of Ireland non-cumulative securities that had previously been deemed impaired and had a carrying amount of $11 million at March 31, 2010. In exchange, the Company ultimately received cash proceeds of $15 million resulting in a recovery of $4 million.

On June 2, 2010, Bradford & Bingley announced a cash tender offer for a range of subordinated debt securities. In response, the Company exchanged securities that had previously been deemed impaired and had a carrying amount of $8 million at March 31, 2010. In exchange, the Company received cash proceeds of $13 million resulting in a recovery of $5 million.

On December 8, 2010, the Bank of Ireland announced an offer to exchange securities for new government guaranteed senior debt. In response to this offer, the Company exchanged certain securities that had been rated as below investment grade, and the net impact of the exchange of $9 million was recorded as an impairment charge. In addition to the impairment charge, the exchange resulted in a $10 million trading loss recognized in the fourth quarter in connection with the Company's cash flow valuation actuarial reserve determination. Based on information presently available, management's best estimate is that all contractual cash flows will be received on the Bank of Ireland senior notes received from this exchange.

Goodwill and intangible assets

Goodwill and intangible assets have decreased by approximately $139 million from December 31, 2009 due to the strengthening of the Canadian dollar and amortization of finite life intangible assets.

Refer to note 8 to the Company's annual consolidated financial statements for further detail. Also refer to the "Summary of Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other general fund assets

Other general fund assets

	December 31	
	2010	2009
Funds held by ceding insurers	**$ 9,860**	$ 10,839
Other assets	**6,191**	6,130
Total other general fund assets	**$ 16,051**	$ 16,969

Funds held by ceding insurers decreased $979 million primarily due to currency movement. Other assets, at $6.2 billion, is composed of several items including premiums in course of collection, future income taxes, interest due and accrued, fixed assets, prepaid amounts, and accounts receivable. Refer to note 9 to the Company's annual consolidated financial statements for a breakdown of other assets.

Segregated funds

Segregated funds net assets

	December 31		
	2010	2009	2008
Stocks	**$ 64,468**	$ 59,111	$ 49,992
Bonds	**19,270**	16,056	14,116
Mortgages	**2,058**	1,744	1,952
Real estate	**5,598**	6,012	6,744
Cash and other	**3,433**	4,572	4,944
Total	**$ 94,827**	$ 87,495	$ 77,748
Year over year growth	**8%**	13%	–

Segregated funds assets under management, which are measured at market values, increased by $7.3 billion to $94.8 billion at December 31, 2010. The change resulted from net deposits of $3.4 billion and market value gains of $7.4 billion partially offset by currency movement of $3.5 billion.

Proprietary mutual funds

Proprietary mutual funds and institutional net assets

	December 31	
	2010	2009
Mutual funds		
Blend equity	**$ 16,779**	$ 17,107
Growth equity	**11,764**	11,310
Equity value	**14,523**	15,341
Fixed income	**26,214**	24,811
Money market	**149**	177
Sub-total	**69,429**	68,746
Institutional accounts		
Equity	**28,338**	27,532
Fixed income	**25,506**	27,226
Sub-total	**53,844**	54,758
Total proprietary mutual funds and institutional accounts	**$123,273**	$123,504

At December 31, 2010, total proprietary mutual funds and institutional accounts comprised $120.0 billion at Putnam and $3.3 billion at Quadrus. Proprietary mutual funds and institutional accounts under management decreased by $0.2 billion primarily as a result of negative asset flows of $3.9 billion predominantly related to Putnam, and negative currency movement of $6.9 billion partially offset by the impact of improved equity market conditions of $10.6 billion.

LIABILITIES

Total liabilities

Total liabilities

	December 31	
	2010	2009
Policy liabilities	**$105,117**	$ 102,651
Other general fund liabilities	**10,202**	9,468
Deferred net realized gains (real estate)	**115**	133
Total liabilities	**$115,434**	$ 112,252

Total liabilities have increased from $112.3 billion at December 31, 2009 to $115.4 billion at December 31, 2010.

Policy liabilities

Policy liabilities increased from $102.7 billion at December 31, 2009 to $105.1 billion. This is consistent with the change in invested assets backing actuarial liabilities where increases from business growth and market value increases were offset by currency movement.

Policy liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Policy liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Policy liabilities increased by approximately $2.4 billion. Policy liabilities in Canada and the U.S. increased by $3.6 billion and $0.6 billion respectively, and Europe decreased by $1.8 billion largely due to currency.

Assets supporting policy liabilities

	Participating	Canada	United States	Europe	Total
December 31, 2010					
Bonds	**$ 15,595**	**$ 16,066**	**$ 12,632**	**$ 17,162**	**$ 61,455**
Mortgage loans	**6,393**	**5,069**	**1,479**	**2,039**	**14,980**
Stocks	**3,882**	**1,432**	**–**	**195**	**5,509**
Real estate	**370**	**10**	**–**	**1,880**	**2,260**
Other	**8,112**	**1,578**	**444**	**10,779**	**20,913**
Total assets	**$ 34,352**	**$ 24,155**	**$ 14,555**	**$ 32,055**	**$ 105,117**
Total policy liabilities	**$ 34,352**	**$ 24,155**	**$ 14,555**	**$ 32,055**	**$ 105,117**
December 31, 2009					
Bonds	$ 14,884	$ 14,299	$ 11,843	$ 16,839	$ 57,865
Mortgage loans	6,316	5,327	1,456	2,314	15,413
Stocks	3,747	991	–	130	4,868
Real estate	286	14	–	1,770	2,070
Other	7,542	1,829	491	12,573	22,435
Total assets	$ 32,775	$ 22,460	$ 13,790	$ 33,626	$ 102,651
Total policy liabilities	$ 32,775	$ 22,460	$ 13,790	$ 33,626	$ 102,651

Other assets include: loans to policyholders, cash and certificates of deposit, funds held by ceding insurers, premiums in the course of collection, interest due and accrued, future income taxes, fixed assets, prepaid expenses, accounts receivable and accrued pension assets.

Asset and liability cash flows are carefully matched within reasonable limits to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has helped shield the Company's financial position from interest rate volatility.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2010	2009
Other liabilities	**$ 4,686**	$ 4,608
Debentures and other debt instruments	**4,323**	4,142
Repurchase agreements	**1,041**	532
Funds held under reinsurance contracts	**152**	186
Total other general fund liabilities	**$ 10,202**	$ 9,468

Total other general fund liabilities at December 31, 2010 were $10.2 billion, an increase of $734 million from December 31, 2009. Other liabilities include trade payables, accruals and provisions for post-retirement benefits. Refer to note 13 to the Company's annual consolidated financial statements for a breakdown of the other liabilities.

Debentures and Other Debt Instruments

Debentures and other debt instruments increased by $181 million primarily as a result of the issuance of the $500 million principal amount debentures, offset by the redemption of the $200 million principal amount debentures in the third quarter. Refer to note 12 to the Company's annual consolidated financial statements for further details of the Company's Debentures and other debt instruments.

On June 17, 2010, a Putnam subsidiary renewed its revolving credit facility agreement with a syndicate of banks for US$500 million. At December 31, 2010, it had drawn US$215 million (US$260 million at December 31, 2009) on this credit facility.

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

On August 13, 2010, $500 million principal amount debentures were issued at par and 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 in 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 and par, together in each case with accrued and unpaid interest.

Capital Trust Securities

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life in December 2002, 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 in February 2002, 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. The main features of the trust units are as follows:

Great-West Life Capital Trust Securities (GREATs) – GWLCT issued $350 million of non-voting GREATs. Each holder of the GREATs is entitled to receive a semi-annual non-cumulative fixed cash distribution of $29.975 per GREATs, representing an annual yield of 5.995%, payable out of GWLCT's net distributable funds. Subject to regulatory approval, GWLCT may redeem the GREATs, in whole or in part, at any time.

Canada Life Capital Trust Securities (CLiCS) – CLCT issued $450 million of non-voting CLiCS consisting of $300 million of non-voting CLiCS – Series A and $150 million of non-voting CLiCS – Series B. Each holder of the CLiCS – Series A and CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $33.395 and $37.645 per CLiCS, respectively, representing an annual yield of 6.679% and 7.529%, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS, in whole or in part, at any time.

At December 31, 2010, the Company and its subsidiaries held $282 million of these securities as investments ($279 million at December 31, 2009).

Share Capital and Surplus

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

Share capital outstanding at December 31, 2010, was $7,699 million, which comprises $5,802 million common shares, $1,417 million of perpetual preferred shares, and $480 million of five-year rate reset preferred shares.

Common shares

At December 31, 2010, the Company had 948,458,395 common shares outstanding with a stated value of $5,802 million compared to 945,040,476 common shares with a stated value of $5,751 million at December 31, 2009.

During the twelve months ended December 31, 2010, no common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid. Under the Company's Stock Option Plan, 3,417,919 shares were issued for a total value of $51 million or $14.32 per share.

Preferred shares

At December 31, 2010, the Company had six series of perpetual preferred shares and two series of rate reset perpetual preferred shares outstanding with aggregate stated values of $1,417 million and $480 million respectively.

The terms and conditions of the $197 million, 5.90% Non-Cumulative First Preferred Shares, Series F, the $300 million, 5.20% Non-Cumulative First Preferred Shares, Series G, the $300 million, 4.85% Non-Cumulative First Preferred Shares, Series H, the $300 million, 4.50% Non-Cumulative First Preferred Shares, Series I, the $230 million, 6.00% Non-Cumulative First Preferred Shares, Series J, the $170 million, 5.65% Non-Cumulative First Preferred Shares, Series L, the $150 million, 5.80% Non-Cumulative First Preferred Shares, Series M, and the $250 million, 3.65% Non-Cumulative First Preferred Shares, Series N, do not allow the holder to convert to common shares of the Company or otherwise cause the Company to redeem the shares. Preferred shares of this type are commonly referred to as perpetual and represent a form of financing that does not have a fixed term.

As at December 31, 2010, the Company, at its option, may redeem the Series F, G or H shares. The Company may redeem the Series I shares on or after June 30, 2011, the Series L shares on or after December 31, 2014 and the Series M shares on or after March 31, 2015. The Company regards the Series F, G, H, I, L and M shares as part of its core or permanent capital. As such, the Company only intends to redeem the Series F, G, H, I, L or M shares with proceeds raised from new capital instruments where the new capital instruments represent equal or greater equity benefit than the shares currently outstanding.

In addition, the $230 million of Lifeco Series J First Preferred Shares issued in the fourth quarter of 2008 have a fixed non-cumulative dividend, payable quarterly, of 6.00% per annum during the period March 31, 2009 to but excluding December 31, 2013. On December 31, 2013 and on December 31 every five years thereafter the dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 3.07%. Lifeco has the right to redeem the Lifeco Series J First Preferred Shares, in whole or in part, on December 31, 2013 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series J First Preferred Share is convertible at the option of the holder on December 31, 2013 and on December 31 every five years thereafter into one Lifeco Series K First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

The $250 million of Lifeco Series N First Preferred Shares issued in the fourth quarter of 2010 have a fixed non-cumulative dividend, payable quarterly, of 3.65% per annum during the period March 31, 2011 to but excluding December 31, 2015. On December 31, 2015 and on December 31 every five years thereafter the dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 1.30%. Lifeco has the right to redeem the Lifeco Series N First Preferred Shares, in whole or in part, on December 31, 2015 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series N First Preferred Share is convertible at the option of the holder on December 31, 2015 and on December 31 every five years thereafter into one Lifeco Series O First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

The Company regards the two series of subordinated debentures totalling $1,500 million issued by two subsidiary companies, Great-West Lifeco Finance (Delaware) LP and LPII, as comprising part of its core or permanent capital. As such the Company only intends to redeem the subordinated debentures prior to maturity with new capital instruments with a similar or more junior security. The terms and conditions of the $1,000 million subordinated debentures due June 21, 2067 bear interest at a rate of 5.691% until 2017 and, thereafter at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured. The terms of the $500 million subordinated debentures due June 26, 2068 bear interest at a rate of 7.127% until 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured.

2010 activity

On March 4, 2010 the Company issued 6,000,000 5.80% Non-Cumulative First Preferred Shares, Series M, which are perpetual in nature, with an aggregate stated value of $150 million.

On March 31, 2010 the Company redeemed all of the 7,938,500 4.70% Non-Cumulative First Preferred Shares, Series D for $25.25 per share. As a result, the Company no longer has any outstanding preferred shares classified as liabilities.

On October 26, 2010 the Company invested $310 million in common shares of its wholly-owned subsidiary Great-West Life which in turn invested $255 million in common shares of its indirect wholly-owned subsidiary London Life.

In November, the Company announced a normal course issuer bid for its common shares commencing December 1, 2010 and ending November 30, 2011. During the course of this bid, the Company may purchase up to but not more than 6,000,000 common shares for cancellation.

On November 23, 2010, the Company issued 10,000,000, 3.65% Non-Cumulative five-year Rate Reset First Preferred Shares, Series N, with an aggregate stated value of $250 million.

During the twelve months ended December 31, 2010, the Company paid dividends of $1.230 per common share for a total of $1,166 million and perpetual preferred share dividends of $86 million.

Unrealized foreign exchange losses on translation of the net investment in self-sustaining foreign operations for 2010 totalled $628 million and are recorded within accumulated other comprehensive loss included within surplus.

For additional information on the Company's capital structure and surplus refer to the Company's annual consolidated financial statements.

Non-Controlling Interests

Non-controlling interests include participating account surplus in subsidiaries and preferred shares issued by subsidiaries to third parties. Refer to note 15 to the Company's annual consolidated financial statements for further details.

Non-controlling interests

	December 31	
	2010	2009
Participating account surplus:		
Great-West Life	$ **454**	$ 436
London Life	**1,515**	1,533
Canada Life	**37**	30
GWL&A	**7**	5
	$ **2,013**	$ 2,004
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	$ **–**	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	$ **–**	$ 145
Acquisition related fair market value adjustment	**–**	2
	$ **–**	$ 147
Non-controlling interests in capital stock and surplus	$ **112**	$ 63

On October 29, 2010, Great-West Life redeemed all of its outstanding 5.55% Non-Cumulative Preferred Shares Series O at a price of $25.00 per share.

On December 31, 2010, CLFC redeemed all of its outstanding 6.25% Non-Cumulative Preferred Shares, Series B at a price of $25.00 per share.

Liquidity and Capital Management and Adequacy

Liquidity

The Company's liquidity requirements are largely self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2010, Lifeco held cash and government short term investments of $5.1 billion ($5.7 billion at December 31, 2009) and government bonds of $21.5 billion ($17.9 billion at December 31, 2009). This includes approximately $0.8 billion ($1.0 billion at December 31, 2009) held directly at the holding company level. In addition, the Company maintains a $200 million committed line of credit with a Canadian chartered bank.

The Company does not have a formal dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital, and availability of cash resources. As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company.

Liquid assets and other marketable securities

	December 31	
	2010	2009
Liquid assets		
Cash, treasury bills and certificates of deposits	$ **5,108**	$ 5,697
Government bonds	**21,483**	17,880
Total liquid assets	**26,591**	23,577
Other marketable securities		
Corporate bonds	**31,158**	30,464
Common/Preferred shares (public)	**5,877**	5,529
Residential mortgages – insured	**4,059**	4,463
Total	$ **67,685**	$ 64,033

Cashable liability characteristics

	December 31	
	2010	2009
Surrenderable insurance and annuity liabilities		
At market value	$ **13,137**	$ 12,261
At book value	**30,821**	29,544
Total	$ **43,958**	$ 41,805

The majority of the liquid assets and other marketable securities comprise fixed income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $67.7 billion or 1.5 times the Company's expected total surrenderable insurance and annuity liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

Cash Flows

	For the three months ended December 31		For the twelve months ended December 31	
	2010	2009	**2010**	2009
Cash flows relating to the following activities:				
Operations	**$ 1,629**	$ 1,402	**$ 5,797**	$ 3,958
Financing	**(414)**	(510)	**(1,070)**	(1,258)
Investment	**(1,963)**	(437)	**(6,099)**	(1,831)
	(748)	455	**(1,372)**	869
Effects of changes in exchange rates on cash and cash equivalents	**(77)**	(74)	**(215)**	(292)
Increase (decrease) in cash and cash equivalents in the period	**(825)**	381	**(1,587)**	577
Cash and cash equivalents, beginning of period	**2,665**	3,046	**3,427**	2,850
Cash and cash equivalents, end of period	**$ 1,840**	$ 3,427	**$ 1,840**	$ 3,427

The principal source of funds for the Company, on a consolidated basis, is cash provided by operating activities, including premium income, net investment income and fee income. In general, these funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the fourth quarter, cash and cash equivalents decreased by $825 million from September 30, 2010. Cash flows provided by operations during the fourth quarter of 2010 were $1,629 million, an increase of $227 million compared to the fourth quarter of 2009. For the three months ended December 31, 2010, cash flows were used by the Company to acquire an additional $1,963 million of investment assets, and $313 million of cash was utilized to pay dividends to the preferred and common shareholders.

For the twelve months ended December 31, 2010, cash and cash equivalents decreased by $1,587 million from December 31, 2009. Cash flows provided from operations were $5,797 million, an increase of $1,839 million compared to 2009. In 2010, cash flows were used by the Company to acquire an additional $6,099 million of investment assets, and $1,252 million of cash was utilized to pay dividends to the preferred and common shareholders.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations

	Payments due by period						
At December 31, 2010	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Long-term debt	$ 4,019	$ 1	$ 302	$ 1	$ 1	$ –	$ 3,714
2) Operating leases							
– office	469	94	82	68	57	46	122
– equipment	17	7	6	4	–	–	–
3) Purchase obligations	143	55	26	27	15	16	4
4) Credit-related arrangements							
(a) Contractual commitments	414	414	–	–	–	–	–
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	130	130	–	–	–	–	–
Total contractual obligations	$ 5,192	$ 701	$ 416	$ 100	$ 73	$ 62	$ 3,840

1) Long-term debt includes long-term financing used in the ongoing operations and capitalization of the Company.

2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.

3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.

4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (LOCs) are written commitments provided by a bank. The total amount of LOCs issued are $2,477 million. Total LOC facilities are $2,952 million.

The Reinsurance operation is from time to time an applicant for letters of credit provided mainly as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company through certain of its subsidiaries has provided LOCs as follows:

To external parties

In order for the non-U.S. licensed operating subsidiaries within LRG to conduct reinsurance business in the U.S., they must provide collateral to the U.S. insurance and reinsurance companies to whom reinsurance is provided in order for these companies to receive statutory credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions under an agreement arranged on November 12, 2010, for a five year tranche. The aggregate amount of this LOC facility is US$650 million, and the amount issued at December 31, 2010 was US$507 million, including US$207 million issued by LRG subsidiaries to London Life or other LRG subsidiaries, as described below.

To internal parties

GWL&A Financial Inc. as applicant has provided LOCs in respect of the following:

- US$1,067 million issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina. These are provided under a US$1.2 billion agreement with a twenty year term with a third party financial institution.
- US$70 million issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit in respect thereof.

Canada Life as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- US$634 million issued to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life International Re Limited.
- £117 million issued to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow CLIHL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (UK) Limited.
- US$10 million issued to a U.S. regulator as beneficiary on behalf of its U.S. branch, to receive statutory capital credit for certain reinsurance liabilities ceded to third party non-U.S. licensed reinsurers. (Cancelled on January 26, 2011)

  As well, certain LRG subsidiaries as applicants have provided LOCs totalling US$207 million to London Life or other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the other subsidiaries.

5) Pension contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2010 are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

On November 12, 2010, London Life Reinsurance Group Inc. renewed a five year US$650 million letter of credit facility used to support reinsurance operations. Also in 2010, Lifeco reduced the size of another letter of credit facility used to support its traditional life business by US$100 million to US$1.2 billion.

Capital Management and Adequacy

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Company'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, OSFI 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). The target operating range of the MCCSR ratio for its major Canadian operating subsidiaries is 175% to 200% (on a consolidated basis).

Great-West Life's MCCSR ratio at December 31, 2010 was 203% (204% at December 31, 2009). London Life's MCCSR ratio at December 31, 2010 was 245% (239% at December 31, 2009). Canada Life's MCCSR ratio at December 31, 2010 was 204% (210% at December 31, 2009). The MCCSR ratio does not include any impact from approximately $0.8 billion of cash at the Lifeco holding company level.

OSFI continues to update and amend the MCCSR guideline in response to emerging issues. The capital requirements for segregated fund guarantees were amended in 2008 and additional changes that will result in higher capital requirements for new segregated fund guarantee business issued after December 31, 2010 were recently adopted. The Company expects further changes in segregated fund guarantee requirements, possibly beginning in 2013, that will impact both existing and new business. The impact of these further changes is uncertain.

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

The MCCSR position of Great-West Life is negatively affected by the existence of a significant amount of goodwill and intangible assets, which, subject to a prescribed inclusion for a portion of intangible assets in Canada for MCCSR, are deducted in the calculation of available regulatory capital.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company has 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 reviews and approves all capital transactions undertaken by management pursuant to the annual capital plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans.

OSFI Regulatory Capital Initiatives

OSFI has recently undertaken a number of initiatives that either will have or may have application to the calculation and reporting of the MCCSR of the Company or certain of its subsidiaries.

These initiatives address a variety of topics including the calculation of capital required in connection with segregated fund guarantees, amendments to the MCCSR Guidelines as a result of the adoption of International Financial Reporting Standards, which is replacing Canadian GAAP, potential revisions to the current MCCSR regime for insurance holding companies, and the introduction of a measure for evaluating stand-alone capital adequacy, or solo capital test.

The Company is presently reviewing the OSFI proposals that have been released to the industry to date, and is in ongoing dialogue with OSFI, the Canadian Institute of Actuaries, the Canadian Life and Health Insurance Association, and other industry participants. At this point, the Company cannot predict what the eventual outcome of these initiatives will be.

RATINGS

Relative to its peer group in North America, Lifeco and its major operating subsidiaries enjoy strong ratings from the five rating agencies that rate the Company as outlined below. The ratings have been affirmed with a stable outlook by A.M. Best Company on June 22, 2010, Moody's Investors Service on July 19, 2010 and Standard & Poor's Ratings Services on September 21, 2010. On December 16, 2010, Fitch Ratings downgraded the Insurer Financial Strength rating of Lifeco's operating companies listed below from AA+ to AA, and Lifeco's Senior Debt rating from A+ to A.

Rating agency	Measurement	Lifeco	Great-West	London Life	Canada Life	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
DBRS Limited	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	AA (low)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A				
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				AA-	

RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assessing, structuring, pricing and assuming, and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control practices used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Investment or Market Risks
3. Operational Risks
4. Other Risks

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. The risks specifically associated with the Asset Management business are discussed in Operational Risks. It must be noted, however, that items included in the third or fourth categories, such as legal, rating, regulatory or reputational risks, may still represent significant risks notwithstanding the expectation that they may be less likely to be realized or may be of a lesser magnitude.

INSURANCE RISKS

GENERAL

By their nature, insurance products involve commitments by the insurer to undertake financial obligations and provide insurance coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing policy liabilities, to make assumptions regarding expected levels of income and expense. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon the relationship between actual experience and pricing assumptions over the contract period.

The Company maintains Corporate Product Design and Pricing Risk Management Policies, Corporate Underwriting and Liability Risk Management Policies, and Corporate Reinsurance Ceded Policies which are reviewed and approved by the Boards of Directors of the principal operating subsidiaries. These policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes, underwriting and claims management practices, and reinsurance ceded practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies (including approval practices) that each line of business is required to develop, maintain and follow. Annually the Appointed Actuaries report to the Audit Committees confirming compliance with the policies.

The Company also maintains a Corporate Actuarial Valuation Policy, also reviewed and approved by the Boards of Directors of the principal operating subsidiaries, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied uniformly across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The Company issues both participating and non-participating life insurance policies. The Company maintains accounts in respect of participating policies separately from those maintained in respect of other policies, as required by the Insurance Companies Act (Canada). Participating policies are those that entitle the holder of the policy to participate in the profits of the Company pursuant to a policy for determining dividends to be paid to participating policyholders. The Company maintains Participating Policyholder Dividend Policies, approved by the Boards of Directors of the principal operating subsidiaries, which provide for the distribution of a portion of the earnings in the participating account as participating policyholder dividends. The Company also maintains methods for allocating to the participating account expenses of the Company and its investment income, losses, and expenses. These methods have also been approved by the Boards of Directors of the principal operating subsidiaries, and the Appointed Actuaries report annually to the Boards of Directors of the principal operating subsidiaries, opining on the fairness and equitableness of the methods and that any participating policyholder dividends are in accordance with the Participating Policyholder Dividend Policy.

The following identifies the key overarching insurance risks, and risk management techniques used by the Company.

Claims mortality and morbidity

Risk – Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company misestimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected.

> ***Management of risk*** – Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.
>
> Underwriting limits control the amount of risk exposure.
>
> Underwriting practices control the selection of risks insured for consistency with claims expectations.
>
> Underwriting policies have been developed to support the long-term sustainability of the business. The actuarial liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to make provision for the possibilities of misestimation of the best estimate and/or future deterioration in the best estimate assumptions.
>
> In general, the Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.
>
> The Company manages large blocks of business which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period.
>
> For some policies, cost of insurance charges could be increased if necessary to contractual maximums, if applicable.
>
> Morbidity risk is mitigated through effective plan design and claims adjudication practices.

Concentration

Risk – For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results.

> ***Management of risk*** – Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company imposes single event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.

Healthcare cost inflation

Risk – For Group health care products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs.

> ***Management of risk*** – The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees, and through pricing that takes demographic and other trend factors into account.

Longevity

Risk – Annuitants could live longer than was estimated by the Company.

> ***Management of risk*** – Business is priced using prudent mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality.
>
> In general, the Company sets and adheres to retention limits for longevity risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.
>
> The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.

Policy termination

Risk – Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products.

> ***Management of risk*** – Business is priced using prudent policy termination assumptions which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary.
>
> In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in most jurisdictions encourage the retention of insurance coverage.

Expense management

Risk – Increases in operating expenses could reduce profit margins.

Management of risk – Expense management programs are regularly monitored to control unit costs and form a component of management incentive compensation plans.

Interest rate pricing and repricing

Risk – Products are priced and valued based on the investment returns available on the assets that support the policy liabilities. If actual investment returns are different than those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or actuarial liability requirements. Products with long-term cash flows and pricing guarantees carry more risk.

Management of risk – There is regular and ongoing communication between pricing, valuation and investment management. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty.

To measure the risk, the pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employ stochastic modelling of future investment returns. Risk exposures are monitored against defined thresholds with escalating actions required if outside the thresholds.

Cash flow matching

Risk – Mismatches between asset and liability cash flows could reduce profit margins in unfavourable interest rate environments.

Management of risk – Margins on non-adjustable products are protected through matching of assets and liabilities within reasonable limits. Margins on adjustable products are protected through frequent monitoring of asset and liability positions. The valuation of both of these product types employs modelling using multiple scenarios of future interest rates, and prudent reserving including provisions for adverse deviations.

The Company 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 selected and managed in relation to the liabilities in the segment. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities. Changes in the fair value of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time, in accordance with investment policies.

Reinsurance assumed

Risk – The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly higher event loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. If a claim occurs, it is likely to be very large.

Management of risk – The Company limits the total maximum claim amount under all contracts.

The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken.

Segregated funds and guarantees

Risk – A significant decline in market values could increase the cost to the Company associated with segregated fund death, maturity, income and withdrawal guarantees. In addition, lower interest rates and increased policyholder utilization could increase the cost to the Company associated with segregated fund income and withdrawal guarantees.

Management of risk – Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada and the U.S., all contribute to a significantly diverse profile of in-force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada and the U.S. to guarantees related to segregated funds.

The Company has implemented a hedging program for segregated funds with withdrawal guarantees. This program consists of entering into equity futures, currency forwards, interest rate futures and swaps to mitigate exposure to the movement in the cost of withdrawal guarantees due to changes in capital markets.

Investment or Market Risk

The Company acquires and manages asset portfolios to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. Portfolio investments consist of bonds, stocks, mortgage loans and real estate. Derivatives include Interest Rate Contracts (futures – long, futures – short, swaps, written options, purchased options), Foreign Exchange Contracts (forward contracts, cross currency swaps) and other derivative contracts (equity contracts, credit default swaps). The Boards of Directors or the Executive Committees and the Investment Committees of the Boards of Directors of certain principal subsidiaries of Lifeco annually approve Investment and Lending Policies, as well as Investment Procedures and Guidelines. Investments are made in accordance with these investment policies which provide guidance on the mix of assets allowable for each product segment.

A comprehensive report on compliance with these policies and guidelines is presented to the Boards of Directors or Investment Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant investment or market risks associated with the business are outlined below.

Interest rate risk

Risk – Interest rate risk exists if the cash flows of the liabilities and those of the assets supporting these liabilities are not closely matched and interest rates change causing a difference in value between the assets and liabilities.

Management of risk – 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), the Company 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 that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. In the U.S., the Company has implemented a hedging program to mitigate exposure to rapidly rising interest rates on certain life insurance and deferred annuity liabilities. This program consists of purchasing interest rate swaptions and entering into interest rate futures and swaps.
- Interest rate swaps and swaptions are used to manage interest rate risk for term mismatches related to investments backing product liability cash flows.

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 and appropriate actuarial liabilities are calculated and held.

Equity market risk

Risk – Given the volatility in equity markets, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long-term expectation of investment returns appropriate for this asset class.

Management of risk – The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and real estate is managed to provide returns that are consistent with the requirements of the underlying segment.

Risk – Returns from equities backing a portion of the non-adjustable life and living benefits insurance policy liabilities will be insufficient.

Management of risk – The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for short-term income statement volatility and the balance between this volatility and long-term economic value.

Credit risk

Risk – The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.

Management of risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies.

These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.

Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process.

Liquidity risk

Risk – The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.

> ***Management of risk*** – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets.

Risk – There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.

> ***Management of risk*** – The Company carefully considers whether or not to enter into derivative arrangements on a collaterized or uncollaterized basis. Where the Company or its subsidiaries enter into collaterized arrangements, the Company periodically tests the availability of suitable collateral under stress scenarios.

Risk – In the normal course of its Reinsurance business, the Company provides Letters of Credit (LOC) to other parties, or beneficiaries. A beneficiary will typically hold a LOC as collateral in order to secure statutory credit for actuarial liabilities ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives it if was unable to renew existing LOCs at maturity.

> ***Management of risk*** – Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOC issued to the LOC beneficiaries for certain reinsurance treaties.

Foreign exchange risk

Risk – The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of GWL&A and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the United Kingdom, Isle of Man, Ireland and Germany in the Europe segment.

The Company has net investments in self sustaining foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with GAAP, foreign currency translation gains and losses from net investments in self sustaining 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 the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

A 1% appreciation (depreciation) of the average exchange rate of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) net earnings from continuing operations before adjustments in 2010 by $9 million.

A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income of shareholders' equity by $73 million as at December 31, 2010.

> ***Management of risk*** – Management, from time to time, utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.
>
> The Company uses non-GAAP financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.
>
> Investments are normally denominated in the same currency as the liabilities they support.
>
> Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liability using foreign exchange contracts.

Derivative instruments

Risk – There is a risk of loss if derivatives are used for inappropriate purposes.

> ***Management of risk*** – Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes.
>
> The Company's risk management process governing the use of derivative instruments requires that the Company act only as an end-user of derivative products, not as a market maker.
>
> The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.
>
> There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 2010. During the twelve month period ended December 31, 2010, the outstanding notional amount of derivative contracts increased by $638 million. The exposure to credit risk, which is limited to the current fair value of those instruments which are in a gain position, increased to $984 million at December 31, 2010 from $717 million at December 31, 2009. For an overview of the use of derivative financial instruments, refer to note 24 to the 2010 annual consolidated financial statements.

Operational Risks

Following are the significant operational risks associated with the business.

Operational risks

Risk – There is a risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk – The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives.

Appropriate security measures protect premises and information. The Company has emergency procedures in place for short term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and alternative work area facilities.

Changes in managed asset values

Risk – The Company's investment fund businesses are fee-based, with revenue and profitability based primarily on the market value of investment fund assets under management. Accordingly, fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of client assets (including purchases and redemptions). Factors that could cause assets under management and revenues to decrease include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue and income.

Management of risk – Through its wide range of funds, the Company seeks to limit its risk exposure to any particular market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk.

The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, and the utilization of such sources as company public records and activities, management interviews, company-prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modelling to gauge how particular securities may perform. Putnam's risk-management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over-concentration and other potential risks.

In some cases the Company charges fees that are not related to assets but are based on premiums or other metrics.

Staff recruitment/retention

Risk – The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel including portfolio managers, research analysts, financial advisors, traders, sales and management personnel and executive officers. The market for these professionals is extremely competitive and is increasingly characterized by the frequent movement of portfolio managers, analysts and salespersons among different firms. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net earnings. Departures of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition.

Management of risk – The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel.

The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation.

Contract termination

Risk – The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net earnings from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could have a material effect on the Company's revenues and profits.

> ***Management of risk*** – The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines.
>
> The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries (for Putnam, at least eight times each year) to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.

Access to distribution

Risk – The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of advisor and consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries, or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

> ***Management of risk*** – The Company has a broad network of distribution relationships. Products are distributed through numerous broker-dealers, managing general agencies, financial planners and other financial institutions. In addition, Putnam has several strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels.

Holding company structure

Risk – As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, policy liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

Any payment (including payment of interest and dividends) by the principal subsidiaries is subject to restrictions set forth in relevant insurance, securities, corporate and other laws and regulations (including the staged intervention powers of OSFI) which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, GWL&A, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure.

> ***Management of risk*** – Management 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 and the Company's demonstrated ability to access capital markets for funds. Management actively monitors the regulatory laws and regulations at both the holding company and operating company levels.

Other Risks

Other risks not specifically identified elsewhere, include:

Ratings

Risk – Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and constrain the Company's ability to market and distribute products and services, and damage the Company's relationships with creditors, which may adversely impact future business prospects. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products.

> ***Management of risk*** – The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies.

Future acquisitions

Risk – From time to time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco.

> ***Management of risk*** – Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing products and services.

Legal and regulatory risk

Risk – The Company and certain of its principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the United States, the United Kingdom and other jurisdictions applicable to reporting issuers and to insurance companies and companies providing investment management and other financial services (including supervision by governmental authorities in the jurisdictions in which they carry on business). These requirements, which include capital adequacy, liquidity and solvency requirements, investment restrictions, restrictions on the sale and marketing of insurance and annuity products and on the business conduct of insurers, asset managers and investment advisors, are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company.

Potential regulatory changes in Canada include new guidance on capital requirements for segregated funds and other OSFI initiatives, as well as new capital requirements for European entities being reviewed by the European Commission (Solvency II).

The Company is adopting International Financial Reporting Standards (IFRS) on January 1, 2011 which will impact the opening surplus and net earnings of the Company. As well, new IFRS guidance including a revised standard on Insurance Accounting is being developed that may increase actuarial liabilities when introduced.

While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve and capital requirements which would increase earnings volatility and increase the risk of technical insolvency, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future.

The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such 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 be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects.

> ***Management of risk*** – The Company monitors compliance with the legal, regulatory accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.
>
> The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

Reputational risk

Risk – In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects.

These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.

> ***Management of risk*** – The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign off annually on their compliance with the Code of Business Conduct and Ethics. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.

Reinsurance

Risk – Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance ceded, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company is required to pledge amounts of collateral or deposit amounts with counterparties in certain reinsurance transactions according to contractual terms. These arrangements could require additional requirements in the future depending on regulatory and market developments. While there are significant uncertainties in these developments and the associated impact on the financial position of the Company, these may impact the Company's financial flexibility.

> ***Management of risk*** – The Company accounts for all reinsurance transactions in accordance with GAAP. In some cases, GAAP may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputation or other risks depending on future events.

Support systems and customer service functions

Risk – The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.

> ***Management of risk*** – The Company's operations work with its systems and service providers to obtain reliability and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls.

Pension risk

Risk – The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans; the costs of these defined benefit plans are dependent on a host of factors including discount rates, returns on plan assets, inflation risk, compensation costs, employee service life, government regulations, and variances between expected and actual actuarial results. In the event that the pension plan assets do not achieve sustained growth over time and potential negative impact of the cost factors above, the Company could have a significant increase in pension funding obligations and costs that could reduce cash flows and profit margins. In certain jurisdictions, recent changes and proposed reform to government regulations could have a significant impact on the plans.

> ***Management of risk*** – Pension risk is managed by regular monitoring of the plans, pension regulations and other factors that could impact the expenses and cash flows of the Company.
>
> The Company has a Pension Committee that provides oversight for the pension plans of the Company. Pension plan regulations are monitored on an ongoing basis to assess the impact of changes to government regulations on the status, funding requirements and financial results of the Company.
>
> Plan assumptions are reviewed regularly both internally and by external advisors and updated as necessary to reflect the latest research on expected future trends. The pension plans and assumptions are subject to external audit on an annual basis.

Environmental risk

Risk – Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.

> ***Management of risk*** – The Company endeavors to respect the environment and to take a balanced and environmentally sustainable approach to conducting business.
>
> The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of real estate properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its Board of Directors and are reviewed annually.
>
> One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) created to ensure compliance with applicable environmental legislation and outline best-practice guidelines and procedures in responsible management practices designed to protect and preserve the environment and provide oversight on environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third party clients. The properties for which GWLRA provides property management services are also administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation, by-laws, codes, policies and undertaking a leadership position with their clients and within the real estate industry. GWLRA carries out ongoing reviews of environmental objectives, programs, policies and procedures to ensure consistency, effectiveness, quality and application, and establishes and maintains best practices through corporate programs and initiatives and emphasizes environmental awareness among staff, service providers and clients.

To quantify efforts in sustainability and environmental practices, GWLRA has developed a Corporate Social Responsibility Scorecard that reports on environmental initiatives, including greenhouse gas emissions for the majority of its commercial office assets managed across Canada. This monitoring and measurement of environmental performance is carried out by a third party environmental consultant.

Globally, the Company's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices and the Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking. For more information on the Company's environmental policies and initiatives, refer to the Public Accountability Statement available on the Canadian operating subsidiaries websites.

The Company monitors relevant emerging issues, regulations and requirements through collaboration with its environmental and legal consultants. The Environmental Committee of GWLRA reviews policies and procedures on an annual basis and revises established policies and guidelines as required.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying Lifeco's 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 Company's businesses and operations. The significant accounting estimates are as follows:

Fair Value Measurement

Financial and other instruments held by the Company 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 Company relies upon.

In accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, the Company'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 Company 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 Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Please refer to note 6 to the Company's annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement as at December 31, 2010.

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

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

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

Impairment

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

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

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

Goodwill and intangibles impairment testing

Under GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level by applying a two-step fair value-based test annually, or more frequently, if an event or change in circumstances indicates that the asset might be impaired. In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit (determined as a residual value after determining the fair value of the assets and liabilities of the reporting unit) to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately.

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

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

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

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

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

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

Policy liabilities

Policy liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (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 policy liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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

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

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

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

Property and casualty reinsurance – Policy liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. Reflecting the long-term nature of the business, policy liabilities have been established using cash flow valuation techniques including discounting. The policy liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, policy liabilities also include an amount for incurred but not reported losses (IBNR) 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 analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

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

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

- *The effect of an immediate 1% parallel increase in the yield curve would be to increase these policy liabilities by approximately $29 million, causing a decrease in net earnings of approximately $25 million.*
- *The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately $410 million, causing a decrease in net earnings of approximately $279 million.*

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

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some policy liabilities are supported by real estate, common stocks and private equities; for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate.

- *A 10% increase in equity markets would be expected to additionally decrease non-participating policy liabilities by approximately $32 million, causing an increase in net earnings of approximately $25 million.*
- *A 10% decrease in equity markets would be expected to additionally increase non-participating policy liabilities by approximately $72 million, causing a decrease in net earnings of approximately $54 million.*

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- *A 1% increase in the best estimate assumption would be expected to decrease non-participating policy liabilities by approximately $333 million causing an increase in net earnings of approximately $242 million.*
- *A 1% decrease in the best estimate assumption would be expected to increase non-participating policy liabilities by approximately $386 million causing a decrease in net earnings of approximately $279 million.*

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 CALM as inflation is assumed to be correlated with new money interest rates. *A 5% increase in the best estimate maintenance unit expense assumption would increase the non-participating policy liabilities by approximately $71 million causing a decrease in net earnings of approximately $51 million.*

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company 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 our persistency assumption for these products as our own experience is very limited. *A 10% adverse change in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately $452 million causing a decrease in net earnings of approximately $320 million.*

Utilization of elective policy options – There are a wide range of elective options embedded in the policies issued by the Company. 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 company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally speaking, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

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

Income taxes – The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As multinational life insurance companies, the Company'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 management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. Future tax assets and liabilities are recorded based on expected future tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

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

Employee future benefits – The Company's 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 Company contributions. The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Company's pension plans and other post-retirement benefits refer to note 19 of the 2010 annual consolidated financial statements.

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

Significant assumptions – employee future benefits

At December 31	Defined benefit pension plans 2010	2009	Other post-retirement benefits 2010	2009
Weighted average assumptions used to determine benefit cost				
Discount rate	**6.2%**	6.8%	**6.3%**	7.1%
Expected long-term rate of return on plan assets	**6.3%**	6.8%	**–**	–
Rate of compensation increase	**3.9%**	4.2%	**3.9%**	3.9%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	**5.5%**	6.2%	**5.5%**	6.3%
Rate of compensation increase	**3.6%**	3.9%	**4.3%**	3.9%

Weighted average health care trend rates – In determining the expected cost of health care benefits, health care costs were assumed to increase by 7.0% in 2011 and gradually decrease to a level of 4.5% over 15 years. For 2010, the impact of a 1% change to assumed health care rates on the accrued post-retirement benefit obligation is an approximate $40 million ($31 million in 2009) increase for a 1% increase to rates and an approximate $34 million ($27 million in 2009) decrease for a 1% decrease to rates. Similarly, the impact on the post-retirement benefit expense of a 1% increase to rates is an approximate $2 million ($2 million in 2009) increase and a 1% decrease to rates is an approximate $2 million ($2 million in 2009) decrease.

Significant assumptions – The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments with cash flows that match expected benefit payments.

The expected rate of return on plan assets is based on expected returns for the various asset classes, weighted by portfolio allocation. Anticipated future long-term performance of individual asset categories is considered, reflecting our best estimates of expected future inflation and expected real yields on fixed-income securities and equities. Other assumptions are based on actual plan experience and best estimates.

The period of time over which benefits are assumed to be paid is based on our best estimate of future mortality, including certain allowances for mortality improvements. Emerging plan experience is reviewed and considered in establishing our best estimate for future mortality. During 2010, the Company updated mortality tables for the majority of its defined benefit pension plans, which had the effect of increasing its pension obligation.

As these assumptions relate to factors that are long term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-retirement benefits expense in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-retirement benefits.

Impact of a change of 1.0% in significant assumptions

	Pension plan Obligation	Pension plan Expense	Post-retirement Obligation	Post-retirement Expense
Discount rate				
Increase	(412)	(10)	(44)	1
Decrease	506	9	54	(1)
Expected long-term rate of return on plan assets				
Increase	n/a	(29)	n/a	n/a
Decrease	n/a	29	n/a	n/a
Rate of compensation				
Increase	90	11	–	–
Decrease	(83)	(10)	–	–
Health care trend rate				
Increase	n/a	n/a	40	2
Decrease	n/a	n/a	(34)	(2)

Funding – The Company has both funded and unfunded pension plans as well as other post-retirement benefit plans which are unfunded. The Company's funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company contributed $118 million ($121 million in 2009) to the pension plans and made benefit payments of $17 million ($17 million in 2009) for post-retirement benefits. The Company expects to increase contributions to its defined benefit pension plans by approximately $25 million in 2011 as disclosed in the commitments/contractual obligations table within this document.

Future Accounting Policies

International Financial Reporting Standards – In February 2008, the Canadian Institute of Chartered Accountants (CICA) announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011 including presenting an opening balance sheet at January 1, 2010 and reporting under IFRS for comparative periods presented. The Company will also include its IFRS 1 note in the March 31, 2011 interim unaudited consolidated financial statements.

The Company has developed an IFRS changeover plan which will address key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities. The Company is tracking the changeover plan against key project milestones and will be ready to report all required IFRS financial statement information and reconciliations for the quarter ending March 31, 2011.

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

Adoption of IFRS requires that the IFRS standards be applied on a retroactive basis with the exception of those specifically exempted under IFRS 1 for first-time adopters. Absent an exemption, any changes to existing standards must be applied retroactively and reflected in the opening balance sheet of the comparative period. Noted within the summary tables are the Company's exemptions that they plan to apply upon transition. Other exemptions available under IFRS have been reviewed and are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

Key adjustments to the Company's opening balance sheet have been identified and analyzed, with estimates of the impact to the opening balance sheet and shareholders' equity at transition to IFRS presented within the balance sheet and statement of equity in the following pages.

These potential adjustments represent management's best estimate and are expected to change, though not materially, prior to the issuance of IFRS financial statements. These estimated adjustments to the opening balance sheet and statement of equity at transition have been referenced to the corresponding explanation of the accounting policy difference between IFRS and Canadian GAAP. These accounting policy differences have been separated in two tables preceding the balance sheet and statement of equity, between items impacting shareholders' equity at transition and other items that represent a difference between IFRS and Canadian GAAP with certain of these items resulting in a change in financial statement presentation or reclassification.

The following table sets out key changes identified in accounting policies that impact shareholders' equity upon the transition to IFRS. The possible impact of identified differences represents management's best estimate as at December 31, 2010 and these estimates and decisions may be revised before the Company issues IFRS financial statements.

IFRS Accounting Policies	Expected Impact to Consolidated Shareholders' Equity at Transition
a) Investment contracts	The majority of Canadian GAAP policyholder and reinsurance contract liabilities will be classified as insurance contracts under IFRS. Contracts where significant insurance risk does not exist will be classified as investment contracts under IFRS and accounted for either at fair value or at amortized cost. If significant insurance risk exists, the contract is classified as an insurance contract and will be measured under the Canadian Asset Liability Method (CALM). IFRS allows for the recognition of both deferred acquisition costs (DAC) and deferred income reserves (DIR) related to investment contracts. Certain DAC that were not incremental to the contract and were deferred and amortized into consolidated net earnings over the anticipated period of benefit under Canadian GAAP will now be recognized as an expense under IFRS in the period incurred. DAC that is incremental in nature will continue to be deferred and amortized was reclassified from investment contracts to other assets under IFRS. The adjustment to decrease opening shareholders' equity for the adjustments related to DAC and DIR on investment contracts is expected to be approximately $462 million after tax.
b) Uncertain income tax provisions	The difference in the recognition and measurement of uncertain tax provisions between Canadian GAAP and IFRS is expected to decrease opening shareholders' equity by approximately $240 million.
c) Investment properties	Under IFRS, real estate properties have been classified between investment properties and owner occupied properties. Real estate not classified as owner occupied properties (see accounting policy d below) will be accounted for as investment properties and measured at fair value, with investment properties backing both surplus and liabilities. The resulting net decrease to investment properties at transition was $85 million. Under Canadian GAAP, these properties were carried at cost net of write-downs and allowances for loss. In addition, deferred net realized gains of $133 million were derecognized upon transition to IFRS. The change in measurement, including the derecognition of deferred net realized gains on investment properties at January 1, 2010 will increase shareholders' equity by approximately $204 million after tax.
d) Owner occupied properties	For all owner occupied properties, the Company has elected to measure the fair value as its deemed cost at transition resulting in a fair value increase of $28 million. The total fair value of owner occupied properties of $441 million, including the above adjustment, is presented within other assets. After transition, the cost model will be used to value such properties with depreciation expensed within the Summaries of Consolidated Operations. The fair value election at transition resulted in an increase in shareholders' equity of approximately $15 million after tax.
e) Employee benefits – cumulative unamortized actuarial gains and losses	The Company plans to apply the exemption available to recognize all cumulative unamortized actuarial gains and losses of the Company's defined benefit plans of $302 million in shareholders' equity upon transition. Subsequent to transition, the Company intends to apply the corridor approach for deferring recognition of actuarial gains and losses that reside within the corridor. This adjustment, referred to as the fresh start adjustment, is expected to decrease shareholders' equity by approximately $186 million after tax.
f) Employee benefits – past service cost and other	Differences exist between IFRS and Canadian GAAP in determining employee benefits, including the requirement to recognize unamortized past service costs and certain service awards. The adjustment for recognition of these unamortized vested past service costs and other employee benefits under IFRS totalled $92 million presented within other liabilities. These differences are expected to increase shareholders' equity by approximately $70 million after tax.
g) Other adjustments	Several additional items have been identified where the transition from Canadian GAAP to IFRS resulted in recognition changes. These adjustments, which include the capitalization of transaction costs on other than held-for-trading (HFT) financial liabilities of $36 million netted against the corresponding financial liability, adoption of the graded vesting method to account for all stock options resulting in an adjustment to contributed surplus for $29 million and the measurement of the Series D preferred shares previously recorded at fair value now recorded at amortized cost under IFRS reducing the carrying value of the liability by $4 million at transition. The above noted and other adjustments have resulted in an expected adjustment to increase shareholders' equity of approximately $23 million after tax.
h) Income tax	The estimated tax effect of the above adjustments, excluding the uncertain tax provisions, is an increase to income tax liabilities of $72 million.

The following table identifies changes in key accounting policies that do not impact shareholders' equity upon the adoption of IFRS. The items below include accounting policy differences under IFRS, certain of which require financial statement presentation and reclassification changes upon transition. The possible impact of the identified differences represents management's best estimates as at December 31, 2010 and these estimates and decisions may be revised before the Company issues IFRS financial statements.

IFRS Accounting Policies	Expected Impact to Consolidated Financial Statements at Transition
i) Segregated funds	The assets and liabilities of segregated funds, totalling $87.4 billion at December 31, 2009, will be included at fair value on the Consolidated Balance Sheets as a single line within assets and liabilities under IFRS. There will be no impact on shareholders' equity.
j) Presentation of reinsurance accounts	Reinsurance accounts will be presented on a gross basis on the Consolidated Balance Sheets totalling approximately $2.8 billion of reinsurance assets and corresponding liabilities with no impact on shareholders' equity. Gross presentation of the reinsurance revenues and expenses will also be required within the Summaries of Consolidated Operations.
k) Cumulative translation losses of foreign operations	The Company will reset the unrealized cumulative translation differences of foreign operations to zero upon adoption of IFRS. The balance of the cumulative loss to be reclassified from accumulated other comprehensive income (AOCI) to accumulated surplus at January 1, 2010 is approximately $1,590 million.
l) Redesignation of financial assets	The Company will redesignate certain non-participating available-for-sale financial assets to fair value through profit and loss and certain financial assets classified as held-for-trading (HFT) under Canadian GAAP to available-for-sale under IFRS. The redesignation will have no overall impact on the Company's opening equity at transition but will result in a reclassification within shareholders' equity of approximately $95 million between accumulated surplus and AOCI.
m) Non-controlling interests	Under Canadian GAAP non-controlling interests were presented between liabilities and equity. IFRS requires presentation of non-controlling interests within the equity section of the balance sheet.
n) Capital Trust Securities	Diluted earnings per share calculations under IFRS require the Company to presume that the conversion of trust units to shares could and will be exercised. The trust units of the Great-West Life Capital Trust (GWLCT) have contingent conversion rights into Lifeco common shares. Therefore, the shares may have a dilutive effect in the calculation of diluted earnings per share. The expected impact on diluted earnings is expected to be less than $0.01 per share.
o) Business combinations	The Company does not plan to restate business combinations prior to January 1, 2010 therefore no expected impact on opening figures. The Company will apply the IFRS 3 prospectively for business combinations occurring after January 1, 2010.
p) Goodwill and intangible assets	Goodwill and intangible assets under IFRS will be measured using the cost model, based on the recoverable amount which is the greater of value in use and fair value less costs to sell. The recoverable amount calculated under IFRS approximates the Canadian GAAP carrying value at December 31, 2009 and therefore no adjustment is required at transition. At each reporting date, the Company is required to review goodwill and intangible assets for indicators of impairment or reversals of impairment. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof.

The above accounting policy differences have been reconciled within the balance sheet and statement of equity from Canadian GAAP to IFRS in the following pages.

Reconciliation of the pro-forma Consolidated Balance Sheet from Canadian GAAP to IFRS

	CGAAP December 31, 2009	Estimated Conversion Adjustments	Estimated Presentation & Reclassification Adjustments	Estimated Total IFRS Impact	Estimated IFRS January 1, 2010
Assets					
Bonds	$ 66,147	$ –	$ –	$ –	$ 66,147
Mortgage loans	16,684	–	–	–	16,684
Stocks	6,442	–	–	–	6,442
Investment property	3,099	(85) c	(413) d	(498)	2,601
Cash and cash equivalents	3,427	–	–	–	3,427
Loans to policyholders	6,957	–	–	–	6,957
Funds held by ceding insurers	10,839	–	145 j	145	10,984
Reinsurance assets	–	–	2,798 j	2,798	2,798
Goodwill	5,406	–	–	–	5,406
Intangible assets	3,238	–	–	–	3,238
Other assets	6,130	28 d	860 a, d	888	7,018
	128,369	(57)	3,390	3,333	131,702
Segregated funds for the risk of unit holders	–	–	87,495 i	87,495	87,495
Total assets	$ 128,369	$ (57)	$ 90,885	$ 90,828	$ 219,197
Liabilities					
Insurance and investment contract liabilities	$ 102,651	$ (69) a, c, g	$ 3,245 a, j	$ 3,176	$ 105,827
Debentures and other debt instruments	4,142	(36) g	–	(36)	4,106
Funds held under reinsurance contracts	186	–	145 j	145	331
Other liabilities	4,608	732 a, b, e, f, h	–	732	5,340
Repurchase agreements	532	–	–	–	532
Deferred net realized gains	133	(133) c	–	(133)	–
Capital trust securities and debentures	540	–	–	–	540
Preferred shares	203	(4) g	–	(4)	199
Non-controlling interests	2,371	–	(2,371) m	(2,371)	–
	115,366	490	1,019	1,509	116,875
Insurance and investment contracts on account of unit holders	–	–	87,495 i	87,495	87,495
	115,366	490	88,514	89,004	204,370
Share capital and surplus					
Perpetual preferred shares	1,497	–	–	–	1,497
Common shares	5,751	–	–	–	5,751
Participating account surplus in subsidiaries	–	55	2,004 m	2,059	2,059
Non-controlling interests	–	–	367 m	367	367
Contributed surplus	52	29 g	–	29	81
Retained earnings	7,367	(2,316)	–	(2,316)	5,051
Accumulated other comprehensive income	(1,664)	1,685 k, l	–	1,685	21
Total surplus	13,003	(547)*	2,371	1,824	14,827
Total liabilities and surplus	$ 128,369	$ (57)	$ 90,885	$ 90,828	$ 219,197

* Total impact on equity of $(576) consists of $55 impact on participating account, impact on non-participating of $(602) and reclassification to contributed surplus of $(29).

Reconciliation of pro-forma Statement of Equity from Canadian GAAP to IFRS

	At January 1, 2010		
	Accumulated Surplus	Other Comprehensive Income (OCI)	Accumulated Surplus/OCI
CGAAP equity	$ 7,367	$ (1,664)	$ 5,703
IFRS adjustments (net of tax)			
Deferred acquisition costs	(119) [a]	–	(119)
Deferred income reserves	(343) [a]	–	(343)
Tax uncertainties	(240) [b]	–	(240)
Real estate	219 [c, d]	–	219
Employee benefits	(116) [e, f]	–	(116)
Other adjustments	23 [g]	–	23
Reset of cumulative translation account	(1,590) [k]	1,590	–
Redesignation of financial assets	(95) [l]	95	–
IFRS impact	(2,261)	1,685	(576)
IFRS equity	$ 5,106	$ 21	$ 5,127

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

The Company's IFRS changeover plan includes the modification of internal controls over financial reporting for changes in accounting policy arising from the transition to IFRS and the education of key stakeholders including the Board of Directors, management and employees. The impact on the Company's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items. At this time, no significant impact on information or data systems has been identified and the Company does not expect to make changes which will materially affect internal controls over financial reporting.

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

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

On July 30, 2010 the IASB published for comment an exposure draft proposing changes to the accounting standard for insurance contracts. A final standard is not expected to be implemented for several years. The Company will continue to measure insurance liabilities using CALM until such time when a new IFRS standard for insurance contract measurement is issued. The exposure draft proposes that an insurer would measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of the Company. On November 30, 2010 the Company submitted a comment letter urging the IASB to amend the exposure draft, particularly in the area of discounting. The Company continues to actively monitor developments in this area.

On August 17, 2010 the IASB published for comment an exposure draft with changes proposed to the accounting standards for leases. A final standard is expected to be released in June 2011. The exposure draft proposes a new accounting model where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and capital (termed finance under IFRS) lease accounting models that currently exist under Canadian GAAP.

Under OSFI's Advisory on Conversion to International Financial Reporting Standards by Federally Regulated Entities, the Company's federally regulated subsidiaries plan to elect to phase-in the impact of the conversion to IFRS on capital for MCCSR regulatory reporting purposes over eight quarters commencing January 1, 2011. The impact at transition to IFRS on the MCCSR of the Company's reporting subsidiaries is not expected to be significant due to these phase-in provisions. In the years following the Company's initial adoption of IFRS, as a result of the proposed changes to the IFRS standard for measurement of insurance contract liabilities and the evolving nature of IFRS, there will likely be further regulatory capital and accounting changes, some of which may be significant.

The Company is monitoring the potential impact of other changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting though the Company does not expect the initial adoption of IFRS will have a considerable impact on the disclosure controls and procedures for financial reporting. The Company continues to capture IFRS comparative information, in parallel to Canadian GAAP information, for fiscal 2010 to quantify the effects of the potential significant differences between IFRS and Canadian GAAP which may or may not be material.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco include the operating results of Great-West Life, London Life, Canada Life, GWL&A and Putnam.

For reporting purposes, the consolidated operating results are grouped into four reportable segments, Canada, United States, Europe and Lifeco Corporate reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life, and Canada Life. There are two primary business units included in this segment. Through its Individual Insurance and Investment Products (IIIP) business unit, the Company provides life, disability and critical illness insurance products to individual clients, as well as accumulation products and annuity products for both group and individual clients in Canada. Through its Group Insurance business unit, the Company provides life, health, critical illness, disability and creditor insurance products to group clients in Canada.

Selected consolidated financial information – Canada

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 4,865**	$ 4,405	$ 4,585	**$ 18,774**	$ 18,389
Sales	**2,569**	2,020	2,421	**9,548**	9,031
Fee and other income	**263**	251	249	**1,025**	938
Net earnings – common shareholders	**238**	232	246	**940**	883
Total assets	**$ 60,573**	$ 60,408	$ 55,858		
Segregated funds net assets	**50,001**	47,550	45,005		
Proprietary mutual funds net assets	**3,272**	3,056	2,811		
Total assets under management	**113,846**	111,014	103,674		
Other assets under administration	**11,655**	11,419	10,905		
Total assets under administration	**$ 125,501**	$ 122,433	$ 114,579		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
IIIP	**$ 134**	$ 150	$ 139	**$ 608**	$ 572
Group Insurance	**102**	104	94	**395**	395
Corporate	**2**	(22)	13	**(63)**	(84)
Net earnings	**$ 238**	$ 232	$ 246	**$ 940**	$ 883

BUSINESS UNITS – CANADA

Net earnings attributable to common shareholders for the fourth quarter of 2010 were down slightly to $238 million compared to $246 million in the fourth quarter of 2009. Fourth quarter results include the favourable after-tax impact of a $44 million adjustment relating to the cost of acquiring Canada Life Financial Corporation in 2003. The fourth quarter 2009 results had included a favourable provision release of $29 million related to litigation for certain Canadian retirement plans and a gain recognized on the redemption of Lifeco Preferred Shares, Series E of $15 million.

For the twelve months ended December 31, 2010, net earnings attributable to common shareholders were $940 million compared to $883 million in 2009.

Total sales for the twelve months ended December 31, 2010 were up 23% to $9.5 billion compared to $7.7 billion after adjusting the 2009 twelve month period for the impact of the group retirement assets acquired from Fidelity Investments Canada. This growth was driven by strong sales of proprietary retail investment funds which were up 31%, payout annuity products which were up 11% and individual life product sales which increased 26% compared to the twelve month period in 2009.

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

BUSINESS PROFILE

In Canada, Individual Insurance & Investment Products consists of two business units: Individual Insurance business unit consisting of Life Insurance and Living Benefits business lines, and Wealth Management business unit consisting of Individual Retirement & Investment Services (IRIS), and Group Retirement Services (GRS) business lines. Products are distributed through Freedom 55 Financial™ and Great-West Life financial security advisors and Canada Life distribution channels, which include managing general agencies (MGAs) and their associated brokers, independent brokers as well as intercorporate agreements with other financial institutions.

The Company utilizes diverse, complementary distribution channels and is a leader in Canada in all individual product lines.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a wide array of protection and savings products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 85 London Life Segregated funds to individual Freedom 55 Financial clients, 73 Canada Life segregated funds to individual Canada Life clients and 78 Great-West Life segregated funds to individual Great-West Life clients.

Quadrus offers 43 mutual funds under the Quadrus Group of Funds™ brand and over 3,500 third party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

MARKET POSITION

- Manages largest portfolio of life insurance in Canada as measured by premium
- Pre-eminent provider of individual disability and critical illness insurance with 31% market share of in-force premium
- 26% market share of individual segregated funds
- 21% market share of group capital accumulation plans (CGAP)

PRODUCTS AND SERVICES

Individual Insurance

Individual Life Insurance
- Term Life
- Universal Life
- Participating Life

Living Benefits
- Disability
- Critical Illness

Retirement & Investment Services

Products
- Segregated funds including lifetime GMWB riders
- Retirement savings plans
- Non-registered savings programs
- Deferred profit sharing plans
- Defined contribution pension plans
- Payout annuities
- Deferred annuities
- Investment management services only plans
- Retirement income funds
- Life income funds
- Residential mortgages
- Banking products

Administrative Services
- Employee stock purchase plans

DISTRIBUTION

Associated with:

Great-West Life Distribution
- 1,851 Great-West Life financial security advisors
- 2,590 advisors associated with a number of intercorporate arrangements
- 6,658 independent brokers

London Life Distribution
- 3,301 Freedom 55 Financial security advisors

Canada Life Distribution
- 8,562 independent brokers associated with 56 managing general agencies (MGAs)
- 1,599 advisors associated with 18 national accounts
- 3,139 Investors Group consultants who actively sell Canada Life products
- 359 direct brokers and producer groups

Quadrus Investment Services Ltd.
(also included in Great-West Life and London Life advisor counts):
- 3,722 investment representatives

COMPETITIVE CONDITIONS

The individual insurance, savings, and investments marketplace is highly competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, as well as other service and professional organizations. Competition focuses on service, technology, cost and variety of investment options, investment performance, product features, price, and financial strength, as indicated by ratings issued by nationally recognized agencies.

2010 Developments

- For the twelve months ended December 31, 2010, Individual Life sales increased 26% compared to the same period in 2009.
- Deposits to proprietary retail investment funds increased 19% compared to the prior year. A new cashable payout annuity product option was introduced in late December 2010.
- GRS launched *My 1 percentage advantage calculator*, an on-line plan member retirement planning experience accessible through smart phone technology. This is a new web landing page that plan members can customize based on their preferences and new enrolment booklets. These enhancements position GRS for greater success in the large case group capital accumulation plan market.
- While the current suspension on transfers and withdrawals from the Real Estate Segregated Funds of Great-West Life, London Life and Canada Life remains in place, Great-West Life and Canada Life processed an initial proportional payment effective July 9, 2010 for unitholders who made an eligible request. Once the cash position has been rebuilt, we will announce a second payout opportunity. London Life processed a second payment on October 22, 2010 for unitholders who made an eligible request. As all eligible requests for transfers and withdrawals from the London Life Real Estate Fund have been met, we expect to lift the current suspension in the first quarter of 2011.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 3,122**	$ 2,696	$ 2,914	**$ 11,872**	$ 11,731
Sales	**2,441**	1,893	2,259	**9,012**	8,536
Fee and other income	**220**	209	204	**849**	760
Net earnings	**134**	150	139	**608**	572

Premiums and deposits

Individual Life premiums for the fourth quarter of 2010 increased $54 million compared with the same quarter last year. The increase was primarily due to continued strong persistency and sales. For Living Benefits, premiums and deposits for the quarter increased $4 million compared with last year primarily due to new sales and strong persistency. Premiums and deposits to proprietary retail investment funds for the quarter increased $80 million compared with last year, primarily due to the continued success of the launch of new segregated funds products in the fourth quarter of 2009 and improved equity markets. Premiums and deposits to retail guaranteed interest rate and payout annuity products for the quarter decreased by 41% and 25% respectively or in dollar terms $102 million in total compared with last year. Premiums and deposits to group retirement products increased $172 million with increases in group capital accumulation plan deposits and payout annuity premiums.

For the twelve months ended December 31, 2010, Individual Life premiums and deposits increased $192 million compared to the same period last year. For Living Benefits, premiums and deposits increased $10 million compared to the same period last year. The increase was primarily due to new sales and strong persistency. Premiums and deposits to proprietary retail investment funds increased $522 million year to date compared with last year, for the same reasons as the in quarter period compared to 2009. Premiums and deposits to retail guaranteed interest rate and payout annuity products decreased $58 million compared with last year, due to an increased interest in clients re-entering the investment funds market. Premiums and deposits to group retirement products increased $775 million compared with last year, after adjusting for the 2009 Fidelity transaction. The year-to-date results for 2009 include $1.3 billion of lump sum transfers from the Fidelity transaction which impacted both premiums and deposits and sales.

Individual Life premiums increased $77 million compared with the previous quarter reflecting the normal seasonality of premiums. For Living Benefits, premiums and deposits increased $2 million compared to the previous quarter. Premiums and deposits to proprietary retail investment funds increased $198 million compared with the previous quarter, primarily due to the normally slower summer season. Premiums and deposits to retail guaranteed interest rate and payout annuity products decreased $34 million compared with the previous quarter, due to the focus on funds in the fourth quarter. Premiums and deposits to group retirement products increased $183 million compared with the previous quarter, primarily due to the normally slower summer season.

Sales

For the fourth quarter of 2010, Individual Life sales increased $17 million compared with the same quarter last year. The increase was due to strong universal life and participating life insurance sales. Sales of Living Benefits for the quarter decreased $2 million compared with last year. The decrease was due to strong disability and critical illness sales in the fourth quarter of 2009. In the quarter, sales of proprietary retail investment funds decreased $5 million as more business transferred from the old to new segregated fund product in 2009 shortly after launch of the new product. Sales of retail guaranteed interest rate and payout annuity products decreased $108 million compared to 2009 and sales of group retirement products increased $233 million from 2009.

For the twelve months ended December 31, 2010, Individual Life sales increased $73 million compared to the same period last year. The increase was primarily due to a $47 million increase in participating life insurance sales premium. For Living Benefits, sales increased $1 million compared to the same period last year from higher critical illness sales. Year to date, sales of proprietary retail investment funds increased $1.1 billion primarily due to the continued success of new segregated funds introduced in 2009 and improved equity markets. Sales of retail guaranteed interest rate and payout annuity products decreased $92 million compared to 2009. Sales of group retirement products increased $582 million from 2009, after adjusting 2009 results for initial lump sum transfers of $1.3 billion from the Fidelity transaction.

Individual Life sales increased $17 million compared with the previous quarter primarily due to the normal seasonality of life insurance sales. For Living Benefits, sales were equal to the previous quarter. In the quarter, sales of proprietary retail investment funds increased $277 million and sales of retail guaranteed interest rate and payout annuity products increased $17 million compared to the previous quarter. Sales of group retirement products increased by $179 million from the previous quarter.

Fee and other income

Assets under administration

	December 31	
	2010	2009
Assets under management		
Individual Retirement & Investment Services		
Risk-based products	**$ 7,146**	$ 6,657
Segregated funds	**23,094**	21,148
Proprietary mutual funds	**3,272**	2,811
Group Retirement Services		
Risk-based products	**6,597**	6,497
Segregated funds	**26,907**	23,857
	$ 67,016	$ 60,970
Other assets under administration (1)		
Individual Retirement & Investment Services	**$ 4,129**	$ 3,610
Group Retirement Services	**2,092**	2,023
Total	**$ 6,221**	$ 5,633
Summary by business/product		
Individual Retirement & Investment Services	**$ 37,641**	$ 34,226
Group Retirement Services	**35,596**	32,377
Total assets under administration	**$ 73,237**	$ 66,603

(1) Includes mutual funds distributed by Quadrus Investment Services, stock purchase plans administered by London Life and portfolio assets managed by GLC Asset Management Group.

Fee and other income for the quarter increased $16 million compared with last year, primarily due to the increase in average proprietary investment fund assets of 11%.

For the full year, fee and other income increased $89 million compared to the same period last year, primarily due to the increase in average proprietary investment fund assets of 15%.

Fee and other income increased $11 million compared with the previous quarter.

Net earnings

Net earnings for the quarter decreased $5 million compared to last year. The decrease was primarily due to unfavorable individual life mortality experience in the quarter which was $11 million after-tax, less favourable than the fourth quarter of 2009. The unfavourable Individual Life mortality experience was primarily driven by a few large death claims in the fourth quarter of 2010. The unfavourable mortality experience in the fourth quarter was partially offset by higher fee income and higher investment gains when compared to the fourth quarter of 2009.

For the twelve months ended December 31, 2010, net earnings increased $36 compared to the same period last year. The increase was primarily due to growth in fee income, greater actuarial basis change releases and an increase in asset-liability matching gains partially offset by higher Individual Life new business strain and lower mortality and surrender gains.

Net earnings decreased $16 million compared with the previous quarter, primarily due to lower actuarial basis change releases partially offset by growth in fee income and investment gains.

Net earnings attributable to the participating account for the fourth quarter were a net loss of $25 million in 2010, compared to a net loss of $8 million for the fourth quarter in 2009. For the twelve months ended December 31, 2010, net earnings attributable to the participating account were a net loss of $16 million compared with net earnings of $10 million for the same period in 2009. Net earnings attributable to the participating account decreased by $19 million from the third quarter of 2010. The third quarter 2010 results reflect the impact of the litigation provision as described in the Consolidated Operating Results 2010 Developments section of the document titled Contingent Liabilities.

Outlook – Individual Insurance & Investment Products

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The IIIP division delivered solid results in 2010 in terms of both earnings and revenue growth. Our reputation for strength and stability, combined with prudent business practices as well as depth and breadth of our distribution channels positions the organization well for 2011 and beyond. We are reviewing our strategies and re-aligning aspects of our organization with the goal of achieving superior organic growth in profitable revenues.

In 2011, we will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach is of benefit through the maintenance and improvement of the persistency of existing business as well as helping advisors attract new clients to the organization. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors where appropriate.

Our broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The Company will continue to competitively develop, price and market its comprehensive range of Individual Insurance and Wealth Management products while maintaining our focus on sales and service support for large cases in all channels.

The Company has an excellent suite of wealth products and services, for both the retail and group markets. In the coming year, it will focus on appropriately customizing marketing and support for these products and services by customer segment to better meet distinct needs. We expect this to generate higher fee income from segregated funds and mutual funds in 2011. The Company will use its diverse distribution network to leverage its growth in market share.

The Company's diversified offering of individual insurance products including participating whole life, term, universal life, disability, and critical illness insurance, combined with a commitment to new business service will position us to continue to achieve market leading sales in 2011. We will continue to enhance our suite of product solutions and services, of which we are a leading provider and we will continue to focus on growing our business organically by constantly improving our service to clients.

Operational expense management continues to be critically important to delivering strong financial results. This will be achieved through disciplined expense controls. Strategic expenditures are equally important – choosing the right strategies and implementing them effectively. Management has identified a number of areas of focus for these investments to facilitate the objective of organic growth.

GROUP INSURANCE

BUSINESS PROFILE

In Canada, the Company offers effective benefit solutions for large and small employee groups. Through its Canada Life subsidiary, the Company is a recognized leader in the creditor insurance business with $1.8 billion in annual direct premium.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a wide array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

MARKET POSITION

- Employee benefits for more than 32,000 plan sponsors
- 22.1% market share for employee/employer plans
- Leading market share for creditor plans

PRODUCTS AND SERVICES

Life and Health

- Life
- Disability
- Critical Illness
- Accidental death & dismemberment
- Dental plans
- Expatriate coverage
- Extended health care plans

Creditor

- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness

DISTRIBUTION

- 107 account managers and sales staff located in 15 Group Offices
- 106 Regional Employee Benefits Managers and Selectpac Specialists located in Resource Centres

COMPETITIVE CONDITIONS

There are three large group insurance carriers in Canada with significant market positions, led by the Company with a 22.1% market share. There are a number of other smaller companies operating nationally and several regional and niche competitors. The group insurance market is highly competitive. A strong market share position is a distinct advantage for competing successfully in the Canadian group insurance market.

Within the small and mid sized case markets, there are significant pricing pressures as employers seek to find ways to counter the inflationary costs of health care. A company with low cost operations, extensive distribution networks, strong service capability and cost containment product offerings will have a competitive advantage in these markets.

In the larger case market, while low cost is a factor, service excellence and cost containment product innovations are equally important. In this market, a company that can effectively develop and implement innovative products and efficient administrative processes through the use of new technologies to meet emerging client requirements will differentiate itself and achieve competitive advantage.

2010 DEVELOPMENTS

- Premiums and deposits of $6,902 million grew by 4% in 2010 compared to 2009, sales were $536 million, 8% higher than 2009 and net earnings of $395 million were at the same level as 2009.
- In response to Plan Sponsor interest in alternatives to employer paid defined benefit retiree programs, the Company launched Prelude, a voluntary, individually funded retiree health product in the second quarter.
- Provider eClaims services were introduced to the market during the third quarter, enabling chiropractic, physiotherapy, and visioncare providers the ability to submit plan member claims electronically. By year end, over 4,000 providers had registered for this service.
- Member eClaims services were introduced in 2010, enabling plan members the ability to submit health and dental claims online.
- *Health SolutionsPlus*, an innovative approach to the claims administration for Healthcare Spending Accounts, was introduced in the fourth quarter. This new service uses payment card technology and is the first such introduction in the Canadian benefits marketplace.

Operating results

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 1,743**	$ 1,709	$ 1,671	**$ 6,902**	$ 6,658
Sales	**128**	127	162	**536**	495
Fee and other income	**35**	35	35	**144**	142
Net earnings	**102**	104	94	**395**	395

Premiums and deposits

Premiums and deposits for the quarter increased $72 million compared with last year, primarily due to a 5% increase in large case premiums and deposits.

For the twelve months ended December 31, 2010, premiums and deposits increased $244 million compared to 2009, primarily due to a 5% increase in large case premiums and deposits.

Premiums and deposits increased $34 million compared with the previous quarter. Large case premiums and deposits increased by 3% due to the seasonality of ASO premium equivalents.

Sales

For the quarter, sales decreased $34 million compared with last year. The decrease was primarily due to lower sales in the large case market from lower activity sales. The decrease is also due to a lower number of new sales in the small/mid-size market and lower creditor/direct marketing sales from large sales for $8 million in the current quarter compared to $14 million last year.

For the twelve months ended December 31, 2010, sales increased $41 million compared to the same period last year. The increase was primarily due to higher sales in the large case market from eleven large case sales for $163 million in 2010 compared to five large sales for $45 million in 2009 partly offset by lower activity sales.

Sales increased $1 million, compared with the previous quarter, primarily due to higher sales in the large case market from a higher number of new and activity sales. Sales in the small/mid-size case market also increased mainly due to higher activity sales. Offsetting the increases were lower sales in creditor/direct marketing from large sales of $8 million in the current quarter compared to $20 million in the previous quarter.

Fee and other income

Fee and other income is derived primarily from ASO contracts, whereby the Company provides group insurance benefit plan administration on a cost plus basis.

Fee and other income for the quarter was at the same level as last year.

For the twelve months ended December 31, 2010, fee and other income increased $2 million compared to the same period last year. The increase was primarily due to an increase in ASO premium equivalents.

Fee and other income was at the same level as the previous quarter.

Net earnings

Net earnings for the quarter increased $8 million compared with last year. The increase was primarily due to an increase in group life mortality experience from improved claims experience.

For the twelve months ended December 31, 2010, net earnings were at last year's level. The results reflect an increase in group life mortality experience from improved claims experience and higher gains from non-credit related actuarial reserve basis changes. The increase was partly offset by lower investment gains from lower trading gains, weaker group health morbidity experience on long-term disability cases and lower expense gains.

Net earnings decreased $2 million compared with the previous quarter, primarily due to a decrease in group health morbidity experience on long-term disability cases and the medical and dental sublines and a decrease in expense gains. The decrease was partly offset by an increase in group life mortality experience from improved claims experience and higher gains from non-credit related actuarial reserve basis changes.

Outlook – Group Insurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The Company is well positioned within the Canadian group insurance business with leading market shares in most case size, regional and benefit market segments. The Company believes that this market share position, together with its low cost position and extensive distribution capability, will facilitate continued growth in revenue premium. Through effective investment in technologies, the Company expects to achieve continued reductions in administration and claims adjudication costs, thereby enhancing its competitive position.

As the costs of employee benefits continue to be the primary concern of plan sponsors, the Company continues to develop an array of enhanced products and services for plan members, plan sponsors, and their advisors. A particular focus in 2011 will be the development of new and innovative approaches to prescription drug management, as well as further enhancements to the Company's extensive suite of eClaims adjudication services. The Company will also focus on expanding its distribution channels and will continue its efforts to improve process effectiveness, and therefore unit cost and customer service.

CANADA CORPORATE

Canada Corporate consists of items not associated directly with, or allocated to the Canadian business units.

Canada Corporate reported net earnings for the quarter of $2 million, compared with net earnings of $13 million in the fourth quarter of 2009. In quarter results include the favourable impact of a $44 million adjustment related to the cost of acquiring Canada Life Financial Corporation in 2003. The fourth quarter 2009 results included a favourable provision release of $29 million related to litigation for certain Canadian retirement plans and a gain recognized on the redemption of Lifeco Preferred Shares, Series E of $15 million.

For the twelve months ended December 31, 2010, Canada Corporate reported a net loss of $63 million compared to a net loss of $84 million for the same period in 2009. The decrease in the reported net loss is primarily due to the impact of the mark-to-market adjustments with respect to the Lifeco Preferred Shares, Series D and Series E, made in 2009.

Compared to the previous quarter, net earnings increased $24 million primarily due to the provision release of the aforementioned provision release for acquisition costs partially offset by lower investment and expense gain results in the fourth quarter of 2010 compared to the third quarter of 2010.

UNITED STATES

The United States operating results for Lifeco include the results of GWL&A, Putnam, and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period and are presented in millions of Canadian dollars unless otherwise indicated. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this report.

BUSINESS PROFILE

FINANCIAL SERVICES

GWL&A provides an array of financial security products, including employer sponsored defined contribution retirement plans and defined benefit plans for certain market segments. Through relationships with government plan sponsors, the Company is one of the largest providers of services to state defined contribution plans, with 18 state clients as well as the government of Guam. It also provides annuity and life insurance products for individuals and businesses, as well as fund management, investment and advisory services. Through its FASCore subsidiary, it offers private label recordkeeping and administrative services for other providers of defined contribution plans.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes domestic and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a focused product offering that is distributed through a variety of channels.

FINANCIAL SERVICES

MARKET POSITION

- Fourth largest defined contribution record-keepers in the country, providing services for 4,409,418 participant accounts
- Significant market share in state and government deferred compensation plans
- 19% market share in individual life insurance sold through the retail bank channel (as of September 30, 2010)
- 17% market share in business owned life insurance (BOLI) purchased by financial institutions (as of September 30, 2010)

PRODUCTS AND SERVICES

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and record keeping services for financial institutions and employer sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual term and single premium life insurance, and individual annuity products
- Business-owned life insurance and executive benefits products

DISTRIBUTION

- Retirement services products distributed to plan sponsors through brokers, consultants, advisors and third party administrators and banks
- FASCore record keeping and administrative services distributed through institutional clients
- Individual life and annuity products distributed through financial institutions
- Business-owned life insurance and executive benefits products distributed through specialized consultants

Asset Management

Market Position

- A Global asset manager with assets under management of US $121.2 billion as of December 31, 2010
- International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Southeast Asia and Australia and through strategic distribution relationship in Japan

Products and Services

Investment Management Products & Services

- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Alternative investment products across the fixed income, currency, quantitative and equity groups

Administrative Services

- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

Distribution

Individual Retail Investors

- A broad network of distribution relationships with unaffiliated broker-dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds to their customers, which, in total, includes more than 165,000 advisors
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team

Institutional Investors

- Supported by Putnam's dedicated account management, product management, and client service professionals
- Strategic relationships with several investment management firms outside of the United States

Competitive Conditions

Financial Services

The life insurance, savings and investments marketplace is competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on service, technology, cost, variety of investment options, investment performance, product features, price, and financial strength as indicated by ratings issued by nationally recognized agencies.

Asset Management

Putnam's investment management business is highly competitive. Putnam competes with other providers of investment products and services primarily on the basis of the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services, and general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions and advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam as well as products which Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public, conversely, Putnam offers its funds only through intermediaries.

Selected consolidated financial information – United States

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 8,043**	$ 7,839	$ 7,777	**$ 30,941**	$ 28,618
Sales	**8,527**	11,084	9,489	**38,057**	32,383
Fee and other income	**311**	311	358	**1,246**	1,240
Net earnings – common shareholders	**133**	88	36	**343**	228
Net earnings – common shareholders (US$)	**132**	84	33	**334**	197
Total assets	**$ 29,973**	$ 31,132	$ 29,262		
Segregated funds net assets	**21,189**	21,181	19,690		
Proprietary mutual funds and institutional net assets	**120,001**	123,306	120,693		
Total assets under management	**171,163**	175,619	169,645		
Other assets under administration	**122,546**	120,032	108,192		
Total assets under administration	**$ 293,709**	$ 295,651	$ 277,837		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
(C$ millions)	**Dec. 31 2010**	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Financial services	**$ 78**	$ 92	$ 78	**$ 334**	$ 320
Asset management	**1**	(1)	(37)	**(43)**	(90)
Corporate	**54**	(3)	(5)	**52**	(2)
	$ 133	$ 88	$ 36	**$ 343**	$ 228

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
(US$ millions)	**Dec. 31 2010**	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Financial services	**$ 78**	$ 88	$ 73	**$ 324**	$ 279
Asset management	**1**	(1)	(35)	**(41)**	(80)
Corporate	**53**	(3)	(5)	**51**	(2)
	$ 132	$ 84	$ 33	**$ 334**	$ 197

BUSINESS UNITS – UNITED STATES

In the fourth quarter, comparing 2010 to 2009, the Canadian dollar strengthened against the US dollar. As a result of currency movement, net earnings were negatively impacted by $6 million compared to the fourth quarter of 2009 and $32 million compared to the twelve months of 2009.

FINANCIAL SERVICES

2010 DEVELOPMENTS

- In 2010 our Financial Services businesses continued to grow, with a 34% increase in sales over 2009. Strong sales across defined contribution markets, our retail bank channel and BOLI product led to higher sales totalling US$12.4 billion in Retirement Services and US$1.1 billion in Individual Markets.
- The Retirement Services increase in sales premium of US$3.0 billion or 31% is a combination of strong sales in public/non-profit markets and an increase in 401(k) sales to 2,023 new plans in 2010 compared to 1,621 in 2009.
- Individual Markets continued its rapid growth of Single Premium Life sales with an increase in sales premium of US$224 million, or 147%, in 2010.
- Sales in the BOLI product remained strong and increased to US$515 million in 2010 from US$416 million in 2009.
- The Maxim® Lifetime Asset Allocation Series® mutual funds introduced in 2009 reached $1.1 billion of AUM in 2010.
- Net earnings for the twelve months ended December 31, 2010 were US$324 million, an increase of 16% from the same period in 2009.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 1,540**	$ 1,550	$ 1,875	**$ 6,903**	$ 7,676
Sales	**2,024**	4,795	3,587	**14,019**	11,441
Fee and other income	**113**	113	114	**448**	427
Net earnings	**78**	92	78	**334**	320
Premiums and deposits (US$)	**$ 1,525**	$ 1,490	$ 1,770	**$ 6,701**	$ 6,667
Sales (US$)	**2,005**	4,610	3,385	**13,553**	10,125
Fee and other income (US$)	**111**	109	107	**435**	375
Net income (US$)	**78**	88	73	**324**	279

Premiums and deposits

Premiums and deposits for the quarter decreased $245 million compared to the fourth quarter of 2009, primarily due to reduced sales activity in the Retirement Services public/non-profit market and lower BOLI product premiums, partially offset by increases in 401(k) sales and Individual Markets single premium life insurance sales.

For the twelve months ended December 31, 2010, premiums and deposits increased $34 million compared to 2009, primarily due to increases from Individual Markets single premium life insurance, BOLI product premiums and increases in 401(k) sales partially offset by lower Retirement Services public/non-profit premiums and deposits.

Premiums and deposits increased $35 million compared with the previous quarter, primarily due to higher 401(k) sales.

Sales

For the quarter, sales decreased $1,380 million compared to the fourth quarter of 2009. The decrease was primarily due to three Retirement Services plan sales occurring in fourth quarter 2009 totalling approximately $1.5 billion.

For the twelve months ended December 31, 2010, sales increased $3,428 million compared to the same period last year. The increase was primarily due to increased sales activity for Retirement Services and Individual Markets.

Sales decreased $2,605 million compared with the previous quarter, primarily due to one large plan sale in Retirement Services in the third quarter.

Financial Services – Retirement Services customer account values

(US$ millions)	Change for the three months ended December 31 2010	2009	Total at December 31 2010	2009	% Change
General account – fixed options					
Public/Non-profit	**$ (4)**	$ (15)	**$ 3,556**	$ 3,408	4%
401(k)	**244**	52	**4,310**	3,563	21%
	$ 240	$ 37	**$ 7,866**	$ 6,971	13%
Segregated funds – variable options					
Public/Non-profit	**$ 163**	$ (32)	**$ 8,809**	$ 7,628	15%
401(k)	**563**	277	**7,048**	6,282	12%
	$ 726	$ 245	**$ 15,857**	$ 13,910	14%
Unaffiliated retail investment options & administrative services only					
Public/Non-profit	**$ 3,890**	$ 3,058	**$ 59,110**	$ 46,496	27%
401(k)	**1,655**	1,460	**24,225**	19,905	22%
Institutional (FASCore)	**1,900**	1,867	**39,911**	35,815	11%
	$ 7,445	$ 6,385	**$ 123,246**	$ 102,216	21%

The increase in the account values for segregated funds and unaffiliated retail investment options is attributable to the recovery in the U.S. equity markets and increases related to plan sales in the public/non-profit and 401(k) markets. The increase in 401(k) general account is primarily due to 401(k) plan sales.

Fee and other income

Fee and other income for the quarter increased $4 million compared to the fourth quarter of 2009. The increase was primarily due to higher average asset levels from improved U.S. equity markets and higher administrative fees related to new contracts in the public/non-profit market.

For the twelve months ended December 31, 2010, fee and other income increased $60 million compared to the same period last year. The increase was primarily due to higher average asset levels from improved U.S. equity markets and higher administrative fees related to new contracts in the public/non-profit and institutional markets.

Fee and other income increased $2 million compared with the previous quarter.

Net earnings

Net earnings for the quarter increased $5 million compared to the fourth quarter of 2009. The increase was primarily due to higher investment income, an increase in actuarial reserve basis changes and higher fee income partially offset by additional expenses due to growth in Retirement Services.

For the twelve months ended December 31, 2010, net earnings increased $45 million compared to the same period last year. The increase was primarily due to actuarial reserve basis changes, higher fee income and investment income partially offset by additional expenses due to growth in Retirement Services.

Net earnings decreased $10 million compared with the previous quarter primarily due to lower mortality gains.

Outlook – Financial Services

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

Despite a weak economy, our business continues to grow, with strong sales in both our Individual Markets and Retirement Services segments. This sales growth, together with strong investment income and sound expense management, has resulted in an increase in earnings.

We are confident that GWL&A is well positioned to withstand current economic challenges. Moreover, we believe our solid financial position provides many opportunities for continued growth.

With the introduction of our Maxim SecureFoundation Portfolios in 2010, the Company is well positioned to capitalize on the increasing interest in forms of guaranteed lifetime income within defined contribution plans.

Along with Maxim Lifetime Asset Allocation Series mutual funds, the Maxim SecureFoundation Portfolios are expected to contribute significantly to the growth of AUM by Retirement Services and/or its affiliates.

In 2010, the Company continued its efforts to partner with large financial institutions to provide life insurance and wealth transfer solutions to their customers. Individual Markets expanded its reach in the retail bank market space in 2010 by adding five new bank partners, with a sixth under contract to go live in 2011. With this expansion, the Company intends to continue in 2011 to build upon its bank market experience to meet the needs of its partners and their customers.

In 2010 GWL&A also completed a comprehensive five year strategic plan after identifying a number of key initiatives across the organization to accelerate the growth of the business.

Along with these initiatives, the Company will continue to focus on developing and expanding new distribution channels in 2011, ensuring that through successful relationships with other distributors, it will create a solid base for future growth. A continued focus on providing excellent customer service and a diversity of product offerings provides a sound basis for growth in 2011.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes U.S. and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

2010 Developments

- For the year ended December 31, 2010, premiums and deposits increased US$4,938 compared to last year.
- Putnam's total net flows have improved in every asset class over prior year levels.
- For the twelve months ended December 31, 2010, the impact of improved equity markets on fee income positively impacted net earnings by US$55 million after tax compared to the same period in 2009.
- Putnam Voyager Fund has outperformed 99% of its peers for the three- and five-year periods ended December 31, 2010.
- Putnam's suite of absolute return mutual funds, launched publicly on January 13, 2009, has reached US$2.7 billion in AUM as of December 31, 2010. Putnam launched a suite of three U.S. Multi-Cap Equity Funds to provide investors with an approach to investing by style – value, core/blend, growth – regardless of the market capitalization of the underlying securities as well as the Putnam Global Sector Fund, the first fund-of-sector-funds in the global equity space providing exposure to all sectors contained in the MSCI World Index – in weighted proportions – by investing in eight Putnam Global Sector Funds.
- Putnam announced the launch of *Putnam 529 for America*SM, which provides tax-advantaged, innovative strategies, including the only absolute return funds available in a 529 college savings plan to help families nationwide pursue their college savings goals in a period of skyrocketing college costs, competing personal financial needs and volatile markets.
- Putnam introduced industry-leading transparent and comprehensive disclosure of fees and expenses to participants in the 401(k) plans it administers.
- Putnam has brought innovation and a new approach to retirement plan services with the introduction of new participant and advisor web sites, as well as the *Lifetime Income*SM *Analysis Tool*, which translates participants' retirement savings into estimated monthly income in retirement.
- Putnam announced a five year extension of its long-standing alliance with Nissay Asset Management, which works closely with Putnam in managing and delivering an array of investment products and services to the Japanese market.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 6,503**	$ 6,289	$ 5,902	**$ 24,038**	$ 20,942
Fee and other income					
Investment management fees	**139**	139	182	**554**	568
Service fees	**38**	42	43	**166**	182
Underwriting & distribution fees	**20**	16	17	**73**	57
Fee and other income	**197**	197	242	**793**	807
Net earnings (loss)	**1**	(1)	(37)	**(43)**	(90)
Premiums and deposits (US$)	**$ 6,438**	$ 6,048	$ 5,568	**$ 23,348**	$ 18,410
Fee and other income (US$)					
Investment management fees (US$)	**138**	134	172	**539**	503
Service fees (US$)	**39**	40	41	**162**	159
Underwriting & distribution fees (US$)	**18**	15	16	**68**	51
Fee and other income (US$)	**195**	189	229	**769**	713
Net earnings (loss) (US$)	**1**	(1)	(35)	**(41)**	(80)

Premiums and deposits

For the twelve months ended December 31, 2010, total premiums and deposits were US$23.3 billion, a 27% increase from a year ago. Mutual fund premiums and deposits were US$12.7 billion, an increase of almost 44% from the prior year with improvement across almost every asset category. Institutional premiums and deposits for the full year were US$10.7 billion, an increase of 11% from the prior year. For the three months ended December 31, 2010, total premiums and deposits increased US$870 million compared to the same period in 2009. These improvements are primarily due to improved economic conditions and performance, and the introduction of new products.

Premiums and deposits increased $390 million compared with the previous quarter, primarily due to improved economic conditions and performance.

Fee and other income

Revenue is derived primarily from investment management fees, performance fees, transfer agency and other shareholder service fees and underwriting and distribution fees. Generally, fees are earned based on average AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail shareholder accounts and sales.

Fee and other income for the quarter decreased US$34 million compared to the same period in 2009 primarily due to a large performance fee received from a terminating client in the fourth quarter of 2009 and a difference in the timing of when performance fees were earned in the current year versus the previous year.

For the twelve months ended December 31, 2010, fee and other income increased US$56 million compared to the same period last year. The increase was primarily due to an increase in asset-based fees from higher average AUM. Average AUM increased 10% from 2009 due mainly to higher average equity market levels and improved investment performance. Partly offsetting the increase in fee and other income was the impact from a large performance fee received from a terminating client during 2009.

Fee and other income increased US$6 million compared with the previous quarter, primarily due to higher average AUM in the fourth quarter of 2010.

Net earnings

Net earnings for the quarter were US$1 million compared to a net loss of US$35 million a year ago. The increase in net earnings is primarily driven by the after-tax impact of lower expenses of US$41 million, the release of legal provisions of US$16 million and a US$21 million reduction of performance fee income.

Net earnings for the twelve months ended December 31, 2010 improved US$72 million compared to the same period last year excluding the US$33 million net gain in 2009 on the sale of Union PanAgora. This increase was primarily due to a US$77 million increase in ongoing operations as a result of higher fee and investment income due to an increase in AUM and lower operating expenses, and a decrease in financing costs due to increased tax benefits. The current year was also impacted by a net US$5 million charge from non-core operating items, the largest of which was the partial release of provisions related to legal proceedings of US$26 million, offset by the impact of purchase adjustment costs and dilution losses due to Putnam share activity.

Net earnings increased US$2 million compared with the previous quarter, primarily due to the net after-tax impact of lower purchase adjustments and a higher partial release of provisions related to legal proceedings.

Assets under management

Assets under management

(US$ millions)	For the three months ended Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	For the twelve months ended Dec. 31 2010	Dec. 31 2009
Beginning assets	**$ 119,715**	$ 109,661	$ 113,597	**$ 114,946**	$ 105,697
Sales (includes dividends reinvested)	**6,438**	6,048	5,568	**23,348**	18,410
Redemptions	**(9,982)**	(5,366)	(6,999)	**(27,423)**	(33,151)
Net asset flows	**(3,544)**	682	(1,431)	**(4,075)**	(14,741)
Impact of market/performance	**5,042**	9,372	2,780	**10,342**	23,990
Ending assets	**$ 121,213**	$ 119,715	$ 114,946	**$ 121,213**	$ 114,946
Average assets under management	**$ 119,367**	$ 115,012	$ 114,443	**$ 116,214**	$ 106,092

Average AUM for the three months ended December 31, 2010, was US$119.4 billion as follows: mutual funds US$66.0 billion and institutional accounts US$53.4 billion. Average AUM increased by US$4.9 billion compared to the three months ended December 31, 2009 primarily due to the positive impact of market/performance, offset by net redemptions, including US$3.5 billion of redemptions related to Putnam's former 529 college savings plan which terminated in October 2010.

Average AUM for the twelve months ended December 31, 2010 increased by US$10.1 billion compared to the twelve months ended December 31, 2009 for the same reasons as the in quarter period compared to 2009.

Compared to the third quarter, average AUM increased by US$4.4 billion reflecting the positive impact of market/performance, offset by net redemptions, including US$3.5 billion of redemptions related to Putnam's former 529 college savings plan which terminated in October 2010.

Outlook – Asset Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

In 2011, Putnam will continue to drive growth and market share through new sales and asset retention in all markets that Putnam services – Global Institutional, Domestic Retail, Defined Contribution and Registered Investment Advisor, while maintaining its industry-recognized reputation for service excellence.

Putnam has invigorated its investment organization over the past few years, and the firm remains committed to delivering superior investment performance, while retaining its experienced investment professionals.

Innovation will continue to be a powerful differentiator for Putnam in 2011, as the firm introduces new product offerings, service features and operational functions, while strengthening its corporate and business/product brand image with a wide range of key constituents. Further, Putnam intends to invest in technology in order to scale its business model more cost effectively.

Putnam has revitalized its commitment to the Defined Contribution business, and the firm remains committed to helping institutions, advisors and their clients solve the retirement savings challenge.

UNITED STATES CORPORATE

United States Corporate net earnings for the three and twelve month period ending December 31, 2010 were US$53 and US$51 million respectively, compared with net losses of US$5 million and US$2 million in 2009, primarily due to a favourable $35 million adjustment of prior year overstatements of tax liabilities and $17 million of credits related to the true-up of the 2009 tax provision to the tax return and settlement of prior year IRS audits. Net earnings increased US$56 million compared with the previous quarter, primarily due to the aforementioned tax releases.

Europe

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance. Insurance & Annuities consists of operations in the United Kingdom, Isle of Man, Ireland and Germany which offer protection and wealth management products including payout annuity products, conducted through Canada Life and its subsidiaries. Reinsurance operates primarily in the United States, Barbados and Ireland, and is conducted through Canada Life, London Life, London Reinsurance Group Inc. (LRG), and their subsidiaries.

Translation of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

Business Profile

Insurance & Annuities

The international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a focused portfolio of protection and wealth management products and related services in the United Kingdom, Isle of Man, Ireland and Germany.

The core products offered in the United Kingdom are payout annuities, savings and group insurance. These products are distributed through independent financial advisors (IFAs) and employee benefit consultants. The Isle of Man operation provides savings and individual protection products that are sold through IFAs in the United Kingdom and in other selected territories.

The core products offered in Ireland are individual insurance, savings and pension products. These products are distributed through independent brokers and a direct sales force.

The German operation focuses on pension, lifetime guaranteed minimum withdrawal benefit products and individual protection products that are distributed through independent brokers and multi-tied agents.

Canada Life has continued to increase its presence in its defined market segments by focusing on the introduction of new products and services, enhancement of distribution capabilities and intermediary relationships.

Reinsurance

The Company's reinsurance business comprises the operations in the United States, Barbados and Ireland.

In the United States, the Company's reinsurance business is carried on through the U.S. branch of Canada Life, through a subsidiary of LRG, and through an indirect subsidiary of GWL&A (Great-West Life & Annuity Company of South Carolina, "GWSC"). GWSC was created in 2005 in conjunction with the establishment of a long-term letter of credit facility to meet the Company's U.S. statutory Regulation XXX reserve requirements relating to its life reinsurance business.

In Barbados, the Company's reinsurance business is carried on primarily through a London Life branch and subsidiaries of LRG.

In Ireland, the Company's reinsurance business is carried on through a subsidiary of LRG, and through a subsidiary of Canada Life (Canada Life International Re Limited).

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to spread their insurance risk.

The product portfolio offered by the Company includes life, annuity and property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between affiliated companies. These transactions are undertaken in order to better manage insurance risks relating to retention, volatility, concentration and to facilitate capital management for the Company and its subsidiaries and branch operations. These internal reinsurance transactions may produce benefits that are reflected in one or more of the Company's other business segments.

Market Overview

Products and Services

The Company provides protection and wealth management products that are distributed primarily through independent sales channels.

Insurance & Annuities

Market Position

U.K. and Isle of Man
- Among the top 20 of life insurance companies operating in the U.K.
- The market leader of the group life market, with 33% share
- Second in the group income protection market with 20% share
- Among the top offshore life companies in the U.K. market, with 16% market share
- Among the top insurers in payout annuities, with 7% market share in 2010
- Among the top ten in the onshore unit linked single premium bond market

Ireland
- 5% of Irish life assurance market
- Among the top six insurers by new business market share

Germany
- One of the top two in the broker unit-linked market
- Among the top eight in the overall unit linked market
- 1% market share in the German market

Products and Services

Wealth Management
- Payout annuities, including enhanced annuities
- Pensions, including guaranteed deferred annuity
- Savings
- Variable annuity GMWB products

Group Insurance
- Life insurance
- Income protection (disability)
- Critical illness

Individual Insurance
- Life insurance
- Disability
- Critical illness

Distribution

U.K. and Isle of Man
- IFAs
- Employee benefit consultants

Ireland
- Independent brokers
- Direct sales force

Germany
- Independent brokers
- Multi-tied agents

REINSURANCE

MARKET POSITION
- Among the top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity business

PRODUCTS AND SERVICES

Life
- Yearly renewable term
- Co-insurance
- Modified co-insurance

Property & Casualty
- Catastrophe retrocession

Annuity
- Fixed annuity
- Payout annuity

DISTRIBUTION
- Independent reinsurance brokers
- Direct placements

COMPETITIVE CONDITIONS

United Kingdom and Isle of Man

In the United Kingdom, the Company holds strong positions in several niche markets with particular strength in the payout annuity, offshore savings, group life and income protection markets. The Company has strong market positions in each of group risk (more than 20% of market share), payout annuities (around 7% market share and a leading share of the IFAs market) and wealth management where, both onshore and offshore, Canada Life is a top 10 unit-linked single premium bond provider in the U.K. The Company remains competitive in the payout annuity market and continues to sell the majority of its products through IFAs. In order to compete with other companies products carried by these IFAs, the Company must maintain competitive product design and pricing, distribution compensation and service levels.

Ireland

The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. The market continued to see a significant decline in new business during 2010, leading to aggressive pricing for available business with larger companies maintaining a significant share. In addition, due to limited new money coming into the market, portions of new business are simply brokers moving cases from one company to another. The decline in the market in 2010 is the result of the continued impact of poor economic conditions following the end of the property and credit bubble which undermined investor confidence and eroded a significant amount of personal wealth.

The Company operates in all segments of the market, and focuses on higher margin products including pensions and single premium savings business. Canada Life is the sixth largest life insurance operation in Ireland as measured by new business market share. The direct sales force performed well for the Company during 2010. The Company continues to focus on the development of innovative products and distribution capability, which are critical to compete for new business.

Germany

The German economy continued its recovery in 2010 with the gross domestic product returning close to 2008 levels and unemployment falling to its lowest point in the last five years in November. However, there was no noticeable recovery in the life and pensions market as consumers were still reluctant to invest in regular premium products and in particular equity-based products, due to market volatility.

In 2010, Canada Life commemorated the ten year anniversary of its entry into the German market, a period that has seen the Company establish itself as a market leader in its target product segments. Surveys carried out by broker organizations (Asscompact) during the year rank Canada Life as the top Anglo-Saxon insurer operating in the German market. The survey also rated Canada Life as the top provider in the variable annuity, serious illness and disability insurance categories and top five in certain pension categories.

Reinsurance

In the United States life reinsurance market, the demand for capital relief solutions eased in 2010 from the prior two years because of the recovery of the financial markets and the re-entry of banks in that market. Lower life insurance sales since the onset of the financial crisis have led to reduced volumes of traditional reinsurance. Adding to competitive pressures, the recently passed Dodd-Frank Bill together with new state regulation is presenting opportunities for less stringent collateral requirements which will be attractive to well-rated unlicensed reinsurers. The Company's financial strength and ability to offer both capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and although interest in capital relief transactions remains high, very few companies are willing to commit to long-term transactions before the regulations are finalized. Demand for longevity reinsurance remains strong in the U.K. however there are now more reinsurers participating in that market.

Property insurers/reinsurers saw increased losses from natural catastrophe events in 2010, most notably severe earthquakes in Chile and New Zealand, but the retrocession market was not hit as hard. In addition, although the 2010 Atlantic hurricane season was one of the most active on record, no major storms hit the United States. The absence of a major United States loss helps preserve the balance sheet strength of insurers/reinsurers and fuels continuing downward pressure on property catastrophe retrocession pricing.

Selected consolidated financial information – Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 2,566**	$ 2,138	$ 2,298	**$ 9,336**	$ 9,731
Sales	**1,308**	992	990	**4,487**	3,976
Fee and other income	**155**	129	158	**603**	661
Net earnings – common shareholders	**138**	158	165	**578**	529
Total assets	**$ 40,968**	$ 44,027	$ 43,249		
Segregated funds net assets	**23,637**	23,436	22,800		
Total assets under management	**64,605**	67,463	66,049		
Other assets under administration	**107**	106	110		
Total assets under administration	**$ 64,712**	$ 67,569	$ 66,159		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Insurance & Annuities	**$ 98**	$ 116	$ 124	**$ 441**	$ 387
Reinsurance	**49**	44	43	**154**	153
Europe Corporate	**(9)**	(2)	(2)	**(17)**	(11)
	$ 138	$ 158	$ 165	**$ 578**	$ 529

2010 Developments

- Net earnings for the year were $578 million, an increase of 9% compared to 2009.
- For the twelve months ended December 31, 2010, premiums and deposits in the U.K. and Isle of Man increased 25% in local currency, compared to 2009.
- For the twelve months ended December 31, 2010, sales in the U.K. and Isle of Man increased 32% in local currency, compared to 2009.
- Canada Life won the prestigious 5 star service award for the second year in a row from IFAs in the U.K. within the investment product category. In addition, the Company won the 2010 "Best Group Risk Provider" from Corporate Adviser magazine and the "Best Overall Product Range" in 2010 from *International Adviser* magazine.
- Wealth Management in the Isle of Man won three awards at the International Adviser International Life Awards 2010, "Best Overall Product Range", "Best Protection Product – Flexible Life Plan" for the second consecutive year and "Best Regular Premium Investment Product".
- During the year, the variable annuity GMWB product in Germany was named "Best Innovative Pension Product" by the magazine *Focus Money*.
- During the year, the Company completed strategic reviews within certain segments of its operations in Europe which will strengthen our position in the marketplace.

BUSINESS UNITS – EUROPE

Comparing 2010 to 2009, the Canadian dollar strengthened against the U.S. dollar, the British pound and the euro for both the fourth quarter and on a full year basis. As a result of currency movement, net earnings in the fourth quarter and twelve months of 2010 were negatively impacted by $11 million and $71 million compared to the same periods in 2009. On a constant currency basis, net earnings attributable to common shareholders decreased 10% compared to the fourth quarter of 2009 and increased 23% for the full year.

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 1,691**	$ 1,257	$ 1,391	**$ 5,846**	$ 5,588
Sales	**1,308**	992	990	**4,487**	3,976
Fee and other income	**146**	119	149	**564**	627
Net earnings	**98**	116	124	**441**	387

Premiums and deposits

Premiums and deposits for the quarter increased $300 million compared with last year, primarily due to strong sales of single premium savings products both in the U.K. and Isle of Man and higher sales of payout annuity products in the U.K., partly offset by currency movement.

For the twelve months ended December 31, 2010, premiums and deposits increased $258 million compared to 2009, primarily due to the strong sales of single premium savings products in the Isle of Man, higher payout annuity sales in the U.K. and growth from Germany's variable annuity GMWB product. These increases were partly offset by lower single premium savings and group insurance premiums in the U.K. as well as lower sales of pension products in Ireland and currency movement.

Premiums and deposits increased $434 million compared with the previous quarter primarily due to the growth of single premium savings products in the Isle of Man, higher sales of payout annuity products in the U.K. and seasonal increases of pension products in Ireland and Germany.

Sales

For the quarter, sales increased $318 million compared with last year. The increase was primarily due to the sales of single premium savings products in both the U.K. and Isle of Man as well as the higher sales of payout annuity products in the U.K. These increases were partly offset by currency movement.

For the twelve months ended December 31, 2010, sales increased $511 million compared to last year. The increase is largely due to higher sales of single premium savings products in the Isle of Man reflecting the continuing market recovery. Also contributing to the sales growth were payout annuities in the U.K., savings products in Ireland and the variable annuity GMWB product in Germany, launched in the prior year. Partly mitigating these increases were currency movement and lower sales of single premium savings products in the U.K. and pension products in Ireland and Germany.

Sales increased $316 million compared with the previous quarter primarily due to strong growth of single premium savings products in the Isle of Man, higher sales of payout annuities in the U.K. and the seasonal increase of pension sales in Ireland and Germany. These increases were partly offset by lower sales of savings products in the U.K.

Fee and other income

Fee and other income for the quarter decreased $3 million compared with last year. The decrease was primarily due to currency movement and lower fees in Germany reflecting a sales mix shift. This is mostly offset by higher fee income in Ireland.

For the twelve months ended December 31, 2010, fee and other income decreased $63 million compared to the same period last year. The decrease was primarily due to currency movement and lower fee income in Germany, partly offset by higher surrender charges in the U.K.

Fee and other income increased $27 million compared with the previous quarter primarily due to the higher level of surrender charges in the U.K. and higher fee income in both Ireland and Germany.

Net earnings

Net earnings for the quarter decreased $26 million compared to the same period last year. The decrease was primarily due to asset impairment provisions of $42 million and related impact on actuarial liabilities of $56 million, which was partially offset by $51 million of releases of excess interest margins from actuarial liabilities. Lower mortality gains in the U.K. payout annuity business, morbidity gains in the U.K. group insurance business, investment trading gains, a higher effective tax rate and currency movement also contributed to lower earnings. Partly offsetting the decrease were higher mortality gains in the U.K. group insurance business, higher fee income in Ireland and the net impact of actuarial basis changes.

For the twelve months ended December 31, 2010, net earnings increased $54 million compared with last year. The increase in net earnings was primarily due to lower charges for credit market losses in 2010 compared to 2009. The increase in net earnings also reflects improved mortality results in the U.K. payout annuity business, higher fee income and the net impact of actuarial basis changes. Earnings growth was limited by lower new business margins in the U.K. payout annuity business, a higher effective tax rate and the negative impact of currency movement.

Net earnings decreased by $18 million compared with the previous quarter, primarily due to investment impairment charges incurred in the fourth quarter. Excluding the impairment charges, net earnings increased due to improved mortality results in the U.K. group insurance business, higher new business income and the net impact of actuarial basis changes, tempered by lower morbidity gains in the U.K. group insurance business.

Outlook – Insurance & Annuities

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

United Kingdom/Isle of Man – The outlook for payout annuities in 2011 is stable as markets continue to steady and investment opportunities present themselves to support our annuity new business strategy. All major payout annuity providers are expected to continue using postcodes as a means of refining and segmenting the market going forward in 2011. The Company's strategy in the single premium investment market continues to focus on independent financial advisors. Canada Life has increased its share of the market and intends to maintain its presence in both onshore and offshore segments. When investor confidence returns, Canada Life will be well positioned to take full advantage. Signs of market confidence are starting to appear particularly in the offshore segment.

The outlook for the group risk operation is cautious, similar to the prior year. As the recession in the U.K. continues, the Company expects market conditions to remain weak. Thus the group risk operation, while well positioned, will likely continue to be limited by the difficult environment in which it operates.

Independent financial advisors will remain our key distribution focus and the Company will invest in developing our links with IFAs in 2011 to reinforce our relationships with them from a strong market position.

The Company will continue to maintain our efficient cost base and improve our processes to emerge stronger from a period of worldwide financial uncertainty.

The Company's comprehensive review of the business is continuing and has identified a number of opportunities for growth. The review has provided a strategic framework that can assess opportunities in the marketplace as they arise.

Overall, the progress made in the last few years establishing strong niche market positions in our chosen sectors, using an efficient cost base and prudent financial management, will place the Company in good stead in the immediate future. The Company is well placed for the difficulties in the markets in the short term and the challenges of continuing to grow a profitable business going forward.

Ireland – The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. The market continued to see a significant decline in new business during 2010, leading to aggressive pricing for available business with larger companies maintaining a significant share. In addition, due to limited new money coming into the market, portions of new business are simply brokers moving cases from one company to another. The decline in the market in 2010 is the result of the continued impact of poor economic conditions following the end of the property and credit bubble which undermined investor confidence and eroded a significant amount of personal wealth.

Given this challenging economic environment, the Company is cautious on the overall outlook for 2011. Customers are likely to remain reluctant to invest given the current environment and the existing volume of business may fall further. As such, cost containment will be important to managing unit cost pressures.

Primarily in support of the Irish business, the Company holds $208 million of BBB rated Irish Government bonds, with a fair value of $168 million and a $40 million unrealized loss.

Germany – The outlook for Germany is promising and the Company expects continued sales growth in 2011. The main economic indicators for Germany are all positive although there is still a high level of dependency on uncertain export markets. Significant investment in systems is required to realize our potential for long-term growth in this large and strategically important market. As such the Company will undertake significant administration systems optimization projects in 2011 and beyond.

The most recent analysis of the market indicates that independent intermediaries are expected to maintain their share of distribution. The Company will continue to focus on this distribution channel but will concurrently look for niche opportunities in multi-tied agent distribution networks including sales of a high net worth product.

German insurers have announced a reduction in bonus rates for 2011, which has led to a negative reaction in the press. This may lead to a negative impact on the unit-linked market in which the Company operates.

REINSURANCE

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2010	Sept. 30 2010	Dec. 31 2009	**Dec. 31 2010**	Dec. 31 2009
Premiums and deposits	**$ 875**	$ 881	$ 907	**$ 3,490**	$ 4,143
Fee and other income	**9**	10	9	**39**	34
Net earnings	**49**	44	43	**154**	153

Premiums and deposits

Premiums and deposits for the quarter decreased $32 million compared to the fourth quarter of 2009, primarily due to currency movement.

For the twelve months ended December 31, 2010, premiums and deposits decreased $653 million compared to 2009. The decrease was due to the recapture of reinsurance contracts in late 2009 and currency movement.

Premiums and deposits decreased 1% compared with the previous quarter.

Fee and other income

Fee and other income for the quarter was at the same level as the fourth quarter of 2009.

For the twelve months ended December 31, 2010, fee and other income increased $5 million compared to the same period last year. The increase was primarily due to higher new business volumes, partially offset by a 2009 commutation of insurance contracts and currency movement.

Fee and other income for the fourth quarter decreased by $1 million from the third quarter.

Net earnings

Net earnings for the quarter increased $6 million compared to the same period last year. The increase was due mainly to the prior year strengthening of non-credit related actuarial liabilities, favourable new business volumes and strain and favourable investment gains. These increases were partially offset by higher effective tax rates, currency movement and the favourable settlement of a reinsurance contract in 2009.

Fourth quarter results include asset impairment provisions of $8 million, related impact on actuarial liabilities of $15 million and an $8 million increase in actuarial liabilities from holding higher interest margins, partly offset by $14 million investment impairment charges in 2009.

For the twelve months ended December 31, 2010, net earnings increased $1 million compared to the same period last year. The increase was primarily due to favourable renewal profits, new business strain, experience and investment gains and the prior year impact on non-credit related actuarial liabilities. These increases were mostly offset by loss provisions for the Chilean earthquake, the net impact of investment impairment charges, higher effective tax rates, the favourable settlement of a reinsurance contract in 2009 and currency movement.

Net earnings increased $5 million compared with the previous quarter, primarily due to favourable renewal profits as well as experience and investment gains. This was partially offset by investment impairment charges and currency movement.

Outlook – Reinsurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is expected to hold steady in 2011 and further development of the lower collateral solutions for reinsurance could encourage more co-insurance of term business. Underlying insurance sales will continue to stay at their current level if the U.S. economy does not demonstrate a significant recovery.

In Europe, Solvency II will be a key driver of the business in 2011 and beyond. The Reinsurance operation is preparing to help European clients and other affiliated companies meet the potential capital challenges and business opportunities coming out of these regulatory changes.

Worldwide property retrocession pricing is expected to continue to soften in 2011 in the absence of a major natural catastrophe insured loss. Hedge fund capacity, collateralized covers and catastrophe bond issuance continue to increase and demand is under downward pressure due to increasing client retention. The primary focus for 2011 will be managing the market cycle through the softening phase, focusing on client servicing needs and ensuring the organization is well prepared to respond to our clients and brokers in the aftermath of a major catastrophic event.

EUROPE CORPORATE

The Europe Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the non-core international businesses.

Europe Corporate reported an increase in net loss to $9 million compared to $2 million net loss in both the fourth quarter of 2009 and the third quarter of 2010. The increase in net loss is mainly due to $17 million of charges to harmonize the valuation methodology for certain segregated fund guaranteed products in the division, $11 million charges for reserve changes in the international operations, primarily in Hong Kong and $2 million increase in financing and strategic review costs. In quarter results also include the favourable impact of a $24 million adjustment relating to the cost of acquiring Canada Life Financial Corporation in 2003.

For the year, Europe Corporate reported a net loss increase of $6 million due to the same reasons as the quarter.

Lifeco Corporate Operating Results

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

For the three months ended December 31, 2010, Lifeco Corporate reported a net loss of $1 million compared to a net loss of $4 million in the fourth quarter of 2009.

For the twelve months ended December 31, 2010, Lifeco Corporate reported a net loss of $204 million compared to a net loss of $13 million for the same period in 2009 primarily due to the litigation provision. Operating earnings of nil for the twelve months of 2010 exclude the litigation provision.

Net earnings increased by $202 million compared to the third quarter of 2010 as a result of the litigation provision.

OTHER INFORMATION

SELECTED ANNUAL INFORMATION

(in $ millions, except per share amounts)	Years ended December 31 2010	2009	2008
Total revenue (1)	**$ 29,998**	$ 30,541	$ 33,932
Net earnings – common shareholders			
Operating earnings – continuing operations	**$ 1,861**	$ 1,627	$ 2,018
Net earnings – continuing operations	**1,657**	1,627	704
Net earnings	**1,657**	1,627	1,396
Net earnings per common share			
Operating – continuing operations	**$ 1.964**	$ 1.722	$ 2.255
Basic – continuing operations	**1.748**	1.722	0.787
Diluted – continuing operations	**1.746**	1.719	0.783
Operating	**1.964**	1.722	2.703
Basic	**1.748**	1.722	1.560
Diluted	**1.746**	1.719	1.553
Total assets (1)			
General fund assets	**$ 131,514**	$ 128,369	$ 130,074
Segregated funds net assets	**94,827**	87,495	77,748
Proprietary mutual funds and institutional net assets	**123,273**	123,504	131,122
	349,614	339,368	338,944
Other assets under administration	**134,308**	119,207	103,015
Total assets under administration	**483,922**	458,575	441,959
Total general fund liabilities (1)	**$ 115,434**	$ 112,252	$ 113,104
Dividends paid per share			
Series D First Preferred (5)	**$ 0.29375**	$ 1.1750	$ 1.1750
Series E First Preferred (2)	–	1.2000	1.2000
Series F First Preferred	**1.4750**	1.4750	1.4750
Series G First Preferred	**1.3000**	1.3000	1.3000
Series H First Preferred	**1.21252**	1.21252	1.21252
Series I First Preferred	**1.1250**	1.1250	1.1250
Series J First Preferred (3)	**1.50000**	1.63459	–
Series L First Preferred (4)	**1.41250**	0.34829	–
Series M First Preferred (6)	**1.19377**	–	–
Common	**1.230**	1.230	1.200

(1) Continuing operations.
(2) The Series E First Preferred Shares were redeemed on December 31, 2009.
(3) The Series J First Preferred Shares were issued in November of 2008. The first dividend payment was made on March 31, 2009 in the amount of $0.50959 per share which included accrued dividends for 2008. Regular quarterly dividend payments are $0.375 per share.
(4) The Series L First Preferred Shares were issued on October 2, 2009. The dividend on December 31, 2009 was a partial, initial dividend payment. Regular quarterly dividend payments are $0.353125 per share.
(5) The Series D First Preferred Shares were redeemed on March 31, 2010.
(6) The Series M First Preferred Shares were issued on March 4, 2010. The first dividend payment was made on June 30, 2010 in the amount of $0.46877 per share. Regular quarterly dividends were $0.36250 per share.

Quarterly financial information

(in $ millions, except per share amounts)	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Total revenue	**$ 5,259**	**$ 9,103**	**$ 7,366**	**$ 8,270**	$ 6,001	$ 10,389	$ 9,218	$ 4,933
Common Shareholders								
Net earnings								
Total	**508**	**275**	**433**	**441**	443	445	413	326
Basic – per share	**0.535**	**0.289**	**0.457**	**0.466**	0.468	0.471	0.437	0.345
Diluted – per share	**0.535**	**0.289**	**0.457**	**0.465**	0.467	0.470	0.437	0.345
Operating earnings (1)								
Total	**508**	**479**	**433**	**441**	443	445	413	326
Basic – per share	**0.535**	**0.505**	**0.457**	**0.466**	0.468	0.471	0.437	0.345
Diluted – per share	**0.535**	**0.505**	**0.457**	**0.465**	0.467	0.470	0.437	0.345

(1) Operating earnings are presented as a non-GAAP financial measure of earnings performance before certain other items that management considers to be of a non-recurring nature. Refer to "Non-GAAP Financial Measures" section of this report.

		Total	per share Basic	per share Diluted
Q3 2010	Operating earnings	$ 479	$ 0.505	$ 0.505
	Litigation provision	(204)	(0.216)	(0.216)
	Net earnings	$ 275	$ 0.289	$ 0.289

Lifeco's net earnings attributable to common shareholders were $508 million for the fourth quarter of 2010 compared to $443 million reported a year ago. On a per share basis, this represents $0.535 per common share ($0.535 diluted) for the fourth quarter of 2010 compared to $0.468 per common share ($0.467 diluted) a year ago.

Total revenue for the fourth quarter of 2010 was $5,259 million and comprises premium income of $4,610 million, regular net investment income of $1,475 million, change in fair value of held for trading assets of $(1,555) million, and fee and other income of $729 million. Total revenue for the fourth quarter of 2009 was $6,001 million, comprising premium income of $4,324 million, regular net investment income of $1,461 million, change in fair value of held for trading assets of $(549) million and fee and other income of $765 million.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2010, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for Lifeco. All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of Lifeco's internal control over financial reporting based on the Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2010, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management.

There have been no changes in the Company's internal control over financial reporting during the period ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2010 the Company held $47 million ($35 million in 2009) of debentures issued by IGM.

During 2010, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $226 million from IGM ($147 million in 2009). Great-West Life, London Life and Canada Life sold residential mortgages of nil ($2 million in 2009) to segregated funds maintained by Great-West Life and $84 million ($98 million in 2009) to segregated funds maintained by London Life. Great-West Life, London Life and Canada Life sold commercial mortgages of $23 million (nil in 2009) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the United States dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

	2010				2009			
Period Ended	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
United States dollar								
Balance sheet	**$0.99**	$1.03	$1.06	$1.02	$1.05	$1.07	$1.16	$1.26
Income and expenses	**$1.01**	$1.04	$1.03	$1.04	$1.06	$1.10	$1.17	$1.25
British pound								
Balance sheet	**$1.55**	$1.62	$1.59	$1.54	$1.69	$1.72	$1.91	$1.80
Income and expenses	**$1.60**	$1.61	$1.53	$1.62	$1.73	$1.80	$1.81	$1.79
Euro								
Balance sheet	**$1.33**	$1.40	$1.30	$1.37	$1.50	$1.57	$1.63	$1.67
Income and expenses	**$1.38**	$1.34	$1.31	$1.44	$1.56	$1.57	$1.59	$1.62

SEGREGATED AND MUTUAL FUNDS DEPOSITS AND ASO PREMIUM EQUIVALENTS (ASO CONTRACTS)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds, mutual funds or the claims payments related to ASO group health contracts. However, the Company does earn fee and other income related to these contracts. Segregated funds, mutual funds and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with GAAP.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which comprises independent directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of each of The Great-West Life Assurance Company and Great-West Life & Annuity Insurance Company, appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with GAAP.

D. Allen Loney	**William W. Lovatt**
President and	Executive Vice-President and
Chief Executive Officer	Chief Financial Officer

February 10, 2011

SUMMARIES OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2010	2009
Income		
Premium income	**$ 17,748**	$ 18,033
Net investment income (note 4)		
Regular net investment income	**5,743**	6,179
Changes in fair value on held for trading assets	**3,633**	3,490
Total net investment income	**9,376**	9,669
Fee and other income	**2,874**	2,839
	29,998	30,541
Benefits and expenses		
Policyholder benefits	**15,342**	16,568
Policyholder dividends and experience refunds	**1,466**	1,479
Change in actuarial liabilities	**6,255**	5,762
Total paid or credited to policyholders	**23,063**	23,809
Commissions	**1,523**	1,370
Operating expenses	**2,797**	2,600
Premium taxes	**256**	257
Financing charges (note 11)	**283**	336
Amortization of finite life intangible assets	**92**	89
Earnings before income taxes	**1,984**	2,080
Income taxes – current (note 23)	**168**	(102)
– future (note 23)	**59**	447
Net earnings before non-controlling interests	**1,757**	1,735
Non-controlling interests (note 15)	**14**	36
Net earnings	**1,743**	1,699
Perpetual preferred share dividends	**86**	72
Net earnings – common shareholders	**$ 1,657**	$ 1,627
Earnings per common share (note 20)		
Basic	**$ 1.748**	$ 1.722
Diluted	**$ 1.746**	$ 1.719

CONSOLIDATED BALANCE SHEETS

(in $ millions)

December 31	2010	2009
Assets		
Bonds (note 4)	**$ 72,203**	$ 66,147
Mortgage loans (note 4)	**16,115**	16,684
Stocks (note 4)	**6,700**	6,442
Real estate (note 4)	**3,273**	3,099
Loans to policyholders	**6,827**	6,957
Cash and cash equivalents	**1,840**	3,427
Funds held by ceding insurers	**9,860**	10,839
Goodwill (note 8)	**5,397**	5,406
Intangible assets (note 8)	**3,108**	3,238
Other assets (note 9)	**6,191**	6,130
Total assets	**$ 131,514**	$ 128,369
Liabilities		
Policy liabilities (note 10)		
Actuarial liabilities	**$ 100,394**	$ 98,059
Provision for claims	**1,331**	1,308
Provision for policyholder dividends	**629**	606
Provision for experience rating refunds	**311**	317
Policyholder funds	**2,452**	2,361
	105,117	102,651
Debentures and other debt instruments (note 12)	**4,323**	4,142
Funds held under reinsurance contracts	**152**	186
Other liabilities (note 13)	**4,686**	4,608
Repurchase agreements	**1,041**	532
Deferred net realized gains	**115**	133
	115,434	112,252
Preferred shares (note 16)	**–**	203
Capital trust securities and debentures (note 14)	**535**	540
Non-controlling interests (note 15)		
Participating account surplus in subsidiaries	**2,013**	2,004
Preferred shares issued by subsidiaries	**–**	157
Perpetual preferred shares issued by subsidiaries	**–**	147
Non-controlling interests in capital stock and surplus	**112**	63
Share capital and surplus		
Share capital (note 16)		
Preferred shares	**1,897**	1,497
Common shares	**5,802**	5,751
Accumulated surplus	**7,844**	7,367
Accumulated other comprehensive loss (note 21)	**(2,177)**	(1,664)
Contributed surplus	**54**	52
	13,420	13,003
Total liabilities, share capital and surplus	**$ 131,514**	$ 128,369

Approved by the Board:

Director Director

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2010	2009
Accumulated surplus		
Balance, beginning of year	**$ 7,367**	$ 6,906
Net earnings	**1,743**	1,699
Share issue costs (note 16)	**(9)**	(4)
Redemption of preferred shares in subsidiary (note 15)	**(5)**	–
Dividends to shareholders		
Preferred shareholders	**(86)**	(72)
Common shareholders	**(1,166)**	(1,162)
Balance, end of year	**$ 7,844**	$ 7,367
Accumulated other comprehensive loss, net of income taxes (note 21)		
Balance, beginning of year	**$ (1,664)**	$ (787)
Other comprehensive loss	**(513)**	(877)
Balance, end of year	**$ (2,177)**	$ (1,664)
Contributed surplus		
Balance, beginning of year	**$ 52**	$ 44
Stock option expense		
Current year expense (note 18)	**4**	8
Exercised	**(2)**	–
Balance, end of year	**$ 54**	$ 52

SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in $ millions)

For the years ended December 31	2010	2009
Net earnings	**$ 1,743**	$ 1,699
Other comprehensive income (loss)		
Unrealized foreign exchange gains (losses) on translation of foreign operations	**(628)**	(1,073)
Income tax (expense) benefit	**–**	4
Unrealized gains (losses) on available for sale assets	**188**	106
Income tax (expense) benefit	**(53)**	(38)
Realized (gains) losses on available for sale assets	**(80)**	(59)
Income tax expense (benefit)	**17**	13
Unrealized gains (losses) on cash flow hedges	**77**	223
Income tax (expense) benefit	**(27)**	(78)
Realized (gains) losses on cash flow hedges	**2**	1
Income tax expense (benefit)	**(1)**	–
Non-controlling interests	**(14)**	21
Income tax (expense) benefit	**6**	3
	(513)	(877)
Comprehensive income	**$ 1,230**	$ 822

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2010	2009
Operations		
Net earnings	$ **1,743**	$ 1,699
Adjustments:		
Change in policy liabilities	**6,636**	5,612
Change in funds held by ceding insurers	**619**	436
Change in funds held under reinsurance contracts	**(94)**	32
Change in current income taxes payable	**179**	(544)
Future income tax expense	**59**	447
Changes in fair value of financial instruments	**(3,635)**	(3,461)
Other	**290**	(263)
Cash flows from operations	**5,797**	3,958
Financing Activities		
Issue of common shares	**51**	15
Issue of preferred shares	**400**	170
Redemption of preferred shares	**(200)**	(574)
Redemption of preferred shares in subsidiaries	**(307)**	–
Increase (decrease) in line of credit in subsidiary	**(46)**	171
Issue of debentures	**500**	200
Repayment of debentures and other debt instruments	**(207)**	(2)
Share issue costs	**(9)**	(4)
Dividends paid	**(1,252)**	(1,234)
	(1,070)	(1,258)
Investment Activities		
Bond sales and maturities	**19,092**	19,727
Mortgage loan repayments	**2,102**	1,901
Stock sales	**2,366**	2,639
Real estate sales	**16**	11
Change in loans to policyholders	**(135)**	(78)
Change in repurchase agreements	**559**	330
Acquisition of intangible assets (note 8)	**–**	(31)
Investment in bonds	**(25,687)**	(21,776)
Investment in mortgage loans	**(1,927)**	(1,725)
Investment in stocks	**(2,109)**	(2,729)
Investment in real estate	**(376)**	(100)
	(6,099)	(1,831)
Effect of changes in exchange rates on cash and cash equivalents	**(215)**	(292)
Increase (decrease) in cash and cash equivalents	**(1,587)**	577
Cash and cash equivalents, beginning of year	**3,427**	2,850
Cash and cash equivalents, end of year	$ **1,840**	$ 3,427
Supplementary cash flow information		
Income taxes paid, net of refunds received	$ **(64)**	$ 369
Interest paid	$ **287**	$ 342

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Great-West Lifeco Inc. (Lifeco or the Company) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the consolidated accounts of its major operating subsidiary companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam LLC).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of policy liabilities, certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes and pension plans and other post-retirement benefits are the most significant components of the Company's financial statements subject to management estimates.

The year to date results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The estimation of policy liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact policy liabilities.

The significant accounting policies are as follows:

(a) Changes in Accounting Policy

During the year ended December 31, 2010 the Company did not adopt any changes in accounting policy that resulted in a material impact to the consolidated financial statements of the Company.

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. As a result of the adoption of the new requirements, software costs previously included in other assets were reclassified to intangible assets and amortization on software costs previously included in operating expenses were reclassified to amortization of finite life intangible assets.

Financial Instruments – Recognition and Measurement

Effective January 1, 2009, the Company adopted the amendments that the CICA issued to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The amendments revise the definition of loans and receivables to allow debt securities not quoted in an active market to be classified as loans and receivables. Loans and receivables expected to be sold in the near term are reclassified as held for trading and those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale. Impairments on debt securities classified as loans and receivables will be in accordance with Section 3025, *Impaired Loans*. The amendments require reversal of impairment losses, and permit reclassifications between certain categories in certain circumstances. The amendments did not have a material impact to the financial statements of the Company.

Financial Instrument Disclosures

Effective January 1, 2009, the Company adopted the amended CICA Handbook Section 3862, *Financial Instruments – Disclosures*. Disclosure standards have been expanded to be consistent with new disclosure requirements made under International Financial Reporting Standards (IFRS). The new requirements introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The new requirements are for disclosure only and do not impact the financial results of the Company.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(b) Portfolio Investments

Portfolio investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are either designated or classified as held for trading or classified as available for sale on a trade date basis, based on management's intention. Held for trading investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income (OCI). Realized gains and losses are reclassified from OCI and recorded in the Summaries of Consolidated Operations when the available for sale investment is sold. Interest income earned on both held for trading and available for sale bonds is recorded as investment income earned in the Summaries of Consolidated Operations.

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 4(b)).

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

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus an unrealized moving average market value adjustment of $162 ($164 in 2009) on the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses of $115 ($133 in 2009) are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to net investment income at a rate of 3% per quarter on a declining balance basis.

Fair Value Measurement

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

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

Bonds – Held for Trading and Available for Sale

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

The Company 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 generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Stocks – Held for Trading and Available for Sale

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. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its held for trading and available for sale portfolios.

Mortgages and Bonds – Loans and Receivables and Real Estate

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

Impairment

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

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

(c) Transaction Costs

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

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(e) Trading Account Assets

Trading account assets consist of investments in Putnam LLC sponsored funds, which are carried at fair value based on the net asset value. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations.

(f) Financial Liabilities

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

(g) Preferred Shares Classified as Liabilities

The Company had designated outstanding Series D and Series E, First Preferred Shares as held for trading in the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations. The Series D First Preferred Shares were redeemed on March 31, 2010 and the Series E First Preferred Shares were redeemed on December 31, 2009. As a result, the Company no longer has any outstanding preferred shares classified as liabilities.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(h) Derivative Financial Instruments

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

Derivative financial instruments used by the Company are summarized in note 24, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by the Office of the Superintendent of Financial Institutions Canada (OSFI).

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets in other assets and other liabilities (notes 9 and 13). The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Summaries of Consolidated Operations. 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 Company 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 Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

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.

The Company currently has interest rate futures designated as fair value hedges.

Cash flow hedges

Certain interest rate swaps and cross-currency swaps are used to hedge cash flows. 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 OCI while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in OCI 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 OCI to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The ineffective portion of the cash flow hedges during 2010 and the anticipated net gains (losses) reclassified out of AOCI within the next twelve months is $3. The maximum time frame for which variable cash flows are hedged is 34 years.

Net investment hedges

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

The Company currently has no derivatives designated as net investment hedges.

(i) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Summaries of Consolidated Operations when there has been a net permanent disinvestment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(j) Loans to Policyholders

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

(k) 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. The Company 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.

(l) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of software, customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 10 years, 20 years and 30 years respectively. The Company tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

Impairment Testing

Goodwill

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

Indefinite life intangibles

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

(m) Revenue Recognition

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

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

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

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(n) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summaries of Consolidated Operations is $33 ($40 in 2009).

(o) Policy Liabilities

Policy 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 the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (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. Policy liabilities of the Company are discussed in note 10.

(p) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 23).

(q) Repurchase Agreements

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

(r) Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The accrued benefit obligation and current service cost for the defined pension benefits is calculated using the projected benefit method prorated on services. The cost of the pension plans is charged to net earnings (see note 19).

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The accrued benefit obligation and current service cost for the post-retirement health, dental and life insurance benefits is calculated using the projected benefit method prorated on services. The cost of the benefit plans is charged to net earnings (see note 19).

(s) Stock Based Compensation

The Company follows the fair value based method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan (see note 18). Compensation expense is recognized as an increase to compensation expense in the Summaries of Consolidated Operations and an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, is transferred to share capital.

(t) Earnings Per Common Share

Earnings per common share is calculated using net earnings after preferred share dividends and the weighted average number of common shares outstanding. The treasury stock method is used for calculating diluted earnings per common share (see note 20).

(u) Geographic Segmentation

The Company has significant operations in Canada, the United States and Europe. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe segment.

2. Future Accounting Policies – Transition to IFRS

The Canadian Accounting Standards Board has mandated that all Canadian publicly accountable entities are required to transition from Canadian GAAP to IFRS for fiscal years beginning on or after January 1, 2011. Consequently, the Company will adopt IFRS in its quarterly and annual reports starting with the first quarter of 2011 and will provide corresponding comparative information for 2010.

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

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

3. Acquisitions and Disposals

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

4. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

	2010		2009	
	Carrying value	**Market value**	Carrying value	Market value
Bonds				
Designated held for trading (1)	**$ 54,548**	**$ 54,548**	$ 50,603	$ 50,603
Classified held for trading (1)	**1,748**	**1,748**	1,759	1,759
Available for sale	**6,617**	**6,617**	4,620	4,620
Loans and receivables	**9,290**	**9,942**	9,165	9,421
	72,203	**72,855**	66,147	66,403
Mortgage Loans				
Residential	**5,640**	**5,945**	6,174	6,388
Non-residential	**10,475**	**10,935**	10,510	10,503
	16,115	**16,880**	16,684	16,891
Stocks				
Designated held for trading (1)	**5,364**	**5,364**	4,928	4,928
Available for sale	**1,006**	**1,006**	1,186	1,186
Other	**330**	**399**	328	389
	6,700	**6,769**	6,442	6,503
Real Estate	**3,273**	**3,383**	3,099	3,053
	$ 98,291	**$ 99,887**	$ 92,372	$ 92,850

(1) Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

4. Portfolio Investments (cont'd)

(b) Stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

	2010	2009
Carrying value, beginning of year	$ 328	$ 330
Equity method earnings	21	17
Dividends	(19)	(19)
Carrying value, end of year	$ 330	$ 328
Share of equity, end of year	$ 158	$ 150
Fair value, end of year	$ 399	$ 389

The Company owns 9,203,962 shares of IGM at December 31, 2010 (9,205,200 at December 31, 2009) representing a 3.52% ownership interest (3.49% at December 31, 2009).

(c) Included in portfolio investments are the following:

(i) Impaired investments

	2010		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type [1]			
Held for trading	$ 572	$ 270	$ 302
Available for sale	58	(32)	26
Loans and receivables	114	(64)	50
Total	$ 744	$ (366)	$ 378

	2009		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type [1]			
Held for trading	$ 517	$ (278)	$ 239
Available for sale	55	(36)	19
Loans and receivables	151	(81)	70
Total	$ 723	$ (395)	$ 328

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

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

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

(ii) The Company holds investments with restructured terms or which have been exchanged for securities with amended terms. These investments are performing according to their new terms. Their carrying value is as follows:

	2010	2009
Bonds	$ 23	$ 36
Bonds with equity conversion features	150	169
Mortgages	18	1
	$ 191	$ 206

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

	2010			2009		
	Bonds	**Mortgage loans**	**Total**	Bonds	Mortgage loans	Total
Balance, beginning of year	**$ 44**	**$ 37**	**$ 81**	$ 31	$ 29	$ 60
Net provision (recovery) for credit losses – in year	**(5)**	**3**	**(2)**	20	19	39
Write-offs, net of recoveries	**(1)**	**(7)**	**(8)**	–	(8)	(8)
Other (including foreign exchange rate changes)	**(2)**	**(5)**	**(7)**	(7)	(3)	(10)
Balance, end of year	**$ 36**	**$ 28**	**$ 64**	$ 44	$ 37	$ 81

(iv) Included in net earnings is the impact of other than temporary impairment (OTTI) as follows:

	2010				
	Held for trading	**Available for sale**	**Loans and receivables**	**Other**	**Total**
Impact on OTTI					
– Assets carried at market value	**$ (138)**	**$ –**	**$ –**	**$ –**	**$ (138)**
– Transfer from other comprehensive income	**–**	**(15)**	**–**	**–**	**(15)**
– Assets carried at amortized cost	**–**	**–**	**2**	**–**	**2**
Gross impairment charges	**(138)**	**(15)**	**2**	**–**	**(151)**
Release of actuarial default provision and other	**137**	**–**	**–**	**–**	**137**
Net impairment (charges) recovery before income taxes	**$ (1)**	**$ (15)**	**$ 2**	**$ –**	**$ (14)**
Net impairment (charges) recovery after income taxes					**$ (13)**

	2009				
	Held for trading	Available for sale	Loans and receivables	Other	Total
Impact on OTTI					
– Assets carried at market value	$ (165)	$ –	$ –	$ –	$ (165)
– Transfer from other comprehensive income	–	(26)	–	–	(26)
– Assets carried at amortized cost	–	–	(39)	–	(39)
Gross impairment charges	(165)	(26)	(39)	–	(230)
Release of actuarial default provision and other	155	–	1	–	156
Net impairment (charges) recovery before income taxes	$ (10)	$ (26)	$ (38)	$ –	$ (74)
Net impairment (charges) recovery after income taxes					$ (54)

4. Portfolio Investments (cont'd)

(d) Net investment income comprises the following:

2010	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 3,813	$ 879	$ 207	$ 201	$ 582	$ 5,682
Net realized gains (losses) *(available for sale)*	72	–	10	–	–	82
Net realized gains (losses) *(other classifications)*	14	20	–	–	–	34
Amortization of net realized/unrealized gains (losses) *(non-financial instruments)*	–	–	–	17	–	17
Net recovery (provision) for credit losses *(loans and receivables)*	5	(3)	–	–	–	2
Other income and expenses	–	–	–	–	(74)	(74)
	3,904	896	217	218	508	5,743
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	40	–	–	–	–	40
Net realized/unrealized gains (losses) *(designated held for trading)*	2,982	–	603	–	8	3,593
	3,022	–	603	–	8	3,633
Net investment income	$ 6,926	$ 896	$ 820	$ 218	$ 516	$ 9,376

2009	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 4,122	$ 922	$ 193	$ 184	$ 710	$ 6,131
Net realized gains (losses) *(available for sale)*	65	–	(6)	–	–	59
Net realized gains (losses) *(other classifications)*	3	22	83	–	–	108
Amortization of net realized/unrealized gains (losses) *(non-financial instruments)*	–	–	–	(14)	–	(14)
Net recovery (provision) for credit losses *(loans and receivables)*	(20)	(19)	–	–	–	(39)
Other income and expenses	–	–	–	–	(66)	(66)
	4,170	925	270	170	644	6,179
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	9	–	–	–	–	9
Net realized/unrealized gains (losses) *(designated held for trading)*	2,500	–	969	–	12	3,481
	2,509	–	969	–	12	3,490
Net investment income	$ 6,679	$ 925	$ 1,239	$ 170	$ 656	$ 9,669

Investment income earned comprises income from investments that are classified or designated as held for trading, classified as available for sale and classified as loans and receivables.

5. Financial Instrument Risk Management

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

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this 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 or the Investment Committee of the Board of Directors.
- 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.
- The Company 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. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

The following table summarizes the Company'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.

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

(1) Other financial assets include $9,097 of funds held by ceding insurers in 2010 ($10,146 in 2009) where the Company 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 monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has $24 of collateral received in 2010 ($35 of collateral received in 2009) relating to derivative assets.

(ii) Concentration of Credit Risk

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.

5. Financial Instrument Risk Management (cont'd)

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

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

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

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

	2010			
	Single family residential	**Multi-family residential**	**Commercial**	**Total**
Canada	**$ 1,622**	**$ 3,528**	**$ 6,691**	**$ 11,841**
United States	**–**	**464**	**1,517**	**1,981**
Europe	**–**	**26**	**2,267**	**2,293**
Total mortgage loans	**$ 1,622**	**$ 4,018**	**$ 10,475**	**$ 16,115**

	2009			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,695	$ 3,965	$ 6,371	$ 12,031
United States	–	485	1,509	1,994
Europe	–	29	2,630	2,659
Total mortgage loans	$ 1,695	$ 4,479	$ 10,510	$ 16,684

(iii) Asset Quality

Bond Portfolio Quality	**2010**	2009
AAA	**$ 28,925**	$ 24,653
AA	**11,436**	10,684
A	**19,968**	19,332
BBB	**10,649**	10,113
BB and lower	**1,225**	1,365
Total bonds	**$ 72,203**	$ 66,147

Derivative Portfolio Quality	**2010**	2009
Over-the-counter contracts (counterparty ratings):		
AAA	**$ 5**	$ 5
AA	**491**	338
A	**488**	374
Total	**$ 984**	$ 717

(iv) Loans 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 has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

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

(v) Performing Securities Subject to Deferred Coupons

	Payment resumption date		
	< 1 year	1 to 2 years	> 2 years
Coupon payment receivable	$ –	$ 2	$ –

5. Financial Instrument Risk Management (cont'd)

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 70% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.
- Management 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 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. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

In the normal course of business the Company 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 the Company's financial liabilities.

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 4,323	$ 305	$ 302	$ 1	$ 1	$ –	$ 3,714
Capital trust debentures (1)	800	–	–	–	–	–	800
Purchase obligations	143	55	26	27	15	16	4
Pension contributions	130	130	–	–	–	–	–
	$ 5,396	$ 490	$ 328	$ 28	$ 16	$ 16	$ 4,518

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

(c) 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 which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

(i) Currency Risk

Currency risk relates to the Company 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. If the assets backing policy liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The following policies and procedures are in place to mitigate the Company's exposure to currency risk.

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

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk.

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

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

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

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

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

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

- The effect of an immediate 1% parallel increase in the yield curve would be to increase these policy liabilities by approximately $29 causing a decrease in net earnings of approximately $25.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately $410 causing a decrease in net earnings of approximately $279.

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

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, the Company generally determines policy liabilities at a CTE75 (conditional tail expectation of 75) level.

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

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

6. Financial Instruments Fair Value Measurement

In accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, the Company'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 Company 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 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities (ABS) 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 ABS, and some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over the counter derivatives.

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 Company'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.

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

	2010			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through net earnings				
Bonds	$ –	$ 55,984	$ 312	$ 56,296
Stocks	4,947	–	417	5,364
Total financial assets at fair value through net earnings	4,947	55,984	729	61,660
Available for sale financial assets				
Bonds	–	6,575	42	6,617
Stocks	193	9	1	203
Total available for sale financial assets	193	6,584	43	6,820
Other assets – derivatives (1)	–	984	–	984
Total assets measured at fair value	$ 5,140	$ 63,552	$ 772	$ 69,464
Liabilities measured at fair value				
Other liabilities – derivatives (2)	$ –	$ 165	$ –	$ 165
Preferred shares	–	–	–	–
Total liabilities measured at fair value	$ –	$ 165	$ –	$ 165

(1) Excludes collateral received of $24.
(2) Excludes collateral pledged of $39.

	2009			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through net earnings				
Bonds	$ –	$ 51,748	$ 614	$ 52,362
Stocks	4,783	–	145	4,928
Total financial assets at fair value through net earnings	4,783	51,748	759	57,290
Available for sale financial assets				
Bonds	–	4,553	67	4,620
Stocks	285	1	1	287
Total available for sale financial assets	285	4,554	68	4,907
Other assets – derivatives (1)	–	700	17	717
Total assets measured at fair value	$ 5,068	$ 57,002	$ 844	$ 62,914
Liabilities measured at fair value				
Other liabilities – derivatives	$ –	$ 248	$ 3	$ 251
Preferred shares	203	–	–	203
Total liabilities measured at fair value	$ 203	$ 248	$ 3	$ 454

(1) Excludes collateral received of $35.

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

	2010					
	Held for trading bonds	**Available for sale bonds**	**Other assets – derivatives**	**Other liabilities – derivatives**	**Held for trading stocks**	**Available for sale stocks**
Balance, beginning of year	**$ 614**	**$ 67**	**$ 17**	**$ (3)**	**$ 145**	**$ 1**
Total gains/(losses)						
Included in net earnings	**16**	**(2)**	**(17)**	**–**	**16**	**–**
Included in OCI	**–**	**2**	**–**	**–**	**–**	**–**
Purchases	**–**	**–**	**–**	**–**	**288**	**–**
Sales	**(76)**	**–**	**–**	**–**	**(30)**	**–**
Settlements	**(95)**	**(5)**	**–**	**–**	**–**	**–**
Transfers in to Level 3	**5**	**–**	**–**	**–**	**–**	**–**
Transfers out of Level 3	**(152)**	**(20)**	**–**	**3**	**(2)**	**–**
Balance, end of year	**$ 312**	**$ 42**	**$ –**	**$ –**	**$ 417**	**$ 1**
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2010	**$ 38**	**$ –**	**$ (17)**	**$ –**	**$ 16**	**$ –**

	2009					
	Held for trading bonds	Available for sale bonds	Other assets – derivatives	Other liabilities – derivatives	Held for trading stocks	Available for sale stocks
Balance, beginning of year	$ 979	$ 68	$ 14	$ –	$ 20	$ 1
Total gains/(losses)						
Included in net earnings	28	(17)	3	(3)	(2)	–
Included in OCI	–	24	–	–	–	–
Purchases	9	–	–	–	127	–
Sales	(62)	–	–	–	–	–
Settlements	(155)	(13)	–	–	–	–
Transfers in to Level 3	43	25	–	–	–	–
Transfers out of Level 3	(228)	(20)	–	–	–	–
Balance, end of year	$ 614	$ 67	$ 17	$ (3)	$ 145	$ 1
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2009	$ 28	$ (17)	$ (1)	$ –	$ (2)	$ –

7. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $9 ($11 in 2009), in respect of derivative transactions and $554 ($595 in 2009), in respect of reinsurance agreements.

8. Goodwill and Intangible Assets

(a) Goodwill

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

	2010	2009
Balance, beginning of year	**$ 5,406**	$ 5,425
Sale of subsidiary by London Reinsurance Group (LRG)	**(3)**	–
Changes in foreign exchange rates	**(6)**	(19)
Balance, end of year	**$ 5,397**	$ 5,406
Canada	**$ 3,773**	$ 3,773
United States	**124**	130
Europe	**1,500**	1,503
	$ 5,397	$ 5,406

(b) Intangible Assets

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

2010	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	**$ 662**	**$ –**	**$ (39)**	**$ 623**
– Customer contract related	**1,400**	**–**	**63**	**1,463**
– Shareholder portion of acquired future Participating account profits	**354**	**–**	**–**	**354**
	2,416	**–**	**24**	**2,440**
Finite life intangible assets				
– Customer contract related	**595**	**(169)**	**(31)**	**395**
– Distribution channels	**126**	**(28)**	**(22)**	**76**
– Technology	**13**	**(6)**	**(3)**	**4**
– Property leases	**14**	**(7)**	**(3)**	**4**
– Software	**412**	**(223)**	**–**	**189**
	1,160	**(433)**	**(59)**	**668**
Total	**$ 3,576**	**$ (433)**	**$ (35)**	**$ 3,108**

2009	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 662	$ –	$ (13)	$ 649
– Customer contract related	1,400	–	129	1,529
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	2,416	–	116	2,532
Finite life intangible assets				
– Customer contract related	595	(142)	(12)	441
– Distribution channels	126	(24)	(16)	86
– Technology	13	(6)	–	7
– Property leases	14	(7)	–	7
– Software	367	(202)	–	165
	1,115	(381)	(28)	706
Total	$ 3,531	$ (381)	$ 88	$ 3,238

During 2009 the Company recognized an additional $31 of finite life intangible assets as part of the finalization of the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity Investments Canada ULC.

9. Other Assets

Other assets consist of the following:

	2010	2009
Premiums in course of collection	$ **393**	$ 403
Interest due and accrued	**1,046**	1,072
Other investment receivables	**226**	109
Derivative financial instruments (note 24)	**984**	717
Accounts receivable	**670**	761
Prepaid expenses	**99**	80
Current income taxes	**580**	793
Future income taxes (note 23)	**1,106**	1,197
Fixed assets	**155**	138
Accrued pension asset (note 19)	**390**	335
Other	**542**	525
	$ **6,191**	$ 6,130

10. Policy Liabilities

(a) Composition of Policy Liabilities and Related Supporting Assets

(i) The composition of policy liabilities is as follows:

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

(ii) The composition of the assets supporting liabilities and surplus is as follows:

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

10. Policy Liabilities (cont'd)

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

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

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

(b) Changes in Policy Liabilities

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

	Participating		Non-participating		Total	
	2010	2009	**2010**	2009	**2010**	2009
Balance, beginning of year	**$ 32,775**	$ 31,966	**$ 69,876**	$ 70,661	**$ 102,651**	$ 102,627
Impact of new business	**193**	(14)	**4,902**	4,212	**5,095**	4,198
Normal change in force	**1,997**	2,353	**28**	(454)	**2,025**	1,899
Management action and changes in assumptions	**(5)**	(74)	**(427)**	(194)	**(432)**	(268)
Business movement from/to external parties	**–**	–	**(1)**	(9)	**(1)**	(9)
Impact of foreign exchange rate changes	**(608)**	(1,456)	**(3,613)**	(4,340)	**(4,221)**	(5,796)
Balance, end of year	**$ 34,352**	$ 32,775	**$ 70,765**	$ 69,876	**$ 105,117**	$ 102,651

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

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

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

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

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

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

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

(c) Actuarial Assumptions

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

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

Mortality

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

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

Morbidity

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

Property and casualty reinsurance

Policy liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. Reflecting the long-term nature of the business, policy liabilities have been established using cash flow valuation techniques including discounting. The policy liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, policy liabilities also include an amount for incurred but not reported losses (IBNR) 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 analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine policy liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 5(c)).

10. Policy Liabilities (cont'd)

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 CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would increase the non-participating policy liabilities by approximately $71 causing a decrease in net earnings of approximately $51.

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 the Company has no experience with specific types of policies or its exposure is limited. The Company 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 our persistency assumption for these products as our own experience is very limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately $452 causing a decrease in net earnings of approximately $320.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by the Company. 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 Company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally speaking, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

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

(d) Ceded Reinsurance

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

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

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

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

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

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

11. Financing Charges

Financing charges consist of the following:

	2010	2009
Operating charges:		
Interest on operating lines and short-term debt instruments	$ **9**	$ 8
Financial charges:		
Interest on long-term debentures and other debt instruments	**225**	207
Dividends on preferred shares classified as liabilities	**2**	36
Net realized/unrealized losses (gains) on preferred shares classified as held for trading	**(2)**	29
Subordinated debenture issue costs	**3**	2
Other	**14**	12
Net interest on capital trust debentures and securities	**32**	42
	274	328
Total	$ **283**	$ 336

12. Debentures and Other Debt Instruments

(a) Debentures and other debt instruments consist of the following:

	2010		2009	
	Carrying value	**Market value**	Carrying value	Market value
Short term				
Commercial paper and other short-term debt instruments with interest rates from .36% to .44% (.28% to .38% in 2009)	$ **91**	$ **91**	$ 102	$ 102
Revolving credit facility with interest equal to LIBOR plus 1.00% or U.S. Prime Rate Loan (U.S. $215)	**213**	**213**	273	273
Total short term	**304**	**304**	375	375
Long term				
Operating:				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	**4**	**4**	5	5
Capital:				
Lifeco				
6.75% Debentures due August 10, 2015, unsecured	**–**	**–**	200	207
6.14% Debentures due March 21, 2018, unsecured	**200**	**226**	200	218
6.74% Debentures due November 24, 2031, unsecured	**200**	**232**	200	216
6.67% Debentures due March 21, 2033, unsecured	**400**	**463**	400	431
5.998% Debentures due November 16, 2039, unsecured	**345**	**373**	345	345
4.65% Debentures due August 13, 2020, unsecured	**500**	**503**	–	–
	1,645	**1,797**	1,345	1,417
Canada Life				
6.40% subordinated debentures due December 11, 2028, unsecured	**100**	**110**	100	105
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	**172**	**161**	183	138
Great-West Life & Annuity Insurance Capital, LP II				
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 (U.S. $300)	**297**	**297**	315	277
Putnam Acquisition Financing LLC				
Term note due October 18, 2012, unsecured, bearing an interest rate of LIBOR plus .30% (U.S. $304)	**301**	**297**	319	319
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	**1,000**	**1,044**	1,000	1,018
Great-West Lifeco Finance (Delaware) LP II				
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	**500**	**556**	500	554
Total long term	**4,019**	**4,266**	3,767	3,833
Total debentures and other debt instruments	$ **4,323**	$ **4,570**	$ 4,142	$ 4,208

12. Debentures and Other Debt Instruments (cont'd)

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

On August 13, 2010, $500 principal amount debentures were issued at par and 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 in 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 and par, together in each case with accrued and unpaid interest.

On November 16, 2009, the Company issued $200 principal amount of 5.998% debentures and an additional principal amount of $144 on December 18, 2009 (see note 14). The debentures are due November 16, 2039 and bear an interest rate of 5.998% until they are due. The debentures may be redeemed by the Company at the greater of the Canada Yield Price and par plus any unpaid and accrued interest on no less than 30 and no more than 60 days notice.

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

13. Other Liabilities

Other liabilities consist of the following:

	2010	2009
Accounts payable	**$ 1,246**	$ 945
Current income taxes	**103**	141
Future income taxes (note 23)	**794**	699
Derivative financial instruments (note 24)	**165**	251
Pension and other post-retirement benefits (note 19)	**524**	528
Other	**1,854**	2,044
	$ 4,686	$ 4,608

14. Capital Trust Securities and Debentures

	2010		2009	
	Carrying value	Market value	Carrying value	Market value
Capital trust debentures				
5.995% Senior debentures due December 31, 2052, unsecured (GWLCT)	**$ 350**	**$ 375**	$ 350	$ 383
6.679% Senior debentures due June 30, 2052, unsecured (CLCT)	**300**	**320**	300	331
7.529% Senior debentures due June 30, 2052, unsecured (CLCT)	**150**	**198**	150	186
	800	**893**	800	900
Acquisition related fair market value adjustment	**17**	**–**	19	–
Trust securities held by consolidated group as temporary investments	**(44)**	**(44)**	(41)	(41)
Trust securities held by the Company as long-term investments	**(238)**	**(253)**	(238)	(258)
Total	**$ 535**	**$ 596**	$ 540	$ 601

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summaries of Consolidated Operations (see note 11).

Pursuant to the Canada Life Financial Corporation (CLFC) acquisition in 2003, the Canadian regulated subsidiaries had purchased certain of these Capital Trust Debentures. During 2009 the Company disposed of $138 principal amount of capital trust securities held by the consolidated group as temporary investments.

On November 11, 2009 the Company 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 the Company acquired 116,547 GREATs and 121,788 CLiCS for $261, plus accrued and unpaid interest. In connection with this transaction the Company issued $144 aggregate principal amount of 5.998% debentures due November 16, 2039 and paid cash of $122.

15. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Putnam LLC and GWL&A at December 31, 2010 and 2009.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam LLC, GWL&A and their subsidiaries reflected in the Summaries of Consolidated Operations are as follows:

	2010	2009
Participating account		
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	$ **146**	$ 139
London Life	**706**	696
Canada Life	**242**	245
GWL&A	**5**	(7)
	1,099	1,073
Policyholder dividends		
Great-West Life	**(130)**	(121)
London Life	**(730)**	(702)
Canada Life	**(235)**	(233)
GWL&A	**(2)**	(2)
	(1,097)	(1,058)
Net earnings – participating account	**2**	15
Preferred shareholder dividends of subsidiaries	**14**	15
Non-controlling interests in subsidiaries	**(2)**	6
Total	$ **14**	$ 36

(b) The carrying value of non-controlling interests consists of the following:

	2010	2009
Participating account surplus:		
Great-West Life	$ **454**	$ 436
London Life	**1,515**	1,533
Canada Life	**37**	30
GWL&A	**7**	5
	$ **2,013**	$ 2,004
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	$ **–**	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	$ **–**	$ 145
Acquisition related fair market value adjustment	**–**	2
	$ **–**	$ 147
Non-controlling interests in subsidiaries	$ **112**	$ 63

On December 31, 2010, Canada Life Financial Corporation (CLFC) redeemed all of its outstanding 6.25% Non-Cumulative Preferred Shares Series B for a total value of $150 or $25 per share. The difference of $5 between the carrying value of the shares and redemption value was charged to shareholder surplus in CLFC.

On October 29, 2010, Great-West Life redeemed all of its outstanding 5.55% Non-Cumulative Preferred Shares Series O for a total value of $157 or $25 per share.

Non-controlling interests in capital stock and surplus includes non-controlling interests in Putnam controlled investments in institutional portfolio funds, hedge funds, Putnam sponsored mutual funds and PanAgora Asset Management Inc.

Prior to August 3, 2007, Putnam sponsored the Putnam Investments Trust Equity Partnership Plan (the EPP) which granted options and restricted shares to certain senior management and key employees of Putnam (the participants). As a result of the acquisition of Putnam, all outstanding awards were vested and settled in cash by Lifeco. The amount attributable to each participant was bifurcated, based upon a methodology provided in the EPP, into cash and a deferred amount. The participants received the cash portion immediately, and will receive the deferred amount over a three-year period.

The deferred amount was contributed to Grantor Trusts established for the benefit of the participants. The participants may direct the manner in which their Grantor Trust amounts are invested, including the Putnam Class B shares, which are available pursuant to the EIP described in note 18(b). At December 31, 2010 1,986,056 Putnam Class B shares have vested to plan participants (1,275,754 at December 31, 2009), representing a non-controlling interest in Putnam LLC of 2.05% (1.33% at December 31, 2009).

15. Non-Controlling Interests (cont'd)

(c) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in OCI are as follows:

	2010	2009
Participating account		
Other comprehensive income (loss) attributable to participating account		
Great-West Life	$ 2	$ 1
London Life	6	(10)
Canada Life	–	(13)
GWL&A	(1)	(2)
Other comprehensive income (loss) – participating account	$ 7	$ (24)

16. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares,

Unlimited Common Shares

	2010		2009	
Issued and outstanding	**Number**	**Carrying value**	Number	Carrying value
Classified as liabilities				
Preferred shares:				
Designated as held for trading				
Series D, 4.70% Non-Cumulative First Preferred Shares	–	$ –	7,938,500	$ 203
Classified as equity				
Perpetual preferred shares:				
Series F, 5.90% Non-Cumulative First Preferred Shares	7,895,615	$ 197	7,895,590	$ 197
Series G, 5.20% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series H, 4.85% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series I, 4.50% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series L, 5.65% Non-Cumulative First Preferred Shares	6,800,000	170	6,800,000	170
Series M, 5.80% Non-Cumulative First Preferred Shares	6,000,000	150	–	–
Rate reset preferred shares:				
Series J, 6.00% Non-Cumulative First Preferred Shares	9,200,000	230	9,200,000	230
Series N, 3.65% Non-Cumulative First Preferred Shares	10,000,000	250	–	–
	75,895,615	$ 1,897	59,895,590	$ 1,497
Common shares:				
Balance, beginning of year	945,040,476	$ 5,751	943,882,505	$ 5,736
Issued under Stock Option Plan	3,417,919	51	1,157,971	15
Balance, end of year	948,458,395	$ 5,802	945,040,476	$ 5,751

Preferred Shares

On November 23, 2010 the Company issued 10,000,000 Series N, 3.65% Non-Cumulative 5-Year Rate Reset First Preferred Shares at $25 per share. The shares are redeemable at the option of the Company on December 31, 2015 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O First Preferred Share at the option of the holders on December 31, 2015 and on December 31 every five years thereafter. Transaction costs incurred in connection with the preferred share issue of $8 ($6 after-tax) were charged to surplus.

On March 4, 2010 the Company issued 6,000,000 Series M, 5.80% Non-Cumulative First Preferred Shares at $25 per share. The shares are redeemable at the option of the Company on or after March 31, 2015 for $25 per share plus a premium if redeemed prior to March 31, 2019, together in each case with all declared and unpaid dividends to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of $4 ($3 after-tax) were charged to surplus.

On March 31, 2010 the Company redeemed all of the remaining outstanding Series D First Preferred shares at a redemption price of $25.25 per share. The Company had designated outstanding Preferred Shares Series D as held for trading on the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations. In connection with the transaction the Company recognized unrealized gains of $2 in the Summaries of Consolidated Operations. As a result the Company no longer has any outstanding preferred shares classified as liabilities.

During 2009, the Company recognized the surrender of Series E First Preferred shares with a carrying value of $5 and Series F First Preferred shares with a carrying value of $2. On December 31, 2009 the Company redeemed all of the remaining outstanding Series E First Preferred shares at a redemption price of $26 per share.

During 2009, the Company issued 6,800,000 Series L, 5.65% Non-Cumulative First Preferred Shares at $25 per share. The shares are redeemable at the option of the Company on or after December 31, 2014 for $25 per share plus a premium if redeemed prior to December 31, 2018, together in each case with all declared and unpaid dividends to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of $6 ($4 after-tax) were charged to surplus.

The Series J, 6.00% Non-Cumulative 5-Year Rate Reset First Preferred Shares are redeemable at the option of the Company on December 31, 2013 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series J share conditions, each Series J share is convertible into one Series K First Preferred Share at the option of the holders on December 31, 2013 and on December 31 every five years thereafter.

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before September 30, 2012.

The Series G, 5.20% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before December 31, 2013.

The Series H, 4.85% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before September 30, 2014.

The Series I, 4.50% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2011, for $25 per share plus a premium if the shares are redeemed before June 30, 2015.

Common Shares

On November 25, 2010, the Company announced a Normal Course Issuer Bid commencing December 1, 2010 and terminating November 30, 2011 to purchase for cancellation up to but not more than 6,000,000 common shares.

17. Capital Management

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company'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.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

In Canada, OSFI 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).

17. Capital Management (cont'd)

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline. The following table provides the MCCSR information and ratios for Great-West Life:

	2010	2009
Capital Available:		
Tier 1 Capital		
Common shares	$ 6,426	$ 6,116
Shareholder surplus	6,563	6,063
Qualifying non-controlling interests	–	147
Innovative instruments	771	774
Other Tier 1 Capital Elements	609	979
Gross Tier 1 Capital	14,369	14,079
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	5,699	5,696
Other deductions	1,211	1,330
Net Tier 1 Capital	7,459	7,053
Adjustment to Net Tier 1 Capital	(37)	(39)
Net Tier 1 Capital	7,422	7,014
Tier 2 Capital		
Tier 2A	77	325
Tier 2B allowed	300	300
Tier 2C	1,206	1,270
Tier 2 Deductions	(37)	(39)
Tier 2 Capital Allowed	1,546	1,856
Total Available Capital	$ 8,968	$ 8,870
Capital Required:		
Assets Default & Market risk	$ 1,679	$ 1,705
Insurance Risks	1,877	1,814
Interest Rate Risks	851	824
Other	7	11
Total Capital Required	$ 4,414	$ 4,354
MCCSR ratios:		
Tier 1	168%	161%
Total	203%	204%

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

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

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to put amounts on deposit for certain reinsurance transactions. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. Some of these amounts on deposit support surplus.

The Company has 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 reviews and approves all capital transactions undertaken by management.

18. Stock Based Compensation

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. Options vest over a period of up to 8 years. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2010		2009	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of year	**16,082,494**	**$ 25.17**	17,240,465	$ 24.33
Granted	**988,000**	**26.95**	–	–
Exercised	**(3,417,919)**	**14.32**	(1,157,971)	12.79
Forfeited	**(74,933)**	**32.56**	–	–
Outstanding, end of year	**13,577,642**	**$ 27.99**	16,082,494	$ 25.17
Options exercisable at end of year	**9,529,689**	**$ 26.41**	11,694,654	$ 22.29

During 2010, 988,000 options were granted (no options were granted during 2009). The weighted average fair value of options granted during 2010 was $4.28 per option. The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2010: dividend yield 4.56%, expected volatility 23.77%, risk-free interest rate 2.74%, and expected life of 6 years.

In accordance with the fair value based method of accounting, compensation expense of $4 after-tax in 2010 ($8 in 2009) has been recognized in the Summaries of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2010:

	Outstanding			**Exercisable**		
Exercise price ranges	**Options**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Options**	**Weighted-average exercise price**	**Expiry**
$17.14–$37.22	1,580,412	0.62	22.63	1,577,812	22.62	2011
$17.20	43,000	1.55	17.20	43,000	17.20	2012
$18.84–$37.22	2,496,160	2.48	21.13	2,496,160	21.13	2013
$24.17–$29.84	923,000	3.27	26.57	923,000	26.57	2014
$28.26–$29.84	1,958,000	4.92	29.82	1,958,000	29.82	2015
$35.36–$37.22	1,468,000	6.17	37.06	391,448	37.06	2017
$28.59–$31.27	4,158,270	7.36	30.76	2,140,270	30.40	2018
$25.65–$27.13	950,800	9.23	26.94	–	–	2020

18. Stock Based Compensation (cont'd)

(b) Effective September 25, 2007, Putnam LLC sponsored the Putnam Investments, LLC Equity Incentive Plan (the EIP). Under the terms of the EIP, Putnam LLC is authorized to grant or sell Class B Shares of Putnam LLC (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. Holders of Putnam Class B Shares are not entitled to vote 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.

During 2010, Putnam LLC granted 225,998 (4,544,212 in 2009) restricted Class B common shares to certain members of senior management and key employees (also refer to note 15(b)). No Class B stock options were granted in 2010 or 2009. Compensation expense recorded for the year ended December 31, 2010 related to restricted Class B common shares and Class B stock options earned was $30 ($27 for the year ended December 31, 2009).

19. Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain 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 on a guaranteed basis. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation and current service cost. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation and current service cost. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, which is usually over the expected average remaining service life of the affected employee/advisor group for the pension plans and over the period to full eligibility for other post-retirement benefit plans. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

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

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit pension plans at December 31, 2010 and 2009:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-retirement benefits	
	2010	2009	**2010**	2009
Change in Plan Assets				
Fair value of assets, beginning of year	**$ 2,934**	$ 2,639	**$ –**	$ –
Employee contributions	**16**	15	**–**	–
Employer contributions	**89**	109	**17**	18
Return on plan assets	**279**	402	**–**	–
Benefits paid	**(145)**	(162)	**(17)**	(18)
Settlement	**(2)**	(2)	**–**	–
Foreign exchange rate changes	**(49)**	(67)	**–**	–
Fair value of assets, end of year	**$ 3,122**	$ 2,934	**$ –**	$ –
Change in Accrued Benefit Obligation				
Accrued benefit obligation, beginning of year	**$ 2,832**	$ 2,581	**$ 349**	$ 317
Employer current service cost	**49**	40	**2**	2
Employee contributions	**16**	15	**–**	–
Interest on accrued benefit obligation	**171**	168	**21**	21
Actuarial (gains) losses	**329**	287	**48**	30
Benefits paid	**(145)**	(162)	**(17)**	(18)
Past service cost	**9**	1	**–**	–
Curtailments and settlements	**(2)**	(2)	**–**	–
Foreign exchange rate changes	**(67)**	(96)	**(1)**	(3)
Accrued benefit obligation, end of year	**$ 3,192**	$ 2,832	**$ 402**	$ 349
Net funded status	**$ (70)**	$ 102	**$ (402)**	$ (349)
Unamortized past service costs (credits)	**(93)**	(113)	**(41)**	(51)
Unamortized net losses (gains)	**487**	294	**47**	(2)
Unamortized transitional obligation	**1**	1	**–**	–
Valuation allowance	**(63)**	(75)	**–**	–
Accrued benefit asset (liability)	**$ 262**	$ 209	**$ (396)**	$ (402)
Recorded in:				
Other assets	**$ 390**	$ 335	**$ –**	$ –
Other liabilities	**(128)**	(126)	**(396)**	(402)
Accrued benefit asset (liability)	**$ 262**	$ 209	**$ (396)**	$ (402)

The following tables summarize plans for which the accrued benefit obligation exceeds the fair value of plan assets. Funded plans are shown separately from unfunded plans. These plans are included in the amounts shown above.

Plans with Plan Assets				
Fair value of plan assets	**$ 1,083**	$ 609		
Accrued benefit obligation	**(1,299)**	(796)		
Plan deficit	**$ (216)**	$ (187)		
Plans without Plan Assets				
Accrued benefit obligation – Plan deficit	**$ (224)**	$ (191)	**$ (402)**	$ (349)

19. Pension Plans and Other Post-Retirement Benefits (cont'd)

(b) Benefit Expense and Cash Payments

	All pension plans		Other post-retirement benefits	
	2010	2009	**2010**	2009
Cost Recognized				
Amounts arising from events in the period				
Defined benefit service cost	**$ 65**	$ 55	**$ 2**	$ 2
Defined contribution service cost	**29**	33	**–**	–
Employee contributions	**(16)**	(15)	**–**	–
Employer service cost	**78**	73	**2**	2
Past service costs	**9**	1	**–**	–
Interest cost on accrued benefit obligation	**171**	168	**21**	21
Actual return on plan assets	**(279)**	(402)	**–**	–
Actuarial (gain) loss on accrued benefit obligation	**329**	287	**48**	30
Cost incurred	**308**	127	**71**	53
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	**99**	224	**–**	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	**(304)**	(281)	**(48)**	(32)
Amortization of transitional obligation	**1**	1	**–**	–
Difference between past service costs arising in period and past service costs amortized	**(20)**	(12)	**(9)**	(9)
Increase (decrease) in valuation allowance	**(12)**	1	**–**	–
Net benefit cost recognized for the period	**$ 72**	$ 60	**$ 14**	$ 12
Cash payments				
Contributions – Funded defined benefit plans	**$ 76**	$ 75	**$ –**	$ –
– Funded defined contribution plans	**29**	33	**–**	–
Benefits paid for unfunded plans	**13**	13	**17**	17
Total cash payment	**$ 118**	$ 121	**$ 17**	$ 17

(c) Measurement and Valuation

Measurement date for plan assets and obligations is December 31. The fair value of assets is used to determine the expected return on assets. The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next required valuation	% of plans
December 31, 2007	30%	December 31, 2010	47%
December 31, 2008	20%	December 31, 2011	20%
December 31, 2009	46%	December 31, 2012	29%
April 1, 2010	4%	April 1, 2013	4%

(d) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2010	2009
Equity securities	**50%**	50%
Debt securities	**37%**	38%
Real estate	**4%**	4%
Cash and cash equivalents	**9%**	8%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

(e) Significant Weighted Average Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2010	2009	**2010**	2009
To determine benefit cost:				
Discount rate	**6.2%**	6.8%	**6.3%**	7.1%
Expected long-term rate of return on plan assets	**6.3%**	6.8%	**–**	–
Rate of compensation increase	**3.9%**	4.2%	**3.9%**	3.9%
To determine accrued benefit obligation:				
Discount rate	**5.5%**	6.2%	**5.5%**	6.3%
Rate of compensation increase	**3.6%**	3.9%	**4.3%**	3.9%
Healthcare trend rates:				
Initial healthcare trend rate			**7.0%**	7.1%
Ultimate healthcare trend rate			**4.5%**	4.5%
Year ultimate trend rate is reached			**2024**	2024

(f) Impact of Changes to Assumed Healthcare Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2010	2009	**2010**	2009
Impact on accrued benefit obligation	**$ 40**	$ 31	**$ (34)**	$ (27)
Impact on service and interest cost	**$ 2**	$ 2	**$ (2)**	$ (2)

20. Earnings per Common Share

The following table provides the reconciliation between basic and diluted earnings per common share:

	2010	2009
Earnings		
Net earnings	**$ 1,743**	$ 1,699
Preferred share dividends	**86**	72
Net earnings – common shareholders	**$ 1,657**	$ 1,627
Number of common shares		
Average number of common shares outstanding	**947,487,233**	944,331,956
Add:		
– Potential exercise of outstanding stock options	**1,163,319**	1,716,451
Average number of common shares outstanding – diluted basis	**948,650,552**	946,048,407
Basic earnings per common share	**$ 1.748**	$ 1.722
Diluted earnings per common share	**$ 1.746**	$ 1.719

21. Accumulated Other Comprehensive Loss

	2010					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	**$ (1,674)**	**$ (14)**	**$ (51)**	**$ (1,739)**	**$ 75**	**$ (1,664)**
Other comprehensive income (loss)	**(628)**	**108**	**79**	**(441)**	**(14)**	**(455)**
Income tax	**–**	**(36)**	**(28)**	**(64)**	**6**	**(58)**
	(628)	**72**	**51**	**(505)**	**(8)**	**(513)**
Balance, end of year	**$ (2,302)**	**$ 58**	**$ –**	**$ (2,244)**	**$ 67**	**$ (2,177)**

	2009					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (605)	$ (36)	$ (197)	$ (838)	$ 51	$ (787)
Other comprehensive income (loss)	(1,073)	47	224	(802)	21	(781)
Income tax	4	(25)	(78)	(99)	3	(96)
	(1,069)	22	146	(901)	24	(877)
Balance, end of year	$ (1,674)	$ (14)	$ (51)	$ (1,739)	$ 75	$ (1,664)

22. Related Party Transactions

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2010 the Company held $47 ($35 in 2009) of debentures issued by IGM.

During 2010, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $226 from IGM ($147 in 2009). Great-West Life, London Life and Canada Life sold residential mortgages of $0 ($2 in 2009) to segregated funds maintained by Great-West Life and $84 ($98 in 2009) to segregated funds maintained by London Life. Great-West Life, London Life and Canada Life sold commercial mortgages of $23 ($0 in 2009) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

23. Income Tax

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

	2010	2009
Policy liabilities	$ **(456)**	$ 27
Portfolio investments	**(378)**	(425)
Other	**1,146**	896
Future income taxes receivable (payable)	$ **312**	$ 498
Recorded in:		
Other assets	$ **1,106**	$ 1,197
Other liabilities	**(794)**	(699)
	$ **312**	$ 498

(b) The Company's effective income tax rate is derived as follows:

	2010		2009	
Combined basic Canadian federal and provincial tax rate	$ **605**	**30.5%**	$ 665	32.0%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	**(111)**	**(5.6)**	(69)	(3.3)
Lower effective tax rates on income not subject to tax in Canada	**(84)**	**(4.2)**	(141)	(6.8)
Adjustment for overstated prior tax items	**(35)**	**(1.8)**	–	–
Resolution of uncertain tax positions	**(68)**	**(3.4)**	(119)	(5.8)
Other	**(80)**	**(4.0)**	9	0.5
Effective income tax rate applicable to current year	$ **227**	**11.5%**	$ 345	16.6%

At December 31, 2010, the Company had tax loss carryforwards, totalling $3,776 ($4,297 in 2009). Of this amount, $2,205 expire between 2011 and 2030, while $1,572 have no expiry date. The future tax benefit of these loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $1,091 ($1,259 in 2009) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

24. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 5 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

	2010				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ **58**	$ **–**	$ **–**	$ **–**	$ **–**
Futures – short	**220**	**–**	**–**	**–**	**–**
Swaps	**2,136**	**221**	**18**	**223**	**22**
Options purchased	**1,293**	**31**	**7**	**31**	**2**
	3,707	**252**	**25**	**254**	**24**
Foreign exchange contracts					
Forward contracts	**86**	**1**	**1**	**2**	**–**
Cross-currency swaps	**7,308**	**731**	**512**	**1,242**	**77**
	7,394	**732**	**513**	**1,244**	**77**
Other derivative contracts					
Equity contracts	**64**	**–**	**4**	**4**	**–**
Futures – long	**8**	**–**	**–**	**–**	**–**
Futures – short	**38**	**–**	**–**	**–**	**–**
	110	**–**	**4**	**4**	**–**
	$ **11,211**	$ **984**	$ **542**	$ **1,502**	$ **101**

* Maximum credit risk does not include collateral received of $24, however it is reflected in the credit risk equivalent.

24. Derivative Financial Instruments (cont'd)

	2009				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 108	$ –	$ –	$ –	$ –
Futures – short	181	–	–	–	–
Swaps	1,747	189	14	173	17
Options purchased	1,461	36	12	43	3
	3,497	225	26	216	20
Foreign exchange contracts					
Forward contracts	156	1	1	2	–
Cross-currency swaps	6,828	491	481	972	80
	6,984	492	482	974	80
Other derivative contracts					
Equity contracts	75	–	5	5	–
Futures – long	12	–	–	–	–
Futures – short	5	–	–	–	–
	92	–	5	5	–
	$ 10,573	$ 717	$ 513	$ 1,195	$ 100

* Maximum credit risk does not include collateral received of $35, however it is reflected in the credit risk equivalent.

The following has been disclosed in the tables above, as prescribed by OSFI:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by OSFI. The factors prescribed by OSFI for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of Maximum Credit Risk and the potential Future Credit Exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

(b) The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2010				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 57	$ 1	$ –	$ 58	$ –
Futures – short	165	–	–	165	–
Swaps	419	797	862	2,078	191
Options purchased	226	846	221	1,293	31
	867	1,644	1,083	3,594	222
Foreign exchange contracts					
Forward contracts	86	–	–	86	1
Cross-currency swaps	70	1,284	4,454	5,808	589
	156	1,284	4,454	5,894	590
Other derivative contracts					
Equity contracts	43	21	–	64	(20)
Futures – long	8	–	–	8	–
Futures – short	38	–	–	38	–
	89	21	–	110	(20)
	1,112	2,949	5,537	9,598	792
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	58	58	12
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	15
	–	–	1,558	1,558	27
Fair value hedges					
Interest rate contracts					
Futures – short	55	–	–	55	–
Total	$ 1,167	$ 2,949	$ 7,095	$ 11,211	$ 819

24. Derivative Financial Instruments (cont'd)

	2009				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 108	$ –	$ –	$ 108	$ –
Futures – short	108	–	–	108	–
Swaps	346	687	652	1,685	169
Options purchased	60	957	444	1,461	35
	622	1,644	1,096	3,362	204
Foreign exchange contracts					
Forward contracts	156	–	–	156	1
Cross-currency swaps	108	987	4,233	5,328	336
	264	987	4,233	5,484	337
Other derivative contracts					
Equity contracts	49	26	–	75	(23)
Futures – long	12	–	–	12	–
Futures – short	5	–	–	5	–
	66	26	–	92	(23)
	952	2,657	5,329	8,938	518
Cash flow hedges					
Interest rate contracts					
Futures – short	24	–	–	24	–
Swaps	–	–	62	62	7
	24	–	62	86	7
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(59)
	24	–	1,562	1,586	(52)
Fair value hedges					
Interest rate contracts					
Futures – short	49	–	–	49	–
Total	$ 1,025	$ 2,657	$ 6,891	$ 10,573	$ 466

Futures contracts included in the above table are exchange traded contracts; all other contracts are over the counter.

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities and actuarial liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters 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. The Company may use credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

25. Contingent Liabilities

The Company 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 Company. 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 Company.

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

The Ontario Superior Court of Justice released a decision on October 1, 2010 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of London Insurance Group Inc. (LIG) in 1997.

The Company believes there are significant aspects of the lower court judgment that are in error and a Notice of Appeal has been filed.

Notwithstanding the foregoing, the Company has established an incremental provision in the third quarter 2010 in the amount of $225 after-tax ($204 and $21 attributable to the common shareholder and to non-controlling interests, respectively). The Company now holds $310 in after-tax provisions for these proceedings.

Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured.

Based on information presently known, the original decision, if sustained on appeal, is not expected to have a material adverse effect on the consolidated financial position of the Company.

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

Subsidiaries of the Company have an ownership interest in a USA based private equity partnership wherein a dispute has arisen over the terms of the partnership agreement. The Company acquired the ownership interest in 2007 for purchase consideration of U.S. $350. Legal proceedings have been commenced and are in their early stages. Legal proceedings have also commenced against the private equity partnership by third parties in unrelated matters. Another subsidiary of the Company has established a provision related to the latter proceedings.

While it is difficult to predict the final outcome of these proceedings, based on information presently known these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

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

26. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf 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 in letters of credit capacity. The facility was arranged in 2010 for a five-year term expiring November 12, 2015. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued US$507 in letters of credit under the facility as at December 31, 2010 (US$612 under a previous letter of credit facility at December 31, 2009).

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

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2010 ($1 at December 31, 2009), none of which have been drawn upon at that date.

26. Commitments (cont'd)

(c) Lease Obligations

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

	2011	2012	2013	2014	2015	2016 and thereafter	Total
Future lease payments	$ 101	88	72	57	46	122	$ 486

27. Segmented Information

The major reportable segments of the Company are Canada, United States, Europe and Lifeco Corporate. These segments reflect the Company's management structure and internal financial reporting and are aligned to its geographic operations. Each of these segments operates in the financial services industry and the revenues from these segments are derived principally from life, health and disability insurance, annuity products, investment management services, savings products and life, property and casualty, accident and health reinsurance. Business activities that are not associated with the specific business units are attributed to the Lifeco Corporate segment.

(a) Consolidated Operations

	2010				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 9,220	$ 3,216	$ 5,312	$ –	$ 17,748
Net investment income					
Regular net investment income	2,547	1,332	1,854	10	5,743
Changes in fair value on held for trading assets	1,604	719	1,310	–	3,633
Total net investment income	4,151	2,051	3,164	10	9,376
Fee and other income	1,025	1,246	603	–	2,874
Total income	14,396	6,513	9,079	10	29,998
Benefits and expenses:					
Paid or credited to policyholders	10,665	4,609	7,789	–	23,063
Other	2,495	1,489	597	278	4,859
Amortization of finite life intangible assets	40	45	7	–	92
Earnings before income taxes	1,196	370	686	(268)	1,984
Income taxes	186	25	80	(64)	227
Net earnings before non-controlling interests	1,010	345	606	(204)	1,757
Non-controlling interests	(2)	2	14	–	14
Net earnings	1,012	343	592	(204)	1,743
Perpetual preferred share dividends	72	–	14	–	86
Net earnings – common shareholders	$ 940	$ 343	$ 578	$ (204)	$ 1,657

	2009				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,946	$ 2,973	$ 6,114	$ –	$ 18,033
Net investment income					
Regular net investment income	2,610	1,521	2,025	23	6,179
Changes in fair value on held for trading assets	1,316	981	1,193	–	3,490
Total net investment income	3,926	2,502	3,218	23	9,669
Fee and other income	938	1,240	661	–	2,839
Total income	13,810	6,715	9,993	23	30,541
Benefits and expenses:					
Paid or credited to policyholders	10,354	4,778	8,677	–	23,809
Other	2,205	1,594	746	18	4,563
Amortization of finite life intangible assets	32	51	6	–	89
Earnings before income taxes	1,219	292	564	5	2,080
Income taxes	268	68	7	2	345
Net earnings before non-controlling interests	951	224	557	3	1,735
Non-controlling interests	26	(4)	14	–	36
Net earnings	925	228	543	3	1,699
Perpetual preferred share dividends	42	–	14	16	72
Net earnings – common shareholders	$ 883	$ 228	$ 529	$ (13)	$ 1,627

(b) Consolidated Total Assets

	2010			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 52,468**	**$ 25,836**	**$ 28,654**	**$ 106,958**
Goodwill and intangible assets	**5,086**	**1,717**	**1,702**	**8,505**
Other assets	**3,019**	**2,420**	**10,612**	**16,051**
Total assets	**$ 60,573**	**$ 29,973**	**$ 40,968**	**$ 131,514**

	2009			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 48,585	$ 24,762	$ 29,409	$ 102,756
Goodwill and intangible assets	5,093	1,830	1,721	8,644
Other assets	2,180	2,670	12,119	16,969
Total assets	$ 55,858	$ 29,262	$ 43,249	$ 128,369

AUDITORS' REPORT

To the Shareholders of
Great-West Lifeco Inc.

We have audited the accompanying consolidated financial statements of Great-West Lifeco Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the summaries of consolidated operations, the consolidated statements of surplus, the summaries of consolidated comprehensive income and the consolidated statements of cash flows for the years then ended, and the notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 10, 2011

SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not a Canadian generally accepted accounting principles (GAAP) measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of Canadian GAAP net income. It provides an analysis of the difference between actual net income and expected net income based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on In-Force Business

This component represents the portion of the consolidated net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Lifeco's sources of earnings are shown below for 2010 and 2009.

Sources of Earnings

($ millions)

	Shareholder net income				
For year to date at December 31, 2010	**Canada**	**United States**	**Europe**	**Lifeco Corporate**	**Total**
Expected profit on in-force business	$ 1,032	$ 292	$ 457	$ (19)	$ 1,762
Impact of new business	6	–	14	–	20
Experience gains and losses	74	50	(48)	17	93
Management actions and changes in assumptions	254	55	114	–	423
Other	–	–	–	–	–
Earnings on surplus	(7)	79	135	9	216
Net income before tax	1,359	476	672	7	2,514
Taxes	(333)	(90)	(80)	(7)	(510)
Net income before non-controlling interests	1,026	386	592	–	2,004
Non-controlling interests	(14)	–	–	–	(14)
Net income – shareholders	1,012	386	592	–	1,990
Perpetual Preferred share dividends	(72)	–	(14)	–	(86)
Net income – common shareholders before adjustments	940	386	578	–	1,904
Putnam after tax	–	(43)	–	–	(43)
Adjustments after tax	–	–	–	(204)	(204)
Net income – common shareholders	$ 940	$ 343	$ 578	$ (204)	$ 1,657

Sources of Earnings

($ millions)

For year to date at December 31, 2009	Shareholder net income Canada	United States	Europe	Lifeco Corporate	Total
Expected profit on in-force business	$ 903	$ 264	$ 498	$ (12)	$ 1,653
Impact of new business	(15)	–	11	–	(4)
Experience gains and losses	227	112	(153)	(2)	184
Management actions and changes in assumptions	162	11	37	–	210
Other	–	–	–	–	–
Earnings on surplus	(51)	69	157	19	194
Net income before tax	1,226	456	550	5	2,237
Taxes	(285)	(139)	(7)	(2)	(433)
Net income before non-controlling interests	941	317	543	3	1,804
Non-controlling interests	(16)	1	–	–	(15)
Net income – shareholders	925	318	543	3	1,789
Perpetual Preferred share dividends	(42)	–	(14)	(16)	(72)
Net income – common shareholders before adjustments	883	318	529	(13)	1,717
Putnam after tax	–	(90)	–	–	(90)
Adjustments after tax	–	–	–	–	–
Net income – common shareholders	$ 883	$ 228	$ 529	$ (13)	$ 1,627

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 70% of pre-tax earnings in 2010. The expected profit on in-force business of $1,762 in 2010 was $109 higher than the 2009 level. A significant contributor to the increase in expected profits year over year was the impact of equity markets.

New business issued in 2010 led to a gain of $20 at issue compared to losses of $4 in 2009, largely due to improved margins on retirement product sales in Canada and reduced strain on new business in Reinsurance.

Experience gains in 2010 were primarily due to favourable investment experience in Canada and U.S, and favourable mortality experience. Experience gains in 2009 were primarily due to favourable mortality and morbidity in Canada and Europe and favourable investment experience in Canada. Experience gains of $93 in 2010 were $91 lower than in 2009 primarily due to decreased morbidity, life mortality and policyholder behaviour partially offset by increases in investment and expense gains.

In 2010 management actions and changes in assumptions contributed to $423 pre-tax earnings, including $(3) due to the shareholder portion of valuation assumption changes in the participating lines and $426 due to valuation assumptions changes and management actions in the other lines of business. The valuation assumption changes and management actions in these other lines consisted of $117 in Europe, $55 in U.S. and $254 in Canada. The most significant contributors to the Canada amount were $86 due to updated expenses and taxes in individual insurance, $64 due to improved individual life mortality, $62 due to improved group insurance morbidity, $56 due to modeling refinements across the Canadian segment, $49 due to reduced provisions for asset liability matching, and $(69) due to increased provisions for policyholder behaviour in individual insurance. The most significant contributors to the Europe amount were $127 due to reduced provisions for asset liability matching, $97 due to modeling refinements across the division, $23 for updated expenses, $(71) due to strengthened reinsurance life mortality, $(16) due to strengthened longevity, $(13) due to strengthened group insurance morbidity, $(10) due to increased provisions for policyholder behaviour and $(8) due to asset default. The most significant contributors to the U.S. amount were $52 due to improved life mortality, $6 due to improved longevity, $4 due to modeling refinements, and $(8) due to increased provisions for policyholder behaviour.

In 2009 management actions and changes in assumptions contributed $210 to pre-tax earnings, including $16 due to the shareholder portion of valuation assumption changes in the participating lines, and $194 due to valuation assumption changes and management actions for policy liabilities in the other lines of business. The valuation assumption changes and management actions in these other lines consisted of $58 in Europe, $1 in the U.S. and $135 in Canada. The most significant contributors to the Canada amount were $115 due to improved individual life mortality, $48 due to improved expenses, $32 due to modeling refinements in individual life and annuities and $(52) due to the future tax impact of a change in asset mix targets for long-tail liabilities. The most significant contributors to the Europe amount were $199 due to reduced provisions for asset liability matching, $97 due to modeling refinements in annuities, $47 due to improved life mortality, $(158) due to strengthening administration expenses, $(77) due to modeling refinements in reinsurance, $(30) due to strengthened administration expenses in Europe and $(20) due to strengthened longevity. The most significant contributors to the U.S. amount were $32 due to reduced provisions for asset liability matching, $18 due to improved life mortality, $(32) due to strengthening of asset default and $(13) due to strengthened longevity.

Earnings on surplus increased by $22 in 2010 compared to 2009.

FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)

	2010	2009	2008	2007	2006
At December 31					
Total assets under administration	**$ 483,922**	$ 458,575	$ 441,959	$ 496,163	$ 334,441
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	**$ 17,748**	$ 18,033	$ 30,007	$ 18,753	$ 17,752
Self-funded premium equivalents (ASO contracts)	**2,575**	2,499	2,410	2,233	2,145
Segregated funds deposits:					
Individual products	**7,284**	6,229	7,825	9,183	8,420
Group products	**6,790**	8,470	5,524	5,788	5,240
Proprietary mutual funds deposits	**24,654**	21,507	30,693	11,183	629
Total premiums and deposits	**$ 59,051**	$ 56,738	$ 76,459	$ 47,140	$ 34,186
Condensed Summary of Operations					
Income					
Premium income	**$ 17,748**	$ 18,033	$ 30,007	$ 18,753	$ 17,752
Net investment income					
Regular net investment income	**5,743**	6,179	5,962	5,565	5,836
Changes in fair value on held for trading assets	**3,633**	3,490	(5,161)	(1,098)	–
Total net investment income	**9,376**	9,669	801	4,467	5,836
Fee and other income	**2,874**	2,839	3,124	2,703	1,894
Total income	**29,998**	30,541	33,932	25,923	25,482
Benefits and expenses					
Paid or credited to policyholders	**23,063**	23,809	26,774	19,122	19,660
Other	**4,859**	4,563	4,452	4,120	3,384
Amortization of intangible assets	**92**	89	83	32	18
Restructuring costs	**–**	–	70	–	–
Intangible and goodwill impairment	**–**	–	2,178	–	–
Earnings from continuing operations before income taxes	**1,984**	2,080	375	2,649	2,420
Income taxes	**227**	345	(278)	582	522
Net earnings from continuing operations before non-controlling interests	**1,757**	1,735	653	2,067	1,898
Non-controlling interests	**14**	36	(108)	159	162
Net earnings from continuing operations	**1,743**	1,699	761	1,908	1,736
Net earnings from discontinued operations	**–**	–	692	203	191
Net earnings – shareholders	**1,743**	1,699	1,453	2,111	1,927
Perpetual preferred share dividends	**86**	72	57	55	52
Net earnings – common shareholders	**$ 1,657**	$ 1,627	$ 1,396	$ 2,056	$ 1,875
Earnings per common share	**$ 1.748**	$ 1.722	$ 1.560	$ 2.304	$ 2.104
Return on common shareholders' equity	**14.4%**	13.8%	12.7%	20.7%	20.1%
Book value per common share	**$ 12.15**	$ 12.17	$ 12.61	$ 10.98	$ 11.24
Dividends to common shareholders – per share	**$ 1.2300**	$ 1.2300	$ 1.2000	$ 1.0600	$ 0.9275

DIRECTORS AND OFFICERS

As of December 31, 2010

BOARD OF DIRECTORS

Raymond L. McFeetors [2, 3, 4]
Chairman of the Board of the Corporation

Vice-Chairman,
Power Financial Corporation

George S. Bain [1]
Corporate Director

Marcel R. Coutu [2]
President and Chief Executive Officer,
Canadian Oil Sands Limited

André Desmarais, O.C., O.Q. [2, 3, 4]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada

Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q. [2, 3, 4]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada

Co-Chairman,
Power Financial Corporation

H. David Graves [2, 5]
Chairman and Chief Executive Officer,
IMRIS Inc.

Michael L. Hepher [1, 2]
Corporate Director

Chaviva M. Hošek, O.C., Ph.D., LL.D. [1, 5]
President and Chief Executive Officer,
The Canadian Institute for Advanced Research

D. Allen Loney, FIA, FCIA [3]
President and Chief Executive Officer
of the Corporation,
The Great-West Life Assurance Company,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson [1, 3]
Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2, 4, 5]
Corporate Director

R. Jeffrey Orr [2, 3, 4]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA
Vice-Chairman,
Power Corporation of Canada

Henri-Paul Rousseau, Ph.D. [3]
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Raymond Royer, O.C., O.Q., FCA [1]
Corporate Director

Philip K. Ryan [3]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

T. Timothy Ryan, Jr.
President and Chief Executive Officer,
Securities Industry and Financial
Markets Association

Emőke J.E. Szathmáry, C.M., O.M., Ph.D.
President Emeritus,
University of Manitoba

Brian E. Walsh [2]
Managing Partner,
Saguenay Capital, LLC

James W. Burns, O.C., O.M.
Director Emeritus

The Honourable
Paul Desmarais, P.C., C.C.
Director Emeritus

1 member of the Audit Committee
2 member of the Compensation Committee
3 member of the Executive Committee
4 member of the Governance and Nominating Committee
5 member of the Conduct Review Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

William L. Acton
President and Chief Executive Officer,
Canada Life Capital Corporation Inc.

Mitchell T.G. Graye
President and Chief Executive Officer,
Great-West Life & Annuity Insurance
Company

Andrew D. Brands
Senior Vice-President, General Counsel,
Canada and Europe

Arshil Jamal
Executive Vice-President,
Capital Management

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Richard G. Schultz
Senior Vice-President, General Counsel,
United States

Laurie A. Speers
Vice-President and Corporate Secretary

SHAREHOLDER INFORMATION

Registered Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

Stock Exchange Listings

Symbol: GWO
The following shares are listed on the Toronto Stock Exchange: Common Shares (**GWO**), Non-Cumulative First Preferred Shares Series F (**GWO.PR.F**), Series G (**GWO.PR.G**), Series H (**GWO.PR.H**), Series I (**GWO.PR.I**), Series J (**GWO.PR.J**), and Series L (**GWO.PR.L**), Series M **(GWO.PR.M)** and Series N **(GWO.PR.N)**.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Lifeco Inc. is **Computershare Investor Services Inc.**

In Canada, the Common Shares and Non-Cumulative First Preferred Shares, Series F are transferable at the following locations:

Canadian Offices

Computershare Investor Services Inc.
9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1
6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8
1500 University Street, Suite 700, Montreal, Quebec, Canada H3A 3S8
2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9
Phone: 1-888-284-9137 (toll free in North America), 514-982-9557 (direct dial)

The Non-Cumulative First Preferred Shares, Series G, H, I, J, L, M and N are only transferable at the Toronto Office of Computershare Investor Services Inc. Internationally, the Common Shares and Non-Cumulative First Preferred Shares, Series F are also transferable at the following locations:

United States Office

Computershare Trust Company, N.A. 350 Indiana Street, Suite 800
Golden, Colorado, United States 80401
Phone: 1-888-284-9137 (toll free in North America)

United Kingdom Office

Computershare Investor Services PLC
P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, United Kingdom
Phone: 0870 702 0003

Ireland Office

Computershare Investor Services (Ireland) Limited
P.O. Box 954, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland
Phone: 353 1 216 3100

Shareholders wishing to contact the transfer agent by email can do so at GWO@computershare.com.

Dividends

Common Shares and First Preferred Shares Series F, G, H, I, J, L, M and N **–** Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of each quarter.

Investor Information

For financial information about Great-West Lifeco Inc. please contact:

Canada Operations Senior Vice-President and Chief Financial Officer, Canada 204-946-8396

United States Operations Senior Vice-President and Chief Financial Officer, United States 303-737-5200

Europe Operations Vice-President, Finance, Europe 416-552-6455

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit **www.greatwestlifeco.com**.

Common Share Investment Data*

	Market price per common share ($)			Dividend paid ($)	Dividend payout ratio	Dividend yield**
	High	Low	Close			
2010	**29.17**	**23.73**	**26.40**	**1.23**	**70.4%**	**4.7%**
2009	27.01	11.35	26.88	1.23	71.4%	6.4%
2008	35.29	19.49	20.70	1.20	76.9%	4.4%
2007	37.58	32.50	35.57	1.06	46.0%	3.0%
2006	34.39	27.16	33.80	0.9275	44.1%	3.0%
2005	30.70	26.01	30.70	0.81	41.4%	2.9%
2004	26.99	21.87	26.70	0.685	38.2%	2.8%
2003	23.08	17.44	22.75	0.5625	38.1%	2.8%

* In October 2004 the Corporation's common shares were subdivided on a two for one basis. The data presented has been adjusted to reflect this share subdivision.
** Dividends as per cent of average high and low market price.

GREAT-WEST LIFECO INC.

A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™

Conserving for our future

Great-West Lifeco endeavours to respect the environment and to take a balanced and environmentally sustainable approach to conducting business. To help reduce our environmental footprint, the annual meeting materials for our group of companies, including annual reports and management proxy circulars, have been printed on paper that is certified by the Forest Stewardship Council.

By choosing paper that is manufactured with 30% post-consumer recycled waste fibre, we've saved more than **300 trees**.

When you have finished reading this, please consider recycling it. If you wish to have an electronic copy of the report, you may download it at www.greatwestlifeco.com.

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