



The **L** Great-West Life Assurance Company

---

**2010**  
ANNUAL REPORT



#### **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 statement 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 under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates" in the Company's 2010 Annual Management's Discussion and Analysis, and any listed in other filings with securities regulators, which are available for review at [www.sedar.com](http://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.

#### **BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES**

The consolidated financial statements of the Company, 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.

## CORPORATE PROFILE

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

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

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

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

Great-West Life has operations in the United Kingdom, Isle of Man, Ireland and Germany through Canada Life. Canada Life provides individuals and their families with a broad range of insurance and wealth management products. These include payout annuities, investments and group insurance in the United Kingdom; savings and individual insurance in the Isle of Man; individual insurance and savings, and pension products in Ireland; and fund-based pensions, critical illness and essential ability insurance in Germany. The Company participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life, annuity and property and casualty reinsurance in the United States and in international markets.

Great-West Life has \$192 billion\* in assets under administration and is a subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.

For more information on Great-West Life, including the Company's current ratings, visit [www.greatwestlife.com](http://www.greatwestlife.com).

*\*as of December 31, 2010*

### Table of Contents

<b>1</b>	Corporate Profile	<b>8</b>	Summaries of Consolidated Comprehensive Income	<b>47</b>	Appointed Actuary's Report
<b>2</b>	Directors' Report	<b>9</b>	Consolidated Statements of Cash Flows	<b>48</b>	Participating Policyholder Dividend Policy
<b>4</b>	Financial Highlights	<b>10</b>	Segregated Funds – Consolidated Net Assets	<b>49</b>	Sources of Earnings
<b>5</b>	Financial Reporting Responsibility	<b>10</b>	Segregated Funds – Consolidated Statements of Changes in Net Assets	<b>50</b>	Subsidiaries of The Great-West Life Assurance Company
<b>Consolidated Financial Statements</b>		<b>11</b>	Notes to Consolidated Financial Statements	<b>51</b>	Five Year Summary
<b>6</b>	Summaries of Consolidated Operations	<b>47</b>	Auditors' Report	<b>52</b>	Directors and Officers
<b>7</b>	Consolidated Balance Sheets			<b>53</b>	Policyholder and Shareholder Information
<b>8</b>	Consolidated Statements of Surplus				

## DIRECTORS' REPORT

In 2010 Great-West Life and its subsidiaries in Canada and Europe continued to deliver strong performance. Our conservative investment practices and disciplined approach to introducing new products and in managing expenses have served us well over the long term and position us well for organic growth.

### Performance Measures

Measures of Great-West Life's performance in 2010 include:

- Premiums and deposits remained strong, at \$28.1 billion.
- In Canada, mutual fund net deposits to the *Quadrus Group of Funds*<sup>™</sup> remained strong at 6% of opening assets in 2010, outpacing the mutual fund industry, which had 1.0% net sales.
- Common shareholder operating earnings of \$1.7 billion, a non-GAAP financial measure, were 4% lower than in 2009 and exclude the impact of a litigation provision.
- General account assets were \$103.7 billion, an increase of 3% over 2009.
- Segregated fund net assets increased 9% over 2009, reflecting higher market values.
- Policyholder dividends were \$1.09 billion compared with \$1.06 billion the prior year.
- Net loss in the participating accounts after policyholder dividends was \$1 million.

The Company's capital position remains very strong. Great-West Life reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 203% at December 31, 2010, compared with 204% in 2009. This measure of capital strength remains at the upper end of our target operating range. It does not include any benefit from the approximately \$0.8 billion of net capital transactions by its parent, Great-West Lifeco, in 2008 through 2010, which remains at the holding company level.

We have a high quality bond portfolio, with 99% 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, Great-West Life enjoys strong ratings from the five agencies that rate the Company.

### Canada Products and Distribution

In Canada, Great-West Life, together with London Life and Canada Life, maintained leading market positions in our individual and group businesses. Our continued focus on product and service enhancements, diversified distribution and operating efficiencies continue to position us for solid organic growth.

We continued to see strong sustained performance in our Canadian businesses. Our individual life insurance business grew significantly faster than the market; 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.



Raymond L. McFeetors



D. Allen Loney

### Individual businesses

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.

Together, Great-West Life, London Life and Canada Life remain Canada's number one provider of individual life insurance. Our companies are the leading provider of participating life insurance and 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 our value proposition. Our range of life insurance products gives advisors choice and flexibility in meeting clients' diverse individual needs.

Great-West Life, London Life and Canada Life offer a broad choice of investment, savings and income products. These include segregated funds, as well as mutual funds offered through Quadrus Investment Services Ltd., a mutual fund dealer affiliated with Great-West Life.

Great-West Life, together with Canada Life, remains a leading provider of individual disability and critical illness insurance in Canada. With over 65 years' experience in the individual disability insurance market in Canada, the Company continues to help Canadians meet their financial security planning needs.

### Group businesses

Great-West Life is a leading provider of group insurance solutions for organizations of all sizes in Canada.

In 2010, a number of new products and services were introduced by the Company including *Prelude*, an innovative employer solution for retiree benefits; Provider eClaims, the first national network to deliver electronic, real time claims adjudication for physiotherapy, chiropractic and vision care claims; and *Health SolutionsPlus*, the first healthcare spending account plan to be offered in Canada using payment card technology.

A continued focus on expense management and productivity efficiencies resulted in reduced unit costs and improved customer service levels.

We continue to support the important issue of mental health through the *Great-West Life Centre for Mental Health in the Workplace™*.

Group capital accumulation plans are a core business for Great-West Life and education for plan members is an ongoing priority. We expanded and enhanced our retirement education tools in a range of formats, including videos, online resources and print materials to help plan members at any age and stage of retirement planning.

Our group retirement and savings plans are tailored to the unique needs of small, medium and large businesses and organizations.

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

## Europe

In Europe, Great-West Life, through its subsidiary Canada Life, has operations 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.

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

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

Great-West Life 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. We continued to leverage our financial strength, disciplined risk-management practices and excellent client relationships to achieve strong business results.

## Giving back to our communities

As an organization and as individuals, we are proud to contribute to the development of stronger communities. As an Imagine Caring Company, the financial and volunteer support we provide to hundreds of charitable, non-profit and community-based organizations is aimed at meeting a high standard of corporate citizenship.

Key to our approach is the engagement of staff and distribution associates, whose efforts embody our commitment to responsible corporate citizenship.

## Board of Directors

At Great-West Life's 2010 Annual Meeting of Shareholders and Policyholders it was announced that Donald Mazankowski would retire from the Company's Board of Directors after serving for many years. Mr. Mazankowski had been a Director of the Company since 1994. In addition to serving as Director, he has had a very distinguished career. 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 Company, 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 and distribution associates for their continued support.



**Raymond L. McFeetors**  
Chairman of the Board



**D. Allen Loney**  
President and  
Chief Executive Officer

## FINANCIAL HIGHLIGHTS

	As at or for the three months ended			For the twelve months ended	
	December 31, 2010	September 30, 2010	December 31, 2009	December 31, 2010	December 31, 2009
(in \$ millions except per share amounts)					
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	\$ 3,716	\$ 3,502	\$ 3,647	\$ 14,550	\$ 15,085
Self-funded premium equivalents (ASO contracts)	654	619	632	2,575	2,499
Segregated funds deposits:					
Individual products	1,983	1,489	1,691	6,643	5,765
Group products	920	819	781	3,744	4,231
Proprietary mutual funds deposits	164	118	140	616	565
Total premiums and deposits	7,437	6,547	6,891	28,128	28,145
Fee and other income	418	380	407	1,628	1,599
Paid or credited to policyholders	2,793	6,072	3,377	18,714	19,226
Operating earnings – common shareholder	359	455	508	1,658	1,735
Summary of net earnings attributable to:					
Participating account	(19)	(3)	3	(1)	24
Preferred shareholders	–	3	2	7	9
Common shareholder	359	166	508	1,369	1,735
<b>Per common share</b>					
Operating earnings	\$ 170.43	\$ 218.04	\$ 243.19	\$ 792.09	\$ 830.46
Basic earnings	170.43	79.53	243.19	653.92	830.46
Dividends paid	–	139.32	154.65	415.44	613.78
Book value	5,453.00	5,356.00	5,320.00		
Total assets	\$ 103,692	\$ 106,418	\$ 101,084		
Segregated funds net assets	73,638	70,986	67,805		
Proprietary mutual funds net assets	3,272	3,056	2,811		
Total assets under management	180,602	180,460	171,700		
Other assets under administration	11,762	11,525	11,015		
Total assets under administration	\$ 192,364	\$ 191,985	\$ 182,715		
Participating account surplus	\$ 2,006	\$ 2,045	\$ 1,999		
Shareholder equity	11,544	11,344	11,269		
Total participating account surplus and shareholder equity	\$ 13,550	\$ 13,389	\$ 13,268		

The Company uses operating earnings as a non-GAAP financial measure of earnings performance, which excludes the litigation provision described in Note 24 to the December 31, 2010 financial statements.

## FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. 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 its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with GAAP, including the requirements of the Office of the Superintendent of Financial Institutions Canada.

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, including the requirements of the Office of the Superintendent of Financial Institutions Canada.

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 non-management 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 external and internal auditors and to the Appointed Actuary.

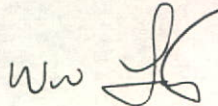
The Board of Directors of the Company, pursuant to the *Insurance Companies Act* (Canada), appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- 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.
- Annually analyzes the financial condition of the Company and prepares a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the Company, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders and 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 its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with GAAP.



**D. Allen Loney**  
President and  
Chief Executive Officer



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

February 10, 2011

## SUMMARIES OF CONSOLIDATED OPERATIONS

(in \$ millions except per share amounts)

For the years ended December 31

	2010	2009
<b>Income</b>		
Premium income	\$ 14,550	\$ 15,085
Net investment income (note 3)		
Regular net investment income	4,538	4,807
Changes in fair value on held for trading assets	3,019	2,637
Total net investment income	7,557	7,444
Fee and other income	1,628	1,599
	<u>23,735</u>	<u>24,128</u>
<b>Benefits and expenses</b>		
Policyholder benefits	13,063	13,991
Policyholder dividends and experience refunds	1,261	1,239
Change in actuarial liabilities	4,390	3,996
Total paid or credited to policyholders	18,714	19,226
Commissions	1,316	1,198
Operating expenses	1,820	1,305
Premium taxes	227	231
Financing charges (note 10)	74	66
Amortization of finite life intangible assets	47	38
<b>Earnings before income taxes</b>	<u>1,537</u>	<u>2,064</u>
Income taxes – current (note 22)	69	(29)
– future (note 22)	86	318
<b>Net earnings before non-controlling interests</b>	<u>1,382</u>	<u>1,775</u>
Non-controlling interests	7	7
<b>Net earnings</b>	<u>1,375</u>	<u>1,768</u>
Net earnings (loss) – participating account (note 15)	(1)	24
<b>Net earnings – shareholders</b>	<u>1,376</u>	<u>1,744</u>
Preferred share dividends	7	9
<b>Net earnings – common shareholder</b>	<u>\$ 1,369</u>	<u>\$ 1,735</u>
<b>Earnings per common share</b>	<u>\$ 653.92</u>	<u>\$ 830.46</u>



# CONSOLIDATED BALANCE SHEETS

(in \$ millions)

December 31

2010

2009

## Assets

Bonds (note 3)	\$ 55,001	\$ 50,183
Mortgage loans (note 3)	14,393	15,033
Stocks (note 3)	6,265	5,904
Real estate (note 3)	3,146	2,964
Loans to policyholders	2,808	2,786
Cash and cash equivalents	1,557	3,030
Funds held by ceding insurers	9,860	10,839
Goodwill (note 7)	5,267	5,270
Intangible assets (note 7)	1,515	1,538
Other assets (note 8)	3,880	3,537
<b>General funds assets</b>	<b>\$ 103,692</b>	<b>\$ 101,084</b>
<b>Segregated funds net assets</b>	<b>\$ 73,638</b>	<b>\$ 67,805</b>

## Liabilities

Policy liabilities (note 9)		
Actuarial liabilities	\$ 80,570	\$ 78,923
Provision for claims	1,202	1,203
Provision for policyholder dividends	595	569
Provision for experience rating refunds	178	168
Policyholder funds	2,217	2,133
	<b>84,762</b>	<b>82,996</b>
Debentures and other debt instruments (note 11)	304	305
Funds held under reinsurance contracts	584	613
Other liabilities (note 12)	3,496	2,833
Repurchase agreements	114	17
Deferred net realized gains	109	127
	<b>89,369</b>	<b>86,891</b>
Capital trust securities and debentures (note 14)	773	778
Non-controlling interests (note 13)		
Perpetual preferred shares issued by subsidiary	-	147

## Participating account surplus and shareholder equity

Participating account surplus (note 15)		
Accumulated surplus	2,015	2,016
Accumulated other comprehensive loss (note 20)	(9)	(17)
Share capital (note 16)		
Preferred shares	1	158
Common shares	6,426	6,116
Shareholder surplus		
Accumulated surplus	6,348	5,852
Accumulated other comprehensive loss (note 20)	(1,445)	(1,068)
Contributed surplus	214	211
	<b>13,550</b>	<b>13,268</b>

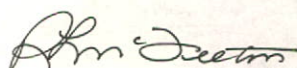
## General funds liabilities, participating account surplus and shareholder equity

	<b>\$ 103,692</b>	<b>\$ 101,084</b>
--	-------------------	-------------------

## Segregated funds

	<b>\$ 73,638</b>	<b>\$ 67,805</b>
--	------------------	------------------

Approved by the Board:



Director



Director

## CONSOLIDATED STATEMENTS OF SURPLUS

(in \$ millions)

For the years ended December 31

	2010	2009
<b>Participating account surplus</b>		
<b>Accumulated surplus</b>		
Balance, beginning of year	\$ 2,016	\$ 1,992
Net earnings (loss)	(1)	24
<b>Balance, end of year</b>	<b>\$ 2,015</b>	<b>\$ 2,016</b>
<b>Accumulated other comprehensive income (loss), net of income taxes (note 20)</b>		
Balance, beginning of year	\$ (17)	\$ 5
Other comprehensive income (loss)	8	(22)
<b>Balance, end of year</b>	<b>\$ (9)</b>	<b>\$ (17)</b>
<b>Shareholder surplus</b>		
<b>Accumulated surplus</b>		
Balance, beginning of year	\$ 5,852	\$ 5,399
Net earnings	1,376	1,744
Redemption of preferred shares in subsidiary (note 13)	(5)	-
Dividends to shareholders		
Preferred shareholders	(7)	(9)
Common shareholder	(868)	(1,282)
<b>Balance, end of year</b>	<b>\$ 6,348</b>	<b>\$ 5,852</b>
<b>Accumulated other comprehensive loss, net of income taxes (note 20)</b>		
Balance, beginning of year	\$ (1,068)	\$ (546)
Other comprehensive income (loss)	(377)	(522)
<b>Balance, end of year</b>	<b>\$ (1,445)</b>	<b>\$ (1,068)</b>
<b>Contributed surplus</b>		
Balance, beginning of year	\$ 211	\$ 205
Stock option expense (note 18)	3	6
<b>Balance, end of year</b>	<b>\$ 214</b>	<b>\$ 211</b>

## SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in \$ millions)

For the years ended December 31

	2010	2009
<b>Net earnings</b>	<b>\$ 1,375</b>	<b>\$ 1,768</b>
<b>Other comprehensive income (loss)</b>		
Unrealized foreign exchange gains (losses) on translation of foreign operations	(412)	(487)
Income tax (expense) benefit	-	4
Unrealized gains (losses) on available for sale assets	115	(4)
Income tax (expense) benefit	(23)	(5)
Realized (gains) losses on available for sale assets	(59)	(68)
Income tax expense (benefit)	10	16
	(369)	(544)
<b>Comprehensive income</b>	<b>\$ 1,006</b>	<b>\$ 1,224</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in \$ millions)

For the years ended December 31

	2010	2009
<b>Operations</b>		
Net earnings	\$ 1,375	\$ 1,768
Adjustments:		
Change in policy liabilities	4,728	3,800
Change in funds held by ceding insurers	618	436
Change in funds held under reinsurance contracts	(63)	67
Change in current income taxes payable	205	(357)
Future income tax expense	86	318
Changes in fair value of financial instruments	(3,019)	(2,637)
Other	702	(130)
Cash flows from operations	4,632	3,265
<b>Financing activities</b>		
Issue of common shares to parent	310	-
Redemption of preferred shares	(157)	-
Redemption of preferred shares in subsidiary	(150)	-
Repayment of debentures and other debt instruments	(1)	(1)
Dividends paid	(875)	(1,291)
	(873)	(1,292)
<b>Investment activities</b>		
Bond sales and maturities	13,718	14,015
Mortgage loan repayments	1,939	1,792
Stock sales	2,238	2,432
Real estate sales	16	2
Change in loans to policyholders	(46)	(83)
Acquisition of intangible assets (note 7)	-	(31)
Investment in bonds	(18,894)	(15,168)
Investment in mortgage loans	(1,581)	(1,409)
Investment in stocks	(2,046)	(2,701)
Investment in real estate	(376)	(100)
	(5,032)	(1,251)
Effect of changes in exchange rates on cash and cash equivalents	(200)	(253)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,473)</b>	<b>469</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>3,030</b>	<b>2,561</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,557</b>	<b>\$ 3,030</b>
<b>Supplementary cash flow information</b>		
Income taxes paid, net of refunds received	\$ (75)	\$ 354
Interest paid	\$ 76	\$ 72

## SEGREGATED FUNDS – CONSOLIDATED NET ASSETS

(in \$ millions)

December 31	2010	2009
Bonds	\$ 9,086	\$ 8,379
Mortgage loans	2,058	1,744
Stocks	52,616	47,168
Real estate	5,598	6,012
Cash and cash equivalents	5,336	5,538
Income due and accrued	203	156
Other assets (liabilities)	(1,259)	(1,192)
	<u>\$ 73,638</u>	<u>\$ 67,805</u>

## SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in \$ millions)

For the years ended December 31	2010	2009
<b>Segregated funds net assets, beginning of year</b>	<b>\$ 67,805</b>	<b>\$ 59,924</b>
Additions (deductions):		
Policyholder deposits	10,387	9,996
Net investment income	499	756
Net realized capital gains (losses) on investments	1,869	306
Net unrealized capital gains (losses) on investments	3,151	6,338
Unrealized gains (losses) due to change in foreign exchange rates	(2,209)	(1,745)
Policyholder withdrawals	(8,018)	(7,972)
Net transfer from General Fund	154	202
	<u>5,833</u>	<u>7,881</u>
<b>Segregated funds net assets, end of year</b>	<b>\$ 73,638</b>	<b>\$ 67,805</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in \$ millions except per share amounts)

## 1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of The Great-West Life Assurance Company (Great-West Life or the Company) include the accounts of its subsidiary companies and have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act, which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of OSFI. The principal subsidiaries at December 31, 2010 are:

London Insurance Group Inc. (LIG)  
Canada Life Financial Corporation (CLFC)  
GWL Investment Management Ltd. (GWLIM)  
GWL Realty Advisors Inc.

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 did not impact the financial results of the Company.

### (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.

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

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 which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 3(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 \$158 (\$160 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 \$109 (\$127 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 include 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) Financial Liabilities**

Financial liabilities, other than policy liabilities, 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.

**(f) 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 23, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by 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 8 and 12). 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.

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

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 futures, 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 Company currently has no derivatives designated as cash flow hedges.

***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.

**(g) 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.

**(h) 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.

**(i) 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.

**(j) 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 and the Shareholder portion of acquired future Participating account profits 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.

**(k) 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.

**(l) 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 \$24 (\$27 in 2009).

**(m) 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 Actuary of the Company is responsible for determining the amount of the policy liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuary determines 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 9.

**(n) Participating Account**

The shareholder portion of participating earnings represents, as restricted by law, a portion of net earnings before policyholder dividends of the participating account, \$47 in 2010 (\$77 in 2009). The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. \$51 of shareholder surplus (\$52 in 2009) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

The Canada Life Assurance Company (Canada Life) participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency were expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net earnings.

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

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 of seed capital was transferred from shareholder surplus to the participating account. The seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. \$28 of seed capital has been repaid to date.

(o) **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 22).

(p) **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.

(q) **Pension Plans and Other Post-Retirement Benefits**

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its 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 and its 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).

(r) **Stock Based Compensation**

Great-West Lifeco Inc. (Lifeco), the Company's parent, has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates, which is described in note 18. The Company follows the fair value method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan. 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 granted options.

(s) **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 of 2,093,861 in 2010 (2,088,655 in 2009).

(t) **Geographic Segmentations**

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/Reinsurance operations.

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. 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
<b>Bonds</b>				
Designated held for trading <sup>(1)</sup>	\$ 42,939	\$ 42,939	\$ 40,002	\$ 40,002
Classified held for trading <sup>(1)</sup>	1,605	1,605	1,612	1,612
Available for sale	4,284	4,284	2,489	2,489
Loans and receivables	6,173	6,527	6,080	6,154
	<u>55,001</u>	<u>55,355</u>	<u>50,183</u>	<u>50,257</u>
<b>Mortgage Loans</b>				
Residential	5,255	5,550	5,783	6,009
Non-residential	9,138	9,538	9,250	9,233
	<u>14,393</u>	<u>15,088</u>	<u>15,033</u>	<u>15,242</u>
<b>Stocks</b>				
Designated held for trading <sup>(1)</sup>	5,364	5,364	4,928	4,928
Available for sale	571	571	648	648
Other	330	399	328	389
	<u>6,265</u>	<u>6,334</u>	<u>5,904</u>	<u>5,965</u>
<b>Real Estate</b>				
	<u>3,146</u>	<u>3,250</u>	<u>2,964</u>	<u>2,897</u>
	<u>\$ 78,805</u>	<u>\$ 80,027</u>	<u>\$ 74,084</u>	<u>\$ 74,361</u>

(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.

(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)
<b>Carrying value, end of year</b>	<u>\$ 330</u>	<u>\$ 328</u>
<b>Share of equity, end of year</b>	<u>\$ 158</u>	<u>\$ 150</u>
<b>Fair value, end of year</b>	<u>\$ 399</u>	<u>\$ 389</u>

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
<b>Impaired amounts by type<sup>(1)</sup></b>			
Held for trading	\$ 237	\$ (132)	\$ 105
Available for sale	47	(28)	19
Loans and receivables	74	(21)	53
<b>Total</b>	<u>\$ 358</u>	<u>\$ (181)</u>	<u>\$ 177</u>
<b>2009</b>			
	Gross amount	Impairment	Carrying amount
<b>Impaired amounts by type<sup>(1)</sup></b>			
Held for trading	\$ 246	\$ (144)	\$ 102
Available for sale	50	(33)	17
Loans and receivables	115	(32)	83
<b>Total</b>	<u>\$ 411</u>	<u>\$ (209)</u>	<u>\$ 202</u>

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.

3. Portfolio Investments (cont'd)

- (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	\$ 7	\$ 15
Bonds with equity conversion features	150	169
Mortgages	18	1
	<u>\$ 175</u>	<u>\$ 185</u>

- (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	\$ 11	\$ 21	\$ 32	\$ 8	\$ 18	\$ 26
Net provision (recovery) for credit losses – in year	(2)	2	–	5	12	17
Write-offs, net of recoveries	–	(7)	(7)	–	(7)	(7)
Other (including foreign exchange rate changes)	–	(4)	(4)	(2)	(2)	(4)
Balance, end of year	<u>\$ 9</u>	<u>\$ 12</u>	<u>\$ 21</u>	<u>\$ 11</u>	<u>\$ 21</u>	<u>\$ 32</u>

- (iv) Included in net income 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	\$ (127)	\$ –	\$ –	\$ –	\$ (127)
– Transfer from other comprehensive income	–	(15)	–	–	(15)
Gross impairment charges	(127)	(15)	–	–	(142)
Release of actuarial default provision and other	132	–	–	–	132
Net impairment (charges) recovery before income taxes	<u>\$ 5</u>	<u>\$ (15)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (10)</u>
Net impairment (charges) recovery after income taxes					<u>\$ (10)</u>

	2009				
	Held for trading	Available for sale	Loans and receivables	Other	Total
Impact on OTTI					
– Assets carried at market value	\$ (65)	\$ –	\$ –	\$ –	\$ (65)
– Transfer from other comprehensive income	–	(18)	–	–	(18)
– Assets carried at amortized cost	–	–	(17)	–	(17)
Gross impairment charges	(65)	(18)	(17)	–	(100)
Release of actuarial default provision and other	63	–	2	–	65
Net impairment (charges) recovery before income taxes	<u>\$ (2)</u>	<u>\$ (18)</u>	<u>\$ (15)</u>	<u>\$ –</u>	<u>\$ (35)</u>
Net impairment (charges) recovery after income taxes					<u>\$ (26)</u>



#### 4. 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	\$ 1,557	\$ 3,030
Bonds		
Held for trading	44,544	41,614
Available for sale	4,284	2,489
Loans and receivables	6,173	6,080
Mortgage loans	14,393	15,033
Loans to policyholders	2,808	2,786
Other financial assets <sup>(1)</sup>	12,249	13,096
Derivative assets	930	693
Total balance sheet maximum credit exposure	<u>\$ 86,938</u>	<u>\$ 84,821</u>

(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 \$16 of collateral received in 2010 (\$35 of collateral received in 2009) relating to derivative assets.



4. Financial Instrument Risk Management (cont'd)

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	–	79	180	259
Europe/Reinsurance	–	26	2,267	2,293
<b>Total mortgage loans</b>	<b>\$ 1,622</b>	<b>\$ 3,633</b>	<b>\$ 9,138</b>	<b>\$ 14,393</b>

	2009			
	Single family residential	Multi-family residential	Commercial	Total
Canada	\$ 1,695	\$ 3,965	\$ 6,371	\$ 12,031
United States	–	94	249	343
Europe/Reinsurance	–	29	2,630	2,659
<b>Total mortgage loans</b>	<b>\$ 1,695</b>	<b>\$ 4,088</b>	<b>\$ 9,250</b>	<b>\$ 15,033</b>

(iii) Asset Quality

**Bond Portfolio Quality**

	2010	2009
AAA	\$ 21,369	\$ 17,584
AA	9,247	8,916
A	16,721	16,284
BBB	6,990	6,666
BB and lower	674	733
<b>Total bonds</b>	<b>\$ 55,001</b>	<b>\$ 50,183</b>

**Derivative Portfolio Quality**

	2010	2009
Over the counter contracts (counterparty ratings):		
AA	\$ 456	\$ 325
A	474	368
<b>Total</b>	<b>\$ 930</b>	<b>\$ 693</b>

(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	\$ 5	\$ 45
30 to 90 days	2	6
Greater than 90 days	2	9
<b>Total</b>	<b>\$ 9</b>	<b>\$ 60</b>

(v) Performing Securities Subject to Deferred Coupons

	Payment resumption date		
	< 1 year	1 to 2 years	> 2 years
Coupon payment receivable	\$ –	\$ 2	\$ –



**(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.

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	\$ 304	\$ 1	\$ 1	\$ 1	\$ 1	\$ -	\$ 300
Capital trust debentures <sup>(1)</sup>	800	-	-	-	-	-	800
Purchase obligations	32	30	1	1	-	-	-
Pension contributions	84	84	-	-	-	-	-
	\$ 1,220	\$ 115	\$ 2	\$ 2	\$ 1	\$ -	\$ 1,100

(1) Payments due have not been reduced to reflect that the Company held capital trust securities of \$38 principal amount (\$44 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.

## 4. Financial Instrument Risk Management (cont'd)

## (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 0.20% (0.21% 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	\$ 771	\$ 703
Non-participating	1,280	1,476
	<u>\$ 2,051</u>	<u>\$ 2,179</u>

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 \$20 causing a decrease in net earnings of approximately \$19.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately \$413 causing a decrease in net earnings of approximately \$281.

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 \$31 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 \$71 causing a decrease in net earnings of approximately \$53.

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 \$241. 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.

## 5. Financial Instrument 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, some private bonds, 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.

## 5. Financial Instrument Fair Value Measurement (cont'd)

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			Total
	Level 1	Level 2	Level 3	
<b>Assets measured at fair value</b>				
Financial assets at fair value through net earnings				
Bonds	\$ –	\$ 44,509	\$ 35	\$ 44,544
Stocks	4,947	–	417	5,364
Total financial assets at fair value through net earnings	4,947	44,509	452	49,908
Available for sale financial assets				
Bonds	–	4,264	20	4,284
Stocks	16	–	1	17
Total available for sale financial assets	16	4,264	21	4,301
Other asset – derivatives <sup>(1)</sup>	–	930	–	930
Total assets measured at fair value	\$ 4,963	\$ 49,703	\$ 473	\$ 55,139
<b>Liabilities measured at fair value</b>				
Other liabilities – derivatives <sup>(2)</sup>	\$ –	\$ 148	\$ –	\$ 148

(1) Excludes collateral received of \$16.

(2) Excludes collateral pledged of \$39.

	2009			Total
	Level 1	Level 2	Level 3	
<b>Assets measured at fair value</b>				
Financial assets at fair value through net earnings				
Bonds	\$ –	\$ 41,523	\$ 91	\$ 41,614
Stocks	4,783	–	145	4,928
Total financial assets at fair value through net earnings	4,783	41,523	236	46,542
Available for sale financial assets				
Bonds	–	2,467	22	2,489
Stocks	65	–	1	66
Total available for sale financial assets	65	2,467	23	2,555
Other asset – derivatives <sup>(1)</sup>	–	676	17	693
Total assets measured at fair value	\$ 4,848	\$ 44,666	\$ 276	\$ 49,790
<b>Liabilities measured at fair value</b>				
Other liabilities – derivatives	\$ –	\$ 188	\$ –	\$ 188

(1) Excludes collateral received of \$35.

The following table presents 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	Held for trading stocks	Available for sale stocks
Balance, beginning of year	\$ 91	\$ 22	\$ 17	\$ 145	\$ 1
Total gains/(losses)					
Included in net earnings	(2)	–	(17)	16	–
Purchases	–	–	–	287	–
Sales	–	–	–	(30)	–
Settlements	(6)	(2)	–	–	–
Transfers out of Level 3	(48)	–	–	(1)	–
Balance, end of year	\$ 35	\$ 20	\$ –	\$ 417	\$ 1
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2010	\$ 1	\$ –	\$ (17)	\$ 16	\$ –

	2009				
	Held for trading bonds	Available for sale bonds	Other assets – derivatives	Held for trading stocks	Available for sale stocks
Balance, beginning of year	\$ 140	\$ 46	\$ 18	\$ 20	\$ 1
Total gains/(losses)					
Included in net earnings	(1)	(10)	(1)	(2)	–
Included in OCI	–	13	–	–	–
Purchases	–	–	–	127	–
Sales	(1)	–	–	–	–
Settlements	(11)	(9)	–	–	–
Transfers in to Level 3	15	2	–	–	–
Transfers out of Level 3	(51)	(20)	–	–	–
Balance, end of year	\$ 91	\$ 22	\$ 17	\$ 145	\$ 1
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2009	\$ 2	\$ (10)	\$ (1)	\$ (2)	\$ –

## 6. Pledging of Assets

The amount of assets which have a security interest by way of pledging is \$3 (\$5 in 2009), in respect of derivative transactions and \$554 (\$595 in 2009), in respect of reinsurance agreements.

## 7. Goodwill and Intangible Assets

### (a) Goodwill

The carrying value of goodwill, all in the shareholder account, and changes in the carrying value of goodwill are as follows:

	2010	2009
Balance, beginning of year	\$ 5,270	\$ 5,270
Sale of subsidiary by London Reinsurance Group Inc. (LRG)	(3)	–
Balance, end of year	\$ 5,267	\$ 5,270

## 7. Goodwill and Intangible Assets (cont'd)

**(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	\$ 410	\$ –	\$ (39)	\$ 371
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	(39)	1,079
Finite life intangible assets				
– Customer contract related	335	(111)	(5)	219
– Distribution channels	127	(28)	(23)	76
– Software	244	(103)	–	141
	706	(242)	(28)	436
Total	\$ 1,824	\$ (242)	\$ (67)	\$ 1,515
	2009			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	\$ 410	\$ –	\$ (28)	\$ 382
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	(28)	1,090
Finite life intangible assets				
– Customer contract related	335	(93)	(4)	238
– Distribution channels	127	(24)	(16)	87
– Software	204	(81)	–	123
	666	(198)	(20)	448
Total	\$ 1,784	\$ (198)	\$ (48)	\$ 1,538

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.

**8. Other Assets**

Other assets consist of the following:

	2010	2009
Premiums in course of collection	\$ 378	\$ 393
Interest due and accrued	809	826
Derivative financial instruments (note 23)	930	693
Accounts receivable	374	264
Prepaid expenses	79	58
Current income taxes	496	728
Future income taxes (note 22)	19	67
Fixed assets	85	91
Accrued pension asset (note 19)	378	317
Other	332	100
	\$ 3,880	\$ 3,537

**9. 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
Individual Insurance & Investment Products	\$ 25,055	\$ 23,097	\$ 17,955	\$ 16,619	\$ 43,010	\$ 39,716
Group Insurance	–	–	6,200	5,841	6,200	5,841
Europe/Reinsurance	1,189	1,428	31,658	33,212	32,847	34,640
Corporate	1,465	1,483	1,240	1,316	2,705	2,799
<b>Total</b>	<b>\$ 27,709</b>	<b>\$ 26,008</b>	<b>\$ 57,053</b>	<b>\$ 56,988</b>	<b>\$ 84,762</b>	<b>\$ 82,996</b>

(ii) The composition of the assets supporting liabilities and surplus is as follows:

	2010					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
<b>Carrying value</b>						
Participating	\$ 12,967	\$ 6,320	\$ 3,882	\$ 370	\$ 4,170	\$ 27,709
Non-participating						
Individual Insurance & Investment Products	12,270	3,567	1,374	10	734	17,955
Group Insurance	3,796	1,502	58	–	844	6,200
Europe/Reinsurance	17,066	2,039	195	1,880	10,478	31,658
Corporate	924	146	–	–	170	1,240
Other liabilities	2,811	414	432	195	1,528	5,380
Participating account surplus	1,456	284	3	25	238	2,006
Capital and surplus	3,711	121	321	666	6,725	11,544
<b>Total carrying value</b>	<b>\$ 55,001</b>	<b>\$ 14,393</b>	<b>\$ 6,265</b>	<b>\$ 3,146</b>	<b>\$ 24,887</b>	<b>\$ 103,692</b>
<b>Market value</b>	<b>\$ 55,355</b>	<b>\$ 15,088</b>	<b>\$ 6,334</b>	<b>\$ 3,250</b>	<b>\$ 24,887</b>	<b>\$ 104,914</b>
	2009					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
<b>Carrying value</b>						
Participating	\$ 12,283	\$ 6,234	\$ 3,747	\$ 286	\$ 3,458	\$ 26,008
Non-participating						
Individual Insurance & Investment Products	10,684	3,684	923	13	1,315	16,619
Group Insurance	3,616	1,643	68	–	514	5,841
Europe/Reinsurance	16,818	2,314	131	1,770	12,179	33,212
Corporate	927	187	–	–	202	1,316
Other liabilities	2,385	458	700	174	1,103	4,820
Participating account surplus	1,443	356	97	44	59	1,999
Capital and surplus	2,027	157	238	677	8,170	11,269
<b>Total carrying value</b>	<b>\$ 50,183</b>	<b>\$ 15,033</b>	<b>\$ 5,904</b>	<b>\$ 2,964</b>	<b>\$ 27,000</b>	<b>\$ 101,084</b>
<b>Market value</b>	<b>\$ 50,257</b>	<b>\$ 15,242</b>	<b>\$ 5,965</b>	<b>\$ 2,897</b>	<b>\$ 27,000</b>	<b>\$ 101,361</b>

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.

## 9. Policy Liabilities (cont'd)

**(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
<b>Balance, beginning of year</b>	\$ 26,008	\$ 24,472	\$ 56,988	\$ 57,270	\$ 82,996	\$ 81,742
Impact of new business	193	(14)	2,760	2,501	2,953	2,487
Normal change in force	1,719	2,012	512	(84)	2,231	1,928
Management action and changes in assumptions	(4)	(74)	(399)	(317)	(403)	(391)
Business movement from/to affiliates	-	-	-	(1)	-	(1)
Business movement from/to external parties	-	-	(1)	(9)	(1)	(9)
Impact of foreign exchange rate changes	(207)	(388)	(2,807)	(2,372)	(3,014)	(2,760)
<b>Balance, end of year</b>	\$ 27,709	\$ 26,008	\$ 57,053	\$ 56,988	\$ 84,762	\$ 82,996

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 \$399 in 2010 due to management actions and assumption changes. The decrease was primarily due to reduced provisions for asset liability matching (\$176 decrease), modelling refinements (\$111 decrease), updated expenses and taxes (\$108 decrease), improved Life mortality (\$57 decrease), and improved Group Insurance morbidity (\$48 decrease) partially offset by increased provisions for policyholder behaviour (\$76 increase), strengthened longevity (\$18 increase) and strengthened provisions for asset default (\$8 increase).

Participating policy liabilities decreased by \$4 in 2010 due to management actions and assumption changes. The decrease was primarily due to updated expenses (\$260 decrease), improved investment (\$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 behaviour (\$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 mostly offset by the impact of foreign exchange rates.

Non-participating policy liabilities decreased by \$317 in 2009 due to management actions and assumption changes. The decrease was primarily due to improved Individual Life mortality (\$263 decrease), reduced provisions for asset liability matching (\$220 decrease) and modelling refinements in Individual Life and annuities (\$129 decrease) partially offset by strengthening of asset default and expense (\$164 increase), modelling refinements in reinsurance (\$52 increase), the future tax impact of a change in asset mix targets for long-tail liabilities (\$52 increase) and increased provisions for policyholder behaviour (\$30 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 \$175 causing a decrease in net earnings of approximately \$132.



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 \$208 causing a decrease in net earnings of approximately \$166.

#### ***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 the London Life Insurance Company (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 4(c)).

#### ***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 \$61 causing a decrease in net earnings of approximately \$45.

#### ***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 \$370 causing a decrease in net earnings of approximately \$267.

#### ***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.

9. Policy Liabilities (cont'd)

(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	\$ 8	\$ (9)
Non-participating	4,421	4,918
	<u>\$ 4,429</u>	<u>\$ 4,909</u>

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.

**10. Financing Charges**

Financing charges consist of the following:

	2010	2009
Interest on long-term debentures and other debt instruments	\$ 20	\$ 20
Other	6	4
Net interest on capital trust debentures and securities	48	42
<b>Total</b>	<u>\$ 74</u>	<u>\$ 66</u>

**11. Debentures and Other Debt Instruments**

Debentures and other debt instruments consist of the following:

	2010		2009	
	Carrying value	Market value	Carrying value	Market value
<b>Long term</b>				
<b>Operating:</b>				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	\$ 4	\$ 4	\$ 5	\$ 5
<b>Capital:</b>				
<b>Great-West</b>				
6.74% debentures due November 24, 2036, unsecured	200	200	200	200
<b>Canada Life</b>				
6.40% subordinated debentures due December 11, 2028, unsecured	100	110	100	105
	<u>300</u>	<u>310</u>	<u>300</u>	<u>305</u>
<b>Total debentures and other debt instruments</b>	<u>\$ 304</u>	<u>\$ 314</u>	<u>\$ 305</u>	<u>\$ 310</u>

**12. Other Liabilities**

Other liabilities consist of the following:

	2010	2009
Accounts payable	\$ 912	\$ 428
Current income taxes	103	140
Future income taxes (note 22)	655	603
Derivative financial instruments (note 23)	148	188
Pension and other post-retirement benefits (note 19)	435	434
Other	1,243	1,040
	<u>\$ 3,496</u>	<u>\$ 2,833</u>

**13. Perpetual Preferred Shares Issued by Subsidiary**

	2010	2009
Perpetual preferred shares:		
Classified as non-controlling interests		
CLFC Series B, 6.25% Non-Cumulative	\$ -	\$ 145
Acquisition related fair market value adjustment	-	2
	<u>\$ -</u>	<u>\$ 147</u>

On December 31, 2010, Canada Life 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 Canada Life.

**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
	<u>800</u>	<u>893</u>	<u>800</u>	<u>900</u>
Acquisition related fair market value adjustment	17	-	19	-
Trust securities held by consolidated group as temporary investments	(44)	(44)	(41)	(41)
Total	<u>\$ 773</u>	<u>\$ 849</u>	<u>\$ 778</u>	<u>\$ 859</u>

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 10).

Pursuant to the CLFC acquisition in 2003, the Canadian regulated subsidiaries had purchased certain of these Capital Trust Debentures. During the year ended December 31, 2009, the Company disposed of \$138 principal amount of capital trust securities held by the consolidated group as temporary investments.

**15. Participating Account**

The Company controlled a 100% equity interest in London Life and Canada Life at December 31, 2010 and 2009. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements. The following tables provide additional information related to the operations and financial position of each entity.

**(a) Net earnings, participating account:**

	2010	2009
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	\$ 146	\$ 139
London Life	706	696
Canada Life	242	245
	<u>1,094</u>	<u>1,080</u>
Policyholder dividends		
Great-West Life	(130)	(121)
London Life	(730)	(702)
Canada Life	(235)	(233)
	<u>(1,095)</u>	<u>(1,056)</u>
Net earnings (loss) – participating account	<u>\$ (1)</u>	<u>\$ 24</u>

**(b) Participating account surplus:**

	2010	2009
Participating account accumulated surplus:		
Great-West Life	\$ 444	\$ 428
London Life	1,538	1,562
Canada Life	33	26
	<u>2,015</u>	<u>2,016</u>
Participating account accumulated other comprehensive income (loss):		
Great-West Life	10	8
London Life	(23)	(29)
Canada Life	4	4
	<u>(9)</u>	<u>(17)</u>
Accumulated other comprehensive income (loss) – participating account	<u>\$ 2,006</u>	<u>\$ 1,999</u>

**(c) Participating account – other comprehensive income:**

	2010	2009
Other comprehensive income (loss) attributable to participating account		
Great-West Life	\$ 2	\$ 1
London Life	6	(10)
Canada Life	–	(13)
Other comprehensive income (loss) – participating account	<u>\$ 8</u>	<u>\$ (22)</u>

**16. Share Capital****Authorized**

Unlimited Preferred Shares  
Unlimited Common Shares

	2010		2009	
	Number	Carrying value	Number	Carrying value
<b>Issued and outstanding:</b>				
<b>Preferred shares:</b>				
Series O, 5.55% Non-Cumulative Preferred Shares	-	\$ -	6,278,671	\$ 157
Series Q, 5.00% Non-Cumulative Preferred Shares	40,000	1	40,000	1
	<u>40,000</u>	<u>\$ 1</u>	<u>6,318,671</u>	<u>\$ 158</u>
<b>Common shares:</b>				
Balance, beginning of year	2,088,655	\$ 6,116	2,088,655	\$ 6,116
Issued to parent	28,360	310	-	-
Balance, end of year	<u>2,117,015</u>	<u>\$ 6,426</u>	<u>2,088,655</u>	<u>\$ 6,116</u>
Total share capital		<u>\$ 6,427</u>		<u>\$ 6,274</u>

**Preferred Shares**

On October 29, 2010, the Company redeemed all of its outstanding 5.55% Non-Cumulative Preferred Shares Series O at a price of \$25 per share.

The Series Q, 5.00% Non-Cumulative Preferred Shares are redeemable at the option of the Company for \$25 per share on the later of December 31, 2007 and the date on which there are no Great-West Life Capital Trust Securities outstanding in GWLCT, subject to regulatory approval.

**Common Shares**

On October 26, 2010 the Company issued 28,360 common shares to its parent, Lifeco for a total of \$310. The Company then invested \$255 in common shares of its wholly owned subsidiary LIG which in turn invested \$255 in common shares of its indirect wholly owned subsidiary London Life.

**17. Capital Management**

At the consolidated 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
<b>Capital Available:</b>		
<b>Tier 1 Capital</b>		
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	<u>14,369</u>	<u>14,079</u>
<b>Deductions from Tier 1:</b>		
Goodwill & intangible assets in excess of limit	5,699	5,696
Other deductions	1,211	1,330
<b>Net Tier 1 Capital</b>	<u>7,459</u>	<u>7,053</u>
Adjustments to Net Tier 1 Capital	(37)	(39)
<b>Net Tier 1 Capital</b>	<u>7,422</u>	<u>7,014</u>
<b>Tier 2 Capital</b>		
Tier 2A	77	325
Tier 2B allowed	300	300
Tier 2C	1,206	1,270
Tier 2 Deductions	(37)	(39)
<b>Tier 2 Capital Allowed</b>	<u>1,546</u>	<u>1,856</u>
<b>Total Available Capital</b>	<u>\$ 8,968</u>	<u>\$ 8,870</u>
<b>Capital Required:</b>		
Assets Default & market risk	\$ 1,679	\$ 1,705
Insurance Risks	1,877	1,814
Interest Rate Risks	851	824
Other	7	11
<b>Total Capital Required</b>	<u>\$ 4,414</u>	<u>\$ 4,354</u>
<b>MCCSR ratios:</b>		
<b>Tier 1</b>	<u>168%</u>	<u>161%</u>
<b>Total</b>	<u>203%</u>	<u>204%</u>

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

Lifeco 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 Great-West Life and its affiliates. Lifeco'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	11,403,922	\$ 24.71	11,989,654	\$ 24.16
Granted	583,300	26.82	–	–
Exercised	(2,815,959)	14.05	(585,732)	13.31
Forfeited	(69,534)	32.99	–	–
Outstanding, end of year	9,101,729	\$ 28.10	11,403,922	\$ 24.71
Options exercisable at end of year	6,209,883	\$ 26.19	7,932,482	\$ 21.18

During 2010, 583,300 options were granted (no options granted during 2009). The weighted average fair value of options granted during 2010 was \$4.22 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 4.59%, expected volatility 22.89%, risk-free interest rate 2.82%, and expected life of 7 years.

In accordance with the fair value based method of accounting, compensation expense of \$3 after-tax in 2010 (\$6 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:

Exercise price ranges	Outstanding			Exercisable		
	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
\$17.14 – \$37.22	470,729	0.83	18.09	468,129	17.97	2011
\$19.42 – \$29.84	2,082,500	2.52	21.13	2,082,500	21.38	2013
\$24.37 – \$26.00	569,000	3.34	26.57	569,000	25.23	2014
\$29.84	1,660,000	4.95	29.82	1,660,000	29.84	2015
\$35.36 – \$37.22	1,078,000	6.22	37.06	287,454	37.01	2017
\$31.27	2,690,000	7.37	30.76	1,142,800	31.27	2018
\$25.65 – \$27.13	551,500	9.32	26.94	–	–	2020

## 19. Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its 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 trustee 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 and its 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.

## 19. Pension Plans and Other Post-Retirement Benefits (cont'd)

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
<b>Change in Plan Assets</b>				
Fair value of assets, beginning of year	\$ 2,671	\$ 2,410	\$ -	\$ -
Employee contributions	16	15	-	-
Employer contributions	78	77	17	17
Return on plan assets	242	344	-	-
Benefits paid	(129)	(144)	(17)	(17)
Settlement	(2)	(1)	-	-
Foreign exchange rate changes	(34)	(30)	-	-
Fair value of assets, end of year	\$ 2,842	\$ 2,671	\$ -	\$ -
<b>Change in Accrued Benefit Obligation</b>				
Accrued benefit obligation, beginning of year	\$ 2,438	\$ 2,212	\$ 333	\$ 295
Employer current service cost	44	34	1	1
Employee contributions	16	15	-	-
Interest on accrued benefit obligation	147	141	20	20
Actuarial (gains) losses	304	220	52	34
Benefits paid	(129)	(144)	(17)	(17)
Past service cost	5	1	-	-
Curtailements and settlements	(2)	(1)	-	-
Foreign exchange rate changes	(44)	(40)	-	-
Accrued benefit obligation, end of year	\$ 2,779	\$ 2,438	\$ 389	\$ 333
<b>Net funded status</b>				
Unamortized past service costs (credits)	(100)	(118)	(29)	(36)
Unamortized net losses (gains)	404	206	57	5
Unamortized transitional obligation	-	1	-	-
Valuation allowance	(63)	(75)	-	-
Accrued benefit asset (liability)	\$ 304	\$ 247	\$ (361)	\$ (364)
Recorded in:				
Other assets	\$ 378	\$ 317	\$ -	\$ -
Other liabilities	(74)	(70)	(361)	(364)
Accrued benefit asset (liability)	\$ 304	\$ 247	\$ (361)	\$ (364)

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	\$ 803	\$ 345
Accrued benefit obligation	(953)	(462)
Plan deficit	\$ (150)	\$ (117)

**Plans Without Plan Assets**

Accrued benefit obligation – Plan deficit	\$ (157)	\$ (132)	\$ (389)	\$ (333)
---	----------	----------	----------	----------



(b) **Benefit Expense and Cash Payments**

	All pension plans		Other post-retirement benefits	
	2010	2009	2010	2009
<b>Cost Recognized</b>				
<b>Amounts arising from events in the period</b>				
Defined benefit service cost	\$ 60	\$ 49	\$ 1	\$ 1
Defined contribution service cost	4	3	–	–
Employee contributions	(16)	(15)	–	–
Employer service cost	48	37	1	1
Past service costs	5	1	–	–
Interest cost on accrued benefit obligation	147	141	20	20
Actual return on plan assets	(242)	(344)	–	–
Actuarial (gain) loss on accrued benefit obligation	304	220	52	34
Cost incurred	262	55	73	55
<b>Adjustments to reflect costs recognized</b>				
Difference between actual and expected return on plan assets	81	184	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	(285)	(219)	(52)	(35)
Amortization of transitional obligation	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	(17)	(12)	(6)	(6)
Increase (decrease) in valuation allowance	(12)	1	–	–
Net benefit cost recognized for the period	\$ 30	\$ 10	\$ 15	\$ 14
<b>Cash payments</b>				
Contributions – Funded defined benefit plans	\$ 70	\$ 61	\$ –	\$ –
– Funded defined contribution plans	4	3	–	–
Benefits paid for unfunded plans	8	9	17	16
Total cash payment	\$ 82	\$ 73	\$ 17	\$ 16

(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	34%	December 31, 2010	40%
December 31, 2008	22%	December 31, 2011	23%
December 31, 2009	40%	December 31, 2012	33%
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	49%	48%
Debt securities	37%	38%
Real estate	4%	5%
Cash and cash equivalents	10%	9%
	<b>100%</b>	<b>100%</b>

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.

## 19. Pension Plans and Other Post-Retirement Benefits (cont'd)

## (e) Significant Weighted Average Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2010	2009	2010	2009
<b>To determine benefit cost:</b>				
Discount rate	6.1%	6.6%	6.3%	7.1%
Expected long-term rate of return on plan assets	6.1%	6.7%	–	–
Rate of compensation increase	3.7%	4.1%	3.9%	3.9%
<b>To determine accrued benefit obligation:</b>				
Discount rate	5.5%	6.1%	5.5%	6.3%
Rate of compensation increase	3.6%	3.7%	4.3%	3.9%
<b>Healthcare trend rates:</b>				
Initial healthcare trend rate			7.0%	7.0%
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	\$ 39	\$ 30	\$ (33)	\$ (25)
Impact on service and interest cost	\$ 2	\$ 2	\$ (2)	\$ (2)

## 20. 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	Participating account	Shareholder
Balance, beginning of year	\$ (1,089)	\$ 3	\$ 1	\$ (1,085)	\$ (17)	\$ (1,068)
Other comprehensive loss	(412)	56	–	(356)	14	(370)
Income tax	–	(13)	–	(13)	(6)	(7)
	(412)	43	–	(369)	8	(377)
Balance, end of year	\$ (1,501)	\$ 46	\$ 1	\$ (1,454)	\$ (9)	\$ (1,445)

	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	Participating account	Shareholder
Balance, beginning of year	\$ (606)	\$ 64	\$ 1	\$ (541)	\$ 5	\$ (546)
Other comprehensive loss	(487)	(72)	–	(559)	(21)	(538)
Income tax	4	11	–	15	(1)	16
	(483)	(61)	–	(544)	(22)	(522)
Balance, end of year	\$ (1,089)	\$ 3	\$ 1	\$ (1,085)	\$ (17)	\$ (1,068)

## 21. Related Party Transactions

**Reinsurance Transactions**

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), an affiliated company, assumed on a coinsurance basis with funds withheld, certain of Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S. term life reinsurance business was retroceded by Canada Life to GWSC. In 2010, for the Summaries of Consolidated Operations, these transactions resulted in a reduction in premium income of \$127 (\$148 in 2009) and total paid or credited to policyholders of \$103 (\$236 in 2009). The transaction was at market terms and conditions.

**Other Related Party Transactions**

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During 2010, the Company provided and received from IGM certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All services 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, the Company and segregated funds maintained by the Company purchased residential mortgages of \$226 from IGM (\$147 in 2009). The Company sold residential mortgages of \$0 (\$2 in 2009) to segregated funds maintained by the Company and \$84 (\$98 in 2009) to segregated funds maintained by London Life. The Company sold commercial mortgages of \$23 (\$0 in 2009) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

During the year, GWL&A provided certain administrative services to the Company. The expense to the Company for these services was \$5 (\$5 in 2009).

The Company has 6.74% debentures due to Lifeco, its parent, which have an outstanding balance of \$200 (\$200 in 2009). Financing charges of \$13 is included in the Summaries of Consolidated Operations (\$13 in 2009).

In 2008, the Company issued \$2.0 billion of 7.127% Debentures to Lifeco. The Company made a corresponding investment of \$2.0 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company also issued \$1.2 billion of 5.75% Debentures to Lifeco in 2003. The Company made a corresponding investment of \$1.2 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly the investments and debentures are offset in the consolidated financial statements of the Company.

**22. Income Tax**

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

	2010	2009
Policy liabilities	\$ (247)	\$ 400
Portfolio investments	(278)	(541)
Other	(111)	(395)
Future income taxes payable	<u>\$ (636)</u>	<u>\$ (536)</u>
Recorded in:		
Other assets	\$ 19	\$ 67
Other liabilities	(655)	(603)
	<u>\$ (636)</u>	<u>\$ (536)</u>

(b) The Company's effective income tax rate is derived as follows:

	2010		2009	
Combined basic Canadian federal and provincial tax rate	\$ 469	30.5%	\$ 660	32.0%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(177)	(11.5)	(138)	(6.7)
Lower effective tax rates on income not subject to tax in Canada	(97)	(6.3)	(143)	(6.9)
Resolution of uncertain tax position	(56)	(3.6)	(119)	(5.8)
Other	16	1.1	29	1.4
Effective income tax rate	<u>\$ 155</u>	<u>10.2%</u>	<u>\$ 289</u>	<u>14.0%</u>

At December 31, 2010, the Company had tax loss carryforwards, totalling \$1,572 (\$2,151 in 2009). These losses do not have an 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 \$338 (\$526 in 2009) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

**23. 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 4 illustrates the credit quality of the Company's exposure to counterparties.

## 23. Derivative Financial Instruments (cont'd)

(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
<b>Interest rate contracts</b>					
Futures – short	\$ 18	\$ –	\$ –	\$ –	\$ –
Swaps	1,440	200	8	198	21
Options purchased	221	26	3	23	1
	1,679	226	11	221	22
<b>Foreign exchange contracts</b>					
Forward contracts	86	1	1	2	–
Cross-currency swaps	5,778	703	397	1,100	68
	5,864	704	398	1,102	68
<b>Other derivative contracts</b>					
Equity contracts	64	–	4	4	–
Futures – long	8	–	–	–	–
Futures – short	37	–	–	–	–
	109	–	4	4	–
	\$ 7,652	\$ 930	\$ 413	\$ 1,327	\$ 90

\*Maximum credit risk does not include collateral received of \$16, however it is reflected in the credit risk equivalent.

	2009				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
<b>Interest rate contracts</b>					
Futures – long	\$ 108	\$ –	\$ –	\$ –	\$ –
Futures – short	8	–	–	–	–
Swaps	1,582	173	12	155	16
Options purchased	265	27	4	26	2
	1,963	200	16	181	18
<b>Foreign exchange contracts</b>					
Forward contracts	156	1	2	3	–
Cross-currency swaps	5,296	492	365	857	69
	5,452	493	367	860	69
<b>Other derivative contracts</b>					
Equity contracts	75	–	5	5	–
Futures – long	12	–	–	–	–
Futures – short	5	–	–	–	–
	92	–	5	5	–
	\$ 7,507	\$ 693	\$ 388	\$ 1,046	\$ 87

\*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				Total estimated market value
	Notional amount			Total	
	1 year or less	1-5 years	Over 5 years		
<b>Derivatives not designated as accounting hedges</b>					
<b>Interest rate contracts</b>					
Futures – short	\$ 6	\$ –	\$ –	\$ 6	\$ –
Swaps	419	716	305	1,440	188
Options purchased	–	–	221	221	26
	425	716	526	1,667	214
<b>Foreign exchange contracts</b>					
Forward contracts	86	–	–	86	1
Cross-currency swaps	70	1,284	4,424	5,778	588
	156	1,284	4,424	5,864	589
<b>Other derivative contracts</b>					
Equity contracts	43	21	–	64	(20)
Futures – long	8	–	–	8	–
Futures – short	37	–	–	37	–
	88	21	–	109	(20)
	669	2,021	4,950	7,640	783
<b>Fair value hedges</b>					
<b>Interest rate contracts</b>					
Futures – short	12	–	–	12	–
<b>Total</b>	<b>\$ 681</b>	<b>\$ 2,021</b>	<b>\$ 4,950</b>	<b>\$ 7,652</b>	<b>\$ 783</b>
<b>2009</b>					
	Notional amount			Total	Total estimated market value
	1 year or less	1-5 years	Over 5 years		
<b>Derivatives not designated as accounting hedges</b>					
<b>Interest rate contracts</b>					
Futures – long	\$ 108	\$ –	\$ –	\$ 108	\$ –
Swaps	346	676	560	1,582	160
Options purchased	–	–	265	265	27
	454	676	825	1,955	187
<b>Foreign exchange contracts</b>					
Forward contracts	156	–	–	156	1
Cross-currency swaps	108	987	4,201	5,296	340
	264	987	4,201	5,452	341
<b>Other derivative contracts</b>					
Equity contracts	49	26	–	75	(23)
Futures – long	12	–	–	12	–
Futures – short	5	–	–	5	–
	66	26	–	92	(23)
	784	1,689	5,026	7,499	505
<b>Fair value hedges</b>					
<b>Interest rate contracts</b>					
Futures – short	8	–	–	8	–
<b>Total</b>	<b>\$ 792</b>	<b>\$ 1,689</b>	<b>\$ 5,026</b>	<b>\$ 7,507</b>	<b>\$ 505</b>

Futures contracts included in the above table are exchange traded contracts; all other contracts are over the counter.

## 23. Derivative Financial Instruments (cont'd)

**(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 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.

**24. 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 and one of its 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 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 a provision in the third quarter 2010 in the amount of \$310 after-tax (\$289 and \$21 attributable to the common shareholder and participating account, respectively).

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.

The Company and one of its subsidiaries, Canada Life, are partners in a limited partnership which in turn is a limited partner in a private equity partnership. A dispute has arisen regarding the terms of this investment and legal proceedings have been commenced against the general partner and the private equity partnership. Legal proceedings have also been commenced against the private equity partnership by third parties in unrelated matters. An affiliate of the Company, Putnam Investments, LLC has agreed to indemnify the Company and its subsidiary, to a specified maximum amount, in the event an unfavourable outcome in these latter proceedings results in a loss to the Company or its subsidiary. All of these proceedings are in their early stages and it is difficult to predict the outcome with certainty. Based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

**25. 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.

**(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	\$ 70	59	44	34	25	53	\$ 285

**26. Segmented Information**

The major reportable segments of the Company are the participating and shareholder operations. The Company operates through Great-West Life and its wholly owned subsidiaries LIG and CLFC. Within these segments the major business units are: Individual Insurance and Investment Products, Group Insurance, Europe/Reinsurance, and Corporate. These business units reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and the revenues from these business units are derived principally from life, health and disability insurance, annuity products, and life, property and casualty, accident and health and annuity reinsurance. Business activities and operations that are not associated with the specific business units are attributed to Corporate.

**(a) Consolidated Operations**

	2010						
	Shareholder					Participating	
	Individual insurance & investment products	Group insurance	Europe/Reinsurance	Corporate	Total	Total	Total Company
<b>Income:</b>							
Premium income	\$ 2,566	\$ 4,327	\$ 5,141	\$ 63	\$ 12,097	\$ 2,453	\$ 14,550
Net investment income							
Regular net investment income	874	278	1,749	203	3,104	1,434	4,538
Changes in fair value on held for trading assets	667	111	1,307	47	2,132	887	3,019
Total net investment income	1,541	389	3,056	250	5,236	2,321	7,557
Fee and other income	851	144	602	32	1,629	(1)	1,628
<b>Total income</b>	<b>4,958</b>	<b>4,860</b>	<b>8,799</b>	<b>345</b>	<b>18,962</b>	<b>4,773</b>	<b>23,735</b>
<b>Benefits and expenses:</b>							
Paid or credited to policyholders	3,188	3,537	7,571	178	14,474	4,240	18,714
Other	949	758	584	468	2,759	678	3,437
Amortization of finite life intangible assets	13	10	7	15	45	2	47
<b>Earnings before income taxes</b>	<b>808</b>	<b>555</b>	<b>637</b>	<b>(316)</b>	<b>1,684</b>	<b>(147)</b>	<b>1,537</b>
Income taxes	200	160	76	(135)	301	(146)	155
<b>Net earnings before non-controlling interests</b>	<b>608</b>	<b>395</b>	<b>561</b>	<b>(181)</b>	<b>1,383</b>	<b>(1)</b>	<b>1,382</b>
Non-controlling interests	–	–	–	7	7	–	7
<b>Net earnings</b>	<b>608</b>	<b>395</b>	<b>561</b>	<b>(188)</b>	<b>1,376</b>	<b>(1)</b>	<b>1,375</b>
Net earnings – participating policyholder	–	–	–	–	–	(1)	(1)
<b>Net earnings – shareholders</b>	<b>608</b>	<b>395</b>	<b>561</b>	<b>(188)</b>	<b>1,376</b>	<b>–</b>	<b>1,376</b>
Preferred share dividends	–	–	–	7	7	–	7
<b>Net earnings – common shareholder</b>	<b>\$ 608</b>	<b>\$ 395</b>	<b>\$ 561</b>	<b>\$ (195)</b>	<b>\$ 1,369</b>	<b>\$ –</b>	<b>\$ 1,369</b>

## 26. Segmented Information (cont'd)

	2009						
	Shareholder					Participating	
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	Total	Total	Total Company
<b>Income:</b>							
Premium income	\$ 2,572	\$ 4,159	\$ 5,900	\$ 72	\$ 12,703	\$ 2,382	\$ 15,085
Net investment income							
Regular net investment income	907	304	1,949	237	3,397	1,410	4,807
Changes in fair value on held for trading assets	314	77	1,165	57	1,613	1,024	2,637
Total net investment income	1,221	381	3,114	294	5,010	2,434	7,444
Fee and other income	760	142	660	37	1,599	–	1,599
<b>Total income</b>	<b>4,553</b>	<b>4,682</b>	<b>9,674</b>	<b>403</b>	<b>19,312</b>	<b>4,816</b>	<b>24,128</b>
<b>Benefits and expenses:</b>							
Paid or credited to policyholders	3,103	3,312	8,327	194	14,936	4,290	19,226
Other	752	793	691	46	2,282	518	2,800
Amortization of finite life intangible assets	8	7	6	16	37	1	38
Earnings before income taxes	690	570	650	147	2,057	7	2,064
Income taxes	118	175	42	(29)	306	(17)	289
Net earnings before non-controlling interests	572	395	608	176	1,751	24	1,775
Non-controlling interests	–	–	–	7	7	–	7
Net earnings	572	395	608	169	1,744	24	1,768
Net earnings – participating policyholder	–	–	–	–	–	24	24
Net earnings – shareholders	572	395	608	169	1,744	–	1,744
Preferred share dividends	–	–	–	9	9	–	9
Net earnings – common shareholder	\$ 572	\$ 395	\$ 608	\$ 160	\$ 1,735	\$ –	\$ 1,735

## (b) Consolidated Total Assets

	2010			2009		
	Shareholder	Participating account	Total	Shareholder	Participating account	Total
<b>Assets</b>						
Invested assets	\$ 53,575	\$ 29,595	\$ 83,170	\$ 52,292	\$ 27,608	\$ 79,900
Goodwill and intangible assets	6,782	–	6,782	6,808	–	6,808
Other assets	12,705	1,035	13,740	13,496	880	14,376
<b>Total assets</b>	<b>\$ 73,062</b>	<b>\$ 30,630</b>	<b>\$ 103,692</b>	<b>\$ 72,596</b>	<b>\$ 28,488</b>	<b>\$ 101,084</b>
Segregated funds net assets			73,638			67,805
<b>Total general fund and segregated fund assets under administration</b>			<b>\$ 177,330</b>			<b>\$ 168,889</b>

## (c) Geographic Distribution of Total Assets and Income

	2010		2009	
	Income	Assets	Income	Assets
Canada	\$ 14,397	\$ 59,834	\$ 13,812	\$ 54,716
International	9,338	43,858	10,316	46,368
<b>Total assets</b>	<b>\$ 23,735</b>	<b>\$ 103,692</b>	<b>\$ 24,128</b>	<b>\$ 101,084</b>

## 27. Subsequent Event

On January 1, 2011, the Company amalgamated its investment management subsidiaries GWLIM, London Capital Management Ltd. and Laketon Investment Management Ltd. into a newly formed subsidiary GLC Asset Management Group. The transaction did not have a material impact on the financial statements of the Company.



## AUDITORS' REPORT

### To the Policyholders and Shareholders of The Great-West Life Assurance Company

We have audited the accompanying consolidated financial statements of The Great-West Life Assurance Company, which comprise the consolidated balance sheets and the statements of segregated funds - consolidated net assets as at December 31, 2010 and 2009 and the summaries of consolidated operations, the consolidated statements of surplus, the summaries of consolidated comprehensive income, the consolidated statements of cash flows and the segregated funds - consolidated statements of changes in net assets 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 and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

Winnipeg, Manitoba

February 10, 2011

## APPOINTED ACTUARY'S REPORT

### To the Policyholders, Shareholders and Directors of The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2010 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

*A. Jamal*

Arshil Jamal

Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba

February 10, 2011

## PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This policyholder dividend policy has been established by the Board of Directors and is subject to change from time to time. It applies to participating insurance policies.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, asset defaults, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when establishing the guaranteed values associated with participating insurance policies. Great-West Life may distribute a portion of the earnings as declared by the Board of Directors in accordance with this policyholder dividend policy.

Participating insurance policies are eligible for a periodic policyholder dividend. The amount available for distribution from the participating account as policyholder dividends is determined at least annually following a review of the actual and expected experience of the participating account, taking into account significant changes in factors such as investment income, asset defaults, mortality, lapses, expenses and taxes. The amount available for distribution in any year will vary upwards or downwards depending on the actual and expected experience. The amount available is also influenced by considerations such as: the need to retain earnings as surplus to, among other purposes, ensure financial strength and stability, finance new business growth, provide for transitions during periods of major change and smooth fluctuations in experience; practical considerations and limits; legal requirements; and prevailing industry practices.

The amount available for distribution as policyholder dividends is divided among classes of policyholders by setting the policyholder dividend scale. Great-West Life follows the contribution principle when setting the policyholder dividend scale. This means the amount available for distribution as policyholder dividends is divided among classes of policyholders over the long term in proportion to their contribution to earnings. A contribution to earnings will be made from a particular class of policies to the extent that the experience for that particular class is different from the assumptions that were used when establishing the guaranteed values for that class.

When applying the contribution principle, attention is paid to ensuring reasonable equity is achieved between classes of policyholders and between generations of policyholders, taking into account practical considerations and limits, legal requirements and prevailing industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to earnings of those blocks.

Termination dividends are not payable under any participating insurance policies issued by Great-West Life.

The policyholder dividends are credited according to the terms of each policy.

Prior to the declaration of policyholder dividends by the Board, the actuary of the Company will confirm that: the proposed policyholder dividends are in accordance with this policyholder dividend policy and in compliance with applicable legislative and regulatory requirements; and applicable professional practice standards have been followed.

As permitted by the Insurance Companies Act, Great-West Life may distribute to the shareholder account a percentage of the amount distributed to policyholders in respect of a financial year.

Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

Approved by The Great-West Life Assurance Company Board of Directors

October 28, 2004

Effective December 31, 2004

## 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 Life's sources of earnings are shown below for 2010 and 2009.

### Sources of Earnings

(in \$ millions)

For the year ended December 31, 2010	Shareholder net income				Total
	Group Insurance	Individual insurance & Investment products	Europe/ Reinsurance	Corporate	
Expected profit on in-force business	\$ 502	\$ 551	\$ 419	\$ 18	\$ 1,490
Impact of new business	–	6	14	–	20
Experience gains and losses	(22)	72	(62)	(47)	(59)
Management actions and changes in assumptions	75	179	133	8	395
Other	–	–	–	–	–
Earnings on surplus	–	–	133	65	198
<b>Net income before tax</b>	<b>555</b>	<b>808</b>	<b>637</b>	<b>44</b>	<b>2,044</b>
Taxes	(160)	(200)	(76)	64	(372)
<b>Net income before non-controlling interests</b>	<b>395</b>	<b>608</b>	<b>561</b>	<b>108</b>	<b>1,672</b>
Non-controlling interests	–	–	–	(7)	(7)
<b>Net income – shareholders</b>	<b>395</b>	<b>608</b>	<b>561</b>	<b>101</b>	<b>1,665</b>
Preferred share dividends	–	–	–	(7)	(7)
<b>Net income – common shareholder before adjustments</b>	<b>395</b>	<b>608</b>	<b>561</b>	<b>94</b>	<b>1,658</b>
Adjustments after tax	–	–	–	(289)	(289)
<b>Net income – common shareholder</b>	<b>\$ 395</b>	<b>\$ 608</b>	<b>\$ 561</b>	<b>\$ (195)</b>	<b>\$ 1,369</b>

**Sources of Earnings**

(in \$ millions)

For the year ended December 31, 2009	Shareholder net income				Total
	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	
Expected profit on in-force business	\$ 488	\$ 453	\$ 462	\$ (5)	\$ 1,398
Impact of new business	–	(15)	10	–	(5)
Experience gains and losses	30	143	(139)	68	102
Management actions and changes in assumptions	52	109	156	6	323
Other	–	–	–	–	–
Earnings on surplus	–	–	161	78	239
<b>Net income before tax</b>	<b>570</b>	<b>690</b>	<b>650</b>	<b>147</b>	<b>2,057</b>
Taxes	(175)	(118)	(42)	29	(306)
<b>Net income before non-controlling interests</b>	<b>395</b>	<b>572</b>	<b>608</b>	<b>176</b>	<b>1,751</b>
Non-controlling interests	–	–	–	(7)	(7)
<b>Net income – shareholders</b>	<b>395</b>	<b>572</b>	<b>608</b>	<b>169</b>	<b>1,744</b>
Preferred share dividends	–	–	–	(9)	(9)
<b>Net income – common shareholder before adjustments</b>	<b>395</b>	<b>572</b>	<b>608</b>	<b>160</b>	<b>1,735</b>
Adjustments after tax	–	–	–	–	–
<b>Net income – common shareholder</b>	<b>\$ 395</b>	<b>\$ 572</b>	<b>\$ 608</b>	<b>\$ 160</b>	<b>\$ 1,735</b>

**Analysis of Results**

Expected profit on in-force business is the major driver of earnings and accounted for 73% of pre-tax earnings in 2010. The expected profit on in-force business of \$1,490 in 2010 was \$92 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 gains of \$20 at issue compared to losses of \$5 in 2009, largely due to improved margins on retirement product sales in Canada and reduced strain on new business in Reinsurance.

Experience losses in 2010 were primarily due to unfavourable investment and expense experience in Europe, policyholder behaviour and Group morbidity experience in Canada and reinsurance claim provisions. 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 \$(59) in 2010 were \$161 lower than in 2009 primarily due to decreased morbidity, life mortality, policyholder behaviour and expense gains partially offset by increases in investment gains.

In 2010 management actions and changes in assumptions contributed \$395 to pre-tax earnings, including \$(3) due to the shareholder portion of valuation assumption changes in the participating lines and \$398 due to valuation assumption changes and management actions in the other lines. The most significant contributors to valuation assumption changes and management actions in these other lines were \$176 due to reduced provisions for asset liability management, \$111 due to modeling refinements, \$108 due to updated expenses and taxes, \$57 due to improved life mortality, \$48 due to improved group insurance morbidity, \$(76) due to increased provisions for policyholder behaviour, \$(18) due to strengthened longevity, and \$(8) due to strengthened provisions for asset default.

In 2009 management actions and changes in assumptions contributed \$323 to pre-tax earnings, including \$20 due to the shareholder portion of valuation assumption changes in the participating lines and \$317 due to valuation assumption changes and management actions for policy liabilities in the other lines. The most significant contributors to valuation assumption changes and management actions for policy liabilities in these other lines were \$263 due to improved individual life mortality, \$220 due to reduced provisions for asset liability matching and \$129 due to modeling refinement in individual life and annuities, \$(164) due to strengthening of asset default and expense, \$(52) due to modeling refinements in reinsurance, \$(52) due to the future tax impact of a change in asset mix targets for long-tail liabilities and \$(30) due to increased provisions for policyholder behaviour.

Earnings on surplus decreased by \$41 in 2010 compared to 2009.

**SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY\***

Name	Principal Office Address	Carrying Value (\$ millions)	Voting Share Ownership
GWL Investment Management Ltd.	Winnipeg, Manitoba	26	100.0%
GWL Realty Advisors Inc.	Winnipeg, Manitoba	–	100.0%
London Insurance Group Inc.	London, Ontario	3,662	100.0%
Canada Life Financial Corporation	Toronto, Ontario	12,633	100.0%

\* The table above depicts the material and certain other subsidiaries of the Company as at December 31, 2010.

## FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)

	2010	2009	2008	2007	2006
<b>At December 31</b>					
Total assets under administration	\$ 192,364	\$ 182,715	\$ 173,184	\$ 179,756	\$ 181,184
<b>For the Year Ended December 31</b>					
Premiums:					
Life insurance, guaranteed annuities and insured health products	\$ 14,550	\$ 15,085	\$ 27,425	\$ 19,221	\$ 15,288
Self-funded premium equivalents (ASO contracts)	2,575	2,499	2,410	2,233	2,145
Segregated funds deposits:					
Individual products	6,643	5,765	6,932	8,544	7,959
Group products	3,744	4,231	3,321	3,311	3,008
Proprietary mutual funds deposits	616	565	708	835	629
Total premiums and deposits	\$ 28,128	\$ 28,145	\$ 40,796	\$ 34,144	\$ 29,029
<b>Condensed Summary of Operations</b>					
<b>Income</b>					
Premium income	\$ 14,550	\$ 15,085	\$ 27,425	\$ 19,221	\$ 15,288
Net investment income					
Regular net investment income	4,538	4,807	4,802	4,321	4,534
Changes in fair value on held for trading assets	3,019	2,637	(4,056)	(1,015)	–
Total net investment income	7,557	7,444	746	3,306	4,534
Fee and other income	1,628	1,599	1,685	1,705	1,508
Total income	23,735	24,128	29,856	24,232	21,330
<b>Benefits and expenses</b>					
Paid or credited to policyholders	18,714	19,226	24,461	18,982	16,456
Other	3,437	2,800	2,851	2,999	2,762
Amortization of finite life intangible assets	47	38	32	18	18
Earnings before income taxes	1,537	2,064	2,512	2,233	2,094
Income taxes	155	289	543	450	385
Net earnings before non-controlling interests	1,382	1,775	1,969	1,783	1,709
Non-controlling interests	7	7	7	7	7
Net earnings	1,375	1,768	1,962	1,776	1,702
Net earnings – participating account	(1)	24	59	129	132
Net earnings – shareholders	1,376	1,744	1,903	1,647	1,570
Preferred share dividends	7	9	9	11	11
Net earnings – common shareholder	\$ 1,369	\$ 1,735	\$ 1,894	\$ 1,636	\$ 1,559
Earnings per common share	\$ 653.92	\$ 830.46	\$ 906.69	\$ 783.48	\$ 746.64
Book value per common share	\$5,453.00	\$ 5,320.00	\$ 5,350.00	\$ 4,889.00	\$ 4,827.00
Dividends to common shareholder – per share	\$ 415.44	\$ 613.78	\$ 465.83	\$ 412.26	\$ 237.64

# DIRECTORS AND OFFICERS

As of December 31, 2010

## BOARD OF DIRECTORS

**Raymond L. McFeetors**<sup>3,4,5,6</sup>  
Chairman of the Board of the Company  
Vice-Chairman,  
Power Financial Corporation

**George S. Bain**<sup>1</sup>  
Corporate Director

**Marcel R. Coutu**<sup>3,4,5</sup>  
President and Chief Executive Officer,  
Canadian Oil Sands Limited

**André Desmarais, O.C., O.Q.**<sup>3,4,5,6</sup>  
Deputy Chairman, President and  
Co-Chief Executive Officer,  
Power Corporation of Canada  
Co-Chairman,  
Power Financial Corporation

**Paul Desmarais, Jr., O.C., O.Q.**<sup>3,4,5,6</sup>  
Chairman and Co-Chief Executive Officer,  
Power Corporation of Canada  
Co-Chairman,  
Power Financial Corporation

**H. David Graves**<sup>3,4,5</sup>  
Chairman and Chief Executive Officer,  
IMRIS Inc.

**Michael L. Hepher**<sup>1,5</sup>  
Corporate Director

**Chaviva M. Hošek, O.C., Ph.D., LL.D.**<sup>1,2</sup>  
President and Chief Executive Officer,  
The Canadian Institute for Advanced Research

**D. Allen Loney, FIA, FCIA**<sup>3,4</sup>  
President and Chief Executive Officer  
of the Company,  
Great-West Lifeco Inc.,  
London Life Insurance Company,  
Canada Life Financial Corporation,  
The Canada Life Assurance Company,  
Crown Life Insurance Company

**Jerry E.A. Nickerson**<sup>1</sup>  
Chairman of the Board,  
H.B. Nickerson & Sons Limited

**David A. Nield**<sup>2,3,4,5,6</sup>  
Corporate Director

**R. Jeffrey Orr**<sup>3,4,5,6</sup>  
President and Chief Executive Officer,  
Power Financial Corporation

**Michel Plessis-Bélair, FCA**<sup>1</sup>  
Vice-Chairman,  
Power Corporation of Canada

**Henri-Paul Rousseau, Ph.D.**<sup>3,4</sup>  
Vice-Chairman,  
Power Corporation of Canada and  
Power Financial Corporation

**Raymond Royer, O.C., O.Q., FCA**<sup>1</sup>  
Corporate Director

**Philip K. Ryan**<sup>1,3,4</sup>  
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.**<sup>2,3</sup>  
President Emeritus,  
University of Manitoba

**Brian E. Walsh**<sup>5</sup>  
Managing Partner,  
Saguenay Capital, LLC

<sup>1</sup> member of the Audit Committee  
<sup>2</sup> member of the Conduct Review Committee  
<sup>3</sup> member of the Executive Committee  
<sup>4</sup> member of the Investment Committee  
<sup>5</sup> member of the Compensation Committee  
<sup>6</sup> member of the Governance and Nominating Committee

## EXECUTIVE OFFICERS

**D. Allen Loney**  
President and Chief Executive Officer

**Paul A. Mahon**  
President and Chief Operating Officer,  
Canada

**Andrew D. Brands**  
Senior Vice-President and  
General Counsel

**Elwood C. Haas**  
Senior Vice-President,  
Corporate Resources

**Arshil Jamal**  
Executive Vice-President  
and Chief Actuary

**Helen R. Kasdorf**  
Senior Vice-President  
and Chief Internal Auditor

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

**Peter G. Munro**  
Executive Vice-President and  
Chief Investment Officer

**Ronald D. Saull**  
Executive Vice-President,  
Chief Information Officer

**Laurie A. Speers**  
Vice-President and  
Corporate Secretary

## **POLICYHOLDER AND SHAREHOLDER INFORMATION**

### **Head Office**

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

### **Financial Information**

For financial information about Great-West Life, please contact the Chief Financial Officer at 204-946-7341.

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit [www.greatwestlife.com](http://www.greatwestlife.com).



A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™



### *Conserving for our future*

To help reduce our environmental footprint, we have printed this report on paper that is certified by the Forest Stewardship Council and manufactured with 30% post-consumer recycled waste fibre.

*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.greatwestlife.com](http://www.greatwestlife.com).*

**DOMTAR EarthChoice®**  
High quality paper with a conscience



Domtar Earth Choice® papers originate from forests independently certified by the Rainforest Alliance as meeting the management standards of the Forest Stewardship Council™.