



The Canada Life Assurance Company

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**2009**  
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 and taxes, as well as 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, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out herein under "Financial Instrument Risk Management", 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 to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention 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, "earnings before restructuring charges", "adjusted net income", "net income – adjusted", "earnings before adjustments", "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. 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 Canadian dollars unless otherwise indicated.

## CORPORATE PROFILE

Founded in 1847, Canada Life was Canada's first domestic life insurance company. Today, Canada Life provides insurance and wealth management products and services in Canada, the United Kingdom, Isle of Man, Ireland and Germany.

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

Canada Life is a leading provider of creditor insurance in Canada for mortgages, loans, credit cards, lines of credit and leases, through leading financial institutions, automobile dealerships and other lending institutions.

In Europe, with roots dating back to 1903, Canada Life provides individuals and their families with a broad range of insurance and wealth management products: 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.

Canada Life is a leading provider of reinsurance solutions for life insurers in the U.S. and in international markets.

Canada Life is a subsidiary of The Great-West Life Assurance Company, which has more than \$182 billion\* in assets under administration.

The companies are members of the Power Financial Corporation group of companies.

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

*\*as of December 31, 2009*

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## DIRECTORS' REPORT

In 2009 Canada Life delivered strong performance compared with our competitors. Our conservative investment practices, and disciplined culture in introducing new products and in expense management have served us well over the long term and position us well for organic growth.

Measures of Canada Life's 2009 performance include:

- Common shareholder net income was \$0.9 billion.
- Policyholder dividends were \$233 million, up 3% over 2008.
- Premiums and deposits remained strong, at \$8.7 billion.
- Fee and other income increased 1% from 2008.
- General account assets were \$64.0 billion, an increase of 4% from 2008.
- Segregated fund net assets increased 6% from 2008, reflecting higher market values.

Canada Life's financial strength is reflected in its Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio. At the end of 2009, Canada Life's MCCSR ratio was 210% compared with 214% in 2008, well above regulatory requirements.

Credit ratings are another important indicator of our financial strength. In 2009, all five agencies that rate Canada Life affirmed the ratings for the Company, with a stable outlook. These rating affirmations put Canada Life in exclusive company, and represent a very positive statement regarding the strength of the Company, given the economic environment over the past year.

### Canada

In 2009, Canada Life maintained a strong market position in our individual insurance and investments businesses. We are well positioned for organic growth through our continued focus on product and service enhancements and expense management.

Despite challenging market conditions, we saw strong, sustained performance in all lines of business. Our individual life insurance and living benefits businesses grew faster than the market, while our individual retirement and investment services business maintained positive net cash flows.

Canada Life's products are distributed through independent advisors associated with managing general agencies, as well as national accounts, including Investors Group. The relationships we have with advisors support the very strong persistency of our business, providing a strategic advantage for us and contributing to strong market share across our lines of business.

Together, Canada Life, Great-West Life and London Life remain Canada's number one provider of individual life insurance.



Raymond L. McFeetors



D. Allen Loney

We 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.

Canada Life, together with Great-West Life and London Life, is a leading provider of individual segregated funds. In 2009, we achieved positive net deposits and launched new segregated fund products including a lifetime income benefit option.

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

Canada Life is the leading provider of creditor insurance in Canada for mortgages, loans, credit cards, lines of credit and leases through leading financial institutions, automobile dealerships and other lending institutions.

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

In 2009, we faced 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 generally improved in 2009, these pressures affected sales volumes. As well, earnings were impacted by the required strengthening of reserves for future asset default risk.

As a result of our focus on credit and expense controls in 2008, our European operations were in a strong position coming into 2009, and this focus was maintained throughout the year. For example, we reduced sales expenses by finding new ways to support our distribution associates. We were also able to take advantage of depressed real estate prices in the U.K., and wider investment spreads, to enhance the yields on our invested assets.

In Germany, Canada Life operates in the independent broker market and is one of the leading insurers for unit-linked products in the broker segment. In 2009 we launched a new product with guaranteed minimum withdrawal benefits, which responds to market needs.

In the U.K., we continued the development of our automated self-serve system (CLASS), which enables distribution associates to quote, issue and renew small group policies, helping maintain our leading position in this market.

Canada Life is a leading provider of traditional mortality, financial and annuity reinsurance solutions to life insurers in the U.S. and in international markets, through its Canada Life Reinsurance division. In Reinsurance, 2009 was a year of growth, as economic and capital markets pressures created demand for reinsurance solutions. 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.

#### **Board of Directors**

At Canada Life's 2009 Annual Meeting of Shareholders and Policyholders it was announced that the following Directors would retire from the Board of Directors, namely: Orest Dackow (*served from 2003*); Kevin Kavanagh (*served from 2003*); Guy St-Germain (*served from 2003*); Daniel Johnson (*served from 2003*); Murray Taylor (*served from 2006*); Peter Harder (*served from 2007*); and Marc Bibeau (*served from 2008*).

Through their participation on the Board and various Board Committees, each of these Directors made a valuable contribution to the affairs of the Company, and we thank them sincerely for their years of service.

At the Annual Meeting four new individuals were elected to the Board of Directors, namely: George Bain, formerly Principal of London Business School and President and Vice-Chancellor of Queen's University, Belfast; Henri-Paul Rousseau, Vice-Chair of Power Corporation; Raymond Royer, formerly President and Chief Executive Officer of Domtar Inc.; and Brian Walsh, founder and Managing Partner of Saguenay Capital LLC.

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



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



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

## FINANCIAL HIGHLIGHTS

(in \$ millions except per share amounts)

	As at or for the three months ended			For the years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	\$ 1,110	\$ 1,023	\$ 1,064	\$ 4,539	\$ 17,348
Segregated funds deposits:					
Individual products	1,177	851	1,140	4,087	4,620
Group products	35	24	29	108	134
Total premiums and deposits	2,322	1,898	2,233	8,734	22,102
Fee and other income	196	202	194	751	747
Paid or credited to policyholders	966	3,919	1,848	7,939	16,234
Summary of net income attributable to:					
Participating account	6	4	(11)	12	(14)
Preferred shareholders	66	65	–	172	–
Common shareholder	300	237	307	868	1,061
<b>Per common share</b>					
Basic earnings	\$ 1.36	\$ 1.06	\$ 1.39	\$ 3.92	\$ 4.79
Dividends paid	0.68	1.13	0.68	3.34	2.36
Book value	20.06	20.06	21.46		
Total assets	\$ 63,976	\$ 64,731	\$ 61,433		
Segregated funds net assets	27,522	27,392	25,896		
Total assets under management	91,498	92,123	87,329		
Other assets under administration <sup>(1)</sup>	1,398	1,450	1,451		
Total assets under administration	\$ 92,896	\$ 93,573	\$ 88,780		
Participating account surplus	\$ 30	\$ 25	\$ 31		
Shareholder equity	8,143	8,141	4,952		
Total participating account surplus and shareholder equity	\$ 8,173	\$ 8,166	\$ 4,983		

(1) Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate in direct proportion with asset levels.

## FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles 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 Canadian generally accepted accounting principles, including the requirements 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 Canadian generally accepted accounting principles, including the requirements 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 is comprised of 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 Shareholder 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 generally accepted accounting principles.



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



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

February 11, 2010

## SUMMARIES OF CONSOLIDATED OPERATIONS

(in \$ millions except per share amounts)

For the years ended December 31

	2009	2008
<b>Income</b>		
Premium income	\$ 4,539	\$ 17,348
Net investment income (note 2)		
Regular net investment income	3,318	3,197
Changes in fair value on held for trading assets	1,719	(2,595)
Total net investment income	5,037	602
Fee and other income	751	747
	<u>10,327</u>	<u>18,697</u>
<b>Benefits and expenses</b>		
Policyholder benefits	5,488	5,806
Policyholder dividends and experience refunds	264	266
Change in actuarial liabilities	2,187	10,162
Total paid or credited to policyholders	7,939	16,234
Commissions	518	509
Operating expenses	492	528
Premium taxes	78	57
Financing charges (note 9)	38	48
Amortization of finite life intangible assets	6	4
	<u>1,256</u>	<u>1,317</u>
<b>Income before income taxes</b>	1,256	1,317
Income taxes – current (note 21)	(13)	241
– future (note 21)	199	40
	<u>1,070</u>	<u>1,036</u>
<b>Net income before non-controlling interests</b>	1,070	1,036
Non-controlling interests (note 14)	18	(11)
	<u>1,052</u>	<u>1,047</u>
<b>Net income</b>	1,052	1,047
Net income (loss) – participating account (note 13)	12	(14)
	<u>1,040</u>	<u>1,061</u>
<b>Net income – shareholders</b>	1,040	1,061
Preferred share dividends	172	–
	<u>\$ 868</u>	<u>\$ 1,061</u>
<b>Net income – common shareholder</b>	\$ 868	\$ 1,061
<b>Earnings per common share</b>	<u>\$ 3.92</u>	<u>\$ 4.79</u>

# CONSOLIDATED BALANCE SHEETS

(in \$ millions)

December 31

2009

2008

## Assets

Bonds (note 2)	\$ 37,639	\$ 35,247
Mortgage loans (note 2)	6,189	6,599
Stocks (note 2)	1,503	1,406
Real estate (note 2)	2,351	2,420
Loans to policyholders	884	923
Cash and cash equivalents	2,654	2,097
Funds held by ceding insurers	10,342	10,434
Goodwill (note 6)	293	310
Intangible assets (note 6)	58	54
Other assets (note 7)	2,063	1,943
<b>General funds assets</b>	<b>\$ 63,976</b>	<b>\$ 61,433</b>
<b>Segregated funds net assets</b>	<b>\$ 27,522</b>	<b>\$ 25,896</b>

## Liabilities

Policy liabilities (note 8)		
Actuarial liabilities	\$ 50,648	\$ 50,917
Provision for claims	677	844
Provision for policyholder dividends	158	171
Provision for experience rating refunds	29	55
Policyholder funds	447	459
	<u>51,959</u>	<u>52,446</u>
Debentures (note 10)	500	500
Funds held under reinsurance contracts	733	689
Other liabilities (note 11)	1,803	2,290
Repurchase agreements	10	–
Deferred net realized gains	88	105
	<u>55,093</u>	<u>56,030</u>
Preferred shares (note 15)	258	–
Capital trust securities and debentures (note 12)	425	416
Non-controlling interests (note 14)	27	4

## Participating account surplus and shareholder equity

Participating account surplus		
Accumulated surplus	26	14
Accumulated other comprehensive income	4	17
Share capital (note 15)	3,902	402
Shareholder surplus		
Accumulated surplus	5,227	5,098
Accumulated other comprehensive loss	(1,067)	(629)
Contributed surplus	81	81
	<u>8,173</u>	<u>4,983</u>

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

	\$ 63,976	\$ 61,433
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## Segregated funds

	\$ 27,522	\$ 25,896
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Approved by the Board:



Director



Director

## CONSOLIDATED STATEMENTS OF SURPLUS

(in \$ millions)

For the years ended December 31

	2009	2008
<b>Participating account surplus</b>		
<b>Accumulated surplus</b>		
Balance, beginning of year	\$ 14	\$ 33
Repatriation of seed capital to shareholder account (note 13)	–	(5)
Net income (loss)	12	(14)
<b>Balance, end of year</b>	<b>\$ 26</b>	<b>\$ 14</b>
<b>Accumulated other comprehensive income, net of income taxes (note 18)</b>		
Balance, beginning of year	\$ 17	\$ 3
Other comprehensive income (loss)	(13)	14
<b>Balance, end of year</b>	<b>\$ 4</b>	<b>\$ 17</b>
<b>Shareholder surplus</b>		
<b>Accumulated surplus</b>		
Balance, beginning of year	\$ 5,098	\$ 4,554
Repatriation of seed capital from participating policyholder account (note 13)	–	5
Net income	1,040	1,061
Dividends to shareholders		
Perpetual preferred shareholders	(172)	–
Common shareholder	(739)	(522)
<b>Balance, end of year</b>	<b>\$ 5,227</b>	<b>\$ 5,098</b>
<b>Accumulated other comprehensive loss, net of income taxes (note 18)</b>		
Balance, beginning of year	\$ (629)	\$ (558)
Other comprehensive loss	(438)	(71)
<b>Balance, end of year</b>	<b>\$ (1,067)</b>	<b>\$ (629)</b>
<b>Contributed surplus</b>		
Balance, beginning and end of year	\$ 81	\$ 81

## SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in \$ millions)

For the years ended December 31

	2009	2008
<b>Net income</b>	<b>\$ 1,052</b>	<b>\$ 1,047</b>
<b>Other comprehensive income (loss), net of income taxes</b>		
Unrealized foreign exchange gains (losses) on translation of foreign operations	(346)	(27)
Unrealized gains (losses) on available for sale assets	(43)	(7)
Realized (gains) losses on available for sale assets	(61)	(23)
Unrealized gains (losses) on cash flow hedges	(1)	–
	(451)	(57)
<b>Comprehensive income</b>	<b>\$ 601</b>	<b>\$ 990</b>
<b>Income tax (expense) benefit included in other comprehensive income</b>		
	2009	2008
Unrealized foreign exchange gains (losses) on translation of foreign operations	\$ 6	\$ –
Unrealized gains (losses) on available for sale assets	3	10
Realized (gains) losses on available for sale assets	17	8
	\$ 26	\$ 18

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in \$ millions)

For the years ended December 31

2009

2008

## Operations

Net income	\$ 1,052	\$ 1,047
Adjustments:		
Change in policy liabilities	2,042	(2,232)
Change in funds held by ceding insurers	(79)	794
Change in funds held under reinsurance contracts	150	297
Change in current income taxes payable	(79)	69
Future income tax expense	199	40
Changes in fair value of financial instruments	(1,719)	2,595
Other	(381)	(472)
Cash flows from operations	1,185	2,138

## Financing Activities

Issue of preferred shares to parent	3,500	200
Issue of preferred share liability to parent	258	–
Issue (repayment) of promissory note payable to related party (note 19)	(32)	138
Repayment of commercial paper and other loans	–	(200)
Dividends paid	(754)	(522)
	2,972	(384)

## Investment Activities

Bond sales and maturities	7,431	7,219
Mortgage loan repayments	654	764
Stock sales	870	578
Real estate sales	–	84
Change in loans to policyholders	(25)	(25)
Notes receivable from related party (note 19)	(3,760)	(200)
Investment in bonds	(7,278)	(8,159)
Investment in mortgage loans	(500)	(1,238)
Investment in stocks	(713)	(699)
Investment in real estate	(95)	(864)
	(3,416)	(2,540)

Effect of changes in exchange rates on cash and cash equivalents	(184)	15
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<b>Increase (decrease) in cash and cash equivalents</b>	<b>557</b>	<b>(771)</b>
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<b>Cash and cash equivalents, beginning of year</b>	<b>2,097</b>	<b>2,868</b>
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<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,654</b>	<b>\$ 2,097</b>
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## Supplementary cash flow information

Income taxes paid	\$ 105	\$ 216
Interest paid	\$ 37	\$ 48

## SEGREGATED FUNDS – CONSOLIDATED NET ASSETS

(in \$ millions)

December 31	2009	2008
Bonds	\$ 2,628	\$ 2,523
Stocks	20,742	18,903
Real estate	917	1,323
Cash and cash equivalents	3,292	3,102
Income due and accrued	77	182
Other liabilities	(134)	(137)
	<u>\$ 27,522</u>	<u>\$ 25,896</u>

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

(in \$ millions)

For the years ended December 31	2009	2008
<b>Segregated funds net assets, beginning of year</b>	<b>\$ 25,896</b>	<b>\$ 31,069</b>
Additions (deductions):		
Policyholder deposits	4,195	4,754
Net investment income	49	184
Net realized capital gains (losses) on investments	889	(2,010)
Net unrealized capital gains (losses) on investments	1,470	(4,034)
Unrealized gains (losses) due to change in foreign exchange rates	(1,745)	(422)
Policyholder withdrawals	(3,225)	(3,638)
Net transfer from General Fund	(7)	(7)
	<u>1,626</u>	<u>(5,173)</u>
<b>Segregated funds net assets, end of year</b>	<b>\$ 27,522</b>	<b>\$ 25,896</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in \$ millions except per share amounts)

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

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The consolidated financial statements of The Canada Life Assurance Company (Canada 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, including the accounting requirements of OSFI. The principal subsidiaries at December 31, 2009 are:

- Canada Life Capital Corporation Inc.
- The Canada Life Insurance Company of Canada (CLICC)
- Laketon Investment Management Ltd. (Laketon)
- Crown Life Insurance Company

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of policy liabilities, certain financial assets and liabilities, goodwill, 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. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

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

#### ***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 have been reclassified to intangible assets and amortization on software costs previously included in operating expenses has been reclassified to amortization of finite life intangible assets.

#### ***Financial Instruments – Recognition and Measurement***

For the year ended December 31, 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 that 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.

#### ***Capital Disclosures***

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

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

**Financial Instrument Disclosure and Presentation**

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

**(b) Portfolio Investments**

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

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

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

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 a moving average market value adjustment of \$48 (\$98 in 2008) 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 are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to 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 assets are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

**(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 income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net income.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents are comprised of 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 22, 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 7 and 11). 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 underlying hedged item.

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

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

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

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

***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 to 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 income. 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 intangible assets of acquired subsidiaries of the Company and software acquired or developed internally by the Company. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 30 and 10 years, respectively. The Company tests goodwill 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. 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.

**(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 the segregated fund assets 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 \$9 (\$9 in 2008).

**(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 provision 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 8.

**(n) Participating Account**

The participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by the Company 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 is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net income.

The second main division 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 the 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 shareholders surplus. A reasonable rate of return on seed capital is recognized as income on 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 21).

**(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 cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 17).

The Company also provides post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 17).

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

**(r) Stock Based Compensation**

Great-West Lifeco Inc. (Lifeco) has a stock option plan (the Lifeco stock option plan) that provided for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates. The Company follows the fair value method of accounting for the valuation of compensation expense granted to employees under its stock option plan. Compensation expense is recognized over the vesting period of the granted options.

**(s) Earnings Per Common Share**

Earnings per common share is calculated using net income after preferred share dividends and the weighted-average number of common shares outstanding of 221,412,059 in 2008 and 2009.

**(t) Comparative Figures**

Certain of the 2008 amounts presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year as a result of the reclassification in note 1(a) and certain other reclassifications. On the Consolidated Balance Sheets these reclassifications resulted in a decrease to other assets of \$736 at December 31, 2008 with an increase to bonds of \$710 and an increase to intangible assets of \$26. On the Summaries of Consolidated Operations these reclassifications resulted in an increase to the amortization of finite life intangible assets of \$3 with a corresponding decrease to operating expenses for the year ended December 31, 2008.

**(u) Future Accounting Policies**

***International Financial Reporting Standards (IFRS)***

The Canadian Accounting Standards Board has mandated that all Canadian publicly accountable entities are required to transition from Canadian generally accepted accounting principles (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 continues to evaluate the financial statement impact of transitioning from Canadian GAAP to IFRS and the related effect on its information systems and processes. Until this effort is complete, the impact of adopting IFRS and the related effects on the Company's consolidated financial statements cannot be reasonably determined.

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 before 2011. As a consequence, the Company will continue to measure insurance liabilities using CALM until such time when a new IFRS standard for insurance contract measurement is issued.



2. Portfolio Investments (cont'd)

During 2008, the Company concluded that an internal model would result in a more representative measurement of fair market value for a portfolio of bonds. An external valuation source was previously used. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

(b) Included in portfolio investments are the following:

(i) Impaired investments

	2009		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type <sup>(1)</sup>			
Held for trading	\$ 163	\$ (106)	\$ 57
Available for sale	13	(7)	6
Loans and receivables	113	(32)	81
<b>Total</b>	<b>\$ 289</b>	<b>\$ (145)</b>	<b>\$ 144</b>
	2008		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type <sup>(1)</sup>			
Held for trading	\$ 82	\$ (67)	\$ 15
Loans and receivables	50	(26)	24
<b>Total</b>	<b>\$ 132</b>	<b>\$ (93)</b>	<b>\$ 39</b>

Impaired investments include \$46 gross amount of capital securities that have deferred coupons on a non-cumulative basis.

(1) Excludes amounts in funds held by ceding insurers of \$10 and impairment of \$(4) at December 31, 2009 and \$15 and \$(11), respectively at December 31, 2008.

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

	2009			2008		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	\$ 8	\$ 18	\$ 26	\$ 9	\$ 10	\$ 19
Net provision (recoveries) for credit losses – in year	5	13	18	1	6	7
Write-offs, net of recoveries	–	(8)	(8)	(3)	–	(3)
Other (including foreign exchange rate changes)	(2)	(2)	(4)	1	2	3
Balance, end of year	<b>\$ 11</b>	<b>\$ 21</b>	<b>\$ 32</b>	<b>\$ 8</b>	<b>\$ 18</b>	<b>\$ 26</b>

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

(iii) 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:

	2009	2008
Bonds with equity conversion features	\$ 169	\$ –

(c) Net investment income is comprised of the following:

2009	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,577	\$ 365	\$ 51	\$ 134	\$ 188	\$ 3,315
Net realized gains (losses) <i>(available for sale)</i>	82	–	(4)	–	–	78
Net realized gains (losses) <i>(other classifications)</i>	1	11	–	–	–	12
Amortization of net realized/unrealized gains <i>(non-financial instruments)</i>	–	–	–	(37)	–	(37)
Net (provision) recovery of credit losses <i>(loans and receivables)</i>	(5)	(13)	–	–	–	(18)
Other income and expenses	–	–	–	–	(32)	(32)
	2,655	363	47	97	156	3,318
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) <i>(classified held for trading)</i>	1	–	–	–	–	1
Net realized/unrealized gains (losses) <i>(designated held for trading)</i>	1,293	–	286	–	139	1,718
	1,294	–	286	–	139	1,719
<b>Net investment income</b>	<b>\$ 3,949</b>	<b>\$ 363</b>	<b>\$ 333</b>	<b>\$ 97</b>	<b>\$ 295</b>	<b>\$ 5,037</b>

2008	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,479	\$ 420	\$ 51	\$ 117	\$ 108	\$ 3,175
Net realized gains (losses) <i>(available for sale)</i>	30	–	1	–	–	31
Net realized gains (losses) <i>(other classifications)</i>	16	15	–	–	–	31
Amortization of net realized/unrealized gains <i>(non-financial instruments)</i>	–	–	–	(2)	–	(2)
Net (provision) recovery of credit losses <i>(loans and receivables)</i>	(1)	(6)	–	–	–	(7)
Other income and expenses	–	–	–	–	(31)	(31)
	2,524	429	52	115	77	3,197
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) <i>(classified held for trading)</i>	2	–	–	–	–	2
Net realized/unrealized gains (losses) <i>(designated held for trading)</i>	(2,125)	–	(477)	–	5	(2,597)
	(2,123)	–	(477)	–	5	(2,595)
<b>Net investment income</b>	<b>\$ 401</b>	<b>\$ 429</b>	<b>\$ (425)</b>	<b>\$ 115</b>	<b>\$ 82</b>	<b>\$ 602</b>

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

### 3. 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.

	2009	2008
Cash and cash equivalents	\$ 2,654	\$ 2,097
Bonds		
Held for trading	28,543	28,934
Available for sale	1,634	2,483
Amortized cost	7,462	3,830
Mortgage loans	6,189	6,599
Loans to policyholders	884	923
Other financial assets	11,447	11,372
Derivative assets	385	318
Total balance sheet maximum credit exposure	<u>\$ 59,198</u>	<u>\$ 56,556</u>

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. Derivative assets are reduced by \$35 of collateral received in 2009 and increased by \$25 of collateral paid in 2008.

#### (ii) Concentration of Credit Risk

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

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

	2009			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Canadian federal government	\$ 789	\$ –	\$ –	\$ 789
Canadian provincial and municipal governments	2,012	23	5	2,040
U.S. Treasury and other U.S. agencies	207	594	420	1,221
Other foreign governments	61	5,773	–	5,834
Government related	319	1,372	–	1,691
Sovereign	404	762	4	1,170
Asset-backed securities	960	725	432	2,117
Residential mortgage backed securities	–	60	79	139
Banks	289	2,218	39	2,546
Other financial institutions	4,410	1,693	124	6,227
Basic materials	89	144	70	303
Communications	136	451	37	624
Consumer products	840	1,534	214	2,588
Industrial products/services	175	156	117	448
Natural resources	371	507	77	955
Real estate	197	1,216	–	1,413
Transportation	736	518	80	1,334
Utilities	1,476	2,556	371	4,403
Miscellaneous	952	128	36	1,116
Total long term bonds	14,423	20,430	2,105	36,958
Short term bonds	545	136	–	681
	<b>\$ 14,968</b>	<b>\$ 20,566</b>	<b>\$ 2,105</b>	<b>\$ 37,639</b>
	2008			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Canadian federal government	\$ 875	\$ 1	\$ –	\$ 876
Canadian provincial and municipal governments	2,231	27	6	2,264
U.S. Treasury and other U.S. agencies	288	758	543	1,589
Other foreign governments	72	6,691	–	6,763
Government related	326	820	–	1,146
Sovereign	480	834	7	1,321
Asset-backed securities	950	716	460	2,126
Residential mortgage backed securities	2	73	92	167
Banks	305	2,446	93	2,844
Other financial institutions	934	1,434	124	2,492
Basic materials	78	131	74	283
Communications	119	364	52	535
Consumer products	742	1,508	240	2,490
Industrial products/services	209	576	117	902
Natural resources	316	509	72	897
Real estate	197	1,148	–	1,345
Transportation	691	600	63	1,354
Utilities	1,224	2,407	347	3,978
Miscellaneous	901	127	26	1,054
Total long term bonds	10,940	21,170	2,316	34,426
Short term bonds	575	161	85	821
	<b>\$ 11,515</b>	<b>\$ 21,331</b>	<b>\$ 2,401</b>	<b>\$ 35,247</b>

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

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

	2009			
	Single family residential	Multi-family residential	Commercial	Total
Canada	\$ 193	\$ 1,081	\$ 1,938	\$ 3,212
United States	–	91	240	331
Europe/Reinsurance	–	29	2,617	2,646
<b>Total Mortgage Loans</b>	<b>\$ 193</b>	<b>\$ 1,201</b>	<b>\$ 4,795</b>	<b>\$ 6,189</b>

	2008			
	Single family residential	Multi-family residential	Commercial	Total
Canada	\$ 188	\$ 1,162	\$ 2,076	\$ 3,426
United States	–	114	307	421
Europe/Reinsurance	–	35	2,717	2,752
<b>Total Mortgage Loans</b>	<b>\$ 188</b>	<b>\$ 1,311</b>	<b>\$ 5,100</b>	<b>\$ 6,599</b>

## (iii) Asset Quality

**Bond Portfolio Quality**

	2009	2008
AAA	\$ 11,210	\$ 13,367
AA	5,875	6,563
A	15,244	10,907
BBB	4,055	3,515
BB and lower	574	74
	<b>36,958</b>	<b>34,426</b>
Short term bonds	681	821
<b>Total bonds</b>	<b>\$ 37,639</b>	<b>\$ 35,247</b>

**Derivative Portfolio Quality**

	2009	2008
Over-the-counter contracts (counterparty ratings):		
AA	\$ 248	\$ 132
A	172	161
<b>Total</b>	<b>\$ 420</b>	<b>\$ 293</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:

	2009	2008
Less than 30 days	\$ 41	\$ 48
30–90 days	6	–
90 days and greater	7	–
<b>Total</b>	<b>\$ 54</b>	<b>\$ 48</b>

## (v) Performing Securities Subject to Deferred Coupons

	Payment Resumption Date		
	< 1 year	1 to 2 years	> 2 years
Coupon payment receivable	\$ –	\$ –	\$ 1

**(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 86% 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	\$ 500	\$ –	\$ –	\$ –	\$ –	\$ 500	\$ –
Capital trust debentures <sup>(1)</sup>	450	–	–	–	–	450	–
Purchase obligations	3	3	–	–	–	–	–
Pension contributions	38	38	–	–	–	–	–
	<u>\$ 991</u>	<u>\$ 41</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 950</u>	<u>\$ –</u>

(1) Payments due have not been reduced to reflect the Company held capital trust securities of \$25 principal amount (\$25 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 income. 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 income.

**(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.

3. Financial Instrument Risk Management (cont'd)

- 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 as 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.

Cash flows from fixed income assets are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.30% (0.20% in 2008). 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:

	2009	2008
Participating	\$ 130	\$ 133
Non-participating	1,349	909
	<u>\$ 1,479</u>	<u>\$ 1,042</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 income 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 \$8 causing a decrease in net income of approximately \$9.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately \$218 causing a decrease in net income of approximately \$146.

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 reinsurance treaties and a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees consisting of purchasing equity futures, currency forwards, and interest rate swaps. 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 \$27 causing an increase in net income of approximately \$21. A 10% decrease in equity markets would be expected to additionally increase non-participating policy liabilities by approximately \$53 causing a decrease in net income of approximately \$39.

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 \$267 causing an increase in net income of approximately \$197. A 1% decrease in the best estimate assumption would be expected to increase non-participating policy liabilities by approximately \$284 causing a decrease in net income of approximately \$209.

#### 4. 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, certain asset backed securities (ABS) and some over the counter derivatives.

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

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

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

	Assets and Liabilities Measured at Fair Value			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Financial assets at fair value through net income				
Bonds	\$ –	\$ 28,463	\$ 80	\$ 28,543
Stocks	1,278	–	29	1,307
Total financial assets at fair value through net income	1,278	28,463	109	29,850
Available for sale financial assets				
Bonds	–	1,631	3	1,634
Stocks	63	–	1	64
Total available for sale financial assets	63	1,631	4	1,698
Other assets – derivatives	–	403	17	420
Total assets measured at fair value	\$ 1,341	\$ 30,497	\$ 130	\$ 31,968
<b>Liabilities measured at fair value</b>				
Other liabilities – derivatives	\$ –	\$ 162	\$ –	\$ 162

## 4. Financial Instrument Fair Value Measurement (con't)

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 year ended December 31, 2009:

	Level 3 Financial Assets and Liabilities				
	Held for trading bonds	Available for sale bonds	Other assets – derivatives	Held for trading stocks	Available for sale stocks
Balance, January 1, 2009	\$ 123	\$ 9	\$ 18	\$ 15	\$ 1
Total gains/(losses)					
Included in net income	–	–	(1)	(3)	–
Included in other comprehensive income	–	2	–	–	–
Purchases	–	–	–	17	–
Sales	(1)	–	–	–	–
Settlements	(10)	–	–	–	–
Transfers in to level 3	14	2	–	–	–
Transfers out of level 3	(46)	(10)	–	–	–
Balance, December 31, 2009	\$ 80	\$ 3	\$ 17	\$ 29	\$ 1
Total gains/(losses) for the year included in net income for assets held at December 31, 2009	\$ 1	\$ –	\$ (1)	\$ (3)	\$ –

**5. Pledging of Assets**

The amount of assets which have a security interest by way of pledging is \$2 (\$2 in 2008), in respect of derivative transactions and \$595 (\$600 in 2008), in respect of reinsurance agreements.

**6. 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:

	2009	2008
Balance, beginning of year	\$ 310	\$ 320
Changes in foreign exchange rates	(17)	(10)
Balance, end of year	\$ 293	\$ 310

**(b) Intangible Assets**

The carrying value of intangible assets relating to distribution channels and software and changes in the carrying value of intangible assets are as follows:

	2009	2008
Cost	\$ 109	\$ 99
Accumulated amortization	(50)	(46)
Changes in foreign exchange rates	(1)	1
Carrying value, end of year	\$ 58	\$ 54

**7. Other Assets**

Other assets consist of the following:

	2009	2008
Premiums in course of collection	\$ 110	\$ 128
Interest due and accrued	720	621
Derivative financial instruments	385	318
Current income taxes	146	78
Future income taxes (note 21)	215	353
Fixed assets	19	26
Prepaid expenses	1	–
Accounts receivable	129	111
Accrued pension asset (note 17)	338	308
	\$ 2,063	\$ 1,943

**8. Policy Liabilities**

**(a) Composition of Policy Liabilities and Related Supporting Assets**

(i) The composition of policy liabilities is as follows:

	Participating		Non-participating		Total	
	2009	2008	2009	2008	2009	2008
Individual Insurance & Investment Products	\$ 4,535	\$ 4,308	\$ 9,839	\$ 9,258	\$ 14,374	\$ 13,566
Group Insurance	–	–	1,456	1,465	1,456	1,465
Europe/Reinsurance	1,428	1,665	32,006	32,721	33,434	34,386
United States	1,483	1,627	1,212	1,402	2,695	3,029
Total	\$ 7,446	\$ 7,600	\$ 44,513	\$ 44,846	\$ 51,959	\$ 52,446

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

	2009					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
<b>Carrying value</b>						
Participating	\$ 4,824	\$ 1,019	\$ 640	\$ 79	\$ 884	\$ 7,446
Non-participating						
Individual Insurance & Investment Products	6,664	2,035	582	–	558	9,839
Group Insurance	1,053	330	–	–	73	1,456
Europe/Reinsurance	16,383	2,314	131	1,770	11,408	32,006
United States	843	175	–	–	194	1,212
Other liabilities	2,416	159	15	97	1,157	3,844
Participating account surplus	30	–	–	–	–	30
Shareholder equity	5,426	157	135	405	2,020	8,143
<b>Total carrying value</b>	<b>\$ 37,639</b>	<b>\$ 6,189</b>	<b>\$ 1,503</b>	<b>\$ 2,351</b>	<b>\$ 16,294</b>	<b>\$ 63,976</b>
<b>Market value</b>	<b>\$ 37,773</b>	<b>\$ 6,266</b>	<b>\$ 1,503</b>	<b>\$ 2,143</b>	<b>\$ 16,294</b>	<b>\$ 63,979</b>
	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
<b>Carrying value</b>						
Participating	\$ 4,957	\$ 1,082	\$ 534	\$ 76	\$ 951	\$ 7,600
Non-participating						
Individual Insurance & Investment Products	6,246	2,110	481	–	421	9,258
Group Insurance	914	396	–	–	155	1,465
Europe/Reinsurance	16,476	2,311	158	1,824	11,952	32,721
United States	980	219	–	–	203	1,402
Other liabilities	2,145	210	–	116	1,533	4,004
Participating account surplus	31	–	–	–	–	31
Shareholder equity	3,498	271	233	404	546	4,952
<b>Total carrying value</b>	<b>\$ 35,247</b>	<b>\$ 6,599</b>	<b>\$ 1,406</b>	<b>\$ 2,420</b>	<b>\$ 15,761</b>	<b>\$ 61,433</b>
<b>Market value</b>	<b>\$ 35,120</b>	<b>\$ 6,738</b>	<b>\$ 1,406</b>	<b>\$ 2,091</b>	<b>\$ 15,761</b>	<b>\$ 61,116</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.

## 8. 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	
	2009	2008	2009	2008	2009	2008
<b>Balance, beginning of year</b>	\$ 7,600	\$ 7,202	\$ 44,846	\$ 37,483	\$ 52,446	\$ 44,685
Impact of new business	(48)	(32)	1,510	2,198	1,462	2,166
Normal change in force	325	11	576	(4,254)	901	(4,243)
Management action and changes in assumptions	(43)	2	(259)	135	(302)	137
Business movement from/to affiliates	-	-	4	1	4	1
Business movement from/to external parties	-	-	(9)	12,162	(9)	12,162
Impact of foreign exchange rate changes	(388)	417	(2,155)	(2,879)	(2,543)	(2,462)
<b>Balance, end of year</b>	\$ 7,446	\$ 7,600	\$ 44,513	\$ 44,846	\$ 51,959	\$ 52,446

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 2009, the major contributors to the decrease in policy liabilities was the impact of foreign exchange rates, management actions and assumption changes largely offset by the impact of new business and the normal change in the in force business.

Non-participating policy liabilities decreased by \$259 in 2009 due to management actions and assumption changes. The decrease was primarily due to improved Individual Life mortality (\$219 decrease), reduced provisions for asset liability matching (\$194 decrease), modeling refinements in annuities (\$118 decrease) and improved expenses (\$34 decrease) partially offset by strengthening of asset default and expense (\$163 increase), modeling refinements in reinsurance (\$52 increase), increased provisions for morbidity (\$37 increase), increased provisions for policyholder behavior (\$25 increase) and the future tax impact of a change in asset mix targets for long-tail liabilities (\$23 increase).

Participating policy liabilities decreased by \$43 in 2009 due to management actions and assumption changes. This decrease was primarily due to a decrease in the provision for future policyholder dividends (\$184 decrease) and improved life mortality (\$24 decrease) partially offset by lowered investment returns (\$179 increase).

In 2008, the major contributors to the increase in policy liabilities were the reinsurance of a large block of U.K. payout annuities from Standard Life Assurance Limited and the impact of new business, partially offset by the normal change in the in force business and the impact of foreign exchange rates.

Non-participating policy liabilities increased by \$135 in 2008 due to management actions and assumption changes. This increase was primarily due to strengthened life annuitant mortality in Europe (\$203 increase), strengthened provisions for asset liability matching (\$147 increase) and strengthened provisions for asset default (\$108 increase), partially offset by improved morbidity (\$76 decrease), Canadian & U.S. life mortality (\$122 decrease) and two annuitant mortality risk transfer agreements (\$98 decrease).

Participating policy liabilities were largely unchanged in 2008 due to management actions and assumption changes. This was primarily due to improved life mortality (\$66 decrease) almost totally offset by lowered investment returns (\$35 increase), strengthened expenses and taxes (\$15 increase) and an increase in the provision for future policyholder dividends (\$15 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 \$120 causing a decrease in net income of approximately \$94.

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 \$214 causing a decrease in net income of approximately \$173.

#### **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 \$81 causing a decrease in net income of approximately \$58.

#### **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 3(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 \$38 causing a decrease in net income of approximately \$28.

#### **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 \$170 causing a decrease in net income of approximately \$120.

#### **Utilization of elective policy options**

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

#### **Policyholder dividends and adjustable policy features**

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

#### **(d) Ceded Reinsurance**

Maximum benefit amount limits per insured life (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.

8. Policy Liabilities (cont'd)

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

	2009	2008
Participating	\$ 16	\$ 14
Non-participating	5,639	5,345
	<u>\$ 5,655</u>	<u>\$ 5,359</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.

**9. Financing Charges**

Financing charges consist of the following:

	2009	2008
Interest on debentures	\$ 6	\$ 18
Dividends on preferred shares classified as liabilities	1	-
Interest on capital trust debentures	31	31
Other	2	1
Distributions on capital trust securities held as temporary investments	(2)	(2)
Total	<u>\$ 38</u>	<u>\$ 48</u>

**10. Debentures**

Debentures consist of the following:

	2009		2008	
	Carrying value	Market value	Carrying value	Market value
<b>Long term</b>				
<b>Capital:</b>				
6.40% subordinated debentures due December 11, 2028, unsecured	\$ 100	\$ 105	\$ 100	\$ 86
Subordinated note due September 29, 2026 non-interest bearing (note 19)	400	400	400	400
<b>Total debentures</b>	<u>\$ 500</u>	<u>\$ 505</u>	<u>\$ 500</u>	<u>\$ 486</u>

On December 11, 2008, Canada Life repaid \$200 principal amount of its 5.8% subordinated debentures.

**11. Other Liabilities**

Other liabilities consist of the following:

	2009	2008
Current income taxes	\$ 141	\$ 153
Accounts payable	235	251
Pension and other post-retirement benefits (note 17)	100	109
Future income taxes (note 21)	268	219
Derivative financial instruments	162	535
Other	897	1,023
	<u>\$ 1,803</u>	<u>\$ 2,290</u>

**12. Capital Trust Securities and Debentures**

	2009		2008	
	Carrying value	Market value	Carrying value	Market value
<b>Capital trust debentures</b>				
6.679% Senior debentures due June 30, 2052, unsecured	\$ 300	\$ 331	\$ 300	\$ 315
7.529% Senior debentures due June 30, 2052, unsecured	150	186	150	156
	<u>450</u>	<u>517</u>	<u>450</u>	<u>471</u>
Capital trust securities held as temporary investments	(25)	(28)	(34)	(31)
Total	<u>\$ 425</u>	<u>\$ 489</u>	<u>\$ 416</u>	<u>\$ 440</u>

Canada Life Capital Trust (CLCT), a trust established by Canada Life, has 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.

**13. Participating Account**

Income attributable to the participating account reflected in the Summaries of Consolidated Operations is as follows:

	2009	2008
Net income participating account before policyholder dividends	\$ 245	\$ 212
Policyholder dividends	(233)	(226)
Net income (loss) – participating account	<u>\$ 12</u>	<u>\$ (14)</u>

During 2008, \$5 of seed capital related to the Canadian open block of the participating policyholder account, together with accrued interest of \$3 after tax, was transferred from the participating policyholder account to the shareholder account. The repatriation (exclusive of interest) resulted in an increase in shareholder surplus of \$5 and a decrease in participating policyholder surplus of \$5.

**14. Non-Controlling Interests**

The Company's parent, The Great-West Life Assurance Company (Great-West Life) had a non-controlling equity interest in MAM Holdings Inc., an indirectly held subsidiary of the Company, at December 31, 2009 and 2008. The non-controlling interests reflected in the Summaries of Consolidated Operations for the year ended December 31, 2009 was \$18 ((\$11) for the year ended December 31, 2008). Non-controlling interests on the Consolidated Balance Sheets for December 31, 2009 was \$27 (\$4 at December 31, 2008).

**15. Share Capital**

Authorized

Unlimited Class A Shares, Class B Shares, Class C Shares,  
Class D Shares, Class E Shares, Class F Shares  
Unlimited Common Shares

	2009		2008	
	Number	Carrying value	Number	Carrying value
Issued and outstanding				
Classified as liabilities				
Preferred shares:				
Series B, Series 3, 5.37% Cumulative Preferred shares	10,311,000	\$ 258	–	\$ –
Classified as equity				
Preferred shares:				
Series A, Series 1, Non-Cumulative	18,000	\$ –	18,000	\$ –
Series B, Series 1, 7.23% Cumulative	8,000,000	200	8,000,000	200
Series B, Series 2, 7.00% Cumulative	140,000,000	3,500	–	–
	<u>148,018,000</u>	<u>\$ 3,700</u>	<u>8,018,000</u>	<u>\$ 200</u>
Common shares	<u>221,412,059</u>	<u>\$ 202</u>	<u>221,412,059</u>	<u>\$ 202</u>

The Class A Series 1 Non-Cumulative Preferred Shares are redeemable at the option of the Company for a price of \$25 per share on the later of 2007 and the date on which there are no CLiCS (note 12) outstanding, subject to regulatory approval.

The Class B, Series 1, 7.23% cumulative preferred shares are redeemable at the option of the Company for \$25 per share together with all unpaid dividends.

On May 12, 2009, the Company issued 140,000,000 Class B, Series 2 7.0% cumulative preferred shares to its parent Canada Life Financial Corporation (CLFC), for a value of \$3,500 or \$25 per share. The shares are redeemable at the option of the Company at any time for \$25 per share together with all unpaid dividends, whether or not declared, which have accrued thereon to the date of redemption.

On December 18, 2009 the Company issued 10,311,000 Class B, Series 3 5.37% cumulative shares to CLFC, for a value of \$258 or \$25 per share. The shares issued are redeemable at the option of the company for \$25 per share together with all unpaid dividends, whether or not declared, which have accrued thereon to the date of redemption.

**16. Capital Management**

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

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

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).

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline. The following table provides the MCCSR information and ratios for Canada Life:

	2009	2008
<b>Capital Available:</b>		
<b>Tier 1 Capital</b>		
Common shares	\$ 202	\$ 202
Shareholder surplus	5,307	5,179
Qualifying non-controlling interests	27	4
Innovative instruments	425	416
Other Tier 1 Capital Elements	(1,025)	(622)
Gross Tier 1 Capital	4,936	5,179
<b>Deductions from Tier 1:</b>		
Goodwill & intangible assets in excess of limit	293	310
Other deductions	734	912
<b>Net Tier 1 Capital</b>	3,909	3,957
Adjustments to Net Tier 1 Capital	(5)	–
<b>Adjusted Net Tier 1 Capital</b>	3,904	3,957
<b>Tier 2 Capital</b>		
Tier 2A	120	168
Tier 2B allowed	500	500
Tier 2C	717	859
Tier 2 deductions	(5)	–
<b>Tier 2 Capital Allowed</b>	1,332	1,527
<b>Total Tier 1 and Tier 2 Capital</b>	5,236	5,484
<b>Less: Deductions/Adjustments</b>	–	12
<b>Total Available Capital</b>	\$ 5,236	\$ 5,472
<b>Capital Required:</b>		
Assets Default & market risk	\$ 868	\$ 865
Insurance Risks	1,083	1,149
Interest Rate Risks	536	541
Other	10	–
<b>Total Capital Required</b>	\$ 2,497	\$ 2,555
<b>MCCSR ratios:</b>		
<b>Tier 1</b>	156%	155%
<b>Total</b>	210%	214%

As at December 31, 2009 and 2008 the Company maintained capital levels above the minimum local requirements in its other foreign operations. The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

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

#### **17. Pension Plans and Other Post-Retirement Benefits**

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The Company maintains contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company also maintains defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans. 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. 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 also provides 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. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. 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.

The Company has declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

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

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit pension plans at December 31, 2009 and 2008:

**(a) Plan Assets, Benefit Obligation and Funded Status**

	Defined benefit pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
<b>Change in Plan Assets</b>				
Fair value of assets, beginning of year	\$ 1,281	\$ 1,480	\$ –	\$ –
Employee contributions	5	5	–	–
Employer contributions	46	31	5	5
Return on plan assets	182	(183)	–	–
Benefits paid	(59)	(54)	(5)	(5)
Foreign exchange rate changes	(30)	2	–	–
Fair value of assets, end of year	\$ 1,425	\$ 1,281	\$ –	\$ –
<b>Change in Accrued Benefit Obligation</b>				
Accrued benefit obligation, beginning of year	\$ 1,108	\$ 1,204	\$ 77	\$ 89
Employer current service cost	13	21	–	–
Employee contributions	5	5	–	–
Interest on accrued benefit obligation	67	70	5	5
Actuarial (gains) losses	138	(141)	3	(12)
Benefits paid	(59)	(54)	(5)	(5)
Foreign exchange rate changes	(39)	3	–	–
Accrued benefit obligation, end of year	\$ 1,233	\$ 1,108	\$ 80	\$ 77
<b>Net funded status</b>				
	\$ 192	\$ 173	\$ (80)	\$ (77)
Employer contributions after measurement date	–	7	–	–
Unamortized past service costs (credits)	(15)	(17)	(5)	(5)
Unamortized net (gains) losses	324	323	(12)	(17)
Unamortized transitional obligation (asset)	(94)	(117)	(3)	(3)
Valuation allowance	(69)	(68)	–	–
Accrued benefit asset (liability)	\$ 338	\$ 301	\$ (100)	\$ (102)
Recorded in:				
Other assets	\$ 338	\$ 308	\$ –	\$ –
Other liabilities	–	(7)	(100)	(102)
Accrued benefit asset (liability)	\$ 338	\$ 301	\$ (100)	\$ (102)
<b>Plans with accrued benefit obligations in excess of plan assets <sup>(1)</sup>:</b>				
<b>Plans With Plan Assets</b>				
Fair value of plan assets	\$ 345	\$ 289		
Accrued benefit obligation	(462)	(375)		
Plan deficit	\$ (117)	\$ (86)		
<b>Plans Without Plan Assets</b>				
Accrued benefit obligation – Plan deficit	\$ (58)	\$ (49)	\$ (80)	\$ (77)

(1) The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

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

	All pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
<b>Cost Recognized</b>				
<b>Amounts arising from events in the period</b>				
Defined benefit service cost	\$ 18	\$ 26	\$ –	\$ –
Defined contribution service cost	1	1	–	–
Employee contributions	(5)	(5)	–	–
Employer service cost	14	22	–	–
Interest cost on accrued benefit obligation	67	70	5	5
Actual return on plan assets	(182)	183	–	–
Actuarial (gain) loss on accrued benefit obligation	138	(141)	3	(12)
Cost incurred	37	134	8	(7)
<b>Adjustments to reflect costs recognized</b>				
Difference between actual and expected return on plan assets	106	(271)	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	(120)	139	(4)	11
Amortization of transitional asset	(20)	(20)	–	–
Difference between past service costs arising in period and past service costs amortized	(1)	(1)	(1)	–
Increase in valuation allowance	1	17	–	–
Net benefit cost recognized for the period	\$ 3	\$ (2)	\$ 3	\$ 4
<b>Cash payments</b>				
Contributions – Funded defined benefit plans	\$ 37	\$ 33	\$ –	\$ –
– Funded defined contribution plans	1	1	–	–
Benefits paid for unfunded plans	3	2	5	5
Total cash payment	\$ 41	\$ 36	\$ 5	\$ 5

**(c) Measurement and Valuation**

Measurement date is December 31. The measurement date used for the prior fiscal year was November 30. 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
April 1, 2007	9%	December 31, 2009	13%
December 31, 2007	33%	April 1, 2010	9%
December 31, 2008	58%	December 31, 2010	33%
		December 31, 2011	45%

The fair value of assets is used to determine the expected return on assets.

**(d) Asset Allocation by Major Category Weighted by Plan Assets**

	Defined benefit pension plans	
	2009	2008
Equity securities	40%	36%
Debt securities	44%	45%
Real estate	1%	1%
Cash and cash equivalents	15%	18%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Significant Weighted-Average Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
<b>To determine benefit cost:</b>				
Discount rate	6.4%	5.8%	7.1%	5.7%
Expected long-term rate of return on plan assets	6.0%	5.9%	–	–
Rate of compensation increase	4.0%	4.4%	3.3%	4.4%
<b>To determine accrued benefit obligation:</b>				
Discount rate	5.9%	6.4%	6.2%	7.1%
Rate of compensation increase	3.8%	4.0%	3.3%	3.3%
<b>Health Care trend rates:</b>				
Initial health care trend rate			6.8%	7.1%
Ultimate health care trend rate			4.5%	5.0%
Year ultimate trend rate is reached			2024	2012

(f) Impact of Changes to Assumed Health Care Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2009	2008	2009	2008
Impact on accrued benefit obligation	\$ 6	\$ 5	\$ (5)	\$ (5)
Impact on service and interest cost	\$ –	\$ –	\$ –	\$ –

18. Accumulated Other Comprehensive Loss

	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	\$ (720)	\$ 107	\$ 1	\$ (612)	\$ 17	\$ (629)
Other comprehensive income (loss)	(352)	(124)	(1)	(477)	(13)	(464)
Income tax	6	20	–	26	–	26
	(346)	(104)	(1)	(451)	(13)	(438)
Balance, end of year	\$ (1,066)	\$ 3	\$ –	\$ (1,063)	\$ 4	\$ (1,067)
	2008					
	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	\$ (693)	\$ 137	\$ 1	\$ (555)	\$ 3	\$ (558)
Other comprehensive income (loss)	(27)	(48)	–	(75)	14	(89)
Income tax	–	18	–	18	–	18
	(27)	(30)	–	(57)	14	(71)
Balance, end of year	\$ (720)	\$ 107	\$ 1	\$ (612)	\$ 17	\$ (629)

## 19. Related Party Transactions

### *Reinsurance Transactions*

During 2008, a subsidiary of London Reinsurance Group, Inc. (LRG), an affiliated company, novated a health business reinsurance agreement to the Company. The Company then ceded this health business to another subsidiary of LRG. In 2009, for the Summaries of Consolidated Operations, this transaction resulted in a decrease in premium income of \$1,668 (\$1,120 in 2008), policyholder benefits of \$1,673 (\$1,093 in 2008) and an increase in policy liabilities of \$28 (\$14 in 2008). The transaction was at market terms and conditions.

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), a subsidiary of Great-West Life & Annuity Insurance Company (GWL&A), 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 2009, for the Summaries of Consolidated Operations, this transaction resulted in a decrease of premium income of \$148 (\$156 in 2008), investment income of \$19 (\$15 in 2008), total paid or credited to policyholders of \$236 (\$132 in 2008), commissions of \$30 (\$34 in 2008) and income taxes of \$35 (\$2 in 2008). The transaction was at market terms and conditions.

Effective April 1, 2007 CLICC, a wholly-owned subsidiary of Canada Life, and Great-West Life, the Company's parent, entered into an Indemnity Reinsurance Agreement pursuant to which CLICC assumed liabilities by coinsurance including certain blocks of non-participating group life and health insurance policies, non-participating individual life reinsurance, non-participating group payout annuities and non-participating individual payout annuities. In 2009, for the Summaries of Consolidated Operations, this transaction resulted in an increase of premium income of \$530 (\$512 in 2008) and total paid or credited to policyholders of \$763 (\$353 in 2008). The transaction was at market terms and conditions.

During 2008, a subsidiary of LRG reinsured certain annuity guaranteed risks to the Company. On the Summaries of Consolidated Operations, this transaction resulted in an increase in premium \$33 in 2008. The transaction was at market terms and conditions.

During 2008, the Company entered into an agreement with LRG to retrocede certain health business. In 2009, for the Summaries of Consolidated Operations, this transaction resulted in a decrease in premium income of \$1,188 (\$795 in 2008), policyholder benefits of \$1,113 (\$821 in 2008) and policy liabilities of \$58 (\$35 in 2008). The transaction was at market terms and conditions.

During 2006, the Company entered into agreements with LRG to cede certain term life business and group term disability business of the Company. In 2009, for the Summaries of Consolidated Operations, the transactions resulted in a decrease in premium income of \$12 (\$18 in 2008). The transactions were at market terms and conditions.

During 2006, the Company entered into an agreement with LRG to cede certain investment fund guaranteed products of the Company. In 2009, for the Summaries of Consolidated Operations, the transaction resulted in a decrease of premium income of \$15 (\$23 in 2008). 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 the year, the Company received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. As well, certain administrative services were provided to and received from Great-West Life and London Life Insurance Company (London Life), an affiliated company, the net of which was a charge to the Company of \$2 (\$6 in 2008). The Company paid \$2 (\$2 in 2008) for property management and leasing services from GWL Realty Advisors Inc., a wholly owned subsidiary of Great-West Life. All services were provided on terms and conditions at least as favourable as market terms and conditions.

During 2009, the Company purchased residential mortgages of \$60 (\$55 in 2008) from London Life. The Company purchased commercial mortgages of \$87 (\$2 in 2008) from London Life and sold commercial mortgages of \$76 (\$52 in 2008) to London Life. The Company purchased bonds from Great-West Life of \$0 (\$47 in 2008) and from London Life of \$90 (\$6 in 2008). The Company sold bonds to Great-West Life of \$101 (\$45 in 2008) and to London Life of \$33 (\$26 in 2008). All transactions were at market terms and conditions.

At December 31, 2009, the Company had a temporary outstanding balance of \$41 (\$52 in 2008) payable to Great-West Life and \$29 (\$35 in 2008) payable to London Life. These amounts are included in other liabilities.

On May 12, 2009, the Company issued \$3.5 billion principal amount notes receivable to Great-West Life, with an interest rate of 6.82%. Interest income of \$153 is included in the Summaries of Consolidated Operations.

On December 18, 2009, the Company issued a 150 GBP principal amount note receivable to Great-West Life, with an interest rate of 5.169%.

On December 11, 2008 the Company issued a \$200 principal amount note receivable to Great-West Life, with an interest rate of 7.08%. Interest income of \$15 is included in the Summaries of Consolidated Operations (\$0 in 2008).

The Company has interest bearing notes receivable from Great-West Life, which have an outstanding balance of \$400 (\$400 in 2008). The notes mature on December 31, 2013 and bear interest at 5.4%. Interest income of \$22 is included in the Summaries of Consolidated Operations (\$22 in 2008).

19. Related Party Transactions (con't)

During 2008, the Company received loan proceeds of U.S. \$150 from LRG. The loan is repayable on demand and bears interest of a rate equal to LIBOR plus 1.25%. U.S. \$10 was repaid in 2008 and U.S. \$29 was repaid in 2009. The outstanding balance at December 31, 2009 is U.S. \$111.

The Company has non-interest bearing notes receivable from London Life, which have an outstanding balance of \$400 in 2009 and 2008.

The Company has U.S. \$10 (U.S. \$10 in 2008) principal amount surplus note receivable with LRG. The note matures on December 15, 2025 and bears interest of 5.98%.

During 2009, Great-West Life and London Life disposed of its \$97 in temporary investments in trust securities issued by a trust administered by Canada Life.

At December 31, 2009 the Company held \$18 (\$16 in 2008) of debentures issued by IGM.

**20. Reinsurance Transactions**

On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited (CLIRE), signed an agreement with Standard Life Assurance Limited (Standard Life), a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policy liabilities by \$12.5 billion in 2008. During 2009, an additional £282 (\$477) of funds was added to the amounts on deposit.

During 2008, the Company's indirect wholly-owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing \$2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date while the other matures in 40 years.

**21. Income Tax**

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

	2009	2008
Policy liabilities	\$ 381	\$ 439
Portfolio investments	(220)	(314)
Other	(214)	9
Future income taxes receivable (payable)	\$ (53)	\$ 134
Recorded in:		
Other assets	\$ 215	\$ 353
Other liabilities	(268)	(219)
	\$ (53)	\$ 134

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

	2009		2008	
Combined basic Canadian federal and provincial tax rate	\$ 402	32.0%	\$ 428	32.5%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(33)	(2.6)	(27)	(2.0)
Lower effective tax rates on income not subject to tax in Canada	(88)	(7.0)	(148)	(11.3)
Other	(105)	(8.4)	28	2.1
Impact of rate changes on future income taxes	10	0.8	-	-
Effective income tax rate	\$ 186	14.8%	\$ 281	21.3%

At December 31, 2009, the Company had tax loss carryforwards, totaling \$1,944 (\$2,318 in 2008). 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 \$518 (\$639 in 2008) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

**22. 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 3 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

2009	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
<b>Interest rate contracts</b>					
Futures – short	\$ 8	\$ –	\$ –	\$ –	\$ –
Swaps	923	82	8	60	4
Options purchased	265	27	4	26	2
	<u>1,196</u>	<u>109</u>	<u>12</u>	<u>86</u>	<u>6</u>
<b>Foreign exchange contracts</b>					
Forward contracts	138	1	1	2	–
Cross-currency swaps	3,358	310	242	552	46
	<u>3,496</u>	<u>311</u>	<u>243</u>	<u>554</u>	<u>46</u>
<b>Other derivative contracts</b>					
Equity contracts	68	–	5	5	–
Futures – long	12	–	–	–	–
Futures – short	3	–	–	–	–
	<u>\$ 4,775</u>	<u>\$ 420</u>	<u>\$ 260</u>	<u>\$ 645</u>	<u>\$ 52</u>

\* Maximum credit risk does not include a reduction of collateral received of \$35, however it is reflected in the Credit risk equivalent.

2008	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
<b>Interest rate contracts</b>					
Futures – short	\$ 49	\$ –	\$ –	\$ –	\$ –
Swaps	1,082	108	9	117	19
Options purchased	309	54	5	59	12
	<u>1,440</u>	<u>162</u>	<u>14</u>	<u>176</u>	<u>31</u>
<b>Foreign exchange contracts</b>					
Forward contracts	141	3	1	4	1
Cross-currency swaps	3,003	128	212	340	74
	<u>3,144</u>	<u>131</u>	<u>213</u>	<u>344</u>	<u>75</u>
<b>Other derivative contracts</b>					
Equity contracts	83	–	5	5	1
	<u>\$ 4,667</u>	<u>\$ 293</u>	<u>\$ 232</u>	<u>\$ 525</u>	<u>\$ 107</u>

\* Maximum credit risk does not include a reduction for collateral paid of \$25.

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

(b) The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

2009	Notional amount				Total estimated market value
	1 year or less	1-5 years	Over 5 years	Total	
<b>Derivatives not designated as accounting hedges</b>					
<b>Interest rate contracts</b>					
Swaps	\$ 22	\$ 586	\$ 315	\$ 923	\$ 72
Options purchased	–	–	265	265	27
	22	586	580	1,188	99
<b>Foreign exchange contracts</b>					
Forward contracts	138	–	–	138	1
Cross-currency swaps	21	332	3,005	3,358	181
	159	332	3,005	3,496	182
<b>Other derivative contracts</b>					
Equity contracts	42	26	–	68	(23)
Futures – long	12	–	–	12	–
Futures – short	3	–	–	3	–
	238	944	3,585	4,767	258
<b>Fair value hedges</b>					
<b>Interest rate contracts</b>					
Futures – short	8	–	–	8	–
<b>Total</b>	<b>\$ 246</b>	<b>\$ 944</b>	<b>\$ 3,585</b>	<b>\$ 4,775</b>	<b>\$ 258</b>
2008	Notional amount				Total estimated market value
	1 year or less	1-5 years	Over 5 years	Total	
<b>Derivatives not designated as accounting hedges</b>					
<b>Interest rate contracts</b>					
Futures – short	\$ 39	\$ –	\$ –	\$ 39	\$ –
Swaps	91	594	397	1,082	88
Options purchased	–	–	309	309	54
	130	594	706	1,430	142
<b>Foreign exchange contracts</b>					
Forward contracts	141	–	–	141	2
Cross-currency swaps	53	387	2,563	3,003	(368)
	194	387	2,563	3,144	(366)
<b>Other derivative contracts</b>					
Equity contracts	55	18	10	83	(19)
	379	999	3,279	4,657	(243)
<b>Fair value hedges</b>					
<b>Interest rate contracts</b>					
Futures – short	10	–	–	10	–
<b>Total</b>	<b>\$ 389</b>	<b>\$ 999</b>	<b>\$ 3,279</b>	<b>\$ 4,667</b>	<b>\$ (243)</b>

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

**(c) Interest Rate Contracts**

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and policy 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 policy 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.

The Company uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

**23. 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.

The Company has declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plan. 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 this partial windup, a related proposed class action proceeding has been commenced in Ontario.

Legal proceedings have been commenced against a private equity vehicle in which the Company has an ownership interest. An affiliate of the Company, Putnam Investments, LLC has agreed to indemnify the Company, to a specified maximum amount, in the event an unfavourable outcome in these proceedings results in a loss to the Company. These proceedings are in their early stages, and it is difficult to predict the outcome with certainty. Based on information presently known, it is expected that the amount of the indemnification would be sufficient in the event of an unfavourable outcome and these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

**24. The Event of September 11, 2001**

As part of its reinsurance business, the Company has special risk reinsurance contracts with other insurers and reinsurers on which it has incurred losses as a result of the event of September 11, 2001. In 2001, the Company set up a total provision of \$131 pre-tax (\$85 after tax) relating to these claims. The Company's remaining net provision is \$43 pre-tax as at December 31, 2009 (\$82 pre-tax as at December 31, 2008). The provision is recorded net of estimated reinsurance recoveries and catastrophe coverage. The Company has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in order to collect all amounts owed by such parties.

The Company has concluded an arbitration with one of its retrocedents. The results of the arbitration award fall within the amount of the established actuarial provision.

**25. Commitments****(a) Disclosure of Guarantees**

The Company issues letters of credit in the normal course of business. Letters of credit in the amount of \$1 were outstanding at December 31, 2009 (\$1 at December 31, 2008), none of which have been drawn upon at that date.

**(b) 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:

	2010	2011	2012	2013	2014	2015 and thereafter	Total
Future lease payments	\$ 17	15	12	10	9	29	\$ 92

**26. Segmented Information**

The major reportable segments of the Company are the participating and shareholder operations. Within these segments the major business units are: Individual Insurance and Investment Products, Group Insurance, Europe/Reinsurance, United States 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, creditor and direct marketing, savings products and life, accident and health reinsurance. Business activities and operations that are not associated with the specific business units are attributed to Corporate.

**(a) Consolidated Operations**

	2009							
	Shareholder					Participating		Total company
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	United States	Total	Total	
<b>Income:</b>								
Premium income	\$ 1,102	\$ 623	\$ 2,186	\$ –	\$ 68	\$ 3,979	\$ 560	\$ 4,539
Net investment income								
Regular net investment income	593	72	1,886	273	101	2,925	393	3,318
Changes in fair value on held for trading assets	297	22	1,140	8	59	1,526	193	1,719
Total net investment income	890	94	3,026	281	160	4,451	586	5,037
Fee and other income	118	1	631	–	–	750	1	751
<b>Total income</b>	<b>2,110</b>	<b>718</b>	<b>5,843</b>	<b>281</b>	<b>228</b>	<b>9,180</b>	<b>1,147</b>	<b>10,327</b>
<b>Benefits and expenses:</b>								
Paid or credited to policyholders	1,602	550	4,648	5	175	6,980	959	7,939
Other	202	50	671	30	2	955	171	1,126
Amortization of finite life intangible assets	2	1	3	–	–	6	–	6
<b>Income before income taxes</b>	<b>304</b>	<b>117</b>	<b>521</b>	<b>246</b>	<b>51</b>	<b>1,239</b>	<b>17</b>	<b>1,256</b>
Income taxes	49	31	46	33	22	181	5	186
<b>Net income before non-controlling interests</b>	<b>255</b>	<b>86</b>	<b>475</b>	<b>213</b>	<b>29</b>	<b>1,058</b>	<b>12</b>	<b>1,070</b>
Non-controlling interests	–	–	–	18	–	18	–	18
<b>Net Income</b>	<b>255</b>	<b>86</b>	<b>475</b>	<b>195</b>	<b>29</b>	<b>1,040</b>	<b>12</b>	<b>1,052</b>
Net income – participating account	–	–	–	–	–	–	12	12
<b>Net income – shareholders</b>	<b>255</b>	<b>86</b>	<b>475</b>	<b>195</b>	<b>29</b>	<b>1,040</b>	<b>–</b>	<b>1,040</b>
Perpetual preferred share dividends	–	–	–	172	–	172	–	172
<b>Net income – common shareholder</b>	<b>\$ 255</b>	<b>\$ 86</b>	<b>\$ 475</b>	<b>\$ 23</b>	<b>\$ 29</b>	<b>\$ 868</b>	<b>\$ –</b>	<b>\$ 868</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2008							
	Shareholder					Participating		
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	United States	Total	Total	Total company
<b>Income:</b>								
Premium income	\$ 880	\$ 631	\$ 15,227	\$ –	\$ 77	\$ 16,815	\$ 533	\$ 17,348
Net investment income								
Regular net investment income	505	67	1,982	110	105	2,769	428	3,197
Changes in fair value on held for trading assets	(556)	(24)	(1,549)	(9)	(97)	(2,235)	(360)	(2,595)
Total net investment income	(51)	43	433	101	8	534	68	602
Fee and other income	116	1	628	(1)	2	746	1	747
<b>Total income</b>	<b>945</b>	<b>675</b>	<b>16,288</b>	<b>100</b>	<b>87</b>	<b>18,095</b>	<b>602</b>	<b>18,697</b>
<b>Benefits and expenses:</b>								
Paid or credited to policyholders	426	527	14,789	5	15	15,762	472	16,234
Other	209	54	688	46	6	1,003	139	1,142
Amortization of finite life intangible assets	2	1	1	–	–	4	–	4
Income before income taxes	308	93	810	49	66	1,326	(9)	1,317
Income taxes	78	26	159	(27)	40	276	5	281
Net income before non-controlling interests	230	67	651	76	26	1,050	(14)	1,036
Non-controlling interests	–	–	–	(11)	–	(11)	–	(11)
<b>Net Income</b>	<b>230</b>	<b>67</b>	<b>651</b>	<b>87</b>	<b>26</b>	<b>1,061</b>	<b>(14)</b>	<b>1,047</b>
Net loss – participating account	–	–	–	–	–	–	(14)	(14)
Net income – shareholders	230	67	651	87	26	1,061	–	1,061
Perpetual preferred share dividends	–	–	–	–	–	–	–	–
<b>Net income – common shareholder</b>	<b>\$ 230</b>	<b>\$ 67</b>	<b>\$ 651</b>	<b>\$ 87</b>	<b>\$ 26</b>	<b>\$ 1,061</b>	<b>\$ –</b>	<b>\$ 1,061</b>

**(b) Consolidated Total Assets**

	2009			2008		
	Shareholder	Participating account	Total	Shareholder	Participating account	Total
<b>Assets</b>						
Invested assets	\$ 43,748	\$ 7,472	\$ 51,220	\$ 40,973	\$ 7,719	\$ 48,692
Goodwill and intangible assets	351	–	351	364	–	364
Other assets	12,305	100	12,405	12,258	119	12,377
<b>Total assets</b>	<b>\$ 56,404</b>	<b>\$ 7,572</b>	<b>\$ 63,976</b>	<b>\$ 53,595</b>	<b>\$ 7,838</b>	<b>\$ 61,433</b>
Segregated funds net assets			27,522			25,896
<b>Total general fund and segregated fund assets under administration</b>			<b>\$ 91,498</b>			<b>\$ 87,329</b>

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

	2009		2008	
	Income	Assets	Income	Assets
Canada	\$ 3,850	\$ 20,870	\$ 2,144	\$ 17,372
Europe/Reinsurance	5,987	40,062	16,351	40,626
United States	490	3,044	202	3,435
	<b>\$ 10,327</b>	<b>\$ 63,976</b>	<b>\$ 18,697</b>	<b>\$ 61,433</b>

## AUDITORS' REPORT

### To the Policyholders and Shareholder of The Canada Life Assurance Company

We have audited the consolidated balance sheets of The Canada Life Assurance Company and the statement of segregated funds – consolidated net assets as at December 31, 2009 and 2008 and the summaries of consolidated operations, the summaries of consolidated comprehensive income, the consolidated statements of surplus, the consolidated statements of cash flows and segregated – consolidated statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2009 and 2008 and the results of its operations, 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 11, 2010

## APPOINTED ACTUARY'S REPORT

### To the Policyholders, Shareholder and Directors of The Canada Life Assurance Company

I have valued the policy liabilities of The Canada Life Assurance Company for its consolidated balance sheet at December 31, 2009 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 11, 2010

## **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. Canada 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.

Canada Life maintains separate Closed Funds for certain specific blocks of participating insurance policies in many of the jurisdictions in which it operates. The Closed Funds are within Canada Life's participating account and are managed according to the Closed Block Operating Rules. The Closed Funds are each managed separately to distribute over time the full amount of the earnings of the particular Closed Fund to the participating policyholders of that Closed Fund. The amount available for distribution as policyholder dividends for policies in each Closed Fund is determined as indicated above with reference to the experience of only that particular Closed Fund. An additional consideration for each Closed Fund is whether the existing assets and expected experience of that Closed Fund are sufficient to provide for policyholder dividends into the future.

The assets supporting liabilities in a Closed Fund may be managed as part of an investment pool which includes assets supporting liabilities that are not in that particular Closed Fund. When this is done, the assets will have similar investment objectives and the investment income of the Closed Fund will be tracked separately for that Closed Fund.

The amount available for distribution as policyholder dividends is divided among classes of policyholders by setting the policyholder dividend scale. Canada 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.

In addition to the policyholder dividends described above, terminal dividends are payable on certain policies when those policies are terminated through death, surrender, or maturity. Whether a terminal dividend is payable, and, if payable, the amount of the terminal dividend, is affected by such factors as the type of policy, the length of time the policy has been in force and when the policy was issued.

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, Canada Life may distribute to the shareholder account a percentage of the amount distributed to policyholders in respect of a financial year. Under the terms of the Closed Block Operating Rules, no such distribution to the shareholder account may be made from the Closed Funds.

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

Approved by The Canada 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.

Canada Life's sources of earnings are shown below for 2009 and 2008.

(in \$ millions)

For year to date at December 31, 2009	Shareholder net income					
	Group Insurance	Individual Insurance & Investment Products	Europe/ Reinsurance	Corporate	United States	Total
Expected profit on in-force business	\$ 54	\$ 106	\$ 379	\$ (1)	\$ 24	\$ 562
Impact of new business	0	(27)	10	0	0	(17)
Experience gains and losses	48	135	(167)	3	12	31
Management actions and changes in assumptions	15	90	157	0	3	265
Other	0	0	0	0	0	0
Earnings on surplus	0	0	142	244	12	398
<b>Net income before tax</b>	<b>117</b>	<b>304</b>	<b>521</b>	<b>246</b>	<b>51</b>	<b>1,239</b>
Taxes	(31)	(49)	(46)	(33)	(22)	(181)
<b>Net income before non-controlling interests</b>	<b>86</b>	<b>255</b>	<b>475</b>	<b>213</b>	<b>29</b>	<b>1,058</b>
Non-controlling interests	0	0	0	(18)	0	(18)
<b>Net income – shareholder</b>	<b>86</b>	<b>255</b>	<b>475</b>	<b>195</b>	<b>29</b>	<b>1,040</b>
Perpetual preferred share dividends	0	0	0	(172)	0	(172)
<b>Net income – common shareholder before adjustments</b>	<b>86</b>	<b>255</b>	<b>475</b>	<b>23</b>	<b>29</b>	<b>868</b>
Adjustments after tax	0	0	0	0	0	0
<b>Net income – common shareholder</b>	<b>\$ 86</b>	<b>\$ 255</b>	<b>\$ 475</b>	<b>\$ 23</b>	<b>\$ 29</b>	<b>\$ 868</b>

## SOURCES OF EARNINGS (CONT'D)

(in \$ millions)

For year to date at December 31, 2008	Shareholder net income					
	Group Insurance	Individual Insurance & Investment Products	Europe/ Reinsurance	Corporate	United States	Total
Expected profit on in-force business	\$ 80	\$ 102	\$ 457	\$ (1)	\$ 37	\$ 675
Impact of new business	0	(10)	18	0	0	8
Experience gains and losses	5	122	468	(2)	(3)	590
Management actions and changes in assumptions	4	94	(231)	0	16	(117)
Other	0	0	0	0	0	0
Earnings on surplus	4	0	98	52	16	170
<b>Net income before tax</b>	<b>93</b>	<b>308</b>	<b>810</b>	<b>49</b>	<b>66</b>	<b>1,326</b>
Taxes	(26)	(78)	(159)	27	(40)	(276)
<b>Net income before non-controlling interests</b>	<b>67</b>	<b>230</b>	<b>651</b>	<b>76</b>	<b>26</b>	<b>1,050</b>
Non-controlling interests	0	0	0	11	0	11
<b>Net income – shareholder</b>	<b>67</b>	<b>230</b>	<b>651</b>	<b>87</b>	<b>26</b>	<b>1,061</b>
Perpetual preferred share dividends	0	0	0	0	0	0
<b>Net income – common shareholder before adjustments</b>	<b>67</b>	<b>230</b>	<b>651</b>	<b>87</b>	<b>26</b>	<b>1,061</b>
Adjustments after tax	0	0	0	0	0	0
<b>Net income – common shareholder</b>	<b>\$ 67</b>	<b>\$ 230</b>	<b>\$ 651</b>	<b>\$ 87</b>	<b>\$ 26</b>	<b>\$ 1,061</b>

### Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 45% of pre-tax earnings in 2009. The expected profit on in-force business of \$562 in 2009 was \$113 lower than the 2008 level. The decrease in expected profit reflected the impact of equity markets.

New business issued in 2009 led to losses of \$(17) at issue compared to gains of \$8 in 2008, largely due to reduced profits on new business in Canada and the UK.

Experience gains in 2009 were primarily due to favourable expenses and investment experience in Canada. Experience gains in 2008 were primarily due to favourable mortality, morbidity, and investment experience in Europe and Canada Individual Insurance & Investment Products. Experience gains of \$31 in 2009 were \$559 lower than in 2008 primarily due to the unfavourable impact of credit events in Europe.

In 2009 management actions and changes in assumptions contributed \$265 to pre-tax earnings, including \$20 due to the shareholder portion of valuation assumption changes in the participating lines, \$(18) investment provision (Ireland), and \$259 due to valuation assumption changes and management actions for policy liabilities of other lines. The most significant contributors to valuation assumption changes and management actions for policy liabilities were \$219 due to improved individual life mortality, \$194 due to reduced provisions for asset liability matching, \$118 due to modeling refinements in annuities, \$34 due to improved expenses, \$(163) due to strengthening of asset default and expense, \$(52) due to modeling refinements in reinsurance, \$(37) due to increased provisions for morbidity, \$(25) increased provisions for policyholder behaviour and \$(23) due to the future tax impact of a change in asset mix targets for long-tail liabilities.

In 2008 management actions and changes in assumptions contributed \$(117) to pre-tax earnings, including \$15 due to a reduction in non-actuarial policy liabilities (mainly Canada Group), \$7 related to the sale of U.S. Healthcare, and \$(150) due to valuation assumption changes and management actions for actuarial liabilities. The most significant contributors to valuation assumption changes and management actions for actuarial liabilities were \$(203) due to strengthened life annuitant mortality in Europe, \$(147) due to strengthened provisions for asset liability matching, \$(108) due to strengthened provisions for asset default, \$76 due to improved morbidity, \$122 due to Canadian and U.S. life mortality, and \$98 due to two annuitant mortality risk transfer agreements.

Earnings on surplus increased by \$228 in 2009 compared to 2008.

## SUBSIDIARIES OF THE CANADA LIFE ASSURANCE COMPANY\*

Name	Principal Office Address	Carrying Value (\$ millions)	Voting Share Ownership
The Canada Life Insurance Company of Canada	Toronto, Ontario	\$ 791	100%
Laketon Investment Management Ltd.	Toronto, Ontario	6	100%
Canada Life Capital Corporation Inc.	Toronto, Ontario	3,940	100%
The Canada Life Group (U.K.) Limited	Potters Bar, Hertfordshire, England	1,643	100%
Canada Life International Limited	Castletown, Isle of Man	71	100%
Canada Life Irish Holding Company Limited	Dublin, Republic of Ireland	542	100%
Canada Life International Re Limited	Dublin, Republic of Ireland	1,145	100%

\* The table above depicts the material and certain other subsidiaries of the Company as at December 31, 2009.

## FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)

	2009	2008	2007	2006	2005
<b>At December 31</b>					
Total assets under administration	\$ 92,896	\$ 88,780	\$ 87,800	\$ 87,903	\$ 63,891
<b>For the Year Ended December 31</b>					
Premiums:					
Life insurance, guaranteed annuities and insured health products	\$ 4,539	\$ 17,348	\$ 10,728	\$ 5,216	\$ 3,453
Self-funded premium equivalents (ASO contracts)	–	–	–	–	2
Segregated funds deposits:					
Individual products	4,087	4,620	5,788	5,627	3,954
Group products	108	134	177	260	484
Total premiums and deposits	\$ 8,734	\$ 22,102	\$ 16,693	\$ 11,103	\$ 7,893
<b>Condensed Summary of Operations</b>					
<b>Income</b>					
Premium income	\$ 4,539	\$ 17,348	\$ 10,728	\$ 5,216	\$ 3,453
Net investment income					
Regular net investment income	3,318	3,197	2,550	2,438	2,008
Changes in fair value on held for trading assets	1,719	(2,595)	(792)	–	–
Total net investment income	5,037	602	1,758	2,438	2,008
Fee and other income	751	747	783	723	584
Total income	10,327	18,697	13,269	8,377	6,045
<b>Benefits and expenses</b>					
Paid or credited to policyholders	7,939	16,234	11,193	6,439	4,217
Other	1,088	1,094	1,186	1,066	969
Restructuring costs	–	–	–	–	99
Amortization of finite life intangible assets	6	4	1	1	1
Financing charges	38	48	48	62	67
Goodwill impairment	–	–	1	1	3
<b>Income before income taxes</b>	<b>1,256</b>	<b>1,317</b>	<b>840</b>	<b>808</b>	<b>689</b>
Income taxes	186	281	70	165	137
<b>Net income before non-controlling interests</b>	<b>1,070</b>	<b>1,036</b>	<b>770</b>	<b>643</b>	<b>552</b>
Non-controlling interests	18	(11)	(6)	–	–
<b>Net income</b>	<b>1,052</b>	<b>1,047</b>	<b>776</b>	<b>643</b>	<b>552</b>
Net income (loss) – participating account	12	(14)	5	8	10
<b>Net income – shareholders</b>	<b>1,040</b>	<b>1,061</b>	<b>771</b>	<b>635</b>	<b>542</b>
Preferred share dividends	172	–	–	–	–
<b>Net income – common shareholder</b>	<b>\$ 868</b>	<b>\$ 1,061</b>	<b>\$ 771</b>	<b>\$ 635</b>	<b>\$ 542</b>
<b>Earnings per common share</b>	<b>\$ 3.92</b>	<b>\$ 4.79</b>	<b>\$ 3.48</b>	<b>\$ 2.87</b>	<b>\$ 2.45</b>
<b>Book value per common share</b>	<b>\$ 20.06</b>	<b>\$ 21.46</b>	<b>\$ 19.33</b>	<b>\$ 18.30</b>	<b>\$ 13.98</b>
<b>Dividends to common shareholder – per share</b>	<b>\$ 3.34</b>	<b>\$ 2.36</b>	<b>\$ 0.35</b>	<b>\$ 0.04</b>	<b>\$ 0.03</b>

## DIRECTORS AND OFFICERS

As of December 31, 2009

### 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, President 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

**The Right Honourable Donald F.**

**Mazankowski, P.C., O.C., A.O.E.**<sup>3,4,6</sup>

Senior Advisor to  
Gowling Lafleur Henderson LLP

**D. Allen Loney, FIA, FCIA**<sup>3,4</sup>

President and Chief Executive Officer  
of the Company,  
Canada Life Financial Corporation,  
Crown Life Insurance Company,  
Great-West Lifeco Inc.,  
The Great-West Life Assurance Company,  
London 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., 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

**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**

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**

### **Corporate Address**

The Canada Life Assurance Company  
330 University Avenue, Toronto, Ontario, Canada M5G 1R8  
Phone: 416-597-1456  
Email: [info@canadalife.com](mailto:info@canadalife.com)  
[www.canadalife.com](http://www.canadalife.com)

### **Financial Information**

For financial information about Canada Life, please contact the Chief Financial Officer at 204-946-7341.  
For copies of the annual report, please contact the Corporate Secretary's Office at 204-946-4388 or visit: [www.canadalife.com](http://www.canadalife.com).

### **Operating Divisions**

#### **Canada**

330 University Avenue, Toronto, Ontario, Canada M5G 1R8  
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#### **United Kingdom**

Canada Life Place  
Potters Bar, Hertfordshire, England EN6 5BA  
Phone: 44 1707 651122  
[www.canadalife.co.uk](http://www.canadalife.co.uk)

#### **United States**

8515 E. Orchard Road, Greenwood Village, Colorado, United States 80111  
Phone: 1-800-537-2033  
[www.canadalifeus.com](http://www.canadalifeus.com)

#### **Ireland**

Canada Life House  
Temple Road, Blackrock County, Dublin, Ireland  
Phone: 353 1 210 2000  
[www.canadalife.ie](http://www.canadalife.ie)

#### **Reinsurance**

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