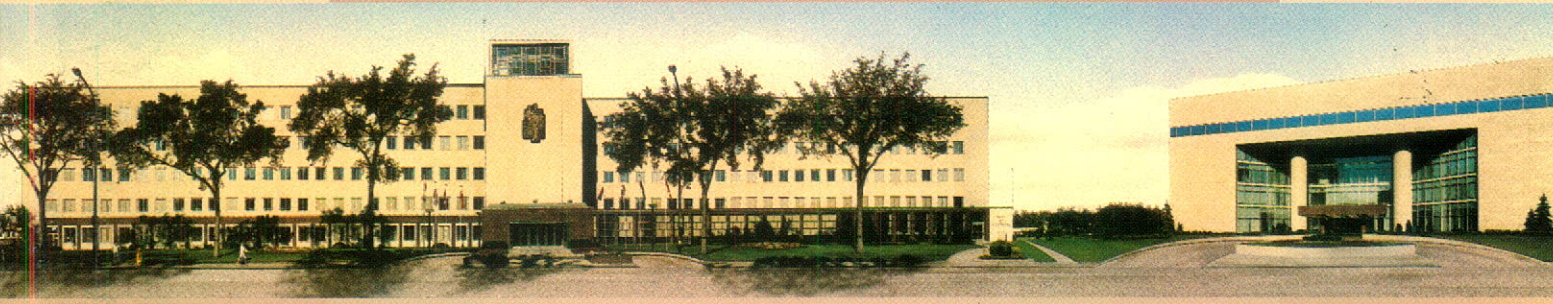


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GREAT-WEST LIFECO INC.

THE GREAT-WEST LIFE ASSURANCE COMPANY



Annual Reports 1987



This report combines the 96th Annual Report of The Great-West Life Assurance Company, and the 2nd Annual Report of Great-West Lifeco Inc.

Lifeco is the holding company for Great-West Life. As the shares of Great-West Life are Lifeco's principal asset, the financial results for Lifeco are best viewed in the context of those of Great-West Life.

For this reason, the first section of this report focuses on Great-West Life's 1987 financial statements and a review of its operations. The second section presents the financial statements of Lifeco.

Corporate Information

The Great-West Life Assurance Company

Corporate Headquarters

100 Osborne St. N., Winnipeg, Manitoba R3C 3A5

Canadian Region

60 Osborne St. N., Winnipeg, Manitoba R3C 3A5

United States Region

8505-8515 E. Orchard Road, Englewood, Colorado 80111

Stock Exchanges

Winnipeg, Toronto and Montreal

7.70 % Series A Preferred Shares

Transfer Agent and Registrar Offices

Montreal Trust Company of Canada in Toronto, Winnipeg, Edmonton and Vancouver; and Montreal Trust Company in Montreal

Annual General Meeting

The fourth Wednesday of April at 3:00 p.m. at Corporate Headquarters, Winnipeg

Great-West Lifeco Inc.

Registered Office

100 Osborne St. N., Winnipeg, Manitoba R3C 3A5

Stock Exchanges

Winnipeg, Toronto and Montreal

Transfer Agent and Registrar Offices

Montreal Trust Company of Canada in Halifax, Saint John, Toronto, Winnipeg, Regina, Calgary, Vancouver; and Montreal Trust Company in Montreal

Annual Meeting

The fourth Wednesday of April, at the Registered Office, Winnipeg, at 3:45 p.m. or as soon thereafter as the Annual General Meeting of The Great-West Life Assurance Company shall have terminated

The cover of last year's Annual Report featured the first policy issued by Great-West Life. This year, the cover features Great-West Life's first headquarters, completed in 1911. The building, designed by Winnipeg architect John D. Atchison, is now a historic site. Also shown are the Company's current corporate and Canadian offices in Winnipeg (top) and its United States headquarters in Denver.

Annual Reports 1987

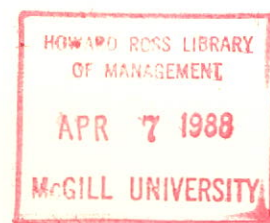
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Corporate Profile

An international corporation, Great-West Life offers a wide range of insurance products and services to meet the life and health insurance and retirement needs of more than four million people across North America. Nearly 7,000 staff and sales representatives sell and service these products through 160 marketing, benefit payment and property investment offices, and our Canadian and Corporate headquarters in Winnipeg and our United States headquarters in Denver.

The Company is governed by a Statement of Guiding Principles, which forms the basis for its management and relations with employees, clients and shareholders. Great-West Life's Corporate Mission is "to achieve excellence in providing financial products and services for people, and to do so in a responsible manner".

For its financial performance, Great-West Life continues to receive an A + (Superior) rating from the A.M.

Best Company, an authority on the financial services industry. In addition, the Company has earned a "AAA" rating for its claims-paying ability from Standard & Poor's Corporation, a U.S. investment rating company. The "AAA" rating is Standard & Poor's highest rating, recognizing an "extremely strong capacity to meet contractual policy obligations". Great-West Life also received a P-1 rating from the Dominion Bond Rating Service and the Canadian Bond Rating Service, on its preferred share issue in 1985.

In Canada, Great-West Life has been recognized as a leading employer, and in 1987 was one of three insurers honored for the scope and integrity of their health promotion policies and programs for staff.

Great-West Life is a subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.

Chairman's Message

The year 1987 witnessed a number of factors which adversely influenced the Company's earnings. Their impact, however, took place in an otherwise positive environment that included substantial growth in assets and in business in force, improved mortality, strong growth in the annuity lines of business and an increasingly skilled and professional organization.

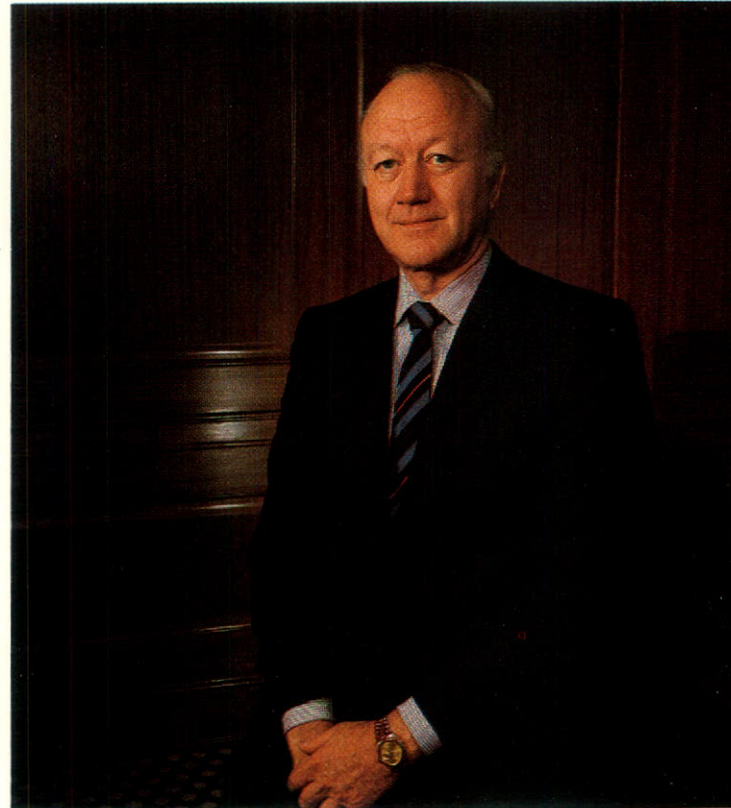
While it was a difficult year, the Company and its

people have a proven capacity for adaptation and innovation. I am confident, therefore, that we will see a return to the pattern of profitable growth which has characterized Great-West Life's business history.

On behalf of the Board of Directors, I wish to acknowledge the dedication and commitment of the staff and field representatives and their many contributions during the past year.



J. W. Burns
Chairman of the Board



President's Message

The year past was one of continuing significant growth and progress in the operations of the Company. In terms of earnings, however, for the first time since 1982 a decline was experienced.

Major gains were experienced in life insurance in force which reached \$127.9 billion, up by 13.5% over 1986. Assets grew by 19% to \$15.5 billion and premium income, inclusive of employer self-funded health benefit payments, reached \$4.2 billion, an increase of 10.6%. Investment income was \$1.35 billion, a gain of 12.1% over 1986.

Contributing to these new size thresholds, our field organizations in both the U.S. and Canada achieved gains in a number of categories. Sales of individual products increased in all categories; 6% in life insurance, 7% in annuities and 37% in health insurance. In Group Operations, following an advance of 42% in 1986, life insurance sales were \$5.6 billion, down by 38% reflecting a

reduction in large case sales experienced in 1986. Similarly, annuity sales, which increased by 55% in 1986, were sustained at the 1986 level of \$1.2 billion. Health insurance sales increased by 21% over 1986.

In both Individual and Group Operations, new products, aggressive application of technology and service initiatives were continuing themes in 1987 and most important factors in the achievement of sales results.

Earnings in 1987 were impacted by a number of factors including impaired mortgage loans in oil producing areas of the United States, a decline in stock market values, high levels of health insurance claims and increased taxes in Canada.

For common shareholders, net income from operations after payment of preferred dividends was \$81.3 million compared to \$99.6 million in 1986. After a charge for other items of \$16.3 million, net income for the period was \$65.0 million compared to \$95.5 million in 1986.

For participating policyholders, net income from operations before policyholder dividends was \$122.2 million. After provision of \$104.3 million for policyholder dividends, net income was \$15.4 million compared to \$13.0 million in 1986.

During the course of the year, \$61.8 million was charged to earnings to reflect the write-down of a number of loans and to provision for the potential need of write-downs in others. Virtually all of this amount is related to properties in Texas and Colorado where real estate markets have been generally impaired. From the onset of these market impairments an aggressive program has been undertaken to re-establish the value and earnings of affected assets. As needed, additional resources will be allocated to this program. In Canada and in the United States outside the oil producing areas, our loan experience continues to be excellent.

With respect to stock market turbulence and its earnings impact, the Office of the Superintendent of Financial Institutions requires that 15% of gains and losses, both realized and unrealized, be credited or charged to earnings. In consequence, total earnings from market gains were \$15.1 million less than reported in 1986.



Then, in relation to Group Insurance Operations for both countries, net income of \$36.9 million declined to \$19.8 million. The principal factors in this reversal involved significant increases in U.S. health care inflation and utilization and an increase in the frequency and duration of disability claims in Canada. Health insurance in the U.S. is, of course, a cyclical business and in the year past the downside of the cycle was experienced. I am very pleased to report that notwithstanding substantial premium adjustment made necessary by increased claims levels, our customer base was retained and indeed expanded.

Finally, I would note that taxes, charged to 1987 operations, were increased by \$11.2 million, in part occasioned by the anticipated effect of Tax Reform in Canada.

In looking to future growth, our strategies are, of course, built on our capabilities for assuming and managing life and health insurance risks and for managing assets in a wide variety of financial service products. Our growth planning for the period ahead calls for a continuance of our current strategies with the following exceptions:

- In respect to asset management products in the United States, we plan to intensify our attention to voluntary retirement savings markets that can be approached successfully on a full service basis. Such services will include the provision of investment options, communication, enrollment and administrative services. These products will increasingly feature computer technology. Concurrently we will moderate the sales volume of specialty investment annuities that are essentially "investment only" in their service character. While we have currently a considerable sales momentum in the voluntary retirement markets, we expect that reduced sale of "investment only" specialty products will slow annuity sales growth in the year ahead. Our overall goal will be to improve earnings margins through a targeted accent on service intensive products.
- In respect to health insurance we believe it will be timely in the period ahead to look for prudent opportunities to expand our participation. In this respect I would note that a number of companies, largely those for whom health insurance has been a secondary activity, have withdrawn from the market. Our

endeavours, to the contrary, will continue to be based on the conviction that while the health insurance field is cyclical in its earnings, it is in fact a rewarding business for those who specialize in it. In the face of rising health care utilization, costs, and complexity, the need for skilled, contemporary management of health care risks has never been greater, in both the United States and Canada. We intend therefore at Great-West to give increasing attention to this market.

With respect to the longer term outlook for resumed earnings growth, we expect that the initiatives of the year past and others planned for 1988, will achieve positive results. To this end, the timing of improved earnings in the health insurance areas of the Company will be a most important factor. Bearing in mind the cyclical nature of the business and that the duration of downturns has varied from cycle to cycle, attempts at precise forecasts of turnaround timing are simply not reliable. We do, however, note improvements in the fourth quarter of the year past and look forward to significant positive impacts taking place in the second half of 1988.

The outlook for the benefits of real estate recovery in the oil producing areas of the United States is rather more gradual. The virtual cessation of new construction together with movement of a number of firms into these areas are helpful factors. We expect marginal benefit for our Company in 1988 with more significant improvement taking place thereafter.

With growth achieved in the year past, in the capabilities of the many committed people associated with Great-West Life, we look forward with eagerness to the opportunities and challenges of the coming year.



K. P. Kavanagh
President and Chief Executive Officer

Report from Management**Canadian Operations**

With re-regulation fueling competition between financial institutions and tax reform threatening to increase the cost of insurance to consumers, Great-West Life faced one of its more challenging years in Canada in 1987.

The marketplace, however, continued to prove the Company correct in emphasizing quality — in people, products and services — as the key to maintaining its position as an industry leader.

The importance of technology in meeting consumer demands for better service and more information cannot be overemphasized. Great-West Life continues to upgrade existing systems — from the hand-held computers that give agents the ability to produce personalized proposals on the spot, to its advanced computerized claims system and administrative systems at head office — to meet these demands.

In 1987, Group Operations introduced ClientTel™, a computer-based customer service system that not only allows our customers instant access to important data on benefit utilization by their employees, but also provides

them with a facility to automate their premium accounting procedures related to their benefit programs. The market reaction to the new service has been very positive and its impact on sales results has been encouraging.

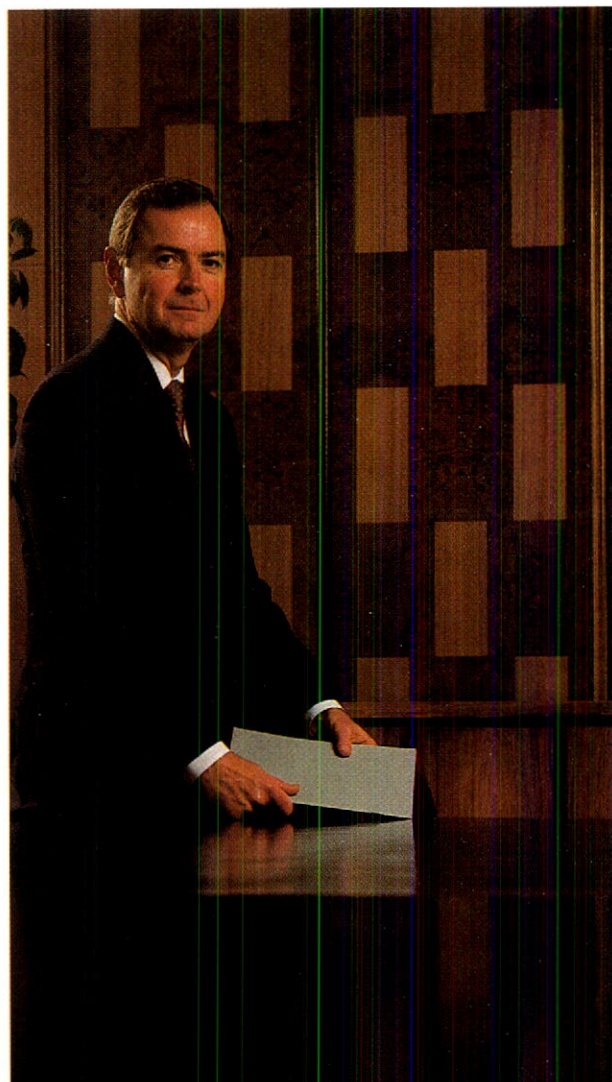
Electronic mail and toll-free phone lines, introduced by Individual Operations in 1987 and slated for expansion in 1988, allow individual clients to get answers to their inquiries promptly, whether they choose to contact their local branch office or our head office. In addition, the Company has improved its annual reports and statements for clients, to provide more information on the value of their benefits.

In 1988, the Company plans to make substantial investments in systems for the disability income, annuity and group life, health and pension lines of business.

1987 Revenue Premium Income (Canada)

	Annual (000)	Single (000)	Total (000)
INDIVIDUAL PRODUCTS			
Life Insurance	\$114,052	\$ 28,981	\$143,033
Annuities	91,302	323,862	415,164
Health Insurance	34,065	—	34,065
Total Premiums	\$239,419	\$352,843	\$592,262
GROUP PRODUCTS			
Life Insurance	\$149,419	\$ 4,015	\$153,434
Annuities	191,490	88,830	280,320
Health Insurance	541,013*	—	541,013
Total Premiums	\$881,922	\$ 92,845	\$974,767

*Includes self-funded premium equivalents of \$169,212



**John Green, Executive Vice-President
— Chief Operating Officer, Canada.**

Superior service requires knowledgeable and well-trained staff and agents, and in 1987, Great-West Life intensified its emphasis on training and development. Individual Operations placed product experts in retirement planning and disability income in branches across Canada to provide support for agents and brokers, and stepped up cross-training within departments.

Group Operations, which in 1986 split its benefit payment offices into specialized disability income and medical/dental units, introduced a quality assurance program in 1987. The program is intended to ensure delivery of high quality claims service to our customers and their employees. An important related objective is to recognize claims staff for responsive and superior service.

On the legislative front, AIDS continues to be a concern for the insurance industry, although less so in Canada than in the U.S. To date, no jurisdiction in Canada has challenged the right of the industry to test applicants for exposure to the AIDS virus. Early adoption of screening tests and the fact that AIDS is not as prevalent in Canada have also combined to minimize the Company's financial exposure to the disease in Canada.

On balance, Great-West Life's Canadian Operations put in a strong showing in 1987, with gains posted in most lines of business. While sales of individual life insurance, in terms of new annualized premium, were down 5%, disability income sales increased by 36%, and annuity sales were up 10% over 1986. On the Group side, life and health sales were up 49% over 1986, while pension sales increased 14%.

Individual Operations

With the trend to two-income families and larger financial commitments, market demand for disability income insurance continues to show strong growth in Canada. Great-West Life, as the most experienced underwriter of disability income products in Canada, is in a position to capitalize on its strengths and the potential of the market. The Company has undertaken a significant expansion of its disability income lines of business, both in sales force growth and our capability to administer and manage the product.



Individual Operations, under the leadership of Chris Chapman, Senior Vice-President, Individual, places a strong emphasis on professional development of staff and agents.

In 1987, Great-West Life completed five new networking arrangements with financial institutions: nine companies now carry our lines of disability income products. Sales through these networking arrangements increased 104% in 1987, while sales through our own agency offices increased 19%, for an overall increase of 36% in sales of individual disability income insurance. The Company anticipates adding more networking arrangements in 1988, which should ensure continuing growth in disability income sales.

As well, Great-West Life focused on increasing its product capabilities in the massive retirement savings and retirement income markets. The 10% increase in total sales in 1987 is significant in light of the unparalleled 1986 sales increase of more than 100%.

Due to changes in the Registered Retirement Income Fund legislation that dramatically increased the flexibility, and hence the attractiveness of RRIFs, a growing number of consumers are converting their Registered Retirement Saving Plan funds to RRIFs rather than annuities at retirement. As a result, retirement annuity sales were down, but the resulting increases in sales of RRSPs, RRIFs and structured settlement annuities more than made up for this decline.

Structured settlement annuities involve the provision of contracts specifically designed for individuals to meet the requirements of court-ordered settlements. Special emphasis given to this market in 1987 resulted in an increase in sales from over \$8 million to over \$43 million.

As the Canadian population ages, and as consumers heighten expectations of living standards, the retirement savings and retirement income markets will become increasingly important. There is a clear consumer preference for one competent advisor to handle an individual's retirement program, and early in 1988, Great-West Life agents will have access to a complete array of retirement savings products for the registered markets — both guaranteed and equity-based products — to complement the full array of post-retirement income products already in place. With the introduction of two equity fund options to our RRSP product, and access to mutual funds through Investors Group Inc., plus the support of retirement planning specialists in our branch offices, the Great-West Life agent is in a position to respond to customers' preferences, whatever they may be.



The increased emphasis placed by the sales force on disability income and annuity products in 1987 accounted for the decline in sales of life insurance measured by premium income, however sales were up marginally by face amount. While we expect continued strong growth in disability income and annuity sales in 1988, we also expect renewed growth in individual life insurance sales.

Group Operations

In 1987, Great-West Life reaffirmed its position as the leading provider of group benefits in Canada, despite a highly competitive environment in all markets.

Overall, group life and health sales reached record levels of over \$135 million of new annualized premium in 1987, with a record number of new clients. Among those new sales is the largest dentalcare program ever introduced in Canada — the Federal Government civil service dentalcare plan providing coverage for more than 200,000 federal civil servants and their dependents. Great-West Life was selected because the Company demonstrated the best overall capacity to deliver an economical and effective service to plan members.

Another major initiative in the dental line of business was the formation of PACE Benefits Ltd., a joint venture of Great-West Life and three other insurers. PACE will market prepaid dentalcare plans. With a management team and product portfolio securely in place, PACE is developing a network of selected dentists, with sales initiatives to start early in 1988.

The competitive nature of the Canadian pension plan market intensified as trust companies, investment counsellors and insurance companies sought to improve their market share. However, pension sales for Great-West Life were particularly buoyant, with new client sales exceeding 1986 records by a wide margin. This reflects continued client acceptance of our flexible product design and a favorable tax environment for RRSP programs.

Our primary growth continues to be in the medium and small case pension market, although the Company remains optimistic about its prospects for improved

ClientTel™, a computer-based customer service system introduced in 1987, is proving popular among Great-West's corporate clients. Dave Johnston, Director, Group Marketing (standing) spearheaded development of the system, under the direction of Jim Grant, Senior Vice-President, Group.

penetration of the large case pension market. Great-West Life is, however, increasingly concerned about the long-term growth prospects of the group registered pension plan market, because of the increasing complexity of legislation and the resulting administrative load being demanded of employers.

In 1988, our major initiatives are again focused on enhancing customer service capabilities through new applications of technology and new product features and services. Specifically, new healthcare and dentalcare product features are planned, as well as the development and introduction of an executive reimbursement program. In addition, new features will be added to ClientTel, and we anticipate significant market penetration as a result of this service in 1988.

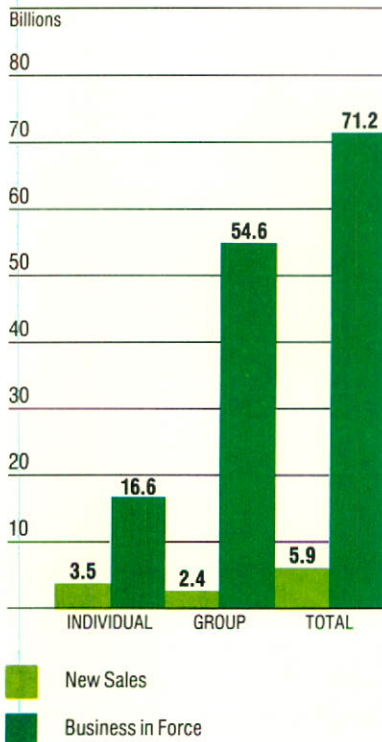
Our position

The ability to deliver quality products and services to an increasingly discerning public will be key in the years to come. Consumers — be they individuals, associations, small companies or large corporations — will judge a company based not only on its products, but on the information, service, and advice it can provide.

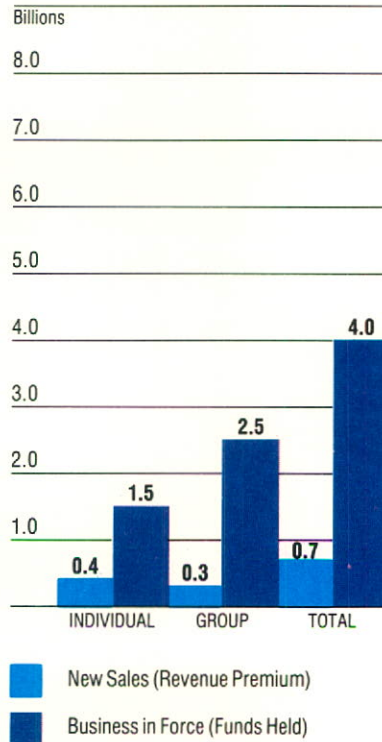
To that end, Great-West Life remains committed to innovative applications of technology, service initiatives and, most importantly, to maintaining a high quality, highly trained staff and field force.

Life Insurance (Canada)

(Face Amount)

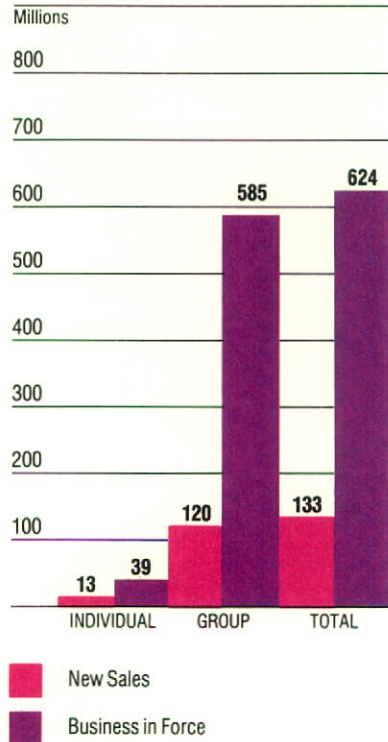


Annuities (Canada)



Health Insurance (Canada)

(Annualized Premium)



United States Operations

The year 1987 was a difficult one for the industry and for our Company. The year was marked by the resurgence of health care cost inflation, fluctuations in the financial markets, continued uncertainty in the tax environment and growing concern over the implications of AIDS for the industry.

Management action taken in previous years and the particular characteristics of our business caused Great-West Life to emerge at year-end in a strong, competitive position in spite of these difficulties.

This was especially true in Great-West Life's group insurance business, which is characterized by an emphasis on managed health care and a high percentage of self-funded plans: in 1987, almost 80% of our health insurance was self-funded (where we provide administrative services and high limit stop loss insurance only). This combination helped cushion Great-West Life from the extremes of the health insurance cycle in the U.S.

This high percentage of self-funded health insurance business has also helped minimize the Company's financial exposure to AIDS — in addition to early adoption of screening tests and the fact that Great-West Life's individual business is not concentrated in areas where AIDS is most prevalent. AIDS has, however, fueled the debate on risk classification, and several jurisdictions have

restricted or banned testing for exposure to the AIDS virus. The implications of being unable to adequately evaluate the risk posed by individual insurance applicants are very serious. As well as supporting AIDS education among staff and the public, the Company is participating in industry efforts to educate politicians and the public on the proper role of risk classification.

A positive trend for Great-West Life has been the emergence of a hybrid market for both individual and group products — the "individual choice" employer-sponsored market. As consumers become increasingly knowledgeable and demanding, employers and associations are offering insurance and retirement programs to employees or members of a group on a voluntary and convenient basis. This type of program involves marketing not only at the "wholesale" level to the plan sponsor, but at the "retail" level to the ultimate buyer, reaching hundreds or thousands of individual participants in an efficient and effective manner.

In the past few years, Great-West Life has developed individual products such as payroll deduction life insurance programs, and our group organization is a recognized leader in public deferred compensation and voluntary tax sheltered annuity markets. In 1987, the Company developed a group universal life insurance plan

1987 Revenue Premium Income (United States)

	Annual (000)	Single (000)	Total (000)
INDIVIDUAL PRODUCTS			
Life Insurance	\$ 542,577	\$ 9,995	\$ 552,572
Annuities	29,899	270,074	299,973
Health Insurance	11,493	-	11,493
Total Premiums	\$ 583,969	\$280,069	\$ 864,038
GROUP PRODUCTS			
Life Insurance	\$ 97,330	\$ 21	\$ 97,351
Annuities	890,962	57,429	948,391
Health Insurance	732,360*	-	732,360
Total Premiums	\$1,720,652	\$ 57,450	\$1,778,102

*Includes self-funded premium equivalents of \$551,169



Bill McCallum, Executive Vice-President — Chief Operating Officer, United States.

specifically for American Dental Association members. The group universal life insurance is available to ADA members in addition to group term life insurance, which Great-West Life has offered through the Association for the past 54 years.

This broad market offers enormous potential for those who can efficiently deliver a quality product to the ultimate consumer. Great-West's experience in both group and individual markets positions the Company to take advantage of this market.

In terms of new annualized premium, sales of individual life insurance and individual health insurance were up 26% and 39% respectively, while sales of individual annuities declined 12% over 1986. The total premium income for individual products was up 23%.

Group pension sales continued to be strong, increasing 22% over 1986, with qualified pension plan sales accounting for the majority of the increase. Group life and health insurance premiums, including self-funded premium equivalents, were up 11% from 1986 levels.

Individual Operations

The corporately-owned life insurance market remained a strong one for Great-West Life in 1987, with sales to a number of major corporations. Sales in this market generally involve the use of individual insurance policies to fund benefits provided to groups of employees. With the erratic performance of the financial markets late in the year, consumer preference shifted from variable products to those with guarantees, a trend which is expected to continue throughout 1988 and which positively positions Great-West's products. Sales of equity-based products, which dropped sharply following the October stock market "crash", are expected to remain slow in 1988.

The single premium immediate annuity (SPIA) market has traditionally been a strong one for the Company, both in terms of sales to state lotteries and those generated by our own sales organization. State lotteries continue to account for a large portion of SPIA business for Great-West Life. Sales, at \$213 million, were down somewhat from 1986 reflecting a switch by some states to funding prizes with U.S. government securities. Success in the SPIA market demands a high degree of coordination between our Investment and Operating Divisions, and much progress was made on this front during 1987.



Great-West Life's strength in the individual market lies in its quality line of products targeted at specific market niches. Seated is Dennis Low, Senior Vice-President, Individual, with Contract Analyst Fran Harrison and Bryce Scharlemann, Marketing Coordinator.

While disability income remains a small line for Great-West Life in the U.S., the Company experienced excellent growth during 1987. Total new sales increased \$1.3 million over 1986. The Company has shifted its strategy over the past two years from distributing its product purely on a brokerage basis to an emphasis on marketing agreements with other insurers active in the large, middle American markets. Great-West Life currently has marketing agreements with two such companies, and anticipates signing more in 1988.

While the Company has developed specialized marketing outlets for certain products, Great-West Life's primary distribution system is its network of 32 branch offices and the affiliated primary producers. Following a period of rapid expansion both in new offices and number of producers, now over 1,000, 1988 is expected to be a more stable year. We expect to develop our newer territories more fully and to achieve greater consistency among offices. During 1988 this primary distribution will concentrate on marketing permanent life insurance, traditional participating plans as well as universal life, in the small business and professional markets. In summary, we will do the things we know how to do best and learn from others' mistakes, when considering diversification opportunities.

Group Operations

Despite the renewed escalation of healthcare costs, Group Insurance ended the year in an exceptionally strong position. The Company's success in the U.S. group markets can be attributed to three things: a decade-old emphasis on marketing self-funded plans, an extraordinary level of claims service, and a continuing commitment to managed health care.

Great-West Life is the managing general partner of the three-year-old Private HealthCare Systems Ltd. (PHCS), which provides its 17 member insurers with quality cost containment services to offer their customers. In 1987, PHCS completed development of its hospital network in 40 cities, and is now well into development of physician networks. During 1987, over 90 % of Great-West Life's new medical cases included managed care programs. The emphasis in 1988 will be on incorporating the network into Great-West Life's new and in-force business as well as expanding the hospital and physician network to include mental health facilities and dental organizations.

The use of catastrophic case management has helped Great-West Life control the cost of AIDS health claims. In 1987, AIDS claims amounted to 0.5 % of total health claims.

For 1988, Great-West Life is developing a multiple option health plan — offering the choice between traditional indemnity insurance, preferred provider, or a third option similar to a health maintenance organization. The Company will also continue to monitor opportunities presented by the aging population, including long term care and retiree medical coverage.

Great-West Life's claims service now ranks among the best in the industry, with claims payment accuracy exceeding 97 % , and average processing time of less than one week. The acid test, however, is customer satisfaction and our surveys indicate a high level of satisfaction among our customers.

Great-West Life's Group Pension products are among the few tax-sheltered/deferred investment vehicles remaining after tax reform. In 1987, pension assets under management increased 25 % over 1986, well in excess of the industry average.

The Company now holds significant market shares in the specialized market segments it has targeted, ranking among the top five insurers in the public deferred compensation and voluntary tax sheltered annuity markets. The Company's strategy has been to tailor its products to meet the needs of particular markets — city, county or local governments, hospitals, schools, higher education institutions and non-profit organizations.

This is an area where Benefits Communication Corporation (BenefitsCorp), a wholly-owned subsidiary of Great-West Life, plays a significant role. BenefitsCorp specializes in plan enrollment and communicating information on financial products — primarily group pension, securities and life insurance — to individual employees eligible under group plans administered by Great-West. Formed three years ago, BenefitsCorp has grown until it now accounts for one-third of Great-West's voluntary group pension product sales.

One of the most exciting developments in the corporate pension market is the 401(k) plan, which offers employees the investment flexibility and tax-sheltered savings enjoyed by public employees through deferred compensation plans. Great-West Life is able to deliver high quality service and consultation through a unique association with local pension plan administrators. This, together with BenefitsCorp's communications service, gives the Company a competitive edge in this rapidly developing market.

Overall, distribution will be an increasingly critical element of the Company's continued success in the group market. Great-West Life is researching additional ways of distributing products, particularly targeting harder-to-reach non-urban areas with small case group insurance and pension plans. These are distributed through our own sales organization on a direct basis and through third party arrangements with other carriers. In 1987, 25 % of Great-West Life's small group sales were accounted for by third party arrangements.

Over the past couple of years, the Company has significantly improved its competitive expense position. In 1988, Group Operations will continue this emphasis through improvements in productivity and in the quality of products and services, including new applications of computer technology.

Our position

As a relatively small player in an enormous market, Great-West Life's emphasis in the past few years has been on growth. With several years of solid growth in targeted market segments behind it, the Company is looking in 1988 towards achieving a greater balance between growth and earnings in its U.S. Operations.

The Company remains convinced that the key to success in this highly competitive market lies in developing innovative ways to meet consumers' needs for financial security. Our goal continues to be the development of a sustainable competitive edge, not just short-term momentum.

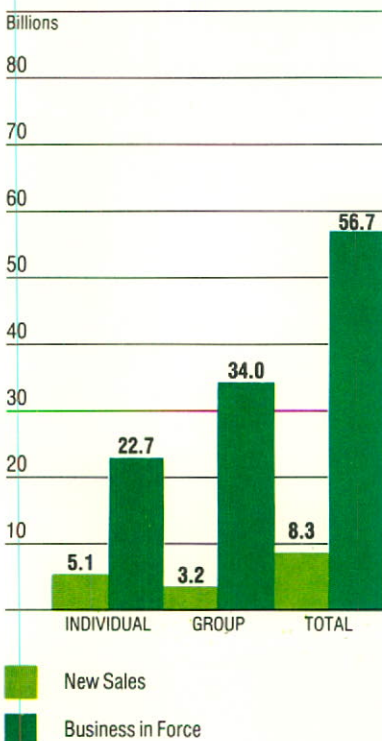
By initiating joint ventures such as Private Health-Care Systems Ltd.; by targeting specific markets where we have the skill not only to compete but to lead; by emphasizing quality products and services; and through developing new methods of distribution, Great-West Life is well-positioned to be a key player in the markets in which it chooses to operate.



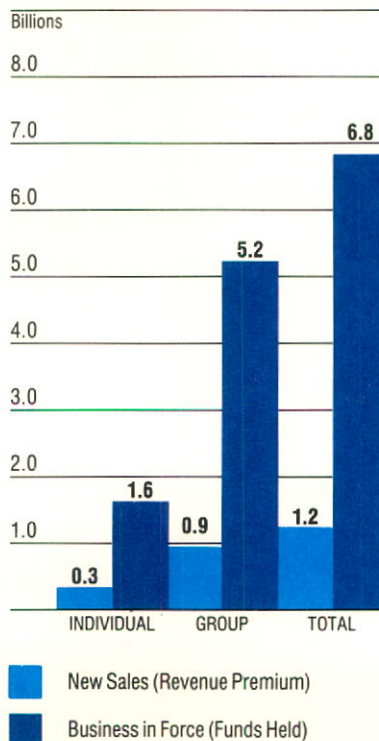
Teamwork is key to Great-West Life's success in the competitive group insurance and pension markets. The Group management team, under the leadership of Alan MacLennan, Senior Vice-President, Group, includes: (seated) Tom Lannen, MacLennan, Pam Parker, Jim Motz and Dennis Sarahs; (standing) Donna Rozelle, Bob Kavanagh, Graham McDonald, Darryl Collier, Fred Riggall and Bonnie Hardy.

Life Insurance (U.S.)

(Face Amount)

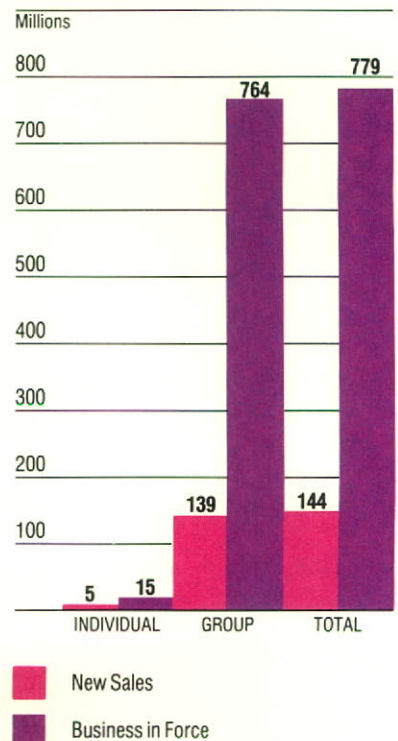


Annuities (U.S.)



Health Insurance (U.S.)

(Annualized Premium)



Investment Operations

By the end of 1987, the total of all investment portfolios managed by Great-West Life had reached \$14,486 million — an increase of \$2,257 million or 18 % over year-end 1986. Net investment income for the year totalled \$1,350 million, up \$146 million or 12 % over 1986.

The investment portfolios of Great-West Life and its subsidiaries, which support obligations to policyholders, totalled \$12,828 million, of which 36 % is attributable to Canadian operations and 64 % to the United States. In the United States, \$1,045 million of investments are held by our subsidiary, Great-West Life & Annuity Insurance Company. The balance, \$1,658 million of portfolio investments, consists of various segregated investment funds.

Objective

Great-West Life's Investment Operations support the Company's obligations to policyholders by ensuring that the necessary funds are available when required. Safety of principal and interest and timely flow of funds are thus of primary importance. Further, successful Investment Operations are an essential component in overall Company profitability.



Great-West Life's investment management team includes (from left) Ted Steven (Vice-President, Asset/Liability Management), Marshall Smith (Executive Vice-President, Investments), Dick Charge (Vice-President, Investment Legal), Lindsay Ward (Vice-President, Real Estate Investments), and Len Anderson (Vice-President, Investment Administration).

Segregated funds are managed with the objective of realizing competitive investment performance in the marketplace for the benefit of the participants, who assume the investment risks and receive the investment rewards.

Investment Strategy

The Company's investment strategy is two-fold:

1. to acquire a portfolio of fixed income bonds and mortgages that: in total, has the characteristics of quality, diversification, maturity and marketability to ensure satisfaction of obligations; and achieves a competitive rate of return to maintain and strengthen the Company's position as a leading provider of consumer financial services
2. to earn long-term enhanced returns on the maximum amount of funds that can be safely dedicated to equity investments, whether in the form of shares or ownership of real estate.

Investment Activity

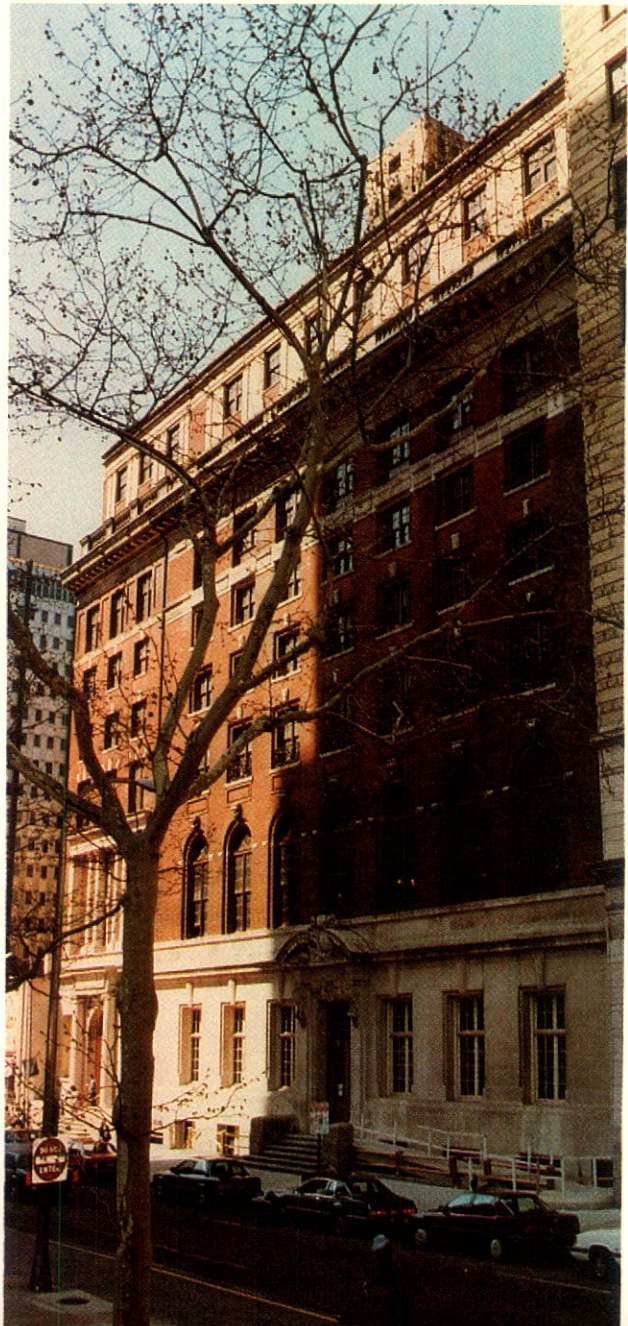
Funds available for new investment in 1987 totalled \$3,673 million, an increase of 26 % over 1986. This amount was invested approximately as follows:

- 39 % in commercial and industrial mortgages of varying terms at an average rate of 10.22 % in Canada and 9.56 % in the United States
- 8 % in federal government bonds or bonds guaranteed by the federal government at an average rate of 9.40 % in Canada and 8.50 % in the United States
- 41 % in other bonds at an average rate of 10.07 % in Canada and 9.28 % in the United States
- 12 % in policy loans, short term and other temporary investments.

Investment Income

The total of net investment income, before tax, earned in 1987 was \$1,350 million, up \$146 million from 1986. This reflected not only the overall growth of the Company's invested assets, but also a portion of realized and unrealized gains and losses on stocks and real estate as prescribed by the accounting rules for Canadian life insurance companies. The overall increase in investment income was, however, moderated by lower levels of interest rates for new investments; some pressure on rental income from owned real estate; an increased level of uncollected income due to problem mortgage accounts (principally located in Texas and Colorado); and the decline of North American stock markets in October.

Net investment income for the year, measured as a percentage of average invested assets, produced a yield of 10.76% as compared with 11.31% in 1986.



This historic building in Philadelphia's central business district was upgraded and restored to its original grandeur with financing from Great-West Life. The building houses the YMCA and the City of Philadelphia District Attorney's Office.

Asset Distribution

The chart below shows the distribution of the Company's invested assets (excluding segregated funds) in 1987 and 1986.

Federal government bonds, including guarantees, constitute a significant, high quality component of the portfolio. Highly marketable, they provide the flexibility to make prompt portfolio adjustments in response to changing economic conditions.

The Company has a significant continuing commitment to commercial and industrial mortgages, which form virtually the entire mortgage account. Along with bonds, they constitute a primary backing for policyholder obligations.

Asset Quality: Bonds

Bond quality can be measured by the ratings accorded these investments. The chart on page 17 shows the quality of the Company's bond portfolio (excluding short-term investments and unamortized gains of \$53 million) at December 31, 1987. At that time, bonds with a principal value of \$24.9 million or 0.5 % of the bond portfolio were in default, down from \$32.5 million or 0.9 % at the end of 1986.

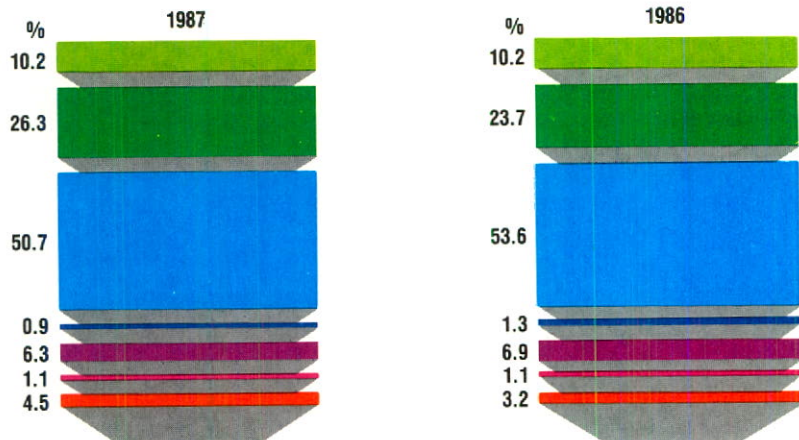
Mortgages

At December 31, 1987 mortgages in arrears 90 days or more, renegotiated loans and real estate acquired by mortgage foreclosure totalled \$495 million or 7.0 % of the total mortgage portfolio, including foreclosures. This compares with 4.7 % a year ago.

The increase in mortgage arrears and foreclosed real estate has occurred almost entirely in loans located in areas identified with the energy industry in the United States. Consistent with the Company's conservative accounting practices, a provision of \$47.4 million was made in the second quarter of 1987 for possible future write-downs of mortgage loans in Texas and Colorado. These geographic regions in the United States continue to be impaired by the difficulties associated with the oil price collapse and extensive over-building in the real estate markets. In several areas, however, local conditions do appear to be showing modest gains such that investment results in these areas might likewise be expected to improve.

The Canadian scene has stabilized and at December 31, 1987 there was only one mortgage account in arrears 90 days or more.

Asset Distribution



Fixed Income Maturities

Renewed volatility in financial markets dictates the need to continue to achieve and maintain a good match between cash inflows from investments and cash outflows on maturing policyholder obligations. The distribution of fixed-income asset maturities, shown below, indicates the term of assets in place as a result of reaching a satisfactorily balanced position relative to the liability structure. At the end of 1987 the estimated average term of all fixed-income investments was 5.8 years, unchanged from one year earlier.

Equity Investments

Great-West Life's equity investments include publicly traded common stocks; shares of real estate development and private venture-type enterprises; and direct real estate. At the end of 1987, the total market value of these investments was \$1,241.6 million compared to \$1,243.9 million at the end of 1986.

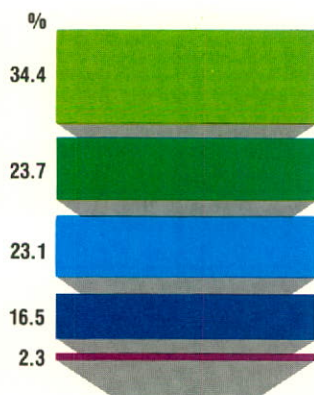
The value of the Company's holdings of direct real estate increased slightly in 1987 primarily due to foreclosures of mortgages while decreases resulted from planned sales as well as from reduced estimated market values in some geographic areas.

The stock market crash in October caused a significant reduction in the market value of our stock holdings and, because a portion of unrealized gains and losses are taken into income, 1987 investment income was reduced by \$15.1 million.

The chart on page 18 shows for the four years ended December 31, 1987 the overall compounded approximate rates of return of dividends and capital appreciation (realized and unrealized) on publicly traded stocks owned by Great-West Life in Canada and the U.S., compared with those on recognized stock indexes.

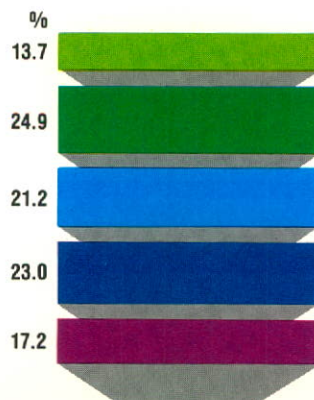
Bond Portfolio Quality

Estimated Rating	Amount (\$ millions)
AAA	1,667.5
AA	1,151.6
A	1,123.6
BBB	800.0
BB or lower	109.6
Total	4,852.3



Fixed Income Investment Maturities

Estimated Maturities	Amount (\$ millions)
1 year or less	1,620.5
over 1 year to 3 years	2,949.8
over 3 years to 5 years	2,515.8
over 5 years to 10 years	2,732.3
over 10 years	2,038.1
Total	11,856.5



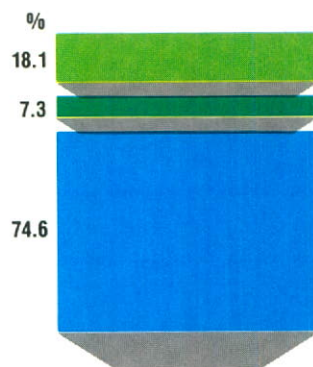
Segregated Fund Investments

Segregated funds managed by the Company totalled \$1,658 million at the end of 1987 compared to \$1,547 million at the end of 1986. Of that, \$1,228 million are assets managed primarily for Canadian group pension clients in pooled investment funds. Three of the pooled funds are among the largest in the Canadian pension industry: Real Estate Fund #1 (\$297 million), Mortgage Fund #1 (\$291 million), and the Money Market Fund #1 (\$143 million). In addition, \$131 million of group pension assets is invested under separate management for individual clients.

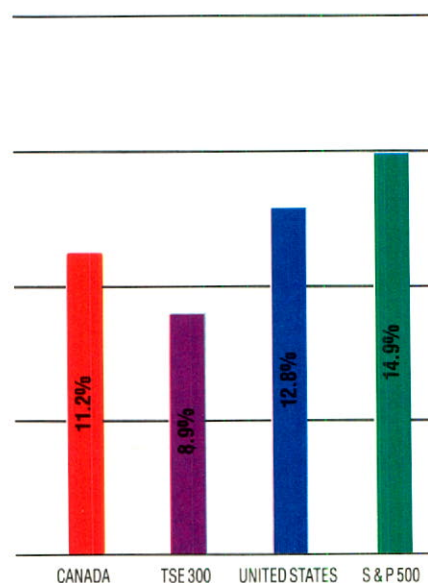
In the United States, we have an affiliated mutual fund company, Maxim Series Fund, Inc., registered under the Investment Company Act of 1940. Maxim has seven investment options: money market, bond, growth, government and high quality securities, two zero coupon treasury funds and a total return fund. The assets of these funds as of December 31, 1987 totalled \$266 million, compared with \$147 million in 1986. Other separate funds of the Company in the United States at the end of 1987 totalled \$33 million.

Equity Investments

	Market Value (\$ millions)
Public Common Shares	224.7
Other Shares	90.6
Real Estate	926.3
	<u>1,241.6</u>



Return on Public Stock Portfolio 1984-1987



Review and Outlook

On balance, 1987 was another good economic year in North America, characterized by moderate real growth, low inflation, relatively stable interest rates and, until October, buoyant stock markets.

The year ahead, however, presents increasing concerns about the continuation of an already long and uninterrupted economic expansion, excessive debt creation at all levels of society, and international problems tied to trade and government deficits. In these circumstances, maintaining quality standards, achieving multi-faceted risk diversification and solid balance between the characteristics of our assets versus our liabilities, rank high in operational priorities.

In 1988 we intend to continue to invest new funds in an appropriate balance between debt and equity, recognizing the benefits of a properly constructed and well-executed equity investment program as an essential element of investment policy.



Great-West Life is a founding shareholder of Mediquip Healthcare Inc. The Toronto-based company provides high quality mobility products for the disabled through its manufacturing subsidiaries in Canada and the United States. Mediquip products are sold across North America and in Europe.



The 21-storey Maison SNC in Montreal is the headquarters for the international SNC Group. Great-West Life provided mortgage financing for the office tower, which is Phase I of the Place Félix-Martin complex.

Management's Statement on Financial Reporting

Board of Directors

The accompanying financial statements were approved by the Board of Directors which has overall responsibility for their contents.

Audit Committee

The Board of Directors is assisted in its responsibilities for these financial statements by its Audit Committee. This Committee consists of directors not involved in the daily operations of the Company. The function of this Committee is to:

- Review all formal financial statements and recommend them for approval to the Board of Directors.
- Review the systems of internal control and security.
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors.
- Review other audit, accounting, financial and security 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 approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to external and internal auditors and to the Valuation Actuary.

Management

The annual report was prepared by management. The financial statements were prepared in accordance with the accounting practices prescribed or permitted by the Office of the Superintendent of Financial Institutions. Some of the assets and liabilities are based on estimates and judgements as their final determination is dependent upon subsequent events. Management believes such estimates are based on careful judgements and have been properly reflected in the financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements properly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

Valuation Actuary

The Valuation Actuary is appointed by the Board of Directors pursuant to Section 71.1 of the Canadian and British Insurance Companies Act. His function is to carry out an annual valuation of the Company's policy benefit liabilities in accordance with the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries for the purpose of issuing reports to policyholders, shareholders and the Superintendent of Financial Institutions. These reports express his opinion based on informed judgement.

External Auditors

Touche Ross & Co. have been appointed external auditors pursuant to Section 78.1 of the Canadian and British Insurance Companies Act to report to the policyholders, shareholders and directors and to the Superintendent of Financial Institutions regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual financial statements.

The opinion of the external auditors is based upon obtaining an understanding of the Company's accounting systems, procedures and internal controls. Based upon their evaluation of these systems, the external auditors conduct appropriate tests of the Company's accounting records and obtain sufficient audit evidence and explanations to provide reasonable assurance that the financial statements are presented fairly in accordance with accounting practices prescribed or permitted by the Office of the Superintendent of Financial Institutions and, unless otherwise stated, on a basis consistent with that of the preceding year.

Regulatory Authorities

The Superintendent of Financial Institutions, at least once every three years, examines the affairs of the Company. In addition, the United States operations of the Company are periodically examined by the Michigan Insurance Bureau under the auspices of the National Association of Insurance Commissioners. Periodic reports are filed with insurance regulatory authorities in various jurisdictions and these reports facilitate further review of financial results and enquiry by examination staff.

Comparative Highlights

(in thousands of dollars except earnings per share)

At December 31	1987	1986
Life insurance in force (face amount)	\$127,884,666	\$112,684,790
Annuities in force (funds held)	10,762,398	8,929,278
Health insurance in force (annualized premiums)	1,402,511	1,201,298
Assets	15,523,995	12,995,538
Common and preferred capital and surplus	1,167,439	1,127,046
For the Year		
New life insurance	14,212,606	17,193,311
New annuities	1,943,849	1,895,813
Premium income	3,489,043	3,188,615
Net investment income	1,349,724	1,204,181
Total paid or credited to policyholders including policyholder dividends and experience refunds	4,213,236	3,853,916
Earnings per common share		
From operations	40.66	49.82
Including other items	32.47	47.74

Summary of Consolidated Operations

(in thousands of dollars except earnings per share)

	1987	1986
Income		
Life insurance and annuity premiums	\$2,890,238	\$2,626,459
Accident and health premiums	598,550	557,594
Property and casualty premiums	255	4,562
Net investment income	1,349,724	1,204,181
Net realized and unrealized capital gains (losses) on assets of segregated investment funds (note 1e)	(29,494)	38,236
Total Income	<u>4,809,273</u>	<u>4,431,032</u>
Benefits and Expenses		
Life and annuity benefits	1,503,371	1,335,159
Accident and health benefits	460,438	430,477
Property and casualty benefits	183	7,673
Interest on funds on deposit	43,885	44,622
Increase in policy reserves (note 1g)	2,038,997	1,905,700
Policyholder dividends and experience refunds	166,362	130,285
Total paid or credited to policyholders	<u>4,213,236</u>	<u>3,853,916</u>
Commissions and operating expenses	434,784	411,281
Premium taxes	30,980	26,827
Net operating income before income taxes	130,273	139,008
Income taxes — current	6,177	5,213
— deferred	13,243	3,026
Net Income from Operations	<u>110,853</u>	<u>130,769</u>
Other Items (note 3)	<u>(18,910)</u>	<u>(10,677)</u>
Net Income	<u>\$ 91,943</u>	<u>\$ 120,092</u>
Summary of Net Income (note 1h)		
Attributable to participating policyholders		
Net income before policyholder dividends	\$ 122,277	\$ 106,223
Policyholder dividends	104,305	86,658
Net income from operations	17,972	19,565
Other items (note 3)	(2,536)	(6,521)
Net Income — participating policyholders	<u>\$ 15,436</u>	<u>\$ 13,044</u>
Attributable to shareholders		
Net income from operations before preferred shareholder dividends	\$ 92,881	\$ 111,204
Preferred shareholder dividends	11,550	11,550
Net income from operations — common shareholders	81,331	99,654
Other items (note 3)	(16,374)	(4,156)
Net Income — common shareholders	<u>\$ 64,957</u>	<u>\$ 95,498</u>
Earnings per common share		
From operations	\$40.66	\$49.82
Including other items	\$32.47	\$47.74

Consolidated Statement of Surplus
for the year 1987 (in thousands of dollars)

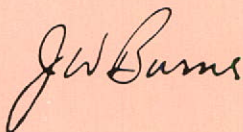
	Participating Policyholders	Shareholders	Total
Appropriated			
Balance January 1	\$ 80,881	\$366,580	\$447,461
Add:			
Increase in special reserves			
Investment valuation and currency reserve — net	3,727	33,210	36,937
Real estate appraisal valuation reserve	2,280	17,260	19,540
Reserve for cash value deficiencies and amounts of negative reserves	7,790	18,638	26,428
Reserve for miscellaneous assets	(938)	4,401	3,463
	<u>12,859</u>	<u>73,509</u>	<u>86,368</u>
Balance December 31	<u>\$ 93,740</u>	<u>\$440,089</u>	<u>\$533,829</u>
Unappropriated			
Balance January 1	\$263,446	\$264,139	\$527,585
Add:			
Total net income for year from summary of operations	15,436	76,507	91,943
Deduct:			
Dividends to shareholders			
— preferred shareholders	—	11,550	11,550
— common shareholders	—	40,000	40,000
Changes in special reserves appropriated from surplus	12,859	73,509	86,368
Balance December 31	<u>\$266,023</u>	<u>\$215,587</u>	<u>\$481,610</u>

Consolidated Balance Sheet

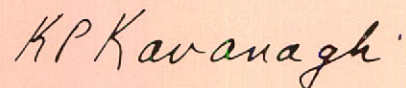
December 31, 1987 (in thousands of dollars)

Assets	1987	1986
Bonds (note 1b)	\$ 4,905,278	\$ 3,738,552
Mortgages and sale agreements (note 1b)	6,807,815	5,917,062
Stocks (note 1c)	124,491	146,535
Real estate (note 1d)	847,207	757,369
Loans to policyholders	598,700	354,272
Cash and certificates of deposit	143,459	122,231
Premiums in course of collection	108,088	117,698
Interest due and accrued	202,605	167,697
Segregated investment funds (note 1e)	1,657,658	1,546,832
Other assets	128,694	127,290
	<u><u>\$15,523,995</u></u>	<u><u>\$12,995,538</u></u>

Approved by the Board



Director



Director

Liabilities	1987	1986
Policy benefit liabilities		
Policy reserves (note 1g)	\$11,077,831	\$ 8,864,533
Segregated investment funds	1,657,658	1,546,832
Provision for claims	554,945	498,260
Provision for 1988 policyholders' dividends	99,426	85,218
Provision for experience rating refunds	113,984	84,886
	13,503,844	11,079,729
Policyholders' funds	449,013	421,772
Mortgages on real estate	180,681	191,312
Income taxes payable	13,278	8,870
Deferred income taxes (note 1f)	45,861	19,430
Other liabilities	163,879	147,379
	14,356,556	11,868,492
Capital stock and surplus		
Capital stock (note 2)	152,000	152,000
Appropriated surplus (note 4)		
— participating policyholders	93,740	80,881
— shareholders	440,089	366,580
Unappropriated surplus		
— participating policyholders	266,023	263,446
— shareholders	215,587	264,139
	1,167,439	1,127,046
	\$15,523,995	\$12,995,538

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	1987	1986
Operations		
Net income	\$ 91,943	\$ 120,092
Non-cash charges		
Increase in policy benefit liabilities	2,424,115	1,981,094
Increase in policyholders' funds	27,241	22,609
Deferred income taxes	26,431	2,522
Currency revaluation	(15,453)	(17,452)
Other	(366,944)	(183,618)
	<u>2,187,333</u>	<u>1,925,247</u>
Financing Activities		
Dividends paid	(51,550)	(47,550)
	<u>(51,550)</u>	<u>(47,550)</u>
Investment Activities		
Bond sales and maturities	2,659,642	2,089,929
Mortgages and sale agreements repayments	363,575	343,761
Stock sales	237,754	282,416
Real estate sales	15,393	109,330
Policy loan repayments	34,680	36,404
Investment in bonds	(3,704,909)	(2,877,351)
Investment in mortgages and sale agreements	(1,169,616)	(1,404,487)
Investment in stocks	(171,716)	(96,792)
Investment in real estate	(21,398)	(90,518)
Policy loan advances	(260,673)	(63,364)
Increase in segregated investment funds	(97,287)	(201,426)
	<u>(2,114,555)</u>	<u>(1,872,098)</u>
Increase in cash and certificates of deposit	21,228	5,599
Cash and certificates of deposit beginning of year	<u>122,231</u>	<u>116,632</u>
Cash and certificates of deposit end of year	<u>\$ 143,459</u>	<u>\$ 122,231</u>

Notes to 1987 Consolidated Financial Statements**1. Summary of Significant Accounting Practices**

The accounting practices followed by the Company are as prescribed or permitted by the Office of the Superintendent of Financial Institutions for the purpose of reporting to policyholders and shareholders.

(a) Financial results are reported on a consolidated basis. All significant intercompany balances and transactions are eliminated on consolidation and subsidiary results are conformed with the Company's accounting practices. The principal subsidiaries are:

Great-West Life & Annuity Insurance Company
Torwest Properties U.S.A. Limited
G.W.L. Properties Ltd.
Great-West Realty Investments, Inc.

(b) Investments in bonds, mortgages and sale agreements (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold. The unamortized balances at December 31, 1987 are \$30,834,000 of net gains for bonds (\$55,361,000 in 1986) and \$9,213,000 of net gains for mortgages (\$474,000 in 1986).

Bonds, mortgages and sale agreements have a market value on a basis authorized by the Office of the Superintendent of Financial Institutions of \$11,833,874,000 (\$10,185,647,000 in 1986). In most instances, the carrying value of debt securities will be realized since they will be held to maturity to discharge policy contract liabilities maturing at the same time.

(c) Investments in stocks (equity securities) in the life account are carried at cost less an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1987 amounted to \$156,186,000 (\$144,343,000 in 1986). Equity investments in respect of the accident and health business are carried at cost.

Equity securities have a market value on a basis authorized by the Office of the Superintendent of Financial Institutions of \$315,333,000 (\$426,250,000 in 1986).

(d) Investments in real estate at December 31, 1987 are carried at a written-down value of \$848,311,000 (\$760,072,000 in 1986) less an adjustment which consists of realized gains and losses as well as a

market value adjustment which is a portion of the difference between adjusted book value and market value of all real estate holdings. The adjustment at December 31, 1987 amounted to \$1,104,000 (\$2,703,000 in 1986).

The market value of the real estate portfolio has been calculated at \$926,318,000 (\$817,665,000 in 1986).

(e) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital losses on segregated investment funds were \$29,494,000 in 1987 (\$38,236,000 gains in 1986). Such capital gains or losses to the funds are reflected in the increase in policy reserves and do not affect net income of the Company.

(f) Income taxes are calculated using the deferred-tax method on a present value basis.

(g) Policy reserves represent the amount which, in the judgement of the Valuation Actuary, is required, together with future premiums and investment income, to provide for future policy benefits, administrative expenses and taxes on insurance and annuity policies and are calculated using assumptions considered to be appropriate to the policies in force. Policyholder dividends (except for the small portion derived from investment earnings on surplus) are included in future policy benefits at the current scale of policyholder dividends. The Valuation Actuary, in setting the valuation assumptions, has assumed that policyholder dividends will be changed from the current scale to reflect any differing operating experience of the participating account in future years. Also, asset values and projected maturities of assets and liabilities are continuously monitored and appropriately considered in the determination of policy reserves.

Policy reserves recognize the deferral of certain costs of acquiring policies. The amount of unamortized deferred acquisition costs deducted in arriving at the policy reserves was \$354,506,000 at December 31, 1987 (\$295,946,000 at December 31, 1986).

(h) Net income includes earnings of the participating, non-participating and the health insurance accounts. Earnings applicable to shareholders include net earnings of the non-participating and the health accounts and 2 1/2%, as restricted by law, of the distributions from the participating account.

(i) Commencing in 1987, pension plan costs and obligations are reported in accordance with the new recommendations of The Canadian Institute of Chartered Accountants. This change did not have a material effect on net income for the year.

2. Capital Stock

	1987	1986
	(000)	(000)
Authorized		
20,000,000 Preferred Shares, par value of \$25		
50,000,000 Common Shares, par value of \$1		
Issued and Outstanding		
6,000,000 Series A, 7.70 % Cumulative Preferred Shares	\$150,000	\$150,000
2,000,000 Common Shares	2,000	2,000
	<u>\$152,000</u>	<u>\$152,000</u>

3. Other Items

Other items, net of income taxes includes the results of:

	1987		1986	
	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
Attributable to:	(000)	(000)	(000)	(000)
Net realized gains on sale of assets (note 3a)	\$ —	\$ 12,560	\$(1,015)	\$ 11,741
Net write-down of assets	(1,466)	(13,002)	(4,194)	(28,397)
Additional provision for investment losses (note 3b)	(4,238)	(43,137)	—	—
Gain due to change in book rates of exchange	4,842	10,611	5,908	11,544
Provision for projected losses on lease commitments	(1,168)	(10,371)	—	—
Changes in policy reserves	(506)	26,965	(7,327)	—
Release of insurance guarantee association assessments	—	—	107	956
	<u>\$(2,536)</u>	<u>\$(16,374)</u>	<u>\$(6,521)</u>	<u>\$ (4,156)</u>
	<u>\$(18,910)</u>		<u>\$(10,677)</u>	

(a) Net realized gains on sale of assets in 1987, net of income taxes of \$2,336,000 (\$1,398,000 in 1986) are on disposals of assets of the accident and health account.

(b) An additional provision of \$47,375,000 was established at June 30, 1987 to provide for potential future write-down of oil related mortgage loans, primarily in Texas and Colorado. Since June 30, 1987 actual write-downs to net appraised value on actual and pending foreclosures have resulted in a charge of \$2,961,000 to the provision. Loans which have been renegotiated have been written-down to net appraised value, resulting in a charge to the provision of \$29,194,000. The December 31, 1987 balance of the provision of \$15,220,000 is included with normal asset default provisions in Policy Reserves.

4. Appropriation of Surplus

Appropriated surplus represents reserves required by the Office of the Superintendent of Financial Institutions:

	1987	1986
	(000)	(000)
Participating account:		
Investment valuation and currency reserve — net	\$ 28,164	\$ 24,437
Real estate appraisal valuation reserve	13,276	10,996
Reserve for cash value deficiencies and amounts of negative reserves	30,332	22,542
Reserve for miscellaneous assets	21,968	22,906
Total	\$ 93,740	\$ 80,881
Non-participating and health accounts:		
Investment valuation and currency reserve — net	\$127,264	\$ 94,054
Real estate appraisal valuation reserve	66,707	49,447
Reserve for cash value deficiencies and amounts of negative reserves	166,297	147,659
Reserve for miscellaneous assets	79,821	75,420
Total	\$440,089	\$366,580

5. United States Dollar Transactions

United States currency items in the Balance Sheet as at December 31, 1987 are translated at the market rate of \$1.30 in Canadian dollars compared to a book rate of \$1.25 at December 31, 1986. The gain resulting from the change to \$1.30 of \$15,453,000 has been reflected in Other Items. United States currency items in the Statements of Consolidated Operations and Changes in Financial Position for 1987 and 1986 have been translated at \$1.25.

It is the intention of the Company to use an average rate for operations and a market rate for Balance Sheet purposes in 1988.

Conversion to Canadian dollars of the excess of United States dollar assets over United States dollar liabilities at the December 31, 1986 market rate rather than the book rate of \$1.25 would have produced an increase in net assets of approximately \$45,863,000 at December 31, 1986. In accordance with reporting requirements \$15,844,000 at December 31, 1986, is reflected by a reduction in the investment valuation and currency reserve shown in note 4.

6. Pension Plans

The Company maintains contributory and non-contributory pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings.

Actuarial reports prepared during the year, which were based on projections of compensation levels to the time of retirement, indicate that the present value of the accumulated benefits at December 31, 1987 is

\$152,400,000 (\$140,400,000 in 1986). The net assets available to provide for these benefits, at market value, as of December 31, 1987 is \$186,400,000 (\$174,600,000 in 1986).

The cumulative difference between the amounts expensed and the funding contributions has been reflected in the Balance Sheet in Other Assets and amounts to \$1,152,000.

7. Related Party Transactions

Transactions with related parties consist mainly of the provision of insurance benefits to other companies within the Power Corporation of Canada group of

companies. In all cases, such transactions are made in the normal course of business and at competitive prices.

8. Company's Effective Income Tax Rate

The Company's effective income tax rate is made up as follows:

	1987	1986
Combined basic Canadian federal and provincial tax rate	51.4 %	50.8 %
Increase (Decrease) in the income tax rate resulting from:		
Adjustment of deferred taxes to a present value basis	(10.4)	(32.9)
Tax exempt dividends on stocks	(4.5)	(2.1)
Tax exempt portion of capital gains	(6.5)	(2.8)
Lower effective tax rates on income not subject to tax in Canada	(16.2)	(7.1)
Miscellaneous	1.1	.0
Effective income tax rate	<u>14.9 %</u>	<u>5.9 %</u>

9. Contingent Liabilities

The Company has entered into a number of joint ventures and partnerships and has equity positions in a number of real estate development corporations which have not been consolidated in its financial results. The contingent liability in respect of these participations is \$100,300,000 (\$114,478,000 in 1986). This amount is supported by the underlying value of the assets of the various entities.

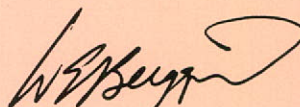
The board of directors of Canadian Commercial Bank (a Canadian chartered bank presently in liquidation) included three directors who were serving at the

Company's request. These three directors are amongst the many persons against whom, following the collapse of Canadian Commercial Bank, two legal actions for significant amounts have been instituted. The Company may be obligated to indemnify these three directors for losses they may suffer in connection with such legal actions. However, the Company has been advised and believes that the two actions are without merit and should fail as against these three directors. It is therefore not expected that the extent of any indemnification obligation of the Company will be material.

Valuation Actuary's Certificate**To the Policyholders, Shareholders and Directors,
The Great-West Life Assurance Company**

I have made the valuation of the policy benefit liabilities of The Great-West Life Assurance Company and its consolidated life insurance company subsidiary, Great-West Life & Annuity Insurance Company, for the consolidated balance sheet at December 31, 1987 and the summary of consolidated operations for the year then ended. In my opinion: i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the

Canadian Institute of Actuaries; ii) the amount of the policy benefit liabilities makes proper provision for future payments under the Companies' policies; iii) a proper charge on account of those liabilities has been made in the summary of consolidated operations; and iv) the amount of surplus appropriation for policies whose cash value exceeds the policy benefit liability is proper.



W. E. Bergquist, F.S.A., F.C.I.A., M.A.A.A.
Senior Vice-President and Actuary
January 28, 1988.

Auditors' Report**To the Policyholders, Shareholders and Directors,
The Great-West Life Assurance Company**

We have examined the consolidated balance sheet of The Great-West Life Assurance Company as at December 31, 1987 and the summary of consolidated operations, the consolidated statement of surplus and the consolidated statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we con-

sidered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting practices described in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.



Touche Ross & Co.
Chartered Accountants
Winnipeg, Manitoba
January 28, 1988.

Five Year Summary

(in thousands of dollars except earnings per share)

	Compound Growth Rate 1983-1987	1987
AT DECEMBER 31		
Life insurance in force (face amount)	11.8	\$127,884,666
Annuities in force (funds held)	22.5	10,762,398
Health insurance in force (annualized premiums)	12.4	1,402,511
Assets	18.7	15,523,995
Common and preferred capital and surplus	12.8	1,167,439

FOR THE YEAR		
New insurance	2.2	14,212,606
New annuities	29.3	1,943,849
Premium income	21.5	3,489,043
Net investment income	18.4	1,349,724
Total paid or credited to policyholders including dividends and experience refunds	20.6	4,213,326

	1987	
	Participating Policyholders	Shareholders
CONDENSED SUMMARY OF OPERATIONS		
Income:		
Premiums	\$509,406	\$2,979,637
Net investment income	175,787	1,173,937
Net realized and unrealized capital gains (losses) on assets on segregated funds	(109)	(29,385)
Total income	685,084	4,124,189
Benefits and Expenses:		
Total paid or credited to policyholders	575,844	3,637,392
Commissions and operating expenses	78,619	356,165
Premium taxes	9,435	21,545
Transfer from participating policyholders to shareholders	2,674	(2,674)
Net operating income before income taxes	18,512	111,761
Income taxes — current	1,459	4,718
— deferred	(919)	14,162
Net income from operations	17,972	92,881
Other items	(2,536)	(16,374)
Dividends to preferred shareholders	—	11,550
Net income	\$ 15,436	\$ 64,957

EARNINGS PER COMMON SHARE

From operations	\$40.66
Including other items	\$32.47
Return on common shareholders' equity	10.1%
Book value per common share	\$328.84
Dividends to common shareholders — per share	\$ 20.00

1986		1985		1984		1983	
\$112,684,790		\$100,304,517		\$92,725,762		\$81,845,683	
8,929,278		7,072,642		5,883,532		4,785,530	
1,201,298		1,054,732		1,000,617		880,106	
12,995,538		10,801,022		9,186,139		7,823,635	
1,127,046		1,054,504		816,239		720,957	
17,193,311		14,487,198		16,696,891		13,023,809	
1,895,813		1,193,560		1,023,787		694,990	
3,188,615		2,319,703		2,059,393		1,601,316	
1,204,181		1,001,464		855,538		687,792	
3,853,916		2,904,464		2,477,735		1,988,711	
1986		1985		1984		1983	
Participating Policyholders	Shareholders	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
\$283,300	\$2,905,315	\$180,511	\$2,139,192	\$154,674	\$1,904,719	\$146,977	\$1,454,339
151,325	1,052,856	140,255	861,209	132,628	722,910	118,341	569,451
1,728	36,508	2,836	91,304	69	9,424	1,749	40,936
436,353	3,994,679	323,602	3,091,705	287,371	2,637,053	267,067	2,064,726
339,139	3,514,777	232,413	2,672,051	201,157	2,276,578	200,481	1,788,230
69,914	341,367	57,434	311,205	58,185	266,619	45,676	203,360
5,469	21,358	2,645	18,030	2,219	19,791	1,924	18,505
2,221	(2,221)	1,843	(1,843)	1,654	(1,654)	1,531	(1,531)
19,610	119,398	29,267	92,262	24,156	75,719	17,455	56,162
837	4,376	63	3,351	1,435	3,068	1,472	3,564
(792)	3,818	1,342	938	(320)	(4,955)	963	(2,894)
19,565	111,204	27,862	87,973	23,041	77,606	15,020	55,492
(6,521)	(4,156)	4,183	601	17,920	715	2,297	7,152
—	11,550	—	2,354	—	—	—	—
\$ 13,044	\$ 95,498	\$ 32,045	\$ 86,220	\$ 40,961	\$ 78,321	\$ 17,317	\$ 62,644
	\$49.82		\$42.81		\$38.80		\$27.74
	\$47.74		\$43.11		\$39.16		\$31.32
	15.8%		15.8%		16.0%		14.2%
	\$316.36		\$286.61		\$258.50		\$231.34
	\$ 18.00		\$ 15.00		\$ 12.00		\$ 10.50

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Hillsborough, California

*Member of the Policy Committee

**Member of the Audit Committee

+ Member of the Investment Committee

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Senior Vice-President and
Secretary

Corporate Profile

Great-West Lifeco Inc. was formed during 1986 to hold securities of The Great-West Life Assurance Company. The number of common shares of Great-West Life owned by the Corporation is 1,947,050 or 97.4 % of the outstanding common shares.

The number of common shares of Great-West Lifeco issued and outstanding is 77,674,900 of which 66,976,680 common shares are owned by Power Financial Corporation representing 86 % of those outstanding. As a result of a Normal Course Issuer Bid, Great-West Lifeco acquired 207,100 of its own shares during 1987.

The current dividend policy of Great-West Lifeco is to pay dividends on each common share issued and outstanding equal to one-fortieth of the dividends received

on each common share of Great-West Life which it holds.

Since the 1,947,050 common shares of Great-West Life owned by the Corporation represent 97.4 % of those issued, management believes, in the interests of disclosure, that it is necessary to consolidate the financial statements of Great-West Life with those of the Corporation. Thus the financial statements on the following pages reflect the results of Great-West Life together with after tax investment income of approximately \$709,000 earned directly by Great-West Lifeco.

The Board of Directors of Great-West Lifeco consists of the same members as the Board of Great-West Life and the officers of Great-West Lifeco are also officers of Great-West Life.

Summary of Consolidated Operations

(in thousands of dollars except earnings per share)

	1987	1986
Income		
Premium income	\$3,489,043	\$3,188,615
Net investment income	1,351,572	1,212,842
Net realized and unrealized capital gains (losses) on assets of segregated investment funds (note 1f)	<u>(29,494)</u>	<u>38,236</u>
	<u>4,811,121</u>	<u>4,439,693</u>
Benefits and Expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	4,213,236	3,853,916
Commissions and operating expenses	435,090	411,347
Premium and other taxes	30,980	26,827
Income taxes — current	6,771	5,217
— deferred	13,482	7,648
	<u>4,699,559</u>	<u>4,304,955</u>
Net income from operations	111,562	134,738
Other items (note 5)	(18,910)	(10,677)
Net income before minority and other interests	\$ 92,652	\$ 124,061
Minority and other interests of		
The Great-West Life Assurance Company		
Participating policyholders	15,436	13,044
Preferred shareholder dividends	11,550	11,550
Minority interest	1,719	1,466
	<u>\$ 28,705</u>	<u>\$ 26,060</u>
Net income before the following item	\$ 63,947	\$ 98,001
Pre-acquisition net income	—	44,784
Net income	\$ 63,947	\$ 53,217
Earnings per share		
Net income from operations	\$1.026	\$0.707
Net income	\$0.821	\$0.683
Pro-forma earnings per share (note 1b)		
Net income from operations		\$1.310
Net income		\$1.258

Consolidated Statement of Surplus

(in thousands of dollars)

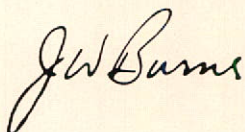
	1987	1986
Balance, beginning of period	\$ 31,532	\$ 20
Net income	63,947	53,217
Share issue expenses, net of income taxes in 1986 of \$4,870	—	(4,182)
Dividends	<u>(38,928)</u>	<u>(17,523)</u>
Balance, end of year	<u>\$ 56,551</u>	<u>\$ 31,532</u>

Consolidated Balance Sheet

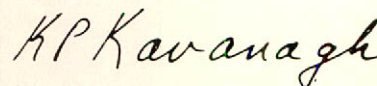
December 31, 1987 (in thousands of dollars)

Assets	1987	1986
Bonds (note 1c)	\$ 4,912,717	\$ 3,868,170
Mortgages and sale agreements (note 1c)	6,807,815	5,917,062
Stocks (note 1d)	124,491	146,535
Real estate (note 1e)	847,207	757,369
Loans to policyholders	598,700	354,272
Cash and certificates of deposit	144,002	122,280
Premiums in course of collection	108,088	117,698
Interest due and accrued	202,625	168,851
Segregated investment funds (note 1f)	1,657,658	1,546,832
Other assets	91,631	90,467
	<u>15,494,934</u>	<u>13,089,536</u>

Approved by the Board



Director



Director

Liabilities	1987	1986
Policy benefit liabilities		
Policy reserves (note 1h)	\$11,077,831	\$ 8,864,533
Segregated investment funds	1,657,658	1,546,832
Provision for claims	554,945	498,260
Provision for 1988 policyholders' dividends	99,426	85,218
Provision for experience rating refunds	113,984	84,886
	13,503,844	11,079,729
Policyholders' funds	449,013	421,772
Mortgages on real estate	180,681	191,312
Income taxes payable	13,877	8,874
Deferred income taxes (note 1g)	45,861	19,430
Demand notes payable to parent company	—	122,250
Other liabilities	163,879	147,379
	14,357,155	11,990,746
Minority and other interests (note 2)	527,175	511,079
Capital stock and surplus (note 3)		
Capital stock (note 4)	554,053	556,179
Surplus	56,551	31,532
	610,604	587,711
	\$15,494,934	\$13,089,536

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	1987	1986
Operations		
Net income before minority and other interests	\$ 92,652	\$ 124,061
Non-cash charges		
Increase in policy benefit liabilities	2,424,115	1,981,094
Increase in policyholders' funds	27,241	22,609
Deferred income taxes	26,431	2,522
Currency revaluation	(15,453)	(17,452)
Other	(364,975)	(180,145)
	<u>2,190,011</u>	<u>1,932,689</u>
Financing Activities		
Purchased and cancelled shares	(2,126)	—
Issue of common shares	—	206,250
Demand notes paid	(122,250)	(75,000)
Issue expenses paid	—	(9,052)
Dividends paid	(51,537)	(47,550)
	<u>(175,913)</u>	<u>74,648</u>
Investment Activities		
Bond sales and maturities	2,781,821	2,089,929
Mortgages and sale agreements repayments	363,575	343,761
Stock sales	237,754	282,416
Real estate sales	15,393	109,330
Policy loan repayments	34,680	36,404
Investment in bonds	(3,704,909)	(3,006,969)
Investment in mortgages and sale agreements	(1,169,616)	(1,404,487)
Investment in stocks	(171,716)	(96,792)
Investment in real estate	(21,398)	(90,518)
Policy loan advances	(260,673)	(63,364)
Increase in segregated investment funds	(97,287)	(201,426)
	<u>(1,992,376)</u>	<u>(2,001,716)</u>
Increase in cash and certificates of deposit	21,722	5,621
Cash and certificates of deposit beginning of year	<u>122,280</u>	<u>116,659</u>
Cash and certificates of deposit end of year	<u>\$ 144,002</u>	<u>\$ 122,280</u>

Notes to 1987 Consolidated Financial Statements

1. Summary of Significant Accounting Practices

- (a) The financial statements of Great-West Lifeco Inc. are presented on a consolidated basis and include the accounts of its subsidiary company, The Great-West Life Assurance Company and its wholly-owned subsidiary companies. The accounting principles used are those of The Great-West Life Assurance Company as prescribed or permitted by the Office of the Superintendent of Financial Institutions for the purpose of reporting to policyholders and shareholders.
- (b) Earnings per share for 1987 are calculated using a weighted monthly average number of shares outstanding. The average number of shares outstanding for 1987 was 77,857,958. The pro-forma earnings per share as set out in the Consolidated Statement of Operations are presented to show what Great-West Lifeco's earnings in 1986 would have been if Great-West Lifeco had acquired The Great-West Life Assurance Company at the beginning of 1986.
- (c) Investments in bonds, mortgages and sale agreements (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold. The unamortized balances at December 31, 1987 are \$30,834,000 of net gains for bonds (\$55,361,000 in 1986) and \$9,213,000 of net gains for mortgages (\$474,000 in 1986).
Bonds, mortgages and sale agreements have a market value of \$11,841,313,000 (\$10,316,420,000 in 1986). In most instances, the carrying value of debt securities will be realized since they will be held to maturity to discharge policy contract liabilities maturing at the same time.
- (d) Investments in stocks (equity securities) in the life account are carried at cost less an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1987 amounted to \$156,186,000 (\$144,343,000 in 1986). Equity investments in respect of the accident and health business are carried at cost.
Equity securities have a market value of \$315,333,000 (\$426,250,000 in 1986).
- (e) Investments in real estate at December 31, 1987 are carried at a written-down value of \$848,311,000 (\$760,072,000 in 1986) less an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and market value of all real estate holdings. The adjustment at December 31, 1987 amounted to \$1,104,000 (\$2,703,000 in 1986).
The market value of the real estate portfolio has been calculated at \$926,318,000 (\$817,665,000 in 1986).
- (f) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital losses on segregated investment funds were \$29,494,000 in 1987 (\$38,236,000 gains in 1986). Such capital gains or losses to the funds are reflected in the increase in policy reserves and do not affect net income of the Company.
- (g) Income taxes of The Great-West Life Assurance Company are calculated using the deferred-tax method on a present value basis.
- (h) Policy reserves represent the amount which, in the judgement of the Valuation Actuary of The Great-West Life Assurance Company, is required, together with future premiums and investment income, to provide for future policy benefits, administrative expenses and taxes on insurance and annuity policies and are calculated using assumptions considered to be appropriate to the policies in force. Policyholder dividends (except for the small portion derived from investment earnings on surplus) are included in future policy benefits at the current scale of policyholder dividends. The Valuation Actuary, in setting the valuation assumptions, has assumed that policyholder dividends will be changed from the current scale to reflect any differing operating experience of the participating account in future years. Also, asset values and projected maturities of assets and liabilities are continuously monitored and appropriately considered in the determination of policy reserves.
Policy reserves recognize the deferral of certain costs of acquiring policies. The amount of unamortized deferred acquisition costs deducted in arriving at the policy reserves was \$354,506,000 at December 31, 1987 (\$295,946,000 at December 31, 1986).
- (i) Commencing in 1987, pension plan costs and obligations are reported in accordance with the new recommendations of The Canadian Institute of Chartered Accountants. This change did not have a material effect on net income for the year.

2. Investment in The Great-West Life Assurance Company

The equity investment of Great-West Lifeco Inc. in The Great-West Life Assurance Company was 97.4 % at December 31, 1987 and 1986. The minority and other interests in The Great-West Life Assurance Company are:

	1987	1986
	(000)	(000)
(i) participating policyholders' share of undistributed surplus	\$359,763	\$344,327
(ii) preferred shareholders Series A	150,000	150,000
(iii) minority interests in common shares	17,412	16,752
	<u>\$527,175</u>	<u>\$511,079</u>

3. Surplus

The Company's total interest in the common capital and surplus of The Great-West Life Assurance Company is \$640,264,000 (\$615,968,000 in 1986). Of this amount \$428,438,000 (\$356,875,000 in 1986) was appropriated to cover various contingencies as required by the Office of the Superintendent of Financial Institutions.

4. Capital Stock

	1987		1986	
	Number	Stated Value (000)	Number	Stated Value (000)
Authorized — unlimited				
Issued —				
Balance, beginning of period	77,882,000	\$556,179	—	\$ —
Issued for common shares of The Great-West Life Assurance Company		—	66,976,680	331,257
Issued for cash		—	10,000,000	206,250
Exchanged for shares of The Great-West Life Assurance Company	—	—	905,320	18,672
Purchased and cancelled under Normal Course Issuer Bid	(207,100)	(2,126)	—	—
Balance, end of year	<u>77,674,900</u>	<u>\$554,053</u>	<u>77,882,000</u>	<u>\$556,179</u>

5. Other items, net of income taxes includes the results of:

	<u>1987</u>	<u>1986</u>
	(000)	(000)
Net realized gains on sale of assets	\$ 12,560	\$ 11,741
Net write-down of assets	(13,002)	(28,397)
Additional provision for investment losses	(43,137)	—
Gain due to change in book rates of exchange	10,611	11,544
Provision for projected losses on lease commitments	(10,371)	—
Changes in policy reserves	26,965	—
Release of insurance guarantee association assessments	—	956
Sub total	<u>\$(16,374)</u>	<u>\$ (4,156)</u>
Participating policyholders	<u>(2,536)</u>	<u>(6,521)</u>
Total	<u><u>\$(18,910)</u></u>	<u><u>\$(10,677)</u></u>

6. United States Dollar Transactions

United States currency items in the Balance Sheet as at December 31, 1987 are translated at the market rate of \$1.30 in Canadian dollars compared to a book rate of \$1.25 at December 31, 1986. The gain resulting from the change to \$1.30 after providing for participating policyholders' interest was \$10,611,000 and has been reflected in Other Items. United States currency items

in the Statements of Consolidated Operations and Changes in Financial Position for 1987 and 1986 have been translated at \$1.25.

It is the intention of the Company to use an average rate for operations and a market rate for Balance Sheet purposes in 1988.

7. Pension Plans

The Great-West Life Assurance Company maintains contributory and non-contributory pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings.

Actuarial reports prepared during the year, which were based on projections of compensation levels to the time of retirement, indicate that the present value of the accumulated benefits at December 31, 1987 is

\$152,400,000 (\$140,400,000 in 1986). The net assets available to provide for these benefits, at market value, as of December 31, 1987 is \$186,400,000 (\$174,600,000 in 1986).

The cumulative difference between the amounts expensed and the funding contributions has been reflected in the Balance Sheet in Other Assets and amounts to \$1,152,000.

8. Related Party Transactions

Transactions with related parties consist mainly of the provision of insurance benefits to other companies within the Power Corporation of Canada group of

companies. In all cases, such transactions are made in the normal course of business and at competitive prices.

9. Company's Effective Income Tax Rate

The Company's effective income tax rate is made up as follows:

	<u>1987</u>	<u>1986</u>
Combined basic Canadian federal and provincial tax rate	51.4 %	51.0 %
Increase (Decrease) in the income tax rate resulting from:		
Adjustment of deferred taxes to a present value basis	(10.2)	(31.0)
Tax exempt dividends on stocks	(4.4)	(2.0)
Tax exempt portion of capital gains	(6.5)	(2.6)
Lower effective tax rates on income not subject to tax in Canada	(16.0)	(6.7)
Miscellaneous	1.1	.0
Effective income tax rate	<u>15.4 %</u>	<u>8.7 %</u>

10. Contingent Liabilities

The Great-West Life Assurance Company has entered into a number of joint ventures and partnerships and has equity positions in a number of real estate development corporations which have not been consolidated in its financial results. The contingent liability in respect of these participations is \$100,300,000 (\$114,478,000 in 1986). This amount is supported by the underlying value of the assets of the various entities.

The board of directors of Canadian Commercial Bank (a Canadian chartered bank presently in liquidation) included three directors who were serving at the

Company's request. These three directors are amongst the many persons against whom, following the collapse of Canadian Commercial Bank, two legal actions for significant amounts have been instituted. The Company may be obligated to indemnify these three directors for losses they may suffer in connection with such legal actions. However, the Company has been advised and believes that the two actions are without merit and should fail as against these three directors. It is therefore not expected that the extent of any indemnification obligation of the Company will be material.

Auditors' Report

To the Shareholders, Great-West Lifeco Inc.

We have examined the consolidated balance sheet of Great-West Lifeco Inc. as at December 31, 1987 and the summary of consolidated operations, the consolidated statement of surplus and the consolidated statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered neces-

sary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting practices described in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Winnipeg, Manitoba

January 28, 1988.

Board of Directors

CHAIRMAN OF THE BOARD

James W. Burns
Deputy Chairman
Power Corporation of Canada;
Chairman and Chief Executive
Officer
Power Financial Corporation
Montreal, Quebec

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Kevin P. Kavanagh
Winnipeg, Manitoba

DIRECTORS

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F.C.A. ****

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Gagnon et Bélanger, Inc.
Quebec City, Quebec

Dr. Walter Curlook
Executive Vice-President
Inco Ltd.
Toronto, Ontario

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Chairman of the Board and Chief
Executive Officer
Power Corporation of Canada
Westmount, Quebec

Paul Desmarais, Jr.

President
Power Financial Corporation;
Vice-President
Power Corporation of Canada
Montreal, Quebec

Robert G. Graham

President and Chief Executive
Officer
Inter-City Gas Corporation
Toronto, Ontario

N. Berne Hart **

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Executive Officer
United Banks of Colorado, Inc.
Denver, Colorado

Charles H. Hollenberg, M.D.

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and Professor of Medicine
University of Toronto
Toronto, Ontario

Robert H. Jones

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Winnipeg, Manitoba

A. Frank Knowles, C.A. **

President
Power Corporation of Canada;
Deputy Chairman
Power Financial Corporation
Beaconsfield, Quebec

J. Blair MacAulay

Partner, Fraser & Beatty
Oakville, Ontario

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Chairman and President
Moffat Communications Limited
Winnipeg, Manitoba

Jerry E.A. Nickerson **

Chairman of the Board
H.B. Nickerson & Sons Limited
North Sydney, Nova Scotia

Paul Britton Paine, Q.C.

Company Director
Westmount, Quebec

P. Michael Pitfield, P.C., Q.C.

Member of the Senate of Canada;
Vice-Chairman
Power Corporation of Canada;
Vice-Chairman
Power Financial Corporation
Ottawa, Ontario

Abraham L. Simkin, Q.C.

Chairman of the Board,
President and Chief Executive
Officer
CMS Creative Management
Services Limited
Winnipeg, Manitoba

Sister Mary Andrew Talle

President
Saint Joseph Hospital
Denver, Colorado

Ross J. Turner

Chairman of the Board
Genstar Investment Corporation
Hillsborough, California

**Member of the Audit Committee

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President and Chief Executive
Officer

Orest T. Dackow
Executive Vice-President

Jack A. Miller
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The Company is represented by mortgage correspondents in its major operational regions in the United States.

Great-West Lifeco Inc.

THE
Great-West Life
ASSURANCE  COMPANY

Members of the Power Financial Corporation group of companies