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Annual Reports 1986

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PREMIUM, \$94<sup>00</sup>/<sub>100</sub>

AMOUNT, \$5,000<sup>00</sup>/<sub>100</sub>

THE GREAT WEST  
LIFE ASSURANCE COMPANY.

IN CONSIDERATION of the statements and agreements in the Application for this Policy of the Life of Robert Thomas Riley (hereinafter called Insured), which, together with the conditions and privileges endorsed hereon, are made part of this Policy; and of the payment of the annual premium of Ninety-four Dollars and Sixty cents, for the eighteenth day of August in every year during the term of this Contract:

PROMISES TO PAY, at its office in the City of Winnipeg, to Robert T. Riley (beneficiary of the insured) if living; if not living, then to the Executors, Administrators, or Assigns of the Insured, the sum of Five Thousand Dollars (plus the balance of the year's premium, if any, and any other indebtedness to the Company) within ten days after receipt at its said office of proofs satisfactory to the Company of the death of the insured within the period of Ten years ending on the eighteenth day of August nineteen hundred and two at noon.

IN WITNESS WHEREOF, The said Company has hereunto affixed its Corporate Seal and its J. M. Brooks President and Managing Director or Secretary, signed this Policy, at its office in the City of Winnipeg, the eighteenth day of August eighteen hundred and ninety-two

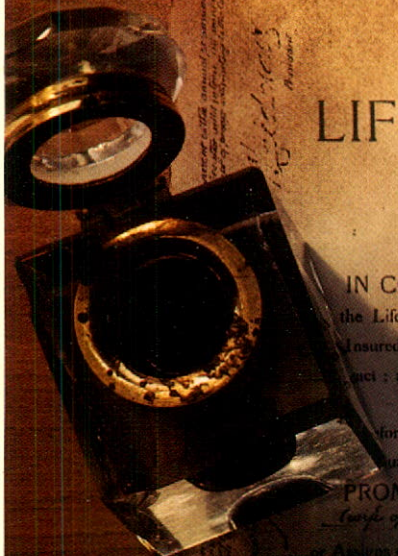
J. M. Brooks  
Managing Director or Secretary.

S. Macdonald  
President.

CHECKED BY

EXAMINED BY

First Edition  
With Copy of Receipt  
Year 1986



This report combines the 95th Annual Report of The Great-West Life Assurance Company, and the 1st 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 1986 financial statements and a review of its operations. The second section presents the financial statements of Lifeco.

## Corporate Information

### **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 General 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 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

# Annual Reports 1986

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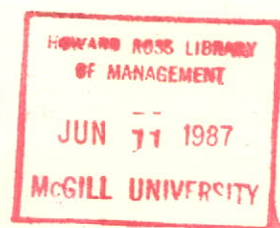
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## **Great-West Lifeco Inc.**

THE  
**Great-West Life**  
ASSURANCE  COMPANY

Members of the Power Financial Corporation group of companies



## Corporate Profile

Great-West Life is an international corporation, serving the life and health insurance and retirement needs of more than four million people across North America.

The Company is governed by a set of Guiding Principles, which form 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".

Great-West Life offers a wide range of insurance products and services for individuals, businesses and employee groups. Nearly 7,000 staff and sales

representatives sell and service these products through 160 marketing, benefit payment, and property investment offices across North America, plus our Canadian and Corporate headquarters in Winnipeg and our U.S. headquarters in Denver.

In 1986, Great-West Life 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 "extremely strong capacity to meet contractual policy obligations".

This joins the A+ (Superior) rating Great-West Life consistently receives for its operating performance from the

A.M. Best Company, an authority on the financial services industry; and the P-1 rating awarded by the Dominion Bond Rating Service Limited and the Canadian Bond Rating Service to Great-West Life's most recent preferred share issue, in 1985. The P-1 rating is the highest that has been given a life insurance company in Canada, and is awarded to companies considered to be "prime credits with strong earnings and balance sheet characteristics".

Great-West Life is a member of the Power Financial Corporation group of companies.

Chairman's Message

The year 1986 once again illustrated the need for a corporate capacity to adapt to ever-changing environments. The uneven effect of the sharp reduction in oil prices on different regions, the continuing pressure on other commodity prices, efforts to deal with deficits and weakening world trade and, in Canada, government initiatives with respect to the role and regulation of financial institutions, all served to underline the point.

For Great-West Life, it meant responding with speed and innovation to these shifting forces. This Report portrays the results achieved. It is highlighted by strong sales growth fuelled by contemporary products and an effective and professional field organization.

The results are gratifying, not only for what they say about the accomplishments of 1986, but also for the strengthening of an already firm foundation for future profitable growth.

To the staff and field representatives of a great North American company, may I extend, on behalf of the Directors, sincere appreciation for the important achievements of the past year.



**James W. Burns**  
Chairman of the Board



## President's Message



As you review the various statements and commentaries of this 95th Annual Report, it will be apparent that the year past was one of significant growth for Great-West Life, both in earnings and in the size of the Company.

In terms of size, assets grew by 20% to \$13 billion and premium income by 37% to \$3.2 billion. Life insurance in force reached \$112.7 billion, up 12% from 1985.

Major gains in new sales recorded by our field organizations in both the United States and Canada enabled the Company to achieve these new size thresholds. New life insurance sales advanced by 19%. Similarly, health and annuity sales increased by 36% and 59%, respectively.

Earnings were impacted by real estate difficulties in areas identified with the oil industry. At the same time, the second half of the year, the American health insurance industry entered a cyclical downturn. Notwithstanding these factors, the Company was able to report encouraging earnings gains. We believe we have seen the worst of both the energy and health insurance related problems.

For common shareholders, net income from operations after payment of preferred dividends was \$99.6 million, an increase of 16%. After a charge for other items of \$4.1 million, net income for the period was \$95.5 million, an increase of 11%.

For participating policyholders, net income from operations before policyholder dividends was \$106.2 million, up 6.5% from 1985. After provision for policyholder dividends of \$86.6 million, up substantially over 1985, and a charge of \$6.5 million for other items, net income was \$13 million, down from \$32 million in 1985.

As we conclude 1986 and the analysis of its results, our thoughts and energies turn again to the future. In this respect, as this Annual Report is prepared for print, the news of the day for the Company is clearly the Government of Canada's recently released White Paper proposals, "New Directions for the Financial Sector."

At this juncture, important aspects of the White Paper remain to be clarified and, hopefully, to be modified in some respects by the government. From our perspective, however, three major factors emerge:

- First, liberalization of a number of regulations gives us greater latitude in developing growth plans for the United States. Whereas internal growth was previously favored, growth by acquisitions may now be more feasible.
- Second, Canadian banks could be competitors in markets previously restricted to life insurance companies.
- Third, Great-West Life may be able to compete in new financial service areas. Ministerial discretion, as yet undefined, will play an important part in the determination of areas open to, and the means of entry for, Great-West Life.

These important developments will in particular generate, in due course, the question of whether and to what extent Great-West Life should extend its activities in the United States and diversify its participation in the Canadian financial services field. In this respect is there an apparent guiding principle for Great-West Life? I believe there is and it is reflected in the pages of this Annual Report, for example:

- In the United States Operations Report, references are made to tax sheltered annuity plans for public service employees and other eligible groups. Relatively few companies have specialized in these services. Great-West Life has done so with increasing concentration for more than twenty years.
- In the Canadian Operations Report reference is made to plans to introduce a dental capitation program, offering employees a new alternative in the dental insurance market. These plans reflect the benefit of long concentration in this field and the confidence of having achieved the leading market share position in Canada.
- Both the United States and Canadian Reports refer to Great-West Life's provision of disability income products for sale by other insurance companies. Again, this is a reflection of a high degree of concentrated attention to a selected area of expertise.

These instances and many others reflect a tradition of selecting particular financial service areas and of committing resources and attention to them, with the goal of achieving superior performance and service. Regardless of change in our regulatory environment, we expect on an ongoing basis, to be guided by this tradition in making new choices.

With the encouraging momentum of 1986, and the commitment of the outstanding people associated with Great-West Life, we look forward with enthusiasm to the challenges of the current year.

*K P Kavanagh*

**K. P. Kavanagh**  
President and Chief Executive Officer

Report from Management

**Canadian Operations**

**A report from John Green, Executive Vice-President—Chief Operating Officer, Canada**

For Great-West Life's Canadian Operations, 1986 can be characterized as a year when earlier initiatives in product and technology came to fruition, resulting in a very strong year.

We established sales records in 1986 for all lines of business. Measured in terms of new annualized premium, individual life sales were up 7% over 1985, while annuity and disability income sales were up 102% and 47% respectively. On the Group side, life sales were up 101% over 1985, health sales were up 18% and pension sales were up 8%.

Business in force at December 31, 1986 increased over the levels of one year ago in all lines of business, with the most dramatic increases in individual annuity, up 25% and individual health, up 21%.



Jim Grant, Senior Vice-President, Group; Chris Chapman, Senior Vice-President, Individual; and John Green, Executive Vice-President—Chief Operating Officer, Canada.

**Sources of 1986 Premium Income (Canada)**

	First Year (000)	Single (000)	Renewal (000)
<b>INDIVIDUAL PRODUCTS</b>			
Life Insurance	\$23,337	\$ 25,626	\$ 81,508
Annuities	—	299,285	30,923
Health Insurance	7,183	—	19,952
Total Premiums	\$30,520	\$324,911	\$132,383
<b>GROUP PRODUCTS</b>			
Life Insurance	\$ 5,733	\$ 3,560	\$135,149
Annuities	28,372	56,679	229,425
Health Insurance	27,227	—	466,749*
Total Premiums	\$61,332	\$ 60,239	\$831,323
<b>PROPERTY AND CASUALTY</b>			\$ 4,562

\*Includes ASO Equivalent of \$153,562



### Individual Operations

In all areas of business, 1986 was an excellent year for Great-West Life's Individual Operations in Canada. We experienced remarkable growth in the annuity and disability income segments of business, and solid growth in the life segment.

Individual annuity sales, measured in terms of premium income, were up 102% over 1985. This dramatic increase was due partly to competitive pricing and partly to improved marketing support for our sales offices.

The annuity market in Canada continues to have strong potential, and we expect excellent performance to persist throughout 1987. We have, as a result, established a separate department to focus exclusively on the sale and service of Great-West Life's individual annuity product, and implemented a computer system in field offices to provide instant access to single premium annuity quotations and speed policy issue and administration.

In 1986, the Company also introduced a Registered Retirement Income Fund, which was updated early in 1987 to conform with new legislation. Great-West Life remains committed to developing a variable annuity product to supplement the mutual funds available to its agents through Investors Syndicate Limited.

In the individual disability income product line, sales were up 47% over 1985. A major factor in this increase was the continued development of marketing agreements with other insurance companies. Great-West Life now has networking agreements with four other companies, and this will be an area of continuing emphasis in 1987. Disability income sales through the Company's own field force were also very strong, up 49% over 1985, as a result of increased support and training.

In addition, we added a disability income feature to Living Life, making it the only universal insurance plan in Canada to include disability income protection.

Individual life insurance sales were up 7% in 1986. While the increase in life insurance sales was primarily from traditional participating insurance and term insurance, sales of Living Life continue to be strong and represent approximately 50% of all life insurance sold by Great-West Life agents.

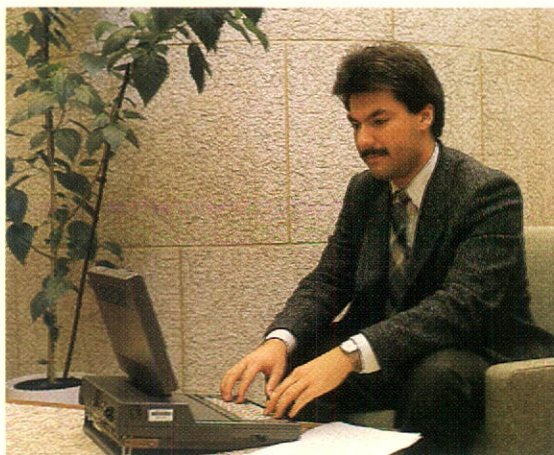
1986 saw a significant increase in agent productivity, as agents took advantage of hand-held and personal computers. As well as providing clients with on-the-spot sales illustrations, agents now have access to a number of business support systems to assist in sales and client service. Great-West Life's technological support for its agency force is the best in the industry, and we are committed to maintaining this competitive edge.

Along with increases in productivity, the Company experienced strong growth in its sales force in 1986. The combination of state-of-the-art technological support, excellent products and a compensation system that's a forerunner in the industry, continues to attract superior people to the sales force.

These factors — superior products, advanced technology and a solid relationship with our agency distribution system — will enable Great-West Life to continue to improve its market share in each line of business: individual life, disability income, and annuity. With this firm foundation, our 1987 focus will be on achieving significant improvements in the quality and efficiency of relationships with policyholders and agents, guided by recent attitude surveys of these vital constituents. In particular, we will focus on service-oriented initiatives such as toll-free telephone inquiries, improved information technology for agents and service staff, and upgraded annual reports for policyholders.

Specialized training, in both home office and the field, will be a priority and will contribute to improve the speed and efficiency of our policy issue and underwriting services.

With the rapid change expected in a deregulated financial services industry, Great-West Life is determined to maintain a leading position through improved quality and more effective service throughout the organization.



Great-West Life's technological support for its field force is the best in the industry.

### Group Operations

Great-West Life's leadership position in the employee benefit market was enhanced in 1986 as the Company continued to distinguish itself as the premier provider of group insurance and pension programs in Canada.

Group life and health insurance sales reached record levels in 1986, generating over \$90 million of new annualized premium. In response to a strengthened economy, many clients improved their programs during the year. In addition, product innovations introduced in 1985, particularly the new long-term disability product, were well-received by the marketplace.

The new disability product proved very successful both in attracting new clients and retaining existing clients, because of its contemporary approach to plan design, disability management and rehabilitation. It was a major factor in Great-West Life's successful bid for the Alberta Hospital Association plan, which generated over \$12 million of new annual premium.

In the group pension market, the Company's improved Group RRSP product was extremely well-received. New client sales more than doubled, from 82 in 1985 to 199 in 1986. The prospects for continued growth are very favorable given the flexible nature of the new product and the improving income tax environment for RRSP programs.

In 1986, a number of initiatives were undertaken focusing on customer service. Benefit payment offices were divided into two distinct units, one specializing in disability claims and one in health and dental claims, allowing the Company to give special attention to customer requirements in each of these benefit areas.

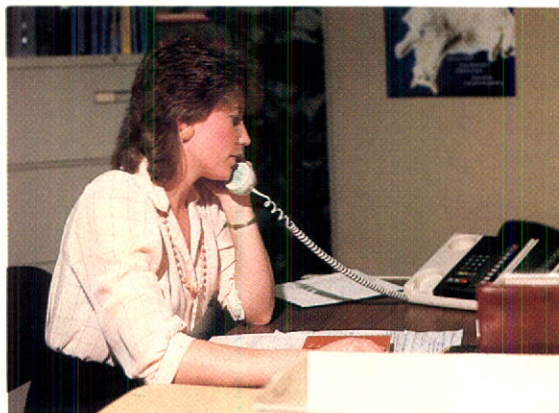
In this past year, we also developed a number of new programs for introduction in early 1987. A new quality assurance program, designed to ensure high quality claims service for clients and their employees, was introduced in benefit payment offices January 1, 1987.

A computer-based customer service system, called Clientel, is also being implemented in early 1987. This system not only provides larger dental and health clients with data entry capabilities and direct access to their current plan information, but will also offer value-added services, such as stand-alone administrative software for self-accounting customers, and the capacity to produce employee benefit statements including in-year utilization summaries.

In a joint project between Individual and Group Operations, Great-West Life will introduce a group universal life product in 1987. This is an individual life insurance plan that will be administered by the Individual Division, but will be marketed by the group field force as a payroll-deduction employee benefit plan.

A major initiative in 1987 will be the development of a dental capitation program. Under this program Great-West Life, in partnership with three other insurers, will establish a national network of selected dentists who will provide dental services to employee groups for a fixed cost per employee. We expect dental capitation plans, which are prevalent in the U.S., to become an increasingly important element in the Canadian dental insurance market.

About one year ago, Great-West Life announced the merger of its property/casualty subsidiary, Gold Circle Insurance Company, with The Personal Insurance Company of Canada, owned by Laurentian General Insurance Company Inc. In 1986, we very successfully completed the transfer of in-force business from Gold Circle to The Personal, with a high ratio of Gold Circle clients choosing to renew their coverage through The Personal. In 1987, we expect profitable results in this line of business, and will focus on increasing sales of group home and automobile insurance.



Quality client service is a cornerstone of Great-West Life's success.

**Our Position**

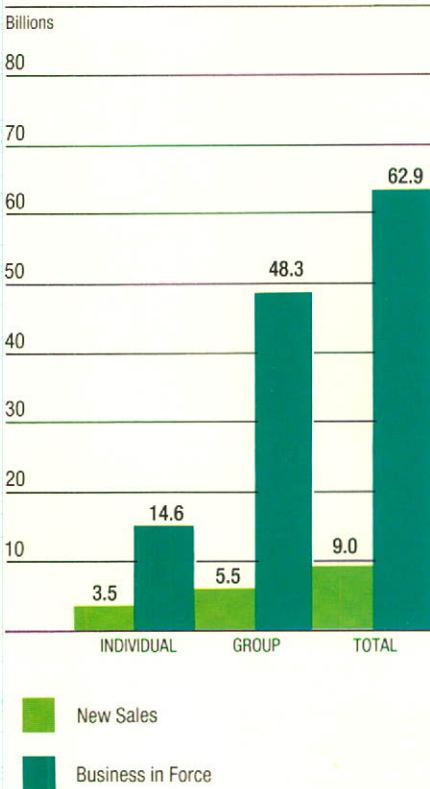
With competitive products and sophisticated technology firmly in place, Great-West Life has placed renewed emphasis on providing the best possible service for clients and support for its sales force, and on streamlining administrative operations. We expect to continue this emphasis in 1987, while maintaining our competitive edge in product and technology.

We see exciting potential in 1987 for increased use of technology in both Individual and Group Operations, in improved sales illustrations and quotations, office automation and management information.

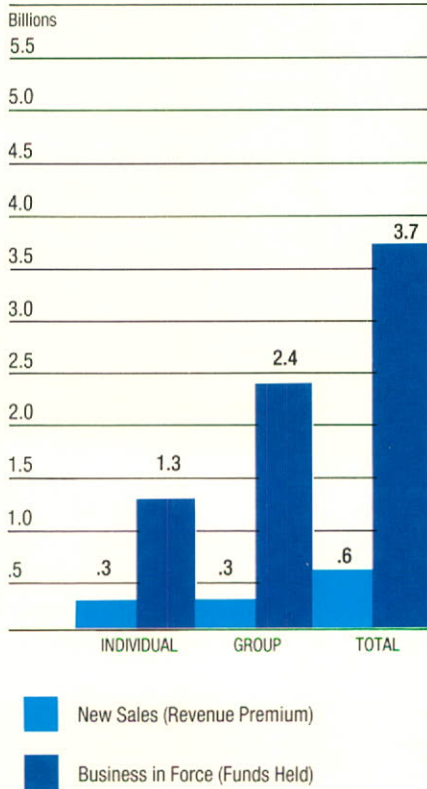
In 1987, we expect to maintain the balance achieved in 1986 between profitability and growth, among all lines of business.

**Life Insurance (Canada)**

(Face Amount)

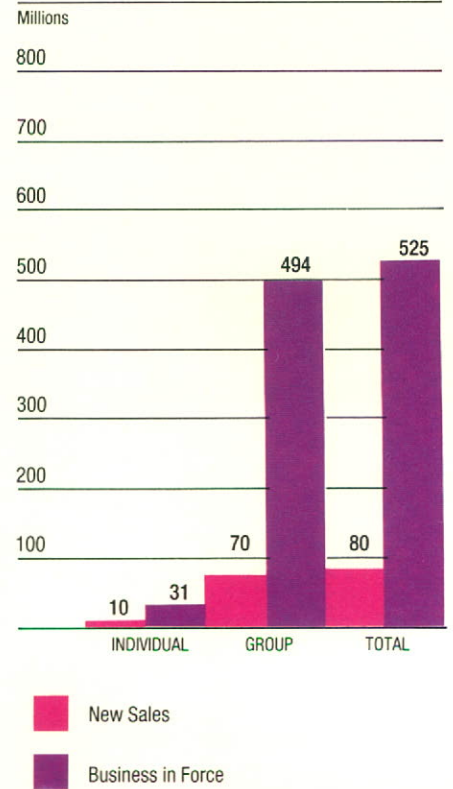


**Annuities (Canada)**



**Health Insurance (Canada)**

(Annualized Premium)



## United States Operations

**A report from Orest Dackow, Executive Vice-President—Chief Operating Officer, United States**

During 1986, Great-West Life continued to build on the foundations laid in previous years in areas of product, service and technology. Both the Individual and Group lines of business were influenced

by tax reform, and both have been able to take advantage of developing markets.

In terms of new annualized premium, sales of individual life insurance and individual annuities were up 55% and 38% respectively. Individual health insurance sales surged, increasing 120% over 1985.

In the Group Division, sales of annuities showed remarkable growth, with increases of 78% over 1985. Group life and health insurance sales were up 44% over their 1985 level.

Premium income for the year, including Administrative Services Only (ASO) premium equivalents, increased 40% over 1985. Premium income from individual products was up 46%, while income from group products increased 37%.

Business in force at December 31, 1986 was well ahead of levels of one year ago.

A major initiative of the past two years—the consolidation of U.S. Operations—was completed in 1986 with the opening of the second tower of Great-West Life Center. All U.S. Headquarters operations, with more than 1,100 staff, are now housed in the twin-tower complex in Denver, Colorado.



Alan MacLennan, Senior Vice-President, Group; Orest Dackow, Executive Vice-President—Chief Operating Officer, United States; and Bill McCallum, Senior Vice-President, Individual.

### Sources of 1986 Premium Income (United States)

	First Year (000)	Single (000)	Renewal (000)
<b>INDIVIDUAL PRODUCTS</b>			
Life Insurance	\$183,910	\$ 16,035	\$154,552
Annuities	3,605	317,155	16,174
Health Insurance	3,186	—	8,758
Total Premiums	\$190,701	\$333,190	\$179,484
<b>GROUP PRODUCTS</b>			
Life Insurance	\$ 5,050	\$ 62	\$ 96,123
Annuities	703,524	53,956	156,716
Health Insurance	16,538	—	639,983*
Total Premiums	\$725,112	\$ 54,018	\$892,822

\*Includes ASO Equivalent of \$478,420

### Individual Operations

1986 was a year of dynamic growth in our Individual line of business. The major contributor to increased life sales was the participating whole life product, Life @ 95. Despite many predictions that whole life products were on the decline, this traditional product was an important source of business, especially in the corporately-owned life insurance market, where Great-West Life products funded supplemental pension benefits for a number of Fortune 500 companies and many smaller companies.

The appeal of Life @ 95 lies in the combination of strong long-term guarantees and the flexibility offered by two riders. X-Rider, revised in 1986, provides increased cash values and unique flexibility, while the new Z-Rider, introduced in 1986, provides low-cost coverage on a non-guaranteed basis.

A new term insurance product was introduced late in the year. It combines low premiums in early policy years with the option of converting to permanent coverage. We expect this product, Key Term, to be a strong source of sales in 1987.

In the area of contemporary products, Great-West Life's line of universal life plans continued to attract a growing number of producers and clients. The Company introduced FACT 3, a universal life plan designed for clients who purchase larger amounts of coverage and want flexibility and high cash accumulation features. It joins FACT 2®, a primary universal life product for individual clients, and FACT®, a unisex product designed for the employer-sponsored market.

A substantial portion of the Company's growth in individual annuity sales resulted from increased sales of MAXIM®, a deferred variable annuity product. MAXIM® sales increased 94% over 1985, due to increased interest by producers, the strength of the product and the public's interest in insured accumulation products. MAXIM® offers clients the choice of four investment portfolios for accumulation of funds, as well as attractive surrender and withdrawal provisions.

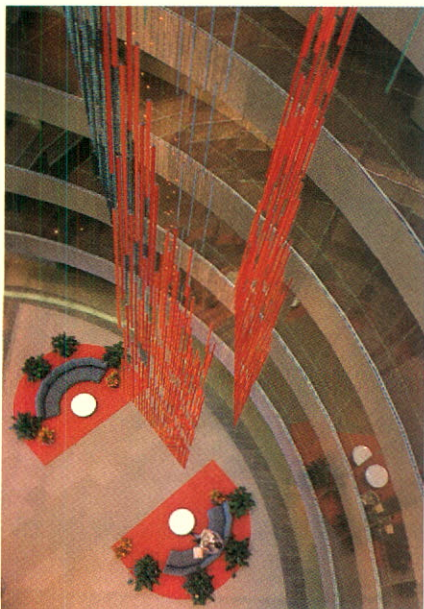
The single premium immediate annuity market continued to be a successful one for Great-West Life, both in terms

of sales to state lotteries and sales generated by its sales organization. Competitive pricing—the result of close liaison with our Investment Division—remains an important factor in our success in the annuity market.

Growth in disability income sales was due to enhancements to products and support systems, further development of marketing arrangements with other insurers, and a greater awareness in the market of Great-West Life as a disability income carrier. Sales of disability income products will be an area of increased emphasis in 1987, both with the agency sales organization and supplemental distributors.

Great-West Life enters 1987 with an extremely strong distribution system. The Company opened three new offices in 1986—San Antonio, Nashville and a second office in San Francisco—and continued to build its career organization by attracting a select number of established producers who are experienced in sophisticated markets. We expect the combination of professional life underwriters, skilled sales managers, competitive products, an attractive compensation package and the support services provided through our sales offices to continue to attract high calibre producers and provide the basis for expansion of distribution capacity in 1987.

We continue to develop supplemental distribution systems and anticipate increasing the number of insurers distributing our disability income products from three to four in 1987. In 1986, a significant portion of annuity sales were through financial institutions such as banks and savings and loan companies. We expect this to continue.



Great-West Life Center in Denver is home to the Company's United States Operations.

### Group Operations

1986 can be characterized as a year of balanced accomplishment for Great-West Life's Group Operations in the U.S. Growth was strong in both group life and health business and group pension business. Group Operations continued to be a significant source of earnings, albeit at reduced levels from 1985. This reduction was largely attributable to the extremely competitive environment experienced in 1986 as well as to renewed escalation in healthcare costs.

On the group pension side, growth continued at exceptional levels with Qualified Pension Plan sales (largely GICs) increasing 62% over 1985 and Group Voluntary Retirement Plan sales (Tax Sheltered Annuities, Deferred Compensation and 401(k) plans), increasing 95% over 1985.

Perhaps the most notable aspect of the Group Voluntary Retirement Plan sales was the acquisition of five additional state deferred compensation plans, bringing the total state cases to 12. Our pre-eminence in this market is due to a combination of contemporary product design, quality service and administration, and our specialized knowledge of the market.

In Group Voluntary Retirement Plan business, sales to the ultimate individual customers continue to be made predominantly by specialty sales organizations. One of these, Benefits Communication Corporation, a wholly-owned subsidiary of Great-West Life, grew rapidly in the business of enrollment and communication services and expanded into several new markets.

Group life and health business had a record-setting year, led by small case (EDGE) business where sales to new customers were up 103% over 1985. In response to the environment of increased healthcare costs, the Company continued to move its health business away from traditional fee-for-service reimbursement and into 'managed care'. These are programs which bring together the delivery and financing of healthcare with the objective of achieving an optimum balance of quality and cost.

Private Healthcare Systems, Ltd., a partnership of commercial insurers Great-West Life founded in 1985 to develop managed care services, made excellent progress during 1986. By the end of the year, the company provided healthcare review services to close to one million

people and had organized managed care systems in 25 major metropolitan markets. More than 50% of our business had been sold with managed care programs by the end of 1986.

The Company's latest product, Great-West Care™, was introduced in the latter half of the year. It offers employers flexible plan design and funding, together with significant cost containment features. Employees receive a wide choice of healthcare providers capable of delivering cost-effective, quality care.

Great-West Life continued to offer a full array of alternate funding products to its group life and health customers, enhanced by a Flexible Benefits Account program introduced towards the end of the year.

As well, technology continued to be a major component of the Company's product offering during 1986, with almost one-third of its major clients taking the BenLink™ product. BenLink™ allows clients to link up with Great-West Life's claims management system to access plan information, input employee eligibility data, and produce claim reports.

In 1986, Great-West Life increased its distribution capacity for all group products. The Company expanded its sales organization through recruiting both experienced and inexperienced sales representatives. In addition, Great-West signed an agreement with another insurer to market its group life and health insurance package for small businesses.



People and technology  
— the winning combination in  
Great-West Life's  
customer service.

**Our Position**

While Great-West Life's share of the vast American market remains small, the Company continues to increase its position, as demonstrated by its extraordinary growth. Great-West Life has developed a reputation as a provider of quality, competitive products and services, and is well-positioned to take advantage of the continued growth of the market.

In Individual lines of business, we will continue to offer clients a choice

of traditional and contemporary life insurance products. We will also continue the emphasis on annuity and disability income products and services.

In Group lines of business, we will continue to strive for a balanced mix of business in the four product areas: small case insured life and health insurance, large case self-funded life and health insurance, qualified pension plans and voluntary retirement plans. In addition, we will maintain our aggressiveness in

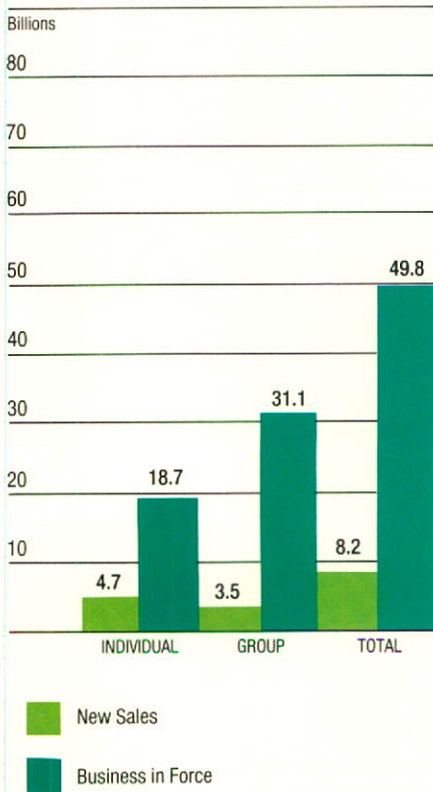
marketing cost containment services and managed care products.

Great-West Life will continue to expand its distribution capabilities in both lines of business by opening new sales offices and by recruiting sales professionals. We will also be alert to opportunities to expand supplemental distribution systems.

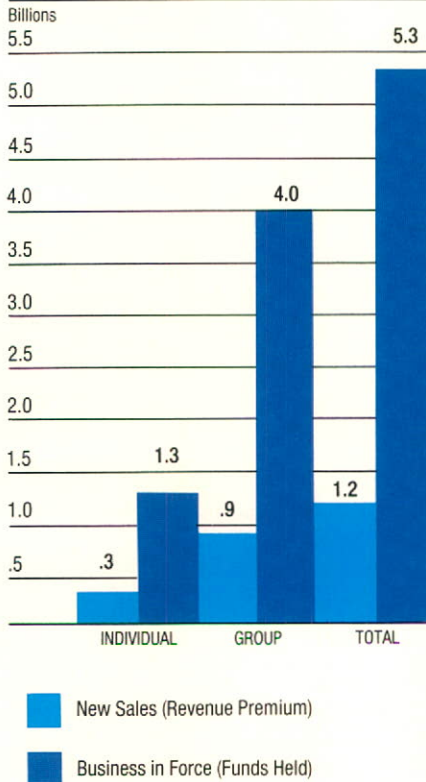
Great-West Life is committed to providing not only competitive products, but also responsive, efficient service and support to clients and distribution systems.

**Life Insurance (U.S.)**

(Face Amount)

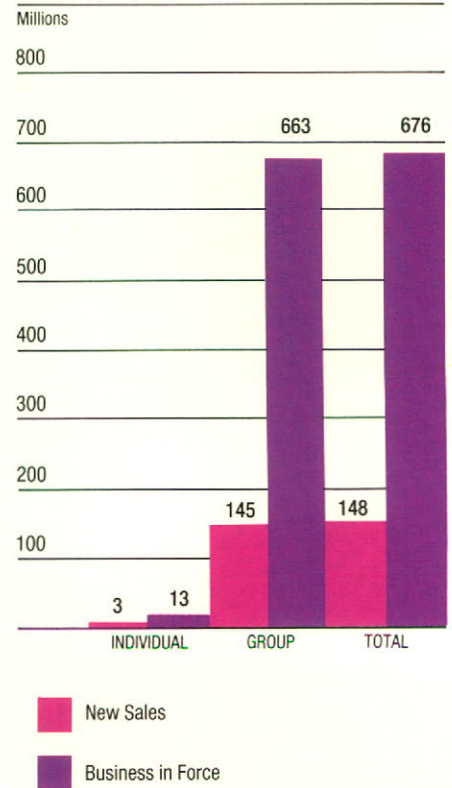


**Annuities (U.S.)**



**Health Insurance (U.S.)**

(Annualized Premium)



## Investment Operations

### A report from Marshall Smith, Executive Vice-President, Investments

The year 1986 saw a number of milestones reached by Great-West Life's Investment Division. By year-end, the total of all investment portfolios managed by Great-West Life had reached \$12,229 million — an increase of \$2,069 million or 20% over year-end 1985. Similarly, net investment income earned in the year totalled \$1,204 million, up from \$1,001 million in 1985.

The investment portfolios of Great-West Life and its subsidiaries, which support obligations to policyholders, totalled \$10,682 million. Of this amount, 40% is attributable to Canadian Operations and 60% to the United States. The balance, \$1,547 million of portfolio investments, consists of various segregated investment funds in which the investment risk is borne by fund participants. In the United States, \$936 million of investments are held by our subsidiary, Great-West Life & Annuity Insurance Company.

### Objective

The primary objective of the Company's investment operations is to support our obligations to policyholders by ensuring that the necessary funds are available when required. Thus, safety of principal and interest and timely flow of funds are of primary importance. In addition, a consistently successful investment operation is an important contributor to overall Company profitability.

Segregated funds are managed with the objective of producing competitive investment performance in the marketplace. Participants bear the direct risk and receive the rewards of their investments in the various funds.

### Investment Strategy

Great-West Life's investment strategy is two-fold. For the bulk of the assets we acquire a portfolio of fixed-income bonds and commercial/industrial mortgages that, in total, has the necessary characteristics of quality, diversification, maturity and marketability to ensure timely performance of the Company's obligations. In addition, the rate of return earned on these investments must be competitive if the Company's market position as a provider of consumer financial services is to be maintained and strengthened.

The second part of our strategy is 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.



Ray McFeeters, Senior Vice-President, Fixed-Income Investments, Canada; Brian Thompson, Senior Vice-President, Fixed-Income Investments, U.S.; Ted Ransby, Senior Vice-President, Common Stock & Pension Investments; Marshall Smith, Executive Vice-President, Investments; and Grant Dominy, Senior Vice-President, Investment Policy.



### Investment Activities in 1986

Funds available for new investment came from three main sources:

- net funds arising from insurance and annuity operations
- investment income earned and capital repayments received from existing assets
- proceeds arising from sales of assets in the normal course of portfolio trading activity.

The first two sources provide the core amount of investible funds available in a year. In 1986 they totalled \$2,926 million, an increase of 24% over 1985.

This amount was invested approximately as follows:

- 57% in commercial and industrial mortgages of varying terms at an average rate of 10.71% in Canada and 9.94% in the United States.
- 15% in federal government bonds or bonds guaranteed by the federal government at an average rate of 8.86% in Canada and 8.79% in the United States.
- 27% in other bonds at an average rate of 9.66% in Canada and 8.38% in the United States.
- 1% in short term and other temporary investments.

No new investible funds were allocated to equity investments in 1986. Some further reduction in this category occurred as further sales of real estate were undertaken, primarily in the U.S.



A \$72 million expansion of Polo Park Shopping Centre in Winnipeg was completed in 1986. Great-West Life, which helped finance the original mall in 1960, also assisted in financing the expansion through a mortgage bond on the property.



In 1986, Great-West Life completed the second tower of Great-West Life Center, a 460,000 square foot office complex in Denver, housing the Company's United States Headquarters, among other tenants.

**Investment Income**

The total of net investment income, before tax, earned in 1986 was \$1,204 million up 20% from 1985. These results reflected not only the overall growth of Great-West Life's invested assets, but also in part the buoyancy of common share portfolios where a portion of market value appreciation is reflected in annual investment income. The overall increase in investment income was, however, moderated by lower levels of interest rates for new investments than have prevailed in the past several years; some pressure on rental income from owned real estate; as well as an increased level of uncollected income due to problem accounts, principally located in areas of the United States affected by the oil price collapse early in 1986.

**Investment Yield**

Net investment income for the year, measured as a percentage of average invested assets, produced a yield of 11.31% as compared with 11.30% in 1985 and 11.08% in 1984.

The slight increase in the 1986 yield largely reflects the effects of rising common share values, notwithstanding the lower interest rates prevailing in both Canada and the United States during the year. The interest rate decline was particularly evident in the United States, where approximately 61% of Great-West Life's bond and mortgage investments are located.

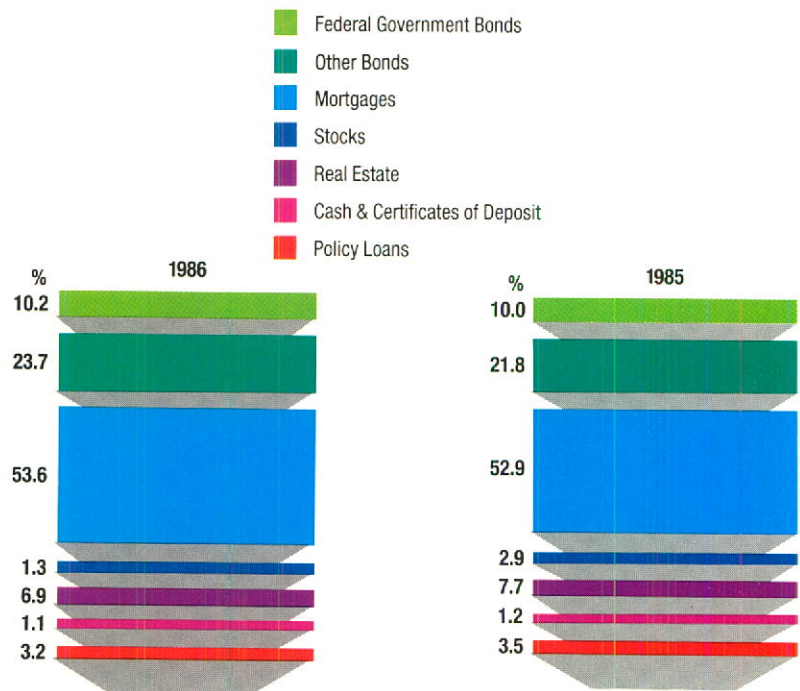
**Asset Distribution**

The chart below shows the distribution of the Company's invested assets (excluding segregated funds) in 1986 and 1985.

Federal government bonds, including guarantees, constitute a significant, highly marketable, highest quality component of the portfolio providing the flexibility to make prompt portfolio adjustments in response to changing economic and financial conditions.

Great-West Life has a significant continuing commitment to commercial and industrial mortgages which form virtually the entire amount of the mortgage account. They constitute a primary backing for policyholder obligations along with bonds, including Federal government bonds.

**Asset Distribution**



**Asset Quality:  
Bonds**

Bond quality may be measured by ratings accorded these investments. The table below indicates the quality of the Company's bond portfolio (excluding short-term investments and unamortized gains/losses of \$112.3 million) as at December 31, 1986.

At December 31, 1986, bonds having a principal value of \$32.5 million or 0.9% of the bond portfolio were in default. This compares with \$5.9 million or 0.2% at the end of 1985.

**Mortgages**

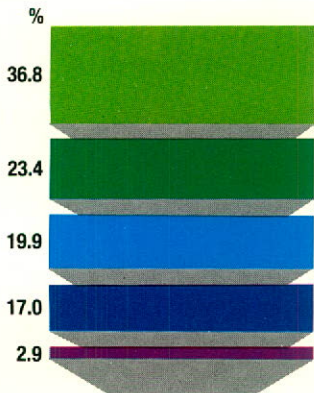
At December 31, 1986 mortgages in arrears 90 days or more and real estate acquired by foreclosure of mortgages totalled \$221 million or 3.7% of the total mortgage portfolio including foreclosures. This compares with a similarly calculated 1.9% a year ago. The increase in mortgage arrears and foreclosed real estate has occurred almost entirely in loans located in areas of the United States and Canada identified with the energy industry. The shock of the oil price collapse punctuating a period of over-building in those same areas, along with the aftermath of the high interest rates experienced in earlier years, put great stress on the real estate industry and on the economic underpinning of many projects. While oversupply will not likely be quickly overcome, the lower level of interest rates and the tentatively higher and more stable outlook for oil prices indicate that significant improvement in this area of investment may be expected.

**Fixed Income Investment Maturities**

While financial markets have been fairly stable in the past year, prudence demands that Great-West Life be prepared to cope with the financial instability typical of several years ago when interest rates and the price of financial assets were changing rapidly. In such an environment, achieving a good match between cash inflows from investments and cash outflows on maturing policyholder obligations is essential. The distribution of fixed-income asset maturity, 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 1986 the estimated average term of all fixed-income investments was 5.8 years compared to 5.6 years at the end of 1985.

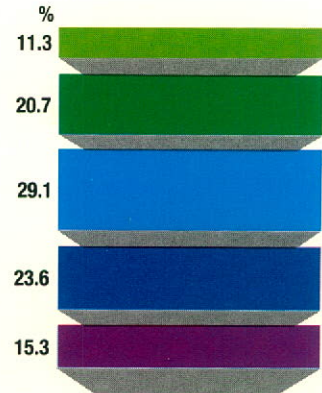
**Bond Portfolio Quality**

Estimated Rating	Amount (\$ millions)
AAA	1,335.2
AA	849.3
A	720.2
BBB	616.6
BB or lower	105.0
<b>Total</b>	<b>3,626.3</b>



**Fixed Income Investment Maturities**

Estimated Maturities	Amount (\$ millions)
1 year or less	1,104.8
over 1 year to 3 years	2,026.9
over 3 years to 5 years	2,843.0
over 5 years to 10 years	2,305.0
over 10 years	1,498.1
<b>Total</b>	<b>9,777.8</b>



### Equity Investments

Equity investments of Great-West Life comprise publicly traded common stocks, shares of real estate development and venture-type enterprises, and direct real estate.

The total market value of \$1,243.9 million at the end of 1986 compared with \$1,349.5 million at the end of 1985. During the year the value of direct real estate holdings increased slightly. Additions to the real estate portfolio resulted from foreclosures of mortgages while decreases resulted from planned sales as well as from reduced estimated market values in some geographic areas. After net sales undertaken in both Canada and the United States, the total market value of public common shares decreased by \$22 million.

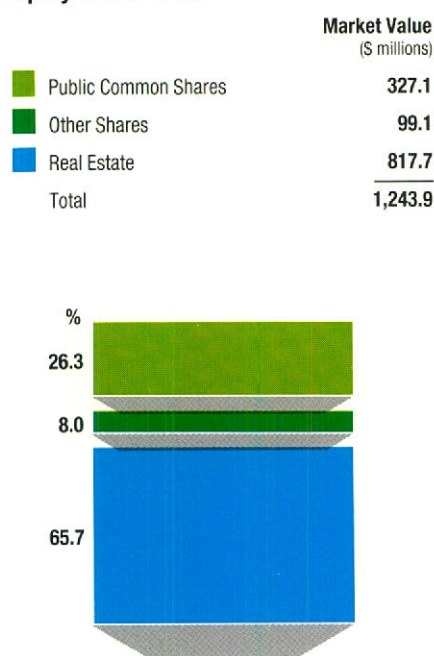
With respect to Great-West Life's investments in publicly traded stocks in both Canada and the United States, the chart below shows for 1986 and for the four years ended December 31, 1986, the overall compounded approximate rates of return of dividends and capital appreciation (realized and unrealized), compared with those on recognized stock indexes.

### Segregated Fund Investments

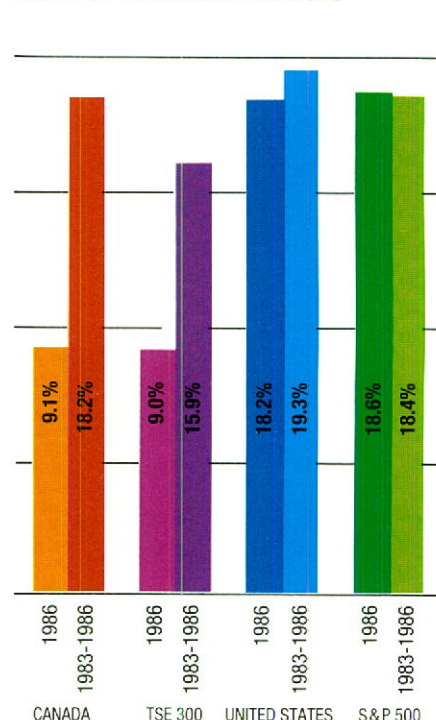
The segregated funds managed by Great-West Life totalled \$1,547 million at the end of 1986. Of this, \$1,218 million are assets managed primarily for Canadian group pension clients in pooled investment funds. In addition, \$136 million of group pension assets is invested under separate fund management for individual clients. Three of the pooled funds managed by Great-West Life are among the largest in the Canadian pension industry: the Mortgage Fund No. 1 (\$386 million), the Real Estate Fund No. 1 (\$285 million) and the Money Market Fund No. 1 (\$158 million).

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 six investment options: money market, bond, growth, government guaranteed and two zero coupon treasury funds. Each of these funds continued to experience competitive investment results in 1986. The assets of the Maxim funds as of December 31, 1986 totalled \$147 million compared with \$36 million in 1985. Other separate funds of the Company in the United States at the end of 1986 totalled \$46 million.

### Equity Investments



### Return on Public Stock Portfolio



### Review and Outlook

The year past was characterized by overall economic stability in North America as indicated by moderate real growth, low inflation, declining interest rates and buoyant stock markets. At the same time regional disparities emerged again as a serious reality, with central Canada showing exceptional strength compared to the agricultural and resource-based areas both east and west. In the United States both coasts continued to be strong while parts of the center displayed weakness.

It is not surprising that investment results and portfolio behavior mirrored these conditions. While we experienced some difficulties in a few specific geographic areas, our overall performance remained strong as the bi-national diversified character of investment portfolios strongly supported Company objectives.

In the year ahead we must continue to be mindful of the risks associated not only with an economic expansion which is rather 'long-in-the-tooth' but also with the potential financial consequences associated with excessive debt creation at consumer, corporate and government levels. In these circumstances, maintaining quality standards and achieving multi-faceted risk diversification rank high in operational priorities.

In 1987 we expect to commit new funds to selected equity investment opportunities. While the inevitable volatility of short-term equity performance moderates the extent to which equities



Great-West Life holds a first mortgage on Capitol Place II, a 152,780 square foot office building in downtown Washington, D.C., which is part of the four-building, mixed-use commercial complex, Capitol Place. The building's lead tenant and owner is the American Federation of Government Employees.

can be included in the overall portfolio, the long-term rewards of a properly constructed and well-executed equity investment program are viewed as an essential element of investment policy.

Reliable, consistent, superior investment performance is more than ever needed as a vital ingredient in achieving Company success. Great-West Life's Investment staff is dedicated to that task.

## 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 Department of Insurance of Canada. 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 Insurance. 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 Insurance 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 Department of Insurance of Canada and, unless otherwise stated, on a basis consistent with that of the preceding year.

### Regulatory Authorities

The Superintendent of Insurance of Canada, 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)

<b>At December 31</b>	<b>1986</b>	<b>1985</b>
Life insurance in force (face amount)	<b>\$112,684,790</b>	\$100,304,517
Annuities in force (funds held)	<b>8,929,278</b>	7,072,642
Health insurance in force (annualized premiums)	<b>1,201,298</b>	1,054,732
Assets	<b>12,995,538</b>	10,801,022
Common and preferred capital and surplus	<b>1,127,046</b>	1,054,504
<b>For the Year</b>		
New insurance	<b>17,193,311</b>	14,487,198
New annuities	<b>1,895,813</b>	1,193,560
Premium income	<b>3,188,615</b>	2,319,703
Net investment income	<b>1,204,181</b>	1,001,464
Total paid or credited to policyholders including policyholder dividends and experience refunds	<b>3,853,916</b>	2,904,464
Earnings per common share		
From operations	<b>49.82</b>	42.81
Including other items	<b>47.74</b>	43.11

## Summary of Consolidated Operations

(in thousands of dollars except earnings per share)

	1986	1985
<b>Income</b>		
Life insurance and annuity premiums	\$2,626,459	\$1,772,749
Accident and health premiums	557,594	533,649
Property and casualty premiums	4,562	13,305
Net investment income	1,204,181	1,001,464
Net realized and unrealized capital gains on assets of segregated investment funds (note 1e)	38,236	94,140
<b>Total Income</b>	<b>4,431,032</b>	<b>3,415,307</b>
<b>Benefits and Expenses</b>		
Life and annuity benefits	1,335,159	1,066,570
Accident and health benefits	430,477	411,180
Property and casualty benefits	7,673	12,969
Interest on funds on deposit	44,622	42,446
Increase in policy reserves (note 1g)	1,905,700	1,270,335
Policyholder dividends and experience refunds	130,285	100,964
<b>Total paid or credited to policyholders</b>	<b>3,853,916</b>	<b>2,904,464</b>
Commissions and operating expenses	411,281	368,639
Premium taxes	26,827	20,675
Net operating income before income taxes	139,008	121,529
Income taxes—current	5,213	3,414
—deferred	3,026	2,280
<b>Net Income from Operations</b>	<b>130,769</b>	<b>115,835</b>
<b>Other Items</b> (note 3)	<b>(10,677)</b>	<b>4,784</b>
<b>Net Income</b>	<b>\$ 120,092</b>	<b>\$ 120,619</b>
<b>Summary of Net Income</b> (note 1h)		
<b>Attributable to participating policyholders</b>		
Net income before policyholder dividends	\$ 106,223	\$ 99,752
Policyholder dividends	86,658	71,890
Net income from operations	19,565	27,862
Other items (note 3)	(6,521)	4,183
<b>Net Income—participating policyholders</b>	<b>\$ 13,044</b>	<b>\$ 32,045</b>
<b>Attributable to shareholders</b>		
Net income from operations before preferred shareholder dividends	\$ 111,204	\$ 87,973
Preferred shareholder dividends	11,550	2,354
Net income from operations—common shareholders	99,654	85,619
Other items (note 3)	(4,156)	601
<b>Net Income—common shareholders</b>	<b>\$ 95,498</b>	<b>\$ 86,220</b>
<b>Earnings per common share</b>		
From operations	\$49.82	\$42.81
Including other items	\$47.74	\$43.11



## Consolidated Statement of Surplus

for the year 1986 (in thousands of dollars)

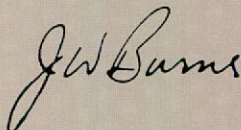
	Participating Policyholders	Shareholders	Total
<b>Appropriated</b>			
<b>Balance January 1</b>	\$ 72,644	\$232,624	\$305,268
<b>Add:</b>			
Increase in special reserves			
Investment valuation and currency reserve — net	6,496	34,926	41,422
Real estate appraisal valuation reserve	10,996	49,447	60,443
Reserve for cash value deficiencies and amounts of negative reserves	(11,714)	35,762	24,048
Reserve for miscellaneous assets	2,459	13,821	16,280
	8,237	133,956	142,193
<b>Balance December 31</b>	\$ 80,881	\$366,580	\$447,461
<b>Unappropriated</b>			
<b>Balance January 1</b>	\$258,639	\$338,597	\$597,236
<b>Add:</b>			
Total net income for year from summary of operations	13,044	107,048	120,092
<b>Deduct:</b>			
Dividends to shareholders			
— preferred shareholders	—	11,550	11,550
— common shareholders	—	36,000	36,000
Changes in special reserves appropriated from surplus	8,237	133,956	142,193
<b>Balance December 31</b>	\$263,446	\$264,139	\$527,585

**Consolidated Balance Sheet**

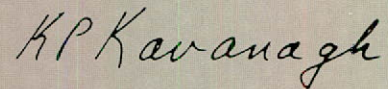
December 31, 1986 (in thousands of dollars)

Assets	1986	1985
Bonds (note 1b)	\$ 3,738,552	\$ 2,904,374
Mortgages and sale agreements (note 1b)	5,917,062	4,833,997
Stocks (note 1c)	146,535	262,654
Real estate (note 1d)	757,369	701,410
Loans to policyholders	354,272	318,910
Cash and certificates of deposit	122,231	114,424
Premiums in course of collection	117,698	72,592
Interest due and accrued	167,697	148,299
Segregated investment funds (note 1e)	1,546,832	1,342,539
Other assets	127,290	101,823
	<u>\$12,995,538</u>	<u>\$10,801,022</u>

Approved by the Board



Director



Director

<b>Liabilities</b>	<b>1986</b>	<b>1985</b>
Policy benefit liabilities		
Policy reserves (note 1g)	<b>\$ 8,864,533</b>	\$ 6,973,391
Segregated investment funds	<b>1,546,832</b>	1,342,539
Provision for claims	<b>498,260</b>	443,988
Provision for 1987 policyholders' dividends	<b>85,218</b>	70,660
Provision for experience rating refunds	<b>84,886</b>	75,833
	<b>11,079,729</b>	8,906,411
Policyholders' funds	<b>421,772</b>	392,935
Mortgages on real estate	<b>191,312</b>	273,818
Income taxes payable	<b>8,870</b>	5,836
Deferred income taxes (note 1f)	<b>19,430</b>	16,832
Other liabilities	<b>147,379</b>	150,686
	<b>11,868,492</b>	9,746,518
Capital stock and surplus		
Capital stock (note 2)	<b>152,000</b>	152,000
Appropriated surplus (note 4)		
— participating policyholders	<b>80,881</b>	72,644
— shareholders	<b>366,580</b>	232,624
Unappropriated surplus		
— participating policyholders	<b>263,446</b>	258,639
— shareholders	<b>264,139</b>	338,597
	<b>1,127,046</b>	1,054,504
	<b>\$12,995,538</b>	\$10,801,022

**Consolidated Statement of Changes in Financial Position**

(in thousands of dollars)

	1986 <sup>(1)</sup>	1985
<b>Operations</b>		
Net income	\$ 120,092	\$ 120,619
Non-cash charges		
Increase in policy benefit liabilities	1,981,094	1,315,318
Increase in policyholders' funds	22,609	26,975
Deferred income taxes	2,522	4,958
Currency revaluation	(17,452)	—
Other	(183,618)	51,061
	<u>1,925,247</u>	<u>1,518,931</u>
<b>Financing Activities</b>		
Issue of preferred shares	—	150,000
Issue expense paid	—	(3,311)
Dividends paid	(47,550)	(32,354)
	<u>(47,550)</u>	<u>114,335</u>
<b>Investment Activities</b>		
Bond sales and maturities	2,089,929	2,130,973
Mortgages and sale agreements repayments	343,761	205,316
Stock sales	282,416	265,912
Real estate sales	109,330	43,176
Policy loan repayments	36,404	21,902
Investment in bonds	(2,877,351)	(2,377,252)
Investment in mortgages and sale agreements	(1,404,487)	(1,471,437)
Investment in stocks	(96,792)	(130,617)
Investment in real estate	(90,518)	(75,290)
Policy loan advances	(63,364)	(17,970)
Increase in segregated investment funds	(201,426)	(205,776)
	<u>(1,872,098)</u>	<u>(1,611,063)</u>
Increase in cash and certificates of deposit	5,599	22,203
Cash and certificates of deposit beginning of year	<u>116,632</u>	<u>92,221</u>
Cash and certificates of deposit end of year	<u>\$ 122,231</u>	<u>\$ 114,424</u>

(1) The amounts shown reflect a revaluation of opening United States dollar Balance Sheet items at \$1.25 rather than the December 31, 1985 book rate of \$1.20.

## Notes to 1986 Consolidated Financial Statements

**1. Summary of Significant Accounting Practices**

The accounting practices followed by the Company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders.

(a) Financial results for 1986 are reported on a consolidated basis. All significant intercompany balances and transactions are eliminated on consolidation. 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, 1986 are \$55,361,000 of net gains for bonds (\$7,101,000 in 1985) and \$474,000 of net gains for mortgages (\$320,000 in 1985).

Bonds, mortgages and sale agreements have a market value on a basis authorized by the Department of Insurance of \$10,185,647,000 (\$7,813,543,000 in 1985). 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, 1986 amounted to \$144,343,000 (\$128,661,000 in 1985). 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 Department of Insurance of \$426,250,000 (\$541,233,000 in 1985).

(d) Investments in real estate at December 31, 1986 are carried at a written-down cost of \$800,898,000 (\$739,779,000 in 1985) less accumulated depreciation of \$40,826,000 (\$38,369,000 in 1985) and 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, 1986 amounted to \$2,703,000.

Effective January 1, 1986, the Company adopted a revised basis of accounting for investments in real estate. On the revised basis, realized and unrealized gains and losses in real estate properties are amortized to income at 10% per annum with no further regular depreciation charges. Depreciation charges will continue on leasehold improvements made to real estate properties. The change in basis has resulted in an increase in 1986 net income of \$2,596,000, net of income taxes.

The market value of the real estate portfolio has been calculated at \$817,665,000 (\$808,338,000 in 1985).

(e) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital gains on segregated investment funds were \$38,236,000 in 1986 (\$94,140,000 in 1985). Such capital gains 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 \$295,946,000 at December 31, 1986 (\$229,138,000 at December 31, 1985).

(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 2½%, as restricted by law, of the distributions from the participating account.

## 2. Capital Stock

	1986	1985
	(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	<u>2,000</u>	<u>2,000</u>
	<u>\$152,000</u>	<u>\$152,000</u>

## 3. Other Items

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

	1986		1985	
	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
Attributable to:	(000)	(000)	(000)	(000)
Net realized gains on sale of assets (note 3a)	\$(1,015)	\$ 11,741	\$ 1,509	\$ 12,303
Net write-down of assets	(4,194)	(28,397)	7,500	(12,620)
Gain due to change in book rates of exchange	5,908	11,544	—	—
Changes in policy reserves	(7,327)	—	(4,928)	—
Release of insurance guarantee association assessments	107	956	102	918
	<u>\$(6,521)</u>	<u>\$ (4,156)</u>	<u>\$ 4,183</u>	<u>\$ 601</u>
	<u>\$(10,677)</u>		<u>\$ 4,784</u>	

(a) Net realized gains on sale of assets in 1986, net of income taxes of \$1,398,000 (\$1,892,000 in 1985) include the results of:

- (i) all disposals of assets of the accident and health account;
- (ii) loss on disposition of subsidiaries.

#### 4. Appropriation of Surplus

Appropriated surplus represents reserves required by the Department of Insurance of Canada. Commencing in 1986, as a

result of the revised basis of accounting for real estate (note 1d), a real estate appraisal valuation reserve is required. The appropriations are:

	<u>1986</u>	<u>1985</u>
	(000)	(000)
Participating account:		
Investment valuation and currency reserve — net	\$ 24,437	\$ 17,941
Real estate appraisal valuation reserve	10,996	—
Reserve for cash value deficiencies and amounts of negative reserves	22,542	34,256
Reserve for miscellaneous assets	22,906	20,447
Total	<u>\$ 80,881</u>	<u>\$ 72,644</u>
Non-participating and health accounts:		
Investment valuation and currency reserve — net	\$ 94,054	\$ 59,128
Real estate appraisal valuation reserve	49,447	—
Reserve for cash value deficiencies and amounts of negative reserves	147,659	111,897
Reserve for miscellaneous assets	75,420	61,599
Total	<u>\$366,580</u>	<u>\$232,624</u>

#### 5. United States Dollar Transactions

Effective January 1, 1986 United States currency items are translated at a book rate of \$1.25 in Canadian dollars compared to \$1.20 for 1985. A gain in 1986 of \$17,452,000 resulted from the change in the book rates of exchange. It is the intention of the Company to alter this rate whenever it is evident that currency rates have changed significantly and in the opinion of the Company the rate will not be reversed in the near term.

Conversion to Canadian dollars of the excess of United States dollar assets over United States dollar liabilities at the December 31, 1986 exchange rate rather than the book rate of \$1.25 would have produced an increase in net assets of approximately \$45,863,000 (\$68,939,000 in 1985). In accordance with reporting requirements \$15,844,000 (\$32,382,000 in 1985) is reflected by a reduction in the investment valuation and currency reserve shown in note 4.

**6. 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.

**7. Company's Effective Income Tax Rate**

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

	1986	1985
Combined basic Canadian federal and provincial tax rate	50.8%	51.3%
Increase (Decrease) in the income tax rate resulting from:		
Adjustment of deferred taxes to a present value basis	(32.9)	(34.1)
Tax exempt dividends on stocks	(2.1)	(2.3)
Tax exempt portion of capital gains	(2.8)	(2.9)
Lower effective tax rates on income not subject to tax in Canada	(7.1)	(4.8)
Miscellaneous	.0	(2.5)
Effective income tax rate	5.9%	4.7%

**8. 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 opposite these participations is \$114,478,000 (\$185,100,000 in 1985) and this amount is supported by the underlying value of the assets of the various entities.



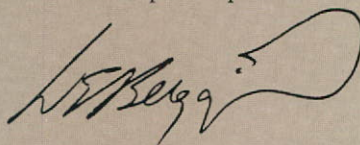
**Valuation Actuary's Certificate**

**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, 1986 and the summary of consolidated operations for

the year then ended. In my opinion:  
i) the valuation conforms to the Recommendations for Life 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 & Actuary  
February 4, 1987

**A u d i t o r s ' R e p o r t**

**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, 1986 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 necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1986 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, except for the change in the method of accounting for investments in real estate as described in Note 1(d) to the financial statements, on a basis consistent with that of the preceding year.



**Chartered Accountants**  
Winnipeg, Manitoba  
February 4, 1987

## Five Year Summary

(in thousands of dollars except earnings per share)

	Compound Growth Rate 1982-1986	1986	
<b>AT DECEMBER 31</b>			
Life insurance in force (face amount)	10.8	\$112,684,790	
Annuities in force (funds held)	21.3	8,929,278	
Health insurance in force (annualized premiums)	7.8	1,201,298	
Assets	17.0	12,995,538	
Common and preferred capital and surplus	14.2	1,127,046	
<b>FOR THE YEAR</b>			
New insurance	9.9	17,193,311	
New annuities	24.6	1,895,813	
Premium income	16.9	3,188,615	
Net investment income	18.1	1,204,181	
Total paid or credited to policyholders including dividends and experience refunds	16.5	3,853,916	
		1986	
		<b>Participating Policyholders</b>	<b>Shareholders</b>
<b>CONDENSED SUMMARY OF OPERATIONS</b>			
<b>Income:</b>			
Premiums		\$283,300	\$2,905,315
Net investment income		151,325	1,052,856
Net realized and unrealized capital gains on assets on segregated funds		1,728	36,508
Total income		436,353	3,994,679
<b>Benefits and Expenses:</b>			
Total paid or credited to policyholders		339,139	3,514,777
Commissions and operating expenses		69,914	341,367
Premium taxes		5,469	21,358
Transfer from participating policyholders to shareholders		2,221	(2,221)
Net operating income before income taxes		19,610	119,398
Income taxes—current		837	4,376
—deferred		(792)	3,818
<b>Net income from operations</b>		<b>19,565</b>	<b>111,204</b>
<b>Other items</b>		<b>(6,521)</b>	<b>(4,156)</b>
<b>Dividends to preferred shareholders</b>		<b>—</b>	<b>11,550</b>
<b>Net income</b>		<b>\$ 13,044</b>	<b>\$ 95,498</b>
<b>EARNINGS PER COMMON SHARE</b>			
From operations		\$ 49.82	
Including other items		\$ 47.74	
<b>Return on common shareholders' equity</b>		<b>15.8%</b>	
<b>Book value per common share</b>		<b>\$316.36</b>	
<b>Dividends to common shareholders—per share</b>		<b>\$ 18.00</b>	

THE GREAT - WEST LIFE ASSURANCE COMPANY

1985		1984		1983		1982	
\$100,304,517		\$92,725,762		\$81,845,683		\$74,874,206	
7,072,642		5,883,532		4,785,530		4,124,866	
1,054,732		1,000,617		880,106		888,062	
10,801,022		9,186,139		7,823,635		6,937,611	
1,054,504		816,239		720,957		661,996	
14,487,198		16,696,891		13,023,809		11,777,218	
1,193,560		1,023,787		694,990		785,504	
2,319,703		2,059,393		1,601,316		1,708,437	
1,001,464		855,538		687,792		619,237	
2,904,464		2,477,735		1,988,711		2,094,176	
1985		1984		1983		1982	
Participating Policyholders	Shareholders	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
\$180,511	\$2,139,192	\$154,674	\$1,904,719	\$146,977	\$1,454,339	\$150,127	\$1,558,310
140,255	861,209	132,628	722,910	118,341	569,451	114,226	505,011
2,836	91,304	69	9,424	1,749	40,936	975	56,951
323,602	3,091,705	287,371	2,637,053	267,067	2,064,726	265,328	2,120,272
232,413	2,672,051	201,157	2,276,578	200,481	1,788,230	200,949	1,893,227
57,434	311,205	58,185	266,619	45,676	203,360	49,125	184,817
2,645	18,030	2,219	19,791	1,924	18,505	1,874	17,934
1,843	(1,843)	1,654	(1,654)	1,531	(1,531)	1,452	(1,452)
29,267	92,262	24,156	75,719	17,455	56,162	11,928	25,746
63	3,351	1,435	3,068	1,472	3,564	(1,952)	227
1,342	938	(320)	(4,955)	963	(2,894)	27	(11,322)
27,862	87,973	23,041	77,606	15,020	55,492	13,853	36,841
4,183	601	17,920	715	2,297	7,152	(2,431)	4,384
—	2,354	—	—	—	—	—	—
\$ 32,045	\$ 86,220	\$ 40,961	\$ 78,321	\$ 17,317	\$ 62,644	\$ 11,422	\$ 41,225
	\$ 42.81		\$ 38.80		\$ 27.74		\$ 18.42
	\$ 43.11		\$ 39.16		\$ 31.32		\$ 20.61
	15.8%		16.0%		14.2%		10.0%
	\$286.61		\$258.50		\$231.34		\$210.52
	\$ 15.00		\$ 12.00		\$ 10.50		\$ 10.00

## 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**

**W. Murray Auld\*\***  
Company Director  
Winnipeg, Manitoba

**Marcel Bélanger, O.C., F.C.A.\*\***  
President

Gagnon et Bélanger, Inc.  
Quebec City, Quebec

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

**Paul Desmarais, C.C.\*** +  
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  
Inter-City Gas Corporation  
Toronto, Ontario

**N. Berne Hart\*\***  
Chairman of the Board and  
Chief Executive Officer  
United Banks of Colorado, Inc.  
Denver, Colorado

**Charles H. Hollenberg, M.D.\***  
Vice-Provost, Health Sciences  
and Professor of Medicine  
University of Toronto  
Toronto, Ontario

\*Member of the Policy Committee

**Robert H. Jones\*** +  
Chairman of the Board  
Investors Group Inc.  
Winnipeg, Manitoba

**A. Frank Knowles, C.A.\*\*** +  
President  
Power Corporation of Canada;  
Deputy Chairman  
Power Financial Corporation  
Beaconsfield, Quebec

**John A. Love\***  
Counsel  
Davis, Graham & Stubbs  
Denver, Colorado

**J. Blair MacAulay** +  
Partner, Fraser & Beatty  
Oakville, Ontario

**Randall L. Moffat\*\***  
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

\*\*Member of the Audit Committee

**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 Investment  
Committee

## Executive Officers

**Kevin P. Kavanagh**  
President and Chief  
Executive Officer

**CANADIAN REGION**

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

**Christopher D. Chapman**  
Senior Vice-President, Individual

**James R. Grant**  
Senior Vice-President, Group

**UNITED STATES REGION**

**Orest T. Dackow**  
Executive Vice-President—  
Chief Operating Officer,  
United States

**Alan G. Carmichael**  
Senior Vice-President,  
Individual Operations

**Alan D. MacLennan**  
Senior Vice-President, Group

**William T. McCallum**  
Senior Vice-President, Individual

**INVESTMENT DIVISION**

**Marshall G. Smith**  
Executive Vice-President,  
Investments

**Grant W. Dominy**  
Senior Vice-President,  
Investment Policy

**Raymond L. McFeetors**  
Senior Vice-President, Fixed  
Income Investments, Canada

**Edward J. Ransby**  
Senior Vice-President, Common  
Stock and Pension Investments

**Brian C. Thompson**  
Senior Vice-President, Fixed  
Income Investments,  
United States

**CORPORATE FINANCE AND  
CONTROL**

**Jack O. Parsonage**  
Executive Vice-President,  
Corporate Finance and Control

**Wayne E. Bergquist**  
Senior Vice-President and Actuary

**Jack A. Miller**  
Senior Vice-President and  
Controller

**CORPORATE RESOURCES**

**H. Edward Harland**  
Executive Vice-President,  
Corporate Resources

**Roderick B. Pennycook**  
Senior Vice-President,  
Corporate Systems

**CORPORATE STAFF**

**George R. Dinney**  
Senior Vice-President, Corporate  
Planning and Development

**D. Craig Lennox**  
Senior Vice-President and  
General Counsel

**David E. Morrison**  
Senior Vice-President,  
Corporate Research

**Robert K. Siddall**  
Senior Vice-President and Secretary

## C o r p o r a t e P r o f i l e

Great-West Lifeco Inc. was formed during 1986 to hold securities of The Great-West Life Assurance Company, previously held primarily by The Investors Group and two of its wholly-owned subsidiaries. Great-West Lifeco acquired those common shares, which numbered in the aggregate 1,924,417, on June 12, 1986 in exchange for 66,976,680 common shares of Great-West Lifeco and non-interest bearing demand notes of \$197,250,000.

At the same time, 10,000,000 common shares of Great-West Lifeco were issued to the public for cash and an exchange offer was made to the minority shareholders of Great-West Life resident in Canada, of forty common shares of Great-West Lifeco for each common share of Great-West Life held. This resulted in the exchange of 22,633 common shares of Great-West Life for 905,320 common shares of Great-West Lifeco.

The number of common shares of Great-West Life now 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 77,882,000.

Following a re-organization in December, 1986, the shares of the Corporation previously held by The Investors Group and its subsidiaries are now held by Power Financial Corporation. The 66,976,680 common shares thus held represent 86% of those outstanding.

The dividend policy of Great-West Lifeco is to pay dividends on its common shares equal to the aggregate amount of cash dividends received by it from Great-West Life on the common shares that it holds of Great-West Life.

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 as well as the after tax investment income of approximately \$4 million earned on the non-interest bearing demand notes. These notes were repaid in December, 1986 and January, 1987. The statements have been prepared to show actual results for the period June 12, 1986 to December 31, 1986 and to show what the Corporation's earnings would have been had it acquired its interest in Great-West Life at the beginning of 1985.

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)

	1986	1985 (note 1b)
<b>Income</b>		
Premium income	\$3,188,615	\$2,319,703
Net investment income	1,212,842	1,001,464
Net realized and unrealized capital gains on assets of segregated investment funds (note 1g)	38,236	94,140
	<u>4,439,693</u>	<u>3,415,307</u>
<b>Benefits and expenses</b>		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	3,853,916	2,904,464
Commissions and operating expenses	411,347	368,639
Premium and other taxes	26,827	20,675
Income taxes — current	5,217	3,414
— deferred	7,648	2,280
	<u>4,304,955</u>	<u>3,299,472</u>
<b>Net income from operations</b>	<b>134,738</b>	<b>115,835</b>
<b>Other items</b> (note 7)	<b>(10,677)</b>	<b>4,784</b>
	<u>\$ 124,061</u>	<u>\$ 120,619</u>
<b>Net income before minority and other interests</b>		
<b>Minority and other interests of The Great-West Life Assurance Company</b>		
Participating policyholders	13,044	32,045
Preferred shareholder dividends	11,550	2,354
Minority interest (note 2)	1,466	—
	<u>\$ 26,060</u>	<u>\$ 34,399</u>
Net income before the following item	<u>\$ 98,001</u>	<u>\$ 86,220</u>
Pre-acquisition net income	44,784	
<b>Net income</b>	<u>\$ 53,217</u>	
<b>Earnings per share</b>		
Net income from operations	\$0.707	
Net income	\$0.683	
<b>Pro-forma earnings per share</b> (note 1c)		
Net income from operations	\$1.310	\$1.070
Net income	\$1.258	\$1.077

**C o n s o l i d a t e d S t a t e m e n t o f S u r p l u s**

for the period ended December 31, 1986 (in thousands of dollars)

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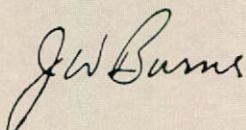
Balance, commencement of operations	\$ 20
Net income	53,217
Share issue expenses, net of income taxes of \$4,870	(4,182)
Dividends	(17,523)
Balance, December 31, 1986	<u>\$ 31,532</u>

**C o n s o l i d a t e d B a l a n c e S h e e t**

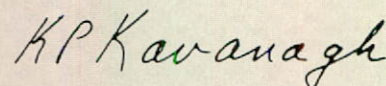
December 31, 1986 (in thousands of dollars)

Assets	1986	1985 (note 1b)
Bonds (note 1d)	\$3,868,170	\$ 2,904,374
Mortgages and sale agreements (note 1d)	5,917,062	4,833,997
Stocks (note 1e)	146,535	262,654
Real estate (note 1f)	757,369	701,410
Loans to policyholders	354,272	318,910
Cash and certificates of deposit	122,280	114,424
Premiums in course of collection	117,698	72,592
Interest due and accrued	168,851	148,299
Segregated investment funds (note 1g)	1,546,832	1,342,539
Other assets	90,467	101,823
	<b>\$13,089,536</b>	<b>\$10,801,022</b>

Approved by the Board



Director



Director



<b>Liabilities</b>	<b>1986</b>	<b>1985</b> (note 1b)
Policy benefit liabilities		
Policy reserves (note 1i)	<b>\$ 8,864,533</b>	\$ 6,973,391
Segregated investment funds	<b>1,546,832</b>	1,342,539
Provision for claims	<b>498,260</b>	443,988
Provision for 1987 policyholders' dividends	<b>85,218</b>	70,660
Provision for experience rating refunds	<b>84,886</b>	75,833
	<b>11,079,729</b>	8,906,411
Policyholders' funds	<b>421,772</b>	392,935
Mortgages on real estate	<b>191,312</b>	273,818
Income taxes payable	<b>8,874</b>	5,836
Deferred income taxes (note 1h)	<b>19,430</b>	16,832
Demand notes payable to parent company (note 3)	<b>122,250</b>	—
Other liabilities	<b>147,379</b>	150,686
	<b>11,990,746</b>	9,746,518
Minority and other interests (note 4)	<b>511,079</b>	481,283
Capital stock and surplus (note 6)		
Capital stock (note 5)	<b>556,179</b>	2,000
Surplus	<b>31,532</b>	571,221
	<b>587,711</b>	573,221
	<b>\$13,089,536</b>	\$10,801,022

## Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	1986 <sup>(1)</sup>	1985 (note 1b)
<b>Operations</b>		
Net income before minority and other interests	\$ 124,061	\$ 120,619
Non-cash charges		
Increase in policy benefit liabilities	1,981,094	1,315,318
Increase in policyholders' funds	22,609	26,975
Deferred income taxes	2,522	4,958
Currency revaluation	(17,452)	—
Other	(180,145)	51,061
	1,932,689	1,518,931
<b>Financing Activities</b>		
Issue of common shares	206,250	—
Issue of preferred shares	—	150,000
Demand notes paid	(75,000)	—
Issue expenses paid	(9,052)	(3,311)
Dividends paid	(47,550)	(32,354)
	74,648	114,335
<b>Investment Activities</b>		
Bond sales and maturities	2,089,929	2,130,973
Mortgages and sale agreements repayments	343,761	205,316
Stock sales	282,416	265,912
Real estate sales	109,330	43,176
Policy loan repayments	36,404	21,902
Investment in bonds	(3,006,969)	(2,377,252)
Investment in mortgages and sale agreements	(1,404,487)	(1,471,437)
Investment in stocks	(96,792)	(130,617)
Investment in real estate	(90,518)	(75,290)
Policy loan advances	(63,364)	(17,970)
Increase in segregated investment funds	(201,426)	(205,776)
	(2,001,716)	(1,611,063)
Increase in cash and certificates of deposit	5,621	22,203
Cash and certificates of deposit beginning of year	116,659	92,221
Cash and certificates of deposit end of year	\$ 122,280	\$ 114,424

<sup>(1)</sup> The amounts shown reflect a revaluation of opening United States dollar Balance Sheet items at \$1.25 rather than the December 31, 1985 book rate of \$1.20.

## Notes to 1986 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 Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders.
- (b) The Summary of Consolidated Operations and Consolidated Statement of Changes in Financial Position for 1986 include the full year results of The Great-West Life Assurance Company with net income reduced by pre-acquisition net income. The comparative figures for 1985 are those of The Great-West Life Assurance Company reclassified to conform with the consolidated financial statements of Great-West Lifeco Inc.
- (c) The pro-forma earnings per share as set out in the Consolidated Statement of Operations are calculated in 1986 based on 77,882,000 common shares and are presented to show what Great-West Lifeco's earnings in 1986 and 1985 would have been if Great-West Lifeco had acquired The Great-West Life Assurance Company at the beginning of 1985.
- (d) 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, 1986 are \$55,361,000 of net gains for bonds (\$7,101,000 in 1985) and \$474,000 of net gains for mortgages (\$320,000 in 1985). Bonds, mortgages and sale agreements have a market value of \$10,316,420,000 (\$7,813,543,000 in 1985). 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.
- (e) 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, 1986 amounted to \$144,343,000 (\$128,661,000 in 1985). Equity investments in respect of the accident and health business are carried at cost. Equity securities have a market value of \$426,250,000 (\$541,233,000 in 1985).
- (f) Investments in real estate at December 31, 1986 are carried at a written-down cost of \$800,898,000 (\$739,779,000 in 1985) less accumulated depreciation of \$40,826,000 (\$38,369,000 in 1985) and 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, 1986 amounted to \$2,703,000.
- Effective January 1, 1986, The Great-West Life Assurance Company adopted a revised basis of accounting for investments in real estate. On the revised basis, realized and unrealized gains and losses in real estate properties are amortized to income at 10% per annum with no further regular depreciation charges. Depreciation charges will continue on leasehold improvements made to real estate properties. The change in basis has resulted in an increase in 1986 net income of \$2,596,000, net of income taxes. The market value of the real estate portfolio has been calculated at \$817,665,000 (\$808,338,000 in 1985).
- (g) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital gains on segregated investment funds were \$38,236,000 in 1986 (\$94,140,000 in 1985). Such capital gains to the funds are reflected in the increase in policy reserves and do not affect net income of the Company.
- (h) Income taxes of The Great-West Life Assurance Company are calculated using the deferred-tax method on a present value basis.
- (i) 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 \$295,946,000 at December 31, 1986 (\$229,138,000 at December 31, 1985).

**2. Acquisition of The Great-West Life Assurance Company**

Great-West Lifeco Inc. was acquired by The Investors Group at the initiative of Power Financial Corporation for the purpose of holding securities of The Great-West Life Assurance Company. Pursuant to an agreement dated June 12, 1986 among The Investors Group, Investors Securities Management Ltd., Investors Syndicate Realty Limited and Great-West Lifeco Inc.,

Great-West Lifeco Inc. acquired 1,924,417 common shares of The Great-West Life Assurance Company in exchange for the issue of 66,976,680 common shares of the Company having a stated capital of \$331,257,000, and non-interest bearing demand notes of \$197,250,000.

Under an underwriting agreement dated June 12, 1986, 10,000,000 common shares of the Company were issued for

cash. In addition an exchange offer was made to the minority shareholders, resident in Canada, of The Great-West Life Assurance Company which resulted in the exchange of 22,633 shares of The Great-West Life Assurance Company for 905,320 common shares of the Company. This brings the equity investment of Great-West Lifeco Inc. in The Great-West Life Assurance Company to 97.4%.

**3. Demand Notes Payable to Parent Company**

The non-interest bearing demand notes of \$122,250,000 are the remaining balance payable as a result of the acquisition of

the common shares of The Great-West Life Assurance Company. The notes have been paid in full in January, 1987.

**4. Minority and Other Interests in The Great-West Life Assurance Company**

- (i) participating policyholders' share of undistributed surplus
- (ii) preferred shareholders Series A
- (iii) minority interests in common shares

1986
(000)
\$344,327
150,000
16,752
\$511,079

**5. Capital Stock**

	<u>Common Shares</u>	
	<u>Number</u>	<u>Stated Value</u> (000)
Authorized—unlimited		
Issued—		
Balance beginning of period	—	\$ —
Issued for common shares of		
The Great-West Life Assurance Company	<b>66,976,680</b>	331,257
Issued for cash	<b>10,000,000</b>	206,250
Exchanged for shares of		
The Great-West Life Assurance Company	<b>905,320</b>	18,672
Balance end of period	<b><u>77,882,000</u></b>	<b><u>\$556,179</u></b>

**6. Surplus**

The Company's total interest in the common capital and surplus of The Great-West Life Assurance Company is \$615,968,000. Of this amount \$356,875,000 is appropriated to cover various contingencies as required by the Department of Insurance of Canada.

**7. Other Items**

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

	<u>1986</u> (000)	<u>1985</u> (000)
Net realized gains on sale of assets	<b>\$ 11,741</b>	\$ 12,303
Net write-down of assets	<b>(28,397)</b>	(12,620)
Gain due to change in book rates of exchange	<b>11,544</b>	—
Release of insurance guarantee association assessments	<b>956</b>	918
Subtotal	<b>\$ (4,156)</b>	\$ 601
Participating policyholders	<b>(6,521)</b>	4,183
Total	<b><u>\$(10,677)</u></b>	<b><u>\$ 4,784</u></b>

**8. United States Dollar Transactions**

Effective January 1, 1986 United States currency items are translated at a book rate of \$1.25 in Canadian dollars compared to \$1.20 for 1985. A gain in 1986 of \$17,452,000 resulted from the change in the book rates of exchange. It is the

intention of The Great-West Life Assurance Company to alter this rate whenever it is evident that currency rates have changed significantly and in the opinion of Management the rate will not be reversed in the near term.

**9. 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.

**10. Company's Effective Income Tax Rate**

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

	<u>1986</u>	<u>1985</u>
Combined basic Canadian federal and provincial tax rate	51.0%	51.3%
Increase (Decrease) in the income tax rate resulting from:		
Adjustment of deferred taxes to a present value basis	(31.0)	(34.1)
Tax exempt dividends on stocks	(2.0)	(2.3)
Tax exempt portion of capital gains	(2.6)	(2.9)
Lower effective tax rates on income not subject to tax in Canada	(6.7)	(4.8)
Miscellaneous	<u>.0</u>	<u>(2.5)</u>
Effective income tax rate	<u>8.7%</u>	<u>4.7%</u>

**11. 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 opposite these participations is \$114,478,000 (\$185,100,000 in 1985) and this amount is supported by the underlying value of the assets of the various entities.

**A u d i t o r s ' R e p o r t****To the Shareholders,  
Great-West Lifeco Inc.**

We have examined the consolidated balance sheet of Great-West Lifeco Inc. as at December 31, 1986, the summary of consolidated operations and the consolidated statement of surplus for the period from June 12, 1986 to December 31, 1986, and the consolidated statement of changes in financial position for the year ended December 31, 1986. Our examination was made in accordance with

generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the periods then ended in accordance with

the accounting practices described in Note 1 to the financial statements applied, except for the change in the method of accounting for investments in real estate as described in Note 1(f) to the financial statements, on a basis consistent with those applied by The Great-West Life Assurance Company in the preceding year.

**Chartered Accountants**

Winnipeg, Manitoba  
February 4, 1987

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Officer,  
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**P. Michael Pitfield, P.C., Q.C.**

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Vice-Chairman  
Power Corporation of Canada;  
Vice-Chairman  
Power Financial Corporation  
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President and Chief  
Executive Officer  
CMS Creative Management  
Services Limited  
Winnipeg, Manitoba

**Ross J. Turner**

Chairman of the Board  
Genstar Investment Corporation  
Hillsborough, California

\*\*Member of the Audit Committee

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Executive Officer

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Executive Vice-President

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Vice-President, Finance

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