

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any state securities laws. These securities may not be offered, sold or delivered in the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S to the 1933 Act). See "Plan of Distribution".

Short Form Prospectus

New Issue

March 14, 2003

GREAT-WEST LIFECO INC.

\$600,000,000, being the aggregate of

**\$200,000,000 principal amount of
6.14% Debentures due March 21, 2018**

**\$400,000,000 principal amount of
6.67% Debentures due March 21, 2033**

\$200,000,000 principal amount of 6.14% Debentures due March 21, 2018 (the "2018 Debentures") of Great-West Lifeco Inc. ("Great-West Lifeco" or the "Corporation") and \$400,000,000 principal amount of 6.67% Debentures due March 21, 2033 (the "2033 Debentures") are offered hereunder, being an aggregate of \$600,000,000 principal amount of 2018 Debentures and 2033 Debentures (collectively, the "Debentures").

The 2018 Debentures will be dated March 21, 2003 and will mature on March 21, 2018. Interest on the 2018 Debentures at the rate of 6.14% per annum will accrue from the date of closing of the offering hereunder and will be payable semi-annually in arrears in equal instalments on March 21 and September 21 of each year commencing September 21, 2003, until March 21, 2018. The 2033 Debentures will be dated March 21, 2003 and will mature on March 21, 2033. Interest on the 2033 Debentures at the rate of 6.67% per annum will accrue from the date of closing of the offering hereunder and will be payable semi-annually in arrears in equal instalments on March 21 and September 21 of each year commencing September 21, 2003, until March 21, 2033. **The effective yield on the 2033 Debentures purchased at 99.987% of their principal amount, the price at which the Underwriters (as defined below) have agreed to purchase the 2033 Debentures, and held to maturity, will be 6.671%.** See "Details of the Offering".

The Corporation may, at its option, redeem the Debentures on not less than 30 nor more than 60 days' prior notice to the registered holder, in whole at any time or in part from time to time, at a redemption price equal to the greater of the Canada Yield Price (as defined below) and par, together in each case with accrued and unpaid interest to the date fixed for redemption. In cases of partial redemption, the Debentures to be redeemed will be selected by the Trustee (as defined below) pro rata or in such other manner as it shall deem appropriate. Any Debentures that are redeemed by the Corporation will be cancelled and will not be reissued. See "Details of the Offering".

The Debentures will be direct, unsecured and unsubordinated obligations of Great-West Lifeco and will rank equally and rateably with all existing or future unsecured and unsubordinated indebtedness of Great-West Lifeco.

	<u>Price to Public</u>	<u>Underwriters' Fee and Discount (1)</u>	<u>Net Proceeds to the Corporation (2)(3)</u>
Per \$1,000 principal amount of 2018 Debentures	Non-Fixed Price	\$7.50	\$992.50
Per \$1,000 principal amount of 2033 Debentures	Non-Fixed Price	\$9.13	\$990.87
Total	Non-Fixed Price	\$5,152,000	\$594,848,000

(1) Consisting of (i) an underwriting fee of \$7.50 per \$1,000 of principal amount of the 2018 Debentures and an underwriting fee of \$9.00 per \$1,000 of principal amount of 2033 Debentures and (ii) an underwriting discount of \$0.13 per \$1,000 of principal amount of 2033 Debentures. The Underwriters' overall compensation will increase or decrease by the amount by which the aggregate price paid for the Debentures by the purchasers exceeds or is less than the gross proceeds paid by the Underwriters to Great-West Lifeco.

(2) Plus accrued interest, if any, from March 21, 2003 to the date of delivery.

(3) Before deduction of the expenses of this issue, estimated at \$250,000, which, together with the Underwriters' Fee, will be paid from the general funds of the Corporation.

BMO Nesbitt Burns Inc., Merrill Lynch Canada Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc. and Casgrain & Company Limited (collectively, the "Underwriters") have agreed to purchase the Debentures from the Corporation at 100% of the principal amount of 2018 Debentures and 99.987% of the principal amount of 2033 Debentures subject to the terms and conditions set forth in the Underwriting Agreement referred to under "Plan of Distribution".

The Debentures will be offered to the public at prices to be negotiated by the Underwriters with purchasers. Accordingly, the price at which the securities will be offered and sold to the public may vary as between purchasers and during the period of distribution of the Debentures. In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Debentures at a level above that which might otherwise prevail in the open market. See "Plan of Distribution".

The Underwriters, as principals, conditionally offer these securities, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution", and subject to the approval of certain legal matters on behalf of the Corporation by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP.

BMO Nesbitt Burns Inc. ("BMO Nesbitt Burns"), the co-lead Underwriter, is a wholly-owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority-owned subsidiary of Bank of Montreal. Bank of Montreal has underwritten credit facilities to Great-West Lifeco as part of the financing of the acquisition by Great-West Lifeco of Canada Life Financial Corporation. See "Acquisition of Canada Life Financial Corporation". **By virtue of the relationship of BMO Nesbitt Burns with Bank of Montreal, the Corporation may be considered to be a connected issuer of BMO Nesbitt Burns under applicable securities legislation in connection with the offering. See "Plan of Distribution".**

Closing of this offering is expected to take place on March 21, 2003. Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Book-entry only certificates representing each of the 2018 Debentures and the 2033 Debentures will be issued in registered form only to The Canadian Depository for Securities Limited ("CDS"), or its nominee, and will be deposited with CDS on the closing of this offering. A purchaser of the Debentures will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom the Debentures are purchased. See "Details of the Offering — Depository Services".

The Debentures will not be listed on any securities exchange or quotation system and consequently, there is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this short form prospectus.

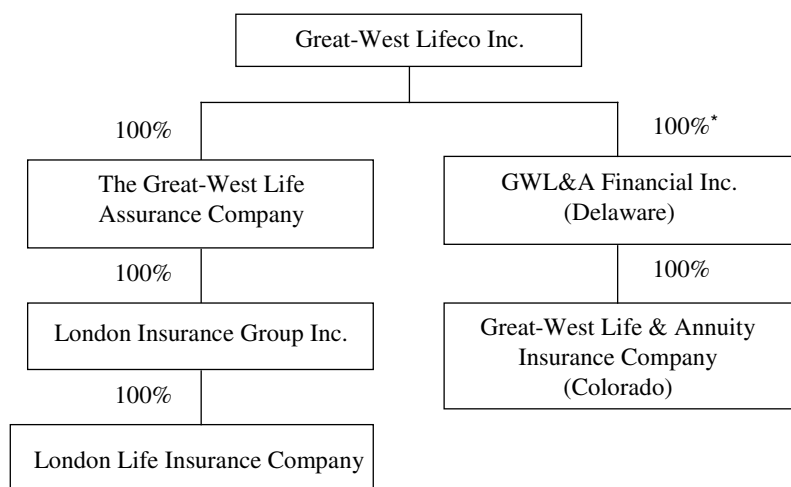
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GREAT-WEST LIFECO INC.

Corporate Structure

The following chart summarizes Great-West Lifeco's corporate structure, including its interests in its material subsidiaries. Unless otherwise indicated, all companies are incorporated under the laws of Canada. The indicated percentages represent holdings of common shares.



*Held by Great-West Lifeco through wholly-owned subsidiaries.

General

Great-West Lifeco was incorporated under the *Canada Business Corporations Act* (the “CBCA”) on November 8, 1979. Its name was changed to Great-West Lifeco Inc. and its capital structure was reorganized by Certificate of Amendment dated May 15, 1986. Its articles, as further amended, were restated by Restated Certificate of Incorporation dated August 7, 1997 and were subsequently amended by Certificates of Amendment dated November 6, 1997, April 23, 1998, September 9, 1998, March 3, 1999, April 22, 1999 and April 26, 2001.

The head office and principal place of business of Great-West Lifeco is located at 100 Osborne Street North, Winnipeg, Manitoba, R3C 3A5.

Great-West Lifeco holds directly all of the outstanding common shares of The Great-West Life Assurance Company (“Great-West Life”), all of the outstanding preferred shares of London Life Insurance Company (“London Life”) and, through wholly-owned subsidiaries, all of the outstanding common shares of Great-West Life & Annuity Insurance Company (“GWL&A”). Great-West Lifeco currently has no other holdings and carries on no business or activities unrelated to its holdings in Great-West Life, London Life and GWL&A. However, Great-West Lifeco is not restricted to investing only in such securities and on February 17, 2003, Great-West Lifeco announced that it had entered into a definitive agreement with Canada Life Financial Corporation (“Canada Life”) to acquire 100% of the outstanding common shares of Canada Life. See “Acquisition of Canada Life Financial Corporation”. As at December 31, 2002, Power Financial Corporation controlled, directly or indirectly, approximately 82.89% of the outstanding common shares of Great-West Lifeco, representing approximately 64.99% of the voting rights attached to all of the outstanding voting shares of the Corporation.

From time to time, Great-West Lifeco and its subsidiaries evaluate existing businesses, products and services, and such review could result in Great-West Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing, products and services. In the ordinary course of their operations Great-West Lifeco and its subsidiaries consider and discuss with third parties the purchase or sale of businesses or business segments.

The Great-West Life Assurance Company and London Life Insurance Company

Great-West Life was incorporated on August 28, 1891 by an Act of Parliament of Canada and commenced operations in 1892. Great-West Life owns all of the common shares of London Insurance Group Inc. (“LIG”), a

company continued under the CBCA. LIG owns all of the common shares of London Life. Both Great-West Life and London Life are Canadian insurance companies governed by the *Insurance Companies Act* (Canada).

Great-West Life and London Life serve more than nine million Canadians with a broad portfolio of financial and benefit plan solutions for families, individuals, businesses and organizations. Products are marketed through a network of Great-West Life and Freedom 55 FinancialTM security advisors, and through brokers and marketing agreements with other financial institutions. Great-West Life is also a supplier of reinsurance in the United States and Europe through London Reinsurance Group Inc. The operations of Great-West Life and London Life are managed from Winnipeg, Manitoba and London, Ontario.

Great-West Life & Annuity Insurance Company

Great-West Lifeco's principal United States subsidiary is GWL&A, a stock life insurance company organized in 1907 and domiciled in the State of Colorado and qualified to do business directly or through its subsidiaries in all states. GWL&A is a wholly-owned subsidiary of GWL&A Financial Inc. ("GWL&A Financial"), a Delaware holding company. GWL&A Financial is an indirect wholly-owned subsidiary of Great-West Lifeco.

In the United States, GWL&A offers a full range of healthcare, life and disability insurance, annuities and retirement plans and services.

ACQUISITION OF CANADA LIFE FINANCIAL CORPORATION

On February 17, 2003, Great-West Lifeco announced that it had entered into a definitive agreement (the "Transaction Agreement") with Canada Life to acquire 100% of the outstanding common shares of Canada Life for approximately \$7.3 billion, which represents a purchase price of \$44.50 per common share. Each holder of a Canada Life common share would be entitled to receive, for each such share held, at his or her election, (i) \$44.50 in cash (the maximum cash to be paid limited to approximately \$4.4 billion); (ii) 1.1849 Great-West Lifeco common shares (the maximum number of such shares to be issued limited to approximately 56 million shares); (iii) 1.78 Great-West Lifeco 4.80% non-cumulative 10-year soft retractable preferred shares (the maximum number of such shares to be issued limited to 24 million shares); (iv) 1.78 Great-West Lifeco 5.90% non-cumulative perpetual preferred shares (the maximum number of such shares to be issued limited to 8 million shares); or (v) a combination of the above alternatives, subject in each case to the maximum amounts noted and any resultant proration.

The Transaction Agreement provides that the completion of the acquisition of Canada Life is subject to a number of conditions including:

- (a) the approval of the transaction by the holders of the Canada Life common shares at a meeting of Canada Life shareholders called to approve the transaction, as required by applicable laws;
- (b) the receipt of all regulatory approvals of the transaction required or appropriate under regulatory legislation, on a basis which does not impose terms which, in the aggregate would have a material adverse effect on Great-West Lifeco and Canada Life on a combined basis;
- (c) the absence of any restrictions or limitations on the completion of the transaction under the competition laws of Canada, the United States, the United Kingdom and the European Community;
- (d) the receipt of all other material consents, waivers, permits, orders and approvals required to permit the consummation of the transaction on a basis which does not impose terms which, in the aggregate would have a material adverse effect on Great-West Lifeco and Canada Life on a combined basis;
- (e) Great-West Lifeco shall have determined that the Canada Life shareholder rights plan shall have been waived by Canada Life's shareholders or otherwise rendered unexercisable or unenforceable; and
- (f) other conditions customary to transactions of this nature.

In addition to representations, warranties, conditions and other provisions customary in an agreement of this type, the Transaction Agreement provides for the payment by Canada Life to Great-West Lifeco of a fee of approximately \$287 million in the event that, among other things, the board of directors of Canada Life fails to recommend or confirm its recommendation of the transaction within two business days of being requested to do so by Great-West Lifeco. The Transaction Agreement also contains non-solicitation provisions and provides that Canada Life give immediate notice to Great-West Lifeco of the terms of (and then a right to match) any potential competing offer.

Investors Group Inc. (“Investors Group”) and Power Financial Corporation (“Power Financial”) have agreed to invest up to \$100 million and \$800 million, respectively, to acquire common shares of Great-West Lifeco from treasury. The purchase price per Great-West Lifeco common share will be \$37.556 cash. Such purchases will be completed approximately coincident with payment for the Canada Life common shares by Great-West Lifeco. The economic interest which Power Financial has, directly and through Investors Group, in Great-West Lifeco, currently 80.9%, is expected to be reduced to approximately 71.6% once the transaction as announced is completed. In addition to the investments of Investors Group and Power Financial, Great-West Lifeco expects that the cash component of its proposed acquisition of Canada Life will be financed by: the net proceeds from the sale of the Debentures offered hereunder; existing Great-West Lifeco cash; and term financing of up to \$600 million and a short term credit facility, both of which have been underwritten by Bank of Montreal.

Subject to satisfaction of the conditions and other requirements of the Transaction Agreement, it is expected that the acquisition will be completed in the third quarter of 2003.

Following the acquisition of Canada Life by Great-West Lifeco, Great-West Lifeco intends to continue to be a financial services holding company with interests in the life insurance, health insurance, retirement savings and reinsurance businesses.

On February 24, 2003 Great-West Lifeco filed with the provincial securities commissions or similar authorities in Canada a material change report dated the same date with respect to its agreement with Canada Life to acquire 100% of the outstanding common shares of Canada Life for approximately \$7.3 billion. This is the only material change report filed by the Corporation since January 1, 2003.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The pro forma consolidated financial statements of Great-West Lifeco attached to this prospectus give effect to the Transaction Agreement respecting the acquisition of Canada Life by Great-West Lifeco and the issuance of the Debentures under this short form prospectus. These transactions have been reflected as if they had occurred as of December 31, 2002 for the purposes of the pro forma consolidated balance sheet and as of January 1, 2002 for the purposes of the pro forma summary of consolidated operations for the year ended December 31, 2002.

The pro forma consolidated financial statements are not intended to reflect the consolidated results of operations or the consolidated financial position that would actually have resulted had the transactions been consummated on the dates indicated, and do not represent a projection or forecast of the results which may be reported in the future. This information has been prepared for illustrative purposes only and in order to comply with applicable securities regulation.

The specific pro forma adjustments and the basic assumptions used in the preparation of the pro forma consolidated financial statements are described in detail in the notes thereto. The pro forma adjustments are based on information currently available, on the assumptions which the Corporation considers reasonable under the circumstances and on historic accounting practices applicable to business combinations.

USE OF PROCEEDS

The net proceeds from the sale of the Debentures offered hereunder will amount to approximately \$594,598,000 after deduction of the Underwriters’ fee, the Underwriters’ discount and the estimated expenses of the issue. The Underwriters’ fee and the expenses of the issue will be paid out of the general funds of the Corporation. The net proceeds of this offering will be used by the Corporation for general corporate purposes and, assuming that the acquisition is completed, as part of the financing of the acquisition of Canada Life. See “Acquisition of Canada Life Financial Corporation”.

DETAILS OF THE OFFERING

The following is a summary of certain of the material attributes and characteristics of the Debentures, which does not purport to be complete. Reference is made to the 2018 Trust Indenture and the 2033 Trust Indenture referred to below for the full text of the material attributes and characteristics applicable to the 2018 Debentures and 2033 Debentures, respectively. Copies of the Trust Indentures may be examined at the head office of the Corporation located at 100 Osborne Street North, Winnipeg, Manitoba, R3C 3A5 until the completion of this offering. Debenture holders

will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all of the provisions of the applicable Trust Indenture.

General

The 2018 Debentures will be issued under and pursuant to the provisions of a trust indenture (the “2018 Trust Indenture”), to be dated as of March 21, 2003 and the 2033 Debentures will be issued under and pursuant to the provisions of a trust indenture (the “2033 Trust Indenture”, together with the 2018 Trust Indenture, the “Trust Indentures”) to be dated as of March 21, 2003 between the Corporation and Computershare Trust Company of Canada, as trustee (the “Trustee”). The 2018 Trust Indenture and the 2033 Trust Indenture will provide for the creation of the 2018 Debentures and the 2033 Debentures, respectively, offered under this Prospectus. The 2018 Debentures will be dated March 21, 2003, will mature on March 21, 2018, and will be limited to \$200,000,000 aggregate principal amount. The 2033 Debentures will be dated March 21, 2003, will mature on March 21, 2033, and will be limited to \$400,000,000 aggregate principal amount. The Debentures will be issued without coupons, in denominations of \$1,000 and authorized multiples thereof. The principal and interest on the Debentures will be paid in lawful money of Canada in the manner and on the terms set out in the Trust Indentures.

Depository Services

Except as otherwise provided below, the Debentures will be issued in “book-entry only” form and must be purchased, transferred or redeemed through participants (“Participants”) in the depository service of CDS or its nominee. Each of the Underwriters is a Participant. On the closing of this offering, the Corporation will cause a global certificate or certificates representing each of the 2018 Debentures and the 2033 Debentures to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no purchaser of Debentures will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser’s ownership thereof, and no purchaser will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such purchaser. Each purchaser of Debentures will receive a customer confirmation of purchase from the registered dealer from which the Debentures are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Debentures. Reference in this short form prospectus to a holder of Debentures means, unless the context otherwise requires, the owner of the beneficial interest in the Debentures.

If the Corporation determines, or CDS notifies the Corporation in writing, that CDS is no longer willing or able to discharge properly its responsibilities as depository with respect to the Debentures and the Corporation is unable to locate a qualified successor, or if the Corporation at its option elects, or is required by law, to terminate the book-entry system, then Debentures will be issued in fully registered form to holders or their nominees.

Transfers and Redemptions of Debentures

Transfers of ownership and redemptions of Debentures will be effected through records maintained by CDS or its nominee for such Debentures with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Holders who desire to purchase, sell or otherwise transfer ownership of or other interests in the Debentures, may do so only through Participants.

The ability of a holder to pledge a Debenture or otherwise take action with respect to such holder’s interest in a Debenture (other than through a Participant) may be limited due to the lack of a physical certificate.

Payments and Notices

Payments of principal, redemption price, if any, and interest on each Debenture will be made by the Corporation to CDS or its nominee, as the case may be, as the registered holder of the Debenture and the Corporation understands that such payments will be credited by CDS or its nominee to Participants. Payments to holders of Debentures of amounts so credited will be the responsibility of the Participants.

As long as CDS or its nominee is the registered holder of the Debentures, CDS or its nominee, as the case may be, will be considered the sole owner of the Debenture for the purposes of receiving notices or payments on the Debentures. The responsibility and liability of the Corporation in respect of notices or payments on the Debentures is limited to giving notice or making payment of any principal, redemption price, if any, and interest due on the Debentures to CDS or its nominee.

Each holder must rely on the procedures of CDS and, if such holder is not a Participant, on the procedures of the Participant through which such holder owns its interest, to exercise any rights with respect to a Debenture. The Corporation understands that under existing policies of CDS and industry practices, if the Corporation requests any action of holders or if a holder desires to give any notice or take any action which a registered holder is entitled to give or take with respect to a Debenture, CDS would authorize the Participant acting on behalf of the holder to give such notice or to take such action, in accordance with the procedures established by CDS or agreed to from time to time by the Corporation, the Trustee and CDS. Any holder that is not a Participant must rely on the contractual arrangement it has directly, or indirectly through its financial intermediary, with a Participant to give such notice or take such action.

The Corporation, the Underwriters and the Trustee, as applicable, will not have any liability or responsibility for (i) records maintained by CDS relating to beneficial ownership interest in Debentures held by CDS or the book-entry accounts maintained by CDS, or (ii) maintaining, supervising or reviewing any records relating to any such beneficial ownership interest, or (iii) any advice or representation made by or with respect to CDS and contained herein or in the Trust Indentures with respect to the rules and regulations of CDS or any action to be taken by CDS or at the direction of the Participants.

Ranking

The Debentures will be direct, unsecured and unsubordinated obligations of the Corporation and will rank equally and rateably with all existing or future direct, unsecured and unsubordinated indebtedness of the Corporation.

Covenants

Each Trust Indenture will contain covenants substantially to the following effect:

1. so long as any of the Debentures issued thereunder are outstanding, the Corporation will not create, assume or suffer to exist any Security Interest on any of its assets to secure any Obligation unless at the same time the Corporation shall secure or cause to be secured equally and rateably therewith all the Debentures issued thereunder and then outstanding, provided that this will not apply to or operate to prevent Permitted Encumbrances; and
2. the Corporation will not, directly or indirectly, enter into any merger, arrangement, reorganization, consolidation, amalgamation, sale, conveyance, disposal, lease or other transaction, either in one transaction or in a series of transactions, and whether at the same time or over a period of time, whereby all or substantially all of its undertaking or assets would become the property of any other person (a “Successor Person”) unless, in addition to the Corporation delivering an appropriate certificate and/or opinion of counsel to the Trustee:
 - (a) the transaction is a short-form amalgamation under the CBCA;
 - (b) the transaction is an amalgamation under the CBCA pursuant to an amalgamation agreement or is another transaction pursuant to which the Successor Person is the Corporation; and (i) the Successor Person is subject to all duties, liabilities and obligations of the Corporation under the Trust Indenture and the Debentures issued thereunder; and, (ii) there is not at the time of the transaction or immediately thereafter any condition or event that constitutes or would with the giving of notice or lapse of time or both constitute an Event of Default or violation of any covenant or condition of the Trust Indenture; or
 - (c) the Successor Person is other than the Corporation and (i) such person assumes the obligations of the Corporation under the Trust Indenture; (ii) such transaction does not materially prejudice any of the rights and powers of the Trustee or the holders of the Debentures issued thereunder; and (iii) there is not at the time of the transaction or immediately thereafter any condition or event that constitutes or would with the giving of notice or lapse of time or both constitute an Event of Default or violation of any covenant or condition of the Trust Indenture.

Events of Default

Each Trust Indenture will provide that an “Event of Default” in respect of the Debentures issued thereunder will occur upon:

1. the Corporation’s failure to pay any principal of or premium on such Debentures when due and the continuance of such default for a period of five days;
2. the Corporation’s failure to pay any interest on such Debentures when due and the continuance of such default for a period of 30 days;
3. the Corporation’s failure to perform or observe any other covenant or agreement of the Corporation under the Trust Indenture, any supplemental indenture thereto or such Debentures and the continuance of such default for a period of 60 days after written notice thereof to the Corporation by the Trustee;
4. the failure by the Corporation or any Material Subsidiary, whether as primary obligor or guarantor, to pay any principal, premium or interest when due and payable on any Indebtedness beyond any applicable grace period, the outstanding principal amount of which Indebtedness exceeds \$50 million in the aggregate; or
5. the Corporation or any Material Subsidiary becoming insolvent or bankrupt or being ordered wound-up or liquidated or a resolution being passed for the winding-up or liquidation of the Corporation.

If an Event of Default under a Trust Indenture has occurred and is continuing, the Trustee may, in its discretion and shall, upon request of holders of not less than 25% of the principal amount of Debentures issued thereunder and upon being indemnified against all costs, expenses and liabilities to be incurred, declare the principal of and interest on all outstanding Debentures issued thereunder to be immediately due and payable and enforce such payment.

Interest

Interest on the 2018 Debentures at a rate of 6.14% per annum will be payable semi-annually in arrears in equal instalments on March 21 and September 21 of each year, commencing on September 21, 2003 and continuing until March 21, 2018. If any of the aforesaid dates upon which interest on the 2018 Debentures is payable is not a business day, such interest shall be payable on the next business day thereafter.

Interest on the 2033 Debentures at a rate of 6.67% per annum will be payable semi-annually in arrears in equal instalments on March 21 and September 21 of each year, commencing on September 21, 2003 and continuing until March 21, 2033. If any of the aforesaid dates upon which interest on the 2033 Debentures is payable is not a business day, such interest shall be payable on the next business day thereafter.

Redemption

The Corporation may, at its option, redeem Debentures on not less than 30 nor more than 60 days’ prior notice to the registered holder, in whole at any time or in part from time to time, at a redemption price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to the date fixed for redemption. In cases of partial redemption of Debentures issued under a Trust Indenture, the Debentures to be redeemed will be selected by the Trustee pro rata or in such manner as it shall deem equitable. Any Debentures that are redeemed by the Corporation will be cancelled and will not be reissued.

Open Market Purchases

The Corporation will have the right to purchase Debentures in the market or by tender or by contract at any price. All Debentures that are purchased by the Corporation will be cancelled and will not be reissued. Notwithstanding the foregoing, any subsidiary of the Corporation may purchase Debentures in the ordinary course of its business of dealing in securities.

Satisfaction and Discharge

Each Trust Indenture will contain provisions requiring the Trustee to release the Corporation from its obligations under such Trust Indenture and the Debentures issued thereunder provided that (i) the Corporation satisfies the Trustee that it has irrevocably deposited funds or made due provision for the payment of the fees and expenses of the Trustee and for payment of all principal and interest and other amounts due or to become due on the Debentures issued thereunder and (ii) other conditions specified in such Trust Indenture are satisfied.

Modification

Each Trust Indenture and the rights of the holders of Debentures issued thereunder may, in certain circumstances, be modified. For that purpose, among others, each Trust Indenture will contain provisions making extraordinary resolutions binding upon all holders of Debentures issued thereunder. “Extraordinary Resolution” will be defined, in effect, as a resolution passed by the affirmative vote of the holders of not less than $66\frac{2}{3}\%$ of the principal amount of Debentures issued thereunder represented and voted at a meeting duly called and held in accordance with the Trust Indenture or as a resolution contained in one or more instruments in writing signed by the holders of not less than $66\frac{2}{3}\%$ of the principal amount of the then outstanding Debentures issued thereunder.

Definitions

Each Trust Indenture will contain definitions substantially to the following effect:

“business day” shall mean a day on which banks are open for business in Toronto.

“Canada Yield Price”, shall mean a price which, if the Debentures were to be issued at such price on the redemption date, would provide a yield thereon from the redemption date to March 21, 2018 in the case of 2018 Debentures and March 21, 2033 in the case of 2033 Debentures, equal to the Government of Canada Yield, plus 24 basis points for the 2018 Debentures and 30 basis points for the 2033 Debentures, compounded semi-annually and calculated on the day that is three business days prior to the date of redemption.

“Funded Obligation” shall mean any Indebtedness which is not payable on demand and which by its terms matures, or is renewable at the option of the debtor to a date, more than 18 months after the date such Indebtedness was created, assumed, guaranteed or last renewed.

“Government of Canada Yield” on any date shall mean the average of the mid-market yields to maturity on such date provided by two independent investment dealers selected by the Trustee from a list of investment dealers provided by the Corporation, assuming semi-annual compounding, which an issue of non-callable Government of Canada bonds would produce if issued at par on such date, in Canadian dollars in Canada, with a term to maturity equal to the remaining term to March 21, 2018, in the case of 2018 Debentures, and March 21, 2033, in the case of 2033 Debentures.

“Indebtedness” shall mean any indebtedness of any person for borrowed money other than money borrowed from the Corporation or a subsidiary of the Corporation.

“Material Subsidiary” shall mean any of Great-West Life, GWL&A, GWL&A Financial Inc., LIG, London Life, and Canada Life and The Canada Life Assurance Company (if and when they become subsidiaries of Great-West Lifeco), and “Material Subsidiaries” shall mean all of such companies.

“Obligations” shall mean, with respect to any person, all items which in accordance with Canadian generally accepted accounting principles would be included as liabilities on the liability side of the balance sheet of such person, and all contingent liabilities of such person.

“Permitted Encumbrances” shall mean any of the following:

- (a) any purchase money Security Interest (including by way of capital lease) granted by the Corporation;
- (b) any Security Interest on a property or asset acquired by the Corporation that secures the Obligation of a person (whether or not such Obligation is assumed by the acquiring person) which Security Interest exists at the time such property or asset is acquired and which was not incurred in contemplation of such property or asset being acquired;
- (c) any Security Interest for taxes, government charges and business related liens in respect of the Corporation;
- (d) any Security Interest on any of the Corporation’s assets (other than on the common shares of any Material Subsidiary) granted, assumed or suffered to exist in the ordinary course of business and for the purpose of carrying on the same in favour of any bank or other lender to secure any Indebtedness of the Corporation other than Funded Obligations; and
- (e) any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing, provided that the extension, renewal, alteration, substitution or replacement of such Security Interest is limited to all or any part of the same property that secured the Security Interest and the principal amount of the Obligation secured thereby is not increased.

“Security Interest” shall mean any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien or other encumbrance on or interest in property or assets that secures payment of any Indebtedness or Obligation.

EARNINGS COVERAGE

The following consolidated earnings coverage ratios are calculated as at December 31, 2002, and are adjusted to give effect to this offering.

The annual interest requirements of the Corporation would have amounted to approximately \$117 million (\$186 million on a pro forma basis, taking into account the acquisition of Canada Life) for the 12 months ended December 31, 2002.

The Corporation’s earnings before taxes available for the payment of interest would have been approximately \$1,493 million for the twelve months ended December 31, 2002, which is approximately 12.8 times (10.9 times on a pro forma basis, taking into account the acquisition of Canada Life) such annual interest requirements at December 31, 2002.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the “Underwriting Agreement”) dated March 10, 2003 between the Corporation and the Underwriters, the Corporation has agreed to sell and the Underwriters have severally agreed to purchase, as principals, subject to compliance with all necessary legal requirements and to the terms and conditions contained therein, on March 21, 2003 or such other date not later than April 22, 2003 as may be agreed upon by the parties (the “Closing Date”), all but not less than all of the principal amount of Debentures at a price of \$1,000 per \$1,000 principal amount of the 2018 Debentures and a price of \$999.87 per \$1,000 principal amount of the 2033 Debentures, for a total consideration of \$599,948,000 plus accrued interest, if any, from March 21, 2003 to the date of delivery, payable in cash to the Corporation against delivery of such principal amount of Debentures, and a certificate representing such Debentures. The Underwriting Agreement provides that the Corporation will pay the Underwriters a fee of \$5,100,000 on account of underwriting services rendered in connection with this offering.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion if there should occur conditions of national or international consequence which in the opinion of the Underwriters may materially adversely affect Canadian financial or equity markets. The obligations of the Underwriters under the Underwriting Agreement may also be terminated upon the occurrence of certain stated events including, any material adverse change in the business, financial condition, affairs, operations, assets, liabilities or capital of the Corporation which in the opinion of the Underwriters would be expected to have an adverse effect on the market price or value of the Debentures. The Underwriters are, however, obligated to take up and pay for all of the Debentures if any of the Debentures are purchased under the Underwriting Agreement.

The Debentures will be offered to the public at prices to be negotiated by the Underwriters with purchasers. Accordingly, the price at which the Debentures will be offered and sold to the public may vary as between purchasers and during the period of distribution of the Debentures. The Underwriters’ overall compensation will increase or decrease by the amount by which the aggregate price paid for the Debentures by the purchasers exceeds or is less than the gross proceeds paid by the Underwriters to the Corporation.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Debentures at a level above that which might otherwise prevail in the open market. Such transactions may begin, be interrupted or terminate at any time.

The Debentures offered hereby have not been and will not be registered under the 1933 Act or any state securities laws. Accordingly, the Debentures may not be offered, sold or delivered directly or indirectly in or within the United States, or to, or for the account or benefit of, U.S. persons. Offers and sales of Debentures in the United States would constitute a violation of the 1933 Act unless made in compliance with the registration requirements of the 1933 Act or pursuant to an exemption therefrom. BMO Nesbitt Burns Inc. (“BMO Nesbitt Burns”), the co-lead Underwriter, is a wholly-owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority-owned subsidiary of Bank of Montreal. Bank of Montreal has underwritten credit facilities as part of the financing of the acquisition by Great-West Lifeco of Canada Life Financial Corporation. See “Acquisition of Canada Life Financial Corporation”. **By virtue of the relationship of BMO Nesbitt Burns with Bank of Montreal, the Corporation may be considered to**

be a connected issuer of BMO Nesbitt Burns under applicable securities legislation in connection with the offering.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the Annual Information Form of the Corporation dated April 25, 2002, including documents incorporated by reference therein;
- (b) the audited consolidated comparative financial statements of the Corporation as at and for the year ended December 31, 2002 and the report of the auditors thereon;
- (c) Management's Discussion and Analysis for the year ended December 31, 2002;
- (d) the Management Proxy Circular dated March 8, 2002 with respect to the annual meeting of shareholders of the Corporation held on April 25, 2002, except for the provisions of the circular titled "Executive Compensation — Composition of the Compensation Committees" on pages 11 and 12 of the circular and "Executive Compensation — Report on Executive Compensation" on pages 12 and 13 of the circular and the graph titled "Five Year Total Shareholder Return Comparison" on pages 13 and 14 of the circular;
- (e) the material change report of the Corporation dated February 24, 2003 and filed on February 24, 2003 with respect to its agreement with Canada Life to acquire 100 per cent of the outstanding common shares of Canada Life for approximately \$7.3 billion;
- (f) the audited consolidated comparative financial statements of Canada Life as at and for the years ended December 31, 2001 and 2000 respectively and the report of the auditors thereon; and
- (g) the audited consolidated balance sheet as at December 31, 2002, the audited consolidated statements of net income, the audited consolidated statements of equity and the audited consolidated statements of cash flows of Canada Life for the year ended December 31, 2002 contained in the press release of Canada Life dated February 5, 2003.

All documents of the Corporation of the type referred to above, other than confidential material change reports, and any press releases, all as filed by the Corporation with the provincial securities commissions or similar authorities in Canada after the date of this short form prospectus and prior to the termination of the offering shall be deemed to be incorporated by reference into this short form prospectus.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada (the permanent information record in Québec). Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice-President, Counsel and Secretary, Canada, of Great-West Lifeco at 100 Osborne Street North, Winnipeg, Manitoba, R3C 3A5, telephone (204) 946-1190. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Vice-President, Counsel and Secretary, Canada of Great-West Lifeco at the above-mentioned address and telephone number. Copies may also be obtained through the Internet at www.sedar.com.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

ELIGIBILITY FOR INVESTMENT

Eligibility of the Debentures for investment by purchasers to whom any of the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to the prudent investment standards and general investment provisions provided therein:

<i>Insurance Companies Act</i> (Canada)	<i>Supplemental Pension Plans Act</i> (Québec)
<i>Trust and Loan Companies Act</i> (Canada)	<i>Loan and Trust Corporations Act</i> (Ontario)
<i>Pension Benefits Standards Act, 1985</i> (Canada)	<i>Pension Benefits Act</i> (Ontario)
<i>An Act respecting insurance</i> (Québec), for an insurer, as defined in that act, incorporated under the laws of the Province of Québec, other than a guarantee fund	<i>Trustee Act</i> (Ontario)
<i>An Act respecting trust companies and savings companies</i> (Québec), for a trust company, as defined in that act, which invests its own funds and funds received as deposits and a savings company, as defined in that act, investing its funds	<i>The Pension Benefits Act</i> (Manitoba)
	<i>Employment Pension Plans Act</i> (Alberta)
	<i>Insurance Act</i> (Alberta)
	<i>Loan and Trust Corporations Act</i> (Alberta)
	<i>Financial Institutions Act</i> (British Columbia)

In the opinion of Blake, Cassels & Graydon LLP and Osler, Hoskin & Harcourt LLP, the Debentures, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the “Income Tax Act”) and the regulations thereunder (the “Regulations”) for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (other than a deferred profit sharing plan to which payments are made by the Corporation or another corporation with which the Corporation does not deal at arm’s length), and would not be foreign property for purposes of Part XI of such Act.

RATINGS

The Debentures have been given a preliminary rating of AA (low) with a stable trend, by Dominion Bond Rating Service Limited (“DBRS”), and the rating is under review with negative implications. The Debentures have been given a preliminary rating of AA-/CreditWatch Negative by Standard & Poor’s Corporation (“S&P”).

Upon completion of the acquisition of Canada Life by Great-West Lifeco as announced, DBRS has indicated that it expects that its rating of the Debentures will be lowered to A (high), with a stable trend, and will be removed from the “under review” status and S&P has stated that it expects that its rating of the Debentures will be lowered by one notch.

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular investor. A security rating is therefore not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

RISK FACTORS

Investment in the Debentures is subject to certain risks. Investors should consider carefully before purchasing Debentures the following risks in conjunction with the other information in this prospectus and the documents incorporated by reference herein, in particular the disclosure in the Management’s Discussion and Analysis for the Year Ended December 31, 2002.

Acquisition of Canada Life

The completion of the acquisition by Great-West Lifeco of Canada Life is subject to a number of conditions, set out in the Transaction Agreement and described above under the heading “Acquisition of Canada Life Financial Corporation”, and there can be no assurance that the acquisition will be completed.

The proposed acquisition by Great-West Lifeco of Canada Life has been entered into with the expectation that its successful completion will result in long-term strategic benefits and synergies. These anticipated benefits and synergies will depend in part on whether the operations of both organizations can be integrated in an efficient and effective manner. It is possible that this may not occur as planned, or that the financial benefits may be less than anticipated. In

addition, the integration will give rise to restructuring costs and charges and these may be greater than currently anticipated. Further, the operating results and financial conditions of Great-West Lifeco and its subsidiaries could be materially adversely impacted by the focus on integration, and by geographical, regulatory and product differences in Canada Life's businesses, particularly in respect of Canada Life's operations in the United Kingdom.

Holding Company Structure

As a holding company, Great-West Lifeco's ability to pay interest and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. The likelihood that holders of Debentures will receive the payments owing to them in connection with the Debentures will be dependent upon the financial position and creditworthiness of Great-West Life, GWL&A, London Life and, if and when acquired, Canada Life. These subsidiaries have not guaranteed the Debentures. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, policy liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to Great-West Lifeco; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to Great-West Lifeco except to the extent that Great-West Lifeco is recognized as a creditor of the relevant subsidiaries. The payment of interest and dividends by the principal subsidiaries is also subject to restrictions set forth in the insurance, securities and corporate laws and regulations which require that solvency and capital standards be maintained by Great-West Life, GWL&A, London Life and, if and when acquired, Canada Life.

Liquidity Risk

Great-West Lifeco does not intend to list the Debentures on any stock exchange and there can be no assurance that there will be a secondary market for or liquidity in the Debentures. Each of the Underwriters may from time to time purchase and sell the Debentures in the secondary market or make a market for the Debentures, but no Underwriter is obliged to do so and there can be no assurance that any Underwriter will undertake any market making activities in respect of the Debentures.

Interest Rate Risks

Prevailing interest rates will affect the market price or value of the Debentures. The market price or value of the Debentures will decline as prevailing interest rates for comparable debt instruments rise, and may increase as prevailing interest rates for comparable debt instruments decline.

Changes in Creditworthiness or Credit Ratings

There is no assurance that the creditworthiness of the Corporation or that any credit rating assigned to the Debentures will remain in effect for any given period of time or that the rating will not be lowered or withdrawn entirely by the relevant rating agency. See "Ratings". A lowering or withdrawal of such rating may have an adverse effect on the market price or value and the liquidity of the Debentures.

Operational Risk

The businesses conducted by Great-West Lifeco's principal subsidiaries are subject to risks including competition from other businesses, dependence on key personnel, reliance on information technology systems, investment performance and underwriting experience of morbidity, mortality and catastrophic risk.

Regulatory Environment

The businesses of certain of Great-West Lifeco's principal subsidiaries are subject to various regulatory requirements imposed by legislation and regulation in Canada and the United States (and if Great-West Lifeco completes the acquisition of Canada Life, the United Kingdom and other jurisdictions) applicable to insurance companies and companies providing financial services. Material changes in the regulatory framework or the failure to comply with regulatory requirements could have a material adverse effect on Great-West Lifeco.

General Economic Conditions

Unfavourable economic conditions may materially adversely affect the businesses of Great-West Lifeco's principal subsidiaries and, in turn, may materially adversely affect Great-West Lifeco and its financial condition.

EXPERTS

Certain legal matters in connection with this offering will be passed upon by Blake, Cassels & Graydon LLP for the Corporation and by Osler, Hoskin & Harcourt LLP for the Underwriters. As of March 14, 2003, the partners and associates of Blake, Cassels & Graydon LLP as a group and the partners and associates of Osler, Hoskin & Harcourt LLP as a group, owned beneficially, directly or indirectly, less than one percent of any class of securities of the Corporation or any associated party or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

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GREAT-WEST LIFECO INC.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

COMPILATION REPORT

The Board of Directors of Great-West Lifeco Inc.

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of Great-West Lifeco Inc. as at December 31, 2002, and the unaudited pro forma summary of consolidated operations for the year ended December 31, 2002, which have been prepared for inclusion in the short form prospectus. In our opinion, the unaudited pro forma consolidated financial statements have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

Winnipeg, Manitoba
March 14, 2003

GREAT-WEST LIFECO INC.

UNAUDITED PRO FORMA SUMMARY OF CONSOLIDATED OPERATIONS

For the Year Ended December 31, 2002

(in millions of Canadian dollars)

	<u>Lifeco</u>	<u>CLFC</u>	<u>Adjustments</u>	<u>Note</u>	<u>Total</u>
Income					
Premium income	\$11,187	\$5,915	\$ —		\$17,102
Net investment income	3,638	2,154	(38)	1	5,540
			(137)	2(i)	
			(8)	2(f)	
			(69)	2(h)	
Fee and other income	<u>1,807</u>	<u>529</u>	<u>—</u>		<u>2,336</u>
Total income	<u>16,632</u>	<u>8,598</u>	<u>(252)</u>		<u>24,978</u>
Benefits and Expenses					
Paid or credited to policyholders	12,593	6,481	—		19,074
Commissions	718	539			1,257
Operating and other expenses	1,786	877	(38)	1	2,620
			20	2(g)	
			(25)	2(c)	
Premium taxes	<u>109</u>	<u>66</u>	<u>—</u>		<u>175</u>
Net operating income before income taxes	<u>1,426</u>	<u>635</u>	<u>(209)</u>		<u>1,852</u>
Income taxes	<u>430</u>	<u>133</u>	<u>(87)</u>	2(k)	<u>476</u>
Net income before non-controlling interests ...	<u>996</u>	<u>502</u>	<u>(122)</u>		<u>1,376</u>
Non-controlling interests — participating	10	3			13
other	<u>24</u>	<u>—</u>	<u>25</u>	2(c)	<u>49</u>
Net income	<u>\$ 962</u>	<u>\$ 499</u>	<u>\$(147)</u>		<u>\$ 1,314</u>
Summary of Net Income					
Preferred shareholder dividends	\$ 31	\$ 9	\$ 41	2(j)	\$ 81
Net income — common shareholders	<u>931</u>	<u>490</u>	<u>(188)</u>		<u>1,233</u>
Net income	<u>\$ 962</u>	<u>\$ 499</u>	<u>\$(147)</u>		<u>\$ 1,314</u>
Basic earnings per common share	<u>\$ 2.53</u>				<u>\$ 2.75</u>
Weighted average number of common shares	368		56	2(a), 3(b)	448
			21	2(a)(iv)(1)	
			3	2(a)(iv)(1)	

See notes to the unaudited pro forma consolidated financial statements.

GREAT-WEST LIFE CO. INC.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

As at December 31, 2002

(in millions of Canadian dollars)

	<u>Lifeco</u>	<u>CLFC</u>	<u>Adjustments</u>	<u>Note</u>	<u>Total</u>
Assets					
Bonds	\$33,764	\$22,317	\$1,665	2(b)(i)	\$ 57,746
Mortgage loans	7,850	7,622	795	2(b)(i)	16,267
Stocks	1,581	2,073	(192)	2(b)(i)	3,442
			(20)	2(b)	
Real estate	1,267	1,066	130	2(b)(i)	2,463
Loans to policyholders	6,177	1,113	—		7,290
Cash and certificates of deposit	912	1,159	(2,253)	2(a), 2(b)	(182)
Other invested assets	—	1,124	—		1,124
Funds withheld by ceding insurers	4,786	—	—		4,786
Premiums in course of collection	305	157	—		462
Investment income due and accrued	511	435	—		946
Future income taxes	138	303	—		441
Goodwill and intangible assets	1,687	331	3,549	2(b)	5,736
			(331)	2(b)(ii)	
			500	2(b)(ii)	
Other assets	1,093	491			1,584
Total assets	<u>\$60,071</u>	<u>\$38,191</u>	<u>\$3,843</u>		<u>\$102,105</u>
Liabilities					
Policy liabilities					
Actuarial liabilities	\$44,508	\$29,050	\$2,464	2(b)(i)	\$ 77,237
			1,215	2(b)(iii)	
Provision for claims	645	692	—		1,337
Provision for policyholder dividends	363	313	—		676
Provision for experience rating refunds	927	54	—		981
Policyholder funds on deposit	1,853	453	—		2,306
	48,296	30,562	3,679		82,537
Commercial paper and other loans	1,012	550	1,100	2(a)(iv)(2)	2,711
			49	2(b)(iv)	
Current income taxes	454	92	(109)	2(e)(2)	437
Future income taxes	—	53	81	2(b)(ii)	125
			(9)	2(b)(vi)	
Other liabilities	2,081	992	163	2(b)(v)	3,569
			333	2(e)(2)	
Repurchase agreements	511	53	—		564
Net deferred gains on portfolio investments sold	958	1,472	(1,472)	2(b)(iii)	958
	53,312	33,774	3,815		90,901
Non-controlling interests — participating	1,490		193	2(c)	2,694
— other	561	450		2(c)	
Capital Stock and Surplus					
Participating policyholder surplus		48	(48)	2(c)	—
Capital stock	1,982	462	2,902	2(a)	5,784
			800	2(a)(iv)(1)	
			100	2(a)(iv)(1)	
			(145)	2(c)	
			(317)	2(d)	
Shareholder surplus	2,382	3,299	(3,299)	2(d)	2,382
Provision for unrealized gain on translation of net investment in foreign operations	344	158	(158)	2(d)	344
	4,708	3,967	(165)		8,510
Liabilities, capital stock and surplus	<u>\$60,071</u>	<u>\$38,191</u>	<u>\$3,843</u>		<u>\$102,105</u>

See notes to the unaudited pro forma consolidated financial statements.

GREAT-WEST LIFECO INC.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (unaudited, in Canadian dollars)

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated financial statements (the "Statements") give effect to the proposed acquisition by Great-West Lifeco Inc. ("Lifeco") of all of the outstanding common shares (the "CLFC Common Shares") of Canada Life Financial Corporation ("CLFC") not already owned by Lifeco or its subsidiaries as general fund assets (the "Acquisition"), as if it had occurred as at December 31, 2002 for the purposes of the pro forma consolidated balance sheet and as at January 1, 2002 for the purposes of the pro forma summary of consolidated operations. The Statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The unaudited pro forma consolidated balance sheet as at December 31, 2002 and the unaudited pro forma summary of consolidated operations for the year ended December 31, 2002 have been prepared using the following information:

- (a) Audited consolidated financial statements of Lifeco as at and for the year ended December 31, 2002;
- (b) Audited consolidated financial statements of CLFC as at and for the year ended December 31, 2002; and
- (c) Such other supplementary information as was considered necessary to reflect the Acquisition in the Statements.

For the purposes of the Statements, the purchase method of accounting has been used for the Acquisition of CLFC described above. Accordingly, the excess of the purchase price over the estimated fair value of the net assets acquired (including identifiable intangible assets arising from the Acquisition) has been allocated to goodwill.

The Statements do not include the anticipated financial benefits from such items as cost savings arising from the Acquisition. The Statements include costs to be incurred by CLFC as a result of the Acquisition, which will be capitalized as part of total acquisition costs as described in 2 (c) below, but do not include restructuring and integration costs which will be recorded by Lifeco following the completion of the Acquisition.

The Statements are not necessarily indicative of the results of operations or the financial position that would have resulted had the Acquisition been effected on the dates indicated, or the results that may be obtained in the future.

Certain elements of the CLFC consolidated financial statements have been reclassified to conform to the presentation used by Lifeco.

2. THE ACQUISITION OF CANADA LIFE FINANCIAL CORPORATION

- (a) On the Acquisition, Lifeco will acquire all of the outstanding CLFC Common Shares that are currently not beneficially owned by Lifeco or its subsidiaries as general fund assets.

Under the terms of the transaction agreement made as of February 14, 2003, for each CLFC Common Share held the holder will receive at the option of the holder:

Option 1 \$44.50 cash (provided that the maximum cash to be paid will be \$4,372 million); or

Option 2 1.1849 Lifeco Common Shares to be issued by Lifeco from treasury (provided that the maximum number of Lifeco Common Shares to be issued will be approximately 56 million shares); or

Option 3 1.78 Lifeco 4.80% non-cumulative 10-year soft retractable preferred shares ("10-year preferred shares") (provided that the maximum number of Lifeco 10-year preferred shares to be issued will be 24 million shares); or

Option 4 1.78 Lifeco 5.90% non-cumulative perpetual preferred shares ("perpetual preferred shares") (provided that the maximum number of Lifeco perpetual preferred shares to be issued will be 8 million shares); or

Option 5 a combination of the above options subject to the maximums noted, subject to any resultant proration.

Shareholders may select any Option with respect to all or any part of their CLFC Common Shares and may select other options with respect to the balance of their CLFC Common Shares. However, the amount of cash that will be paid and the number of Lifeco Common Shares, Lifeco 10-year preferred shares and perpetual preferred shares that will be issued are subject to the above noted maximums, and cash to be paid and Lifeco shares to be issued to CLFC shareholders will be subject to proration in accordance with the terms of the Acquisition.

Based on the assumptions as described below, cash will be paid, approximately 56 million Lifeco Common Shares will be issued at an ascribed price of \$37.556 per share, and 24 million Lifeco 10-year preferred shares and 8 million Lifeco perpetual preferred shares will be issued at an ascribed price of \$25.00 per share. The Statements assume the following:

- (i) Lifeco currently owns approximately 600,000 common shares of CLFC acquired at a total cost of approximately \$20 million.
- (ii) Excluding the CLFC shares that are already owned by Lifeco, the total number of outstanding CLFC Common Shares is approximately 159.8 million as at December 31, 2002. All of these CLFC Common Shares will be acquired by Lifeco under the terms of the Acquisition; and

Outstanding CLFC options with an ascribed value of approximately \$137 million will be converted to Lifeco options and are assumed to be exercised immediately upon close of the transaction for cash proceeds of \$125 million.

- (iii) For purposes of calculating the purchase consideration used in the Statements, the price of Lifeco Common Shares to be issued is assumed to be \$37.556 per share which represents the weighted-average trading price of Lifeco Common Shares on the Toronto Stock Exchange on the last five trading days prior to the announcement of the proposed Acquisition on February 17, 2003.
- (iv) The cash component of the Acquisition will be financed as follows:
- (1) Lifeco will issue to Power Financial Corporation approximately 21.3 million Lifeco Common Shares in the amount of \$800 million and to Investors Group Inc. approximately 2.7 million Lifeco Common Shares in the amount of \$100 million by way of private placements,
 - (2) Lifeco will issue \$400 million of 6.67% 30 year debentures and \$200 million of 6.14% 15 year debentures, and will obtain up to \$600 million of term financing, and
 - (3) The remainder will be paid from existing Lifeco cash and a short term bank facility.
- (b) For the purposes of the Statements, the Acquisition is accounted for using the purchase method of accounting.

	<u>(in millions)</u>
Total purchase consideration	
Cash	\$4,346
Lifeco Common Shares	2,102
Lifeco Preferred Shares	800
	7,248
Add: Carrying value of CLFC Common Shares already beneficially owned by Lifeco	20
Add: Estimated transaction costs, net of income taxes — Note 2(e)(1)	32
Sub Total	7,300
Net balance sheet assets acquired	
Carrying value of CLFC's net balance sheet assets prior to Acquisition	3,774
Proceeds from exercise of options — Note 2(a)(ii)	125
Estimated fair value adjustments — Note 2(b)(i) to (vi)	76
Estimated fair value of net balance sheet assets acquired	3,975
Less capitalized costs — Note 2(e)(2)	224
	3,751
Goodwill	\$3,549

The purchase price is allocated to the balance sheet assets (including identifiable intangible assets arising from the purchase) and liabilities acquired based on their estimated fair value. Certain fair value adjustments to the CLFC balance sheet in connection with the Acquisition are described in Notes 2(b)(i) to (vi). The excess of the total purchase consideration over the estimated fair value of the net balance sheet assets acquired, together with capitalized costs, is allocated to goodwill.

The estimated fair market value of CLFC's invested assets and policy liabilities was based on CLFC's consolidated financial statements as of December 31, 2002. With respect to accounting and actuarial policies or practices, any differences between CLFC and Lifeco have not been reflected in these amounts. The actual adjustments will depend on a number of factors, including the date of the Acquisition and changes in the market value of net balance sheet assets and operating results of CLFC between December 31, 2002 and the acquisition date. Lifeco expects to make such adjustments at the closing of the Acquisition. Such adjustments may affect the value of assets, liabilities or goodwill and any such adjustments may be material.

The pro forma consolidated balance sheet as at December 31, 2002 incorporates the following adjustments:

- (i) Fair value adjustments to CLFC's invested assets reflect the difference between estimated fair market value and carrying value of its invested assets, including an increase of \$1,665 million in bond investments, \$795 million in mortgage investments and \$130 million in real estate investments, as well as a reduction of \$192 million in stock investments. These net fair value adjustments amount to an aggregate increase of \$2,398 million, of which \$2,464 million represents adjustments to CLFC's invested assets backing actuarial liabilities. As a result, CLFC's actuarial liabilities have been increased by a commensurate amount.
- (ii) Fair valuation of assets includes the elimination of CLFC's existing goodwill of \$331 million and includes the recognition of certain intangible assets arising from the Acquisition, such as CLFC's brand name, distribution network, licensing agreements and contractual rights, totaling approximately \$500 million. Of the total intangible assets, approximately \$400 million has been assigned as the value of intangible assets that have finite lives and will be amortized over 20 years, their estimated useful lives.

In addition, future income tax liabilities of \$81 million have been recorded with respect to the recognized intangible assets.
- (iii) As part of the fair value adjustments, CLFC's deferred realized net gains having a carrying value of \$1,472 million have been eliminated. Actuarial liabilities have accordingly been increased by \$1,215 million to reflect the estimated portion of the gains attributable to policyholder liabilities. The remaining \$257 million of deferred realized gains are attributable to shareholders.
- (iv) Estimated fair value of CLFC's subordinated debt is \$49 million above its carrying value. This fair value increase will be amortized over the remaining term of the subordinated debt.

- (v) Estimated fair value of the prepaid asset for CLFC's employee future benefit plans is \$163 million below its carrying value.
- (vi) Future income tax liabilities have been decreased by \$9 million to reflect the estimated net income tax effects on the fair value adjustments to CLFC's balance sheet assets and liabilities as described above.
- (c) CLFC's preferred shares will become an outstanding issue of a subsidiary of Lifeco following the Acquisition. Accordingly, CLFC's preferred shares and dividends have been reclassified to non-controlling interests. As well, to conform to the reporting by Lifeco of participating policyholder equity as non-controlling interests, CLFC's participating policyholder equity and net income (loss) has been reclassified to non-controlling interests.
- (d) CLFC's Common Shares and shareholder surplus have been eliminated to reflect the effect of the Acquisition.
- (e)
 - (1) The estimated transaction costs of \$32 million (net of taxes) to be incurred by Lifeco will be included in the purchase consideration — see Note 2(b).
 - (2) As a result of the Acquisition, CLFC will incur estimated costs of \$224 million, comprised of estimated integration costs of \$189 million and transaction costs of \$35 million (net of taxes). These costs will be capitalized as part of total acquisition costs.
 - (3) Estimated integration costs of \$70 million (net of taxes) to be incurred by Lifeco will be recorded as an expense in the consolidated statements of operations of Lifeco following the completion of the Acquisition. The impact of this expense is excluded from these Statements.

The pro forma summary of consolidated operations for the year ended December 31, 2002 incorporates the following adjustments:

- (f) The elimination of the portion of the amortization of unrealized net gains and deferred realized net gains attributable to shareholders in the amount of \$8 million as a result of fair market value adjustments to assets and liabilities in connection with the Acquisition — see Note 2(b)(i) and Note 2(b)(iii).
- (g) Amortization of identifiable intangible assets of \$20 million arising from the Acquisition described in Note 2(b)(ii)
- (h) Interest expense of \$69 million on the debentures and term financing described in Note 2(a)(iv)(2).
- (i) A reduction in investment income of \$137 million as a result of the opportunity cost of the cash consideration paid to CLFC shareholders, and additional internal financing transactions.
- (j) Increased preferred share dividends of \$41 million on the new Lifeco preferred shares described in Note 2(a)
- (k) Income tax effect of \$87 million as a result of the above adjustments to the pro forma summary of consolidated operations.

3. EARNINGS PER SHARE

Pro forma basic earnings per Lifeco Common Share for the year ended December 31, 2002 have been calculated based on the estimated weighted average number of common shares on a pro forma basis, as described below:

- (a) The weighted average number of Lifeco Common Shares outstanding was 368 million for the year ended December 31, 2002.
- (b) The pro forma weighted average number of Lifeco Common Shares outstanding after giving effect to the acquisition of CLFC is 448 million for the year ended December 31, 2002. The weighted average number of Lifeco Common Shares outstanding reflects the issuance of a maximum of approximately 56 million Lifeco Common Shares to CLFC Common Shareholders and the issuance of an aggregate of 24 million Lifeco Common Shares to Power Financial Corporation and Investors Group Inc., both as described in Note 2(a).

CANADA LIFE FINANCIAL CORPORATION
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2002

CANADA LIFE FINANCIAL CORPORATION

AUDITORS' REPORT

To the Directors of

CANADA LIFE FINANCIAL CORPORATION

We have audited the Consolidated Balance Sheets of Canada Life Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2002 and 2001 and the Consolidated Statements of Net Income, Equity, Cash Flows, and Changes in Segregated Funds for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company and of the Segregated Funds as at December 31, 2002 and 2001 and the results of its operations and its cash flows and changes in Segregated Funds for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

As disclosed in note 2(a) to the Consolidated Financial Statements, new Canadian generally accepted accounting principles required the Company to change its method of accounting for goodwill and other intangible assets, and stock-based compensation and other stock-based payments. As well, as disclosed in note 23(e)(viii) to the Consolidated Financial Statements, new United States generally accepted accounting principles required the Company to change its method of accounting for goodwill and other intangible assets.

Toronto, Canada
February 4, 2003

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CANADA LIFE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME

For the years ended December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars, except per share amounts)		
Revenues			
Premiums			
Annuities	\$2,474	\$2,272	\$1,746
Individual life and health insurance	1,510	1,428	1,384
Group life and health insurance	<u>1,931</u>	<u>1,658</u>	<u>1,546</u>
	<u>5,915</u>	<u>5,358</u>	<u>4,676</u>
Net investment income (<i>note 7(c)</i>)	2,154	2,241	2,306
Fee and other income (<i>note 2(o)</i>)	<u>529</u>	<u>465</u>	<u>479</u>
	<u>8,598</u>	<u>8,064</u>	<u>7,461</u>
Expenditures			
Payments to policyholders and beneficiaries			
Annuity payments	1,352	1,246	1,128
Life, health and general benefits	2,193	1,987	1,670
Maturities, surrender payments and other	1,512	1,680	1,837
Participating policyholder dividends	<u>295</u>	<u>305</u>	<u>289</u>
	<u>5,352</u>	<u>5,218</u>	<u>4,924</u>
Increase in actuarial liabilities (<i>notes 3 and 9(a)</i>)	1,129	972	707
General operating expenses	814	794	743
Commissions	539	461	409
Premium and other taxes	66	64	68
Interest expense (<i>note 11</i>)	38	39	39
Non-controlling interest in subsidiary	25	—	—
Goodwill amortization (<i>notes 2(a)(i) and 2(m)</i>)	<u>—</u>	<u>25</u>	<u>24</u>
	<u>7,963</u>	<u>7,573</u>	<u>6,914</u>
Net income before income tax provision	635	491	547
Income tax provision (<i>note 13</i>)	<u>133</u>	<u>153</u>	<u>195</u>
Net income including participating policyholders' net income (loss)	502	338	352
Participating policyholders' net income (loss)	<u>3</u>	<u>(4)</u>	<u>(4)</u>
Shareholders' net income	499	342	356
Preferred share dividends	<u>9</u>	<u>—</u>	<u>—</u>
Common shareholders' net income	<u>\$ 490</u>	<u>\$ 342</u>	<u>\$ 356</u>
Average number of common shares outstanding (millions)			
Basic	160.4	160.4	160.4
Diluted	<u>160.4</u>	<u>160.6</u>	<u>160.4</u>
Earnings per common share (<i>note 15</i>)			
Basic and diluted	<u>\$ 3.05</u>	<u>\$ 2.13</u>	<u>\$ 2.22</u>

(see accompanying notes)

CANADA LIFE FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

As at December 31

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Assets		
Invested assets (<i>note 7(a)</i>)		
Bonds	\$22,317	\$19,046
Mortgages	7,622	7,996
Common and preferred stocks	2,073	2,475
Real estate	1,066	941
Policy loans	1,113	1,070
Cash, cash equivalents and short-term investments (<i>note 2(p)</i>)	1,159	1,142
Other	<u>1,124</u>	<u>775</u>
Total invested assets	36,474	33,445
Other assets (<i>note 8</i>)	<u>1,717</u>	<u>1,506</u>
Total general fund assets	<u>\$38,191</u>	<u>\$34,951</u>
Segregated funds net assets	<u>\$21,899</u>	<u>\$22,090</u>
Liabilities and Equity		
Policy liabilities		
Actuarial liabilities (<i>notes 3 and 9</i>)	\$29,050	\$27,169
Other policy liabilities	1,059	1,017
Policyholders' amounts left on deposit	<u>453</u>	<u>426</u>
Total policy liabilities	30,562	28,612
Net deferred gains (<i>note 7(d)</i>)	1,472	1,491
Other liabilities (<i>note 10</i>)	<u>1,190</u>	<u>875</u>
	<u>33,224</u>	<u>30,978</u>
Subordinated debentures (<i>note 11</i>)	<u>550</u>	<u>550</u>
Non-controlling interest in subsidiary (<i>note 12</i>)	<u>450</u>	<u>—</u>
Total equity	<u>3,967</u>	<u>3,423</u>
Total general fund liabilities and equity	<u>\$38,191</u>	<u>\$34,951</u>
Segregated funds net liabilities	<u>\$21,899</u>	<u>\$22,090</u>
Commitments and contingencies (<i>note 21</i>)		

(see accompanying notes)

On behalf of the Board:

(Signed) **D. A. Nield**
Chairman of the Board and
Chief Executive Officer

(Signed) **T. Iain Ronald**
Chairman of the Audit and
Risk Management Committee

CANADA LIFE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

For the years ended December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Participating policyholders' equity			
Balance, beginning of year	\$ 41	\$ 45	\$ 49
Participating policyholders' net income (loss)	3	(4)	(4)
Balance, end of year	<u>44</u>	<u>41</u>	<u>45</u>
Currency translation			
Balance, beginning of year	(1)	(1)	(2)
Net unrealized gain on translation of net investments in foreign operations	5	—	1
Balance, end of year	<u>4</u>	<u>(1)</u>	<u>(1)</u>
Total participating policyholders' equity	<u>\$ 48</u>	<u>\$ 40</u>	<u>\$ 44</u>
Shareholders' equity			
Share capital			
Preferred shares (<i>note 14</i>)			
Balance, beginning of year	\$ 145	\$ —	\$ —
Issue of preferred shares	—	145	—
Balance, end of year	<u>145</u>	<u>145</u>	<u>—</u>
Common shares (<i>note 14</i>)			
Balance, beginning and end of year	<u>\$ 317</u>	<u>\$ 317</u>	<u>\$ 317</u>
Retained earnings			
Balance, beginning of year	\$2,910	\$2,652	\$2,373
Shareholders' net income	499	342	356
Dividends paid to preferred shareholders	(9)	—	—
Dividends paid to common shareholders	(96)	(84)	(77)
Canada Life Capital Securities ("CLiCS") issuance costs	(5)	—	—
Balance, end of year	<u>3,299</u>	<u>2,910</u>	<u>2,652</u>
Currency translation account			
Balance, beginning of year	11	(77)	(52)
Net unrealized gain (loss) on translation of net investments in foreign operations	147	88	(25)
Balance, end of year	<u>158</u>	<u>11</u>	<u>(77)</u>
Total retained earnings	<u>\$3,457</u>	<u>\$2,921</u>	<u>\$2,575</u>
Total shareholders' equity	<u>\$3,919</u>	<u>\$3,383</u>	<u>\$2,892</u>
Total equity	<u>\$3,967</u>	<u>\$3,423</u>	<u>\$2,936</u>

(see accompanying notes)

CANADA LIFE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Cash flows from operating activities			
Net income including participating policyholders' net income (loss)	\$ 502	\$ 338	\$ 352
Items not affecting cash and cash equivalents:			
Increase in actuarial liabilities and other policy liabilities	453	1,167	708
Amortization of net deferred gains and amortization of net discounts on			
bonds and mortgages	(206)	(282)	(336)
Other, including future income taxes	2	68	64
Net change in other operating assets and liabilities	269	(130)	(9)
Increase due to operating activities	<u>1,020</u>	<u>1,161</u>	<u>779</u>
Cash flows from investing activities			
Sales, maturities and scheduled redemptions of:			
Bonds	14,196	21,570	9,836
Mortgages	2,380	2,672	3,460
Common and preferred stocks	1,278	869	1,223
Real estate	49	66	394
Other investments	409	119	174
Purchases of:			
Bonds	(16,365)	(22,248)	(10,384)
Mortgages	(1,947)	(2,852)	(3,781)
Common and preferred stocks	(861)	(1,278)	(1,116)
Real estate	(89)	(111)	(156)
Other investments	(708)	(294)	(105)
Net short-term investments	57	227	(251)
Net policy loans	(43)	(45)	(27)
Acquisitions, net of cash paid (<i>note 4</i>)	302	—	176
Decrease due to investing activities	<u>(1,342)</u>	<u>(1,305)</u>	<u>(557)</u>
Cash flows from financing activities			
Issue of preferred shares (<i>note 14</i>)	—	145	—
Issue of CLiCS (<i>note 12</i>)	445	—	—
Dividends paid to common shareholders	(96)	(84)	(77)
Dividends paid to preferred shareholders	(9)	—	—
Increase (decrease) due to financing activities	<u>340</u>	<u>61</u>	<u>(77)</u>
Effect of changes in exchange rates on cash and cash equivalents	<u>56</u>	<u>25</u>	<u>(8)</u>
Net increase (decrease) in cash and cash equivalents for the year	74	(58)	137
Cash and cash equivalents, beginning of year	<u>993</u>	<u>1,051</u>	<u>914</u>
Cash and cash equivalents, end of year	1,067	993	1,051
Short-term investments, end of year	<u>92</u>	<u>149</u>	<u>373</u>
Cash, cash equivalents and short-term investments, end of year	\$ 1,159	\$ 1,142	\$ 1,424
Supplementary disclosure of cash flow information:			
Interest paid on subordinated debentures, other liabilities and			
Canada Life Capital Securities	\$ 63	\$ 39	\$ 39
Income taxes paid, net of refunds	<u>\$ 13</u>	<u>\$ 172</u>	<u>\$ 97</u>

(see accompanying notes)

CANADA LIFE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SEGREGATED FUNDS

For the years ended December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Additions to segregated funds			
Deposits and transfers from the general fund	\$ 3,721	\$ 3,828	\$ 3,692
Reclassifications from the general fund and transfer of seed money	664	—	—
Net investment income	532	438	636
Currency translation adjustment	1,375	359	(301)
Tax recovery	10	60	32
	<u>6,302</u>	<u>4,685</u>	<u>4,059</u>
Deductions from segregated funds			
Withdrawals, benefit payments and transfers to the general fund	2,362	2,033	2,690
Operating expenses	393	353	379
Net decrease in fair value of investments	3,738	2,592	482
	<u>6,493</u>	<u>4,978</u>	<u>3,551</u>
Net additions (deductions) to segregated funds for the year	(191)	(293)	508
Segregated funds net assets, beginning of year	<u>22,090</u>	<u>22,383</u>	<u>21,875</u>
Segregated funds net assets, end of year	<u>\$21,899</u>	<u>\$22,090</u>	<u>\$22,383</u>

(see accompanying notes)

CONSOLIDATED STATEMENTS OF SEGREGATED FUNDS NET ASSETS

As at December 31

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Common and preferred stocks	\$16,214	\$17,769
Bonds	2,455	2,219
Cash, cash equivalents and short-term investments	2,291	1,536
Real estate	944	788
Mortgages	9	8
Investment income due and accrued	242	20
Tax liability	(49)	(61)
Due to brokers and others	(207)	(189)
	<u>\$21,899</u>	<u>\$22,090</u>

(see accompanying notes)

CANADA LIFE FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BUSINESS ACTIVITIES

Canada Life Financial Corporation ("the Company"), incorporated on June 21, 1999, was formed for the purpose of becoming a publicly traded holding company of The Canada Life Assurance Company ("CLA"), which demutualized on November 4, 1999. Both companies are registered under the Insurance Companies Act (ICA), Canada, which is administered by the Office of the Superintendent of Financial Institutions (OSFI), Canada. The Company offers insurance and other protection and wealth management products and services to individuals and groups, including reinsurance services, primarily in Canada, the United Kingdom, the United States and the Republic of Ireland, and in several other jurisdictions.

The 2001 and 2000 comparative figures have been reclassified to conform to presentation changes adopted in 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (GAAP) for life insurance enterprises, including the accounting requirements of OSFI. There are no differences between GAAP and OSFI accounting requirements. See note 23 for a description and reconciliation of differences between GAAP in Canada and the United States.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the Consolidated Financial Statements and income and expenses during the reporting period. Actual results could differ from these estimates. The most significant estimates are related to the determination of actuarial liabilities which are discussed in note 3.

The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized as follows:

(a) Accounting policy changes

(i) *Goodwill and other intangible assets*

Effective January 1, 2002, the Company adopted prospectively the new recommendations for Goodwill and Other Intangible Assets issued by the Canadian Institute of Chartered Accountants (CICA). Under the new recommendations, all goodwill and intangible assets with indefinite lives ceased to be amortized to shareholders' net income. Goodwill and intangible assets with indefinite lives are subject to an annual impairment review to test whether the fair value remains greater than, or equal to, book value. Any excess of book value over fair value is charged to general operating expenses on the Consolidated Statements of Net Income in the period in which the impairment has been determined. The Company has completed its required transitional impairment testing on the goodwill balance as at December 31, 2001 and determined that goodwill is not impaired. In addition, the Company has completed the required annual impairment test for 2002 and determined that goodwill is not impaired.

(ii) *Stock-based compensation and other stock-based payments*

Effective January 1, 2002, the Company adopted the CICA's new recommendation for Stock-Based Compensation and Other Stock-Based Payments, which allows for the use of either the fair value or intrinsic value methods to account for certain stock-based compensation agreements. The Company has adopted this recommendation retroactively without restatement of prior periods as the restatements were not material to the Consolidated Financial Statements. The Company uses the intrinsic value method of accounting for such awards, under which no compensation expense is recognized for stock options where the exercise price is equivalent to the closing market price of the Company's shares on the Toronto Stock Exchange (TSX) the day prior to the option grant date. The new recommendation also requires that stock appreciation rights ("SARs") that can be settled in cash be recorded as liabilities for the excess of the market value of the shares over the exercise price. Refer to Note 2(s) for future changes to this accounting policy.

(b) Other changes

(i) *Valuation of invested assets held for the general fund*

In the third quarter of 2002, the Company changed the application of the rate used for the moving average market method for stocks and real estate portfolios in accordance with the requirements of OSFI. The fair value adjustment of the difference between the carrying value and period-end fair value and the amortization of net realized gains and losses have been changed to 5% per quarter from 15% per annum for stocks and 3% per quarter from 10% per annum for real estate. The Company adopted this change in estimate in the third quarter on a prospective basis. The impact of this change on these Consolidated Financial Statements was not material.

(c) Basis of consolidation

These financial statements consolidate the operating results and financial position of the Company and its subsidiaries. All intercompany balances have been eliminated.

(d) Participating account

The ICA requires the Company to maintain two accounts within its general fund: one for its participating policies ("the participating account") and one for all of its other business ("the shareholders' account"). Through its participating account, the assets, liabilities, income and equity relating to the Company's participating policies are recorded separately.

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

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 million of seed capital was transferred from retained earnings of the shareholders' account to the participating account. Subject to approval by OSFI, the seed capital amount, together with a reasonable rate of return, may be transferred to the shareholders' account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholders' account would be returns of capital and would be recorded as adjustments to shareholders' retained earnings. A reasonable rate of return on seed capital is recognized as income in the shareholders' account and an expense in the participating account. In addition, a percentage of the net income of the new participating policies may be transferred to the shareholders' account as permitted by regulation.

(e) Valuation of invested assets held for the general fund

(i) Bonds and mortgages

Bonds, including asset-backed fixed term securities, and mortgages are carried at amortized cost, net of allowances for specific losses (refer to note 2(e)(v)).

The difference between the proceeds on the sale of a bond or mortgage prior to maturity and its carrying value is considered to be an adjustment of future portfolio yield. This difference is deferred on the Consolidated Balance Sheets and amortized to net income over the remaining term to maturity.

(ii) Stocks and real estate

Portfolio investments in stocks and real estate, which include Company-occupied premises, are carried at a value that is adjusted toward fair value each year. Prior to the adoption on July 1, 2002 of the new OSFI requirement, the adjustment for stocks was 15% per annum of the difference between carrying value and year-end fair value. The fair value adjustment for real estate was 10% per annum of the difference between carrying value and appraised value. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. All real estate properties are independently appraised at least once every three years.

Net realized gains and losses on the disposal of stocks and real estate are deferred on the Consolidated Balance Sheets and were amortized to net income on a declining balance basis at 15% per annum for stocks and at 10% per annum for real estate.

Refer to note 2(b)(i) for a description of the change to this policy that was adopted prospectively in the third quarter of 2002.

(iii) Policy loans

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(iv) Other invested assets

Other invested assets generally include the Company's investment in equipment leases, limited partnerships and equity investments in which the Company has the ability to exercise significant influence. Equipment leases are carried at cost less accumulated amortization. Equity investments and limited partnerships are carried at cost plus the Company's pro rata share of the investees' net income (loss), less any distributions paid to the Company during the year.

(v) Impaired investments and provisions for losses

Impaired investments include all loans with payments of 90 days or more in arrears unless their repayment has been insured by a government authority or representative thereof. Impaired investments also include loans that are not in arrears but where management has determined that an impairment in value exists.

The carrying value of the Company's investment in a bond or mortgage is reduced by a specific provision for loss to the extent an impairment in value is deemed to exist. A specific provision for loss is established whenever there is a decline in the value of a bond, which is other than temporary, or when the recovery of the principal and accrued interest on a mortgage is in doubt and the value of the underlying security is also impaired. A specific provision for loss is only reduced as a result of a write-off or sale of the impaired investment, or if the conditions that caused the impairment no longer exist. Accrual of interest is discontinued and previously accrued interest is reversed on impaired bonds and impaired mortgages where payments are 90 days or more in arrears.

Property that is acquired due to a mortgage foreclosure and held for resale is classified as real estate and is valued at the lower of the amortized cost of the mortgage at the time of foreclosure and the net realizable value of the property. Any losses on foreclosure and subsequent adjustments to net realizable value are recognized in net income immediately.

The carrying value of the stock portfolio or the real estate portfolio is written down to fair value immediately if there is an other than temporary decline in the value of either portfolio. The Company treats the stock and real estate portfolios as separate portfolios for the purpose of assessing whether permanent impairment exists.

In addition to specific provisions noted above for existing asset impairments, the Company provides for potential future asset defaults through the reduction of the assumed investment yields used in the calculation of the actuarial liabilities as disclosed in note 3 and as required by the Canadian Institute of Actuaries (CIA) and OSFI.

(f) Fair value

(i) Bonds and mortgages

The fair value of publicly traded bonds and asset-backed fixed term securities is determined using quoted market prices. The fair value of bonds and mortgages that are not publicly traded is determined by discounting the expected future cash flows related to these loans at market interest rates.

(ii) Common and preferred stocks

The fair value of common and preferred stocks is determined using quoted market prices. The fair value of common and preferred stocks that are not publicly traded is determined by discounting expected future cash flows at risk-adjusted rates of return.

(iii) Real estate

The fair value of real estate is determined based on the appraised value as described in note 2(e)(ii).

(iv) Other invested assets and policy loans

The fair value of other invested assets and policy loans is generally estimated to equal carrying value.

(v) Subordinated debentures

The fair value of the Company's subordinated debentures is determined based on the value in the market for equivalently rated securities of similar terms.

(g) Segregated funds

The Company manages certain funds that are segregated from the general fund of the Company. This business includes Canadian segregated annuity funds; unit-linked life insurance and annuity business in the United Kingdom and the Republic of Ireland; and variable annuity separate account business in the United States. The net assets of these funds are carried at fair value, and a corresponding amount is reported as a liability. Fair value is determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by the Company. Income earned from fund management fees is included in fee and other income in the general fund. Certain individual contracts have guarantees from the Company. In these cases, a separate actuarial liability is established in the general fund to provide for any unexpected losses resulting from the guarantee.

(h) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars using the rates of exchange in effect at the balance sheet dates. Revenues and expenditures are translated into Canadian dollars at average rates of exchange during the year.

The Company's currency translation account (CTA) arises from the translation of its self-sustaining foreign operations. Unrealized foreign currency gains and losses arising on the translation of the accounts of the Company's foreign operations and on forward foreign exchange agreements that are used to hedge the exposure of the Company's investments in foreign operations are recorded as a direct adjustment to the CTA. The CTA is presented as a separate component of equity on the Consolidated Statements of Equity.

(i) Income taxes

The Company uses the liability method of tax allocation. Future income tax assets and liabilities reflect the net tax effects of temporary differences between the value of assets and liabilities reported for financial statement purposes and those reported for income tax purposes. Future income tax assets and liabilities are calculated based on income tax rates and laws that are expected to apply when the asset or liability is realized, which are those that are enacted or substantively enacted at the Consolidated Balance Sheet dates. Future income tax assets are recognized only to the extent that it is more likely than not that the income tax benefit will be realized.

(j) Employee future benefit liabilities

The Company maintains defined benefit pension plans and provides other post-retirement benefits such as post-retirement life, health and dental insurance benefits for its employees and agents. The assets supporting the trustee pension plans of the Company are held in separate trustee pension funds. The remaining benefits are included in other liabilities and are supported by general fund assets of the Company. The accrued benefit is determined using a market rate of interest.

The actuarial valuations of the pension obligations are determined using the projected benefit method prorated on service, based on management's best estimate assumptions. Pension and other post-retirement benefit costs for the year are based on the estimated benefits earned by the employees and agents during the year. Pension plan surplus or deficit, changes in assumptions and plan amendments, as well as experience gains and losses, are amortized to income over the expected average remaining service life of plan members.

(k) Derivative financial instruments

The Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Realized and unrealized gains and losses resulting from the use of these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

(l) Reinsurance

The Company's premium income, payments to policyholders and beneficiaries, actuarial liabilities and increase in actuarial liabilities are all shown net of amounts ceded to, or including amounts assumed from, other insurers.

(m) Goodwill and other intangible assets

Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Prior to 2002, goodwill resulting from acquisitions before July 1, 2001 was generally amortized to income on a straight-line basis over 10 years. Refer to note 2(a)(i) for a description of changes to this policy that were effective January 1, 2002.

(n) Gross premiums

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

(o) Fee and other income

Fee and other income primarily includes fees earned from the management of the Company's segregated funds assets, third party assets and fees earned from investment management services provided by subsidiary companies.

(p) Cash, cash equivalents and short-term investments

Cash equivalents consist of investments with original maturities at acquisition of three months or less. Short-term investments consist of investments with original maturities at acquisition exceeding three months, but less than twelve months.

(q) Software costs

For those costs that meet specific criteria, the Company capitalizes and amortizes software acquisition and development costs over a period not exceeding five years.

(r) Repurchase agreements

The Company enters into repurchase agreements that involve sales of securities under agreements to repurchase the securities at a later date at an agreed-upon price. These agreements are treated as collateralized borrowing transactions and are included in other liabilities at the amounts at which the securities were sold. Interest incurred on repurchase agreements is included in net investment income.

(s) Future changes in accounting policy

(i) Stock-based compensation and other stock-based payments

For fiscal 2003, the Company has elected to adopt the fair value method of accounting for stock options as encouraged in the CICA's recommendations for Stock-Based Compensation and Other Stock-Based Payments. The Company will recognize prospectively the compensation expense for stock option awards granted after January 1, 2003. The amount of the additional compensation expense depends on the number of options granted and their fair value at the date of grant. Refer to Note 17 for pro forma disclosure on options granted in fiscal 2002.

(ii) Hedging

During the year, the CICA issued a new accounting guideline on hedging relationships that will be effective for the Company beginning January 1, 2004. The guideline establishes the criteria that must be met in order to apply hedge accounting for derivatives. Changes in the fair value of derivatives that do not qualify for hedge accounting will be recorded in the Consolidated Statements of Net Income. The impact of implementing this guideline on the Company's future results will depend on the Company's hedging strategies and market volatility.

3. SIGNIFICANT ACTUARIAL POLICIES

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy administrative expenses for all insurance and annuity policies in force with the Company. The Company's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet the Company's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA. The valuation methods used by the Company were changed in 2001 to adopt retroactively the Standards of Practice for the Valuation of Policy Liabilities of Life Insurers (Life SOP) as required by the CIA. In addition, the determination of the actuarial liabilities includes the discounting effect of future income taxes relating directly to items included in the computation of these liabilities.

The valuation methodology under Life SOP is the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations. The method consists of four basic steps:

1. Determination of the period over which these projections are performed.
2. Projection of liability cash flows.
3. Projection of asset cash flows.
4. Performance of economic scenario testing under a variety of plausible economic conditions.

The Company maintains specific asset funds to back each major line of business. The projection of liability and asset cash flows recognizes these specific asset funds.

(a) Selecting the projection period

The projection period is chosen so as to include all insured events in the valuation process. The projection period is long enough to encompass all material policy-related obligations arising from commitments the insurer has made on, or before, the valuation date. For example, the projection period for a traditional non-participating individual life policy is the maturity date of the contract.

For certain segregated funds products without significant insurable events, Life SOP requires a method for determining general fund actuarial liabilities which involves a projection of future policy expense margins and a comparison of these amounts to expenses associated with the acquisition of these policies that have not yet been recovered. To the extent these future margins will allow for the future recovery of these unrecovered expenses, the unrecovered expenses are a reduction to actuarial liabilities otherwise computed.

For certain group life and health insurance products, Life SOP allows for the amortization and recovery of acquisition expenses from policy expense margins that are expected to be received in the future. To the extent these future margins will allow for the future recovery of these unrecovered expenses, the unrecovered expenses are a reduction to actuarial liabilities otherwise computed.

(b) Projecting liability cash flows

Projecting liability cash flows involves the use of best estimates for the following assumptions: mortality, morbidity, administrative expenses, policyholder dividends, and policy lapses and surrenders. Actual experience is monitored against these assumptions to ensure they remain reasonable.

The process of projecting liability cash flows involves the estimation of the occurrence of events (e.g., a policyholder's death or surrender) that may or may not happen until many years in the future. Due to the uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy.

The range for these margins is set out in guidelines issued by the CIA. Given the diversity and size of the Company's portfolio, the risk of deviations being significantly different than expected is relatively low, so that margins at the low end of the permissible range are often justifiable. However, the Company often follows a more prudent practice of establishing margins close to the middle of the range.

(c) Key assumptions for projecting liability cash flows

The following is a description of the methods used to calculate the best estimates for the significant non-economic assumptions used in the projection of liability cash flows.

(i) Mortality

Mortality relates to the incidence of death. For life insurance, the Company conducts annual mortality studies for each country and line of business. The Company's assumptions are derived by expressing its own average experience over the last five years as a percentage of the most recent industry experience tables.

For major payout annuity blocks of business, the Company conducts annual mortality studies and the rates used are based on the average experience over the last five years. In the case of smaller blocks of annuity business where the experience is too small to be reliable, intercompany pension experience tables are used. Suitable projection factors reflecting industry experience are used in all cases to allow for the improving mortality trends.

(ii) Morbidity

Morbidity generally refers to the incidence of sickness and accident claims, and to the rate of recovery of such claimants.

For people who are not currently disabled, the morbidity assumptions for individual policies are based on recent internal studies translated into various factors applied to standard industry morbidity tables. For group policies, the premium can be changed each year due to changing claims experience and, therefore, the liability is set equal to a portion of the premiums paid in advance.

For people who are disabled, the termination assumptions are based on recent internal studies and translated into factors applied to standard industry tables.

(iii) Administrative expenses

Actuarial liabilities include amounts to provide for the costs of administering policies in force such as the cost of collecting premiums, processing and adjudicating claims, periodic communications with policyholders, related indirect expenses and a share of overhead costs.

Allowances for expenses are based on the Company's most recent internal cost analysis, with adjustments to the current valuation year. The internal cost analysis is reviewed and updated annually. These expenses are projected into the future with allowances for inflation.

(iv) **Policyholder dividends**

Policy liabilities include the present value of the estimated future payments of participating policyholder dividends, including terminal bonus dividends for policies issued in the United Kingdom and the Republic of Ireland. Dividends paid to participating policyholders are calculated in accordance with the dividend policy established by the Board of Directors ("the Board").

(v) **Policy lapses and surrenders**

Although a policy contract may call for the payment of premiums over the full term of the policy, policyholders may choose not to continue to pay premiums, thereby allowing their policy to lapse. Policyholders may also choose to surrender their policy in return for the policy's cash surrender value. Policy termination rate assumptions are based on the Company's recent experience by country and line of business. For certain products, the actuarial liability decreases as policy termination rates increase. On such products, very low policy termination rates are assumed in establishing the liabilities.

(d) **Projecting asset cash flows**

Asset cash flow projections reflect future scheduled events (e.g., coupon payments and maturities on bonds) as well as the use of best estimates for the following assumptions: investment expenses, asset defaults and pre-payments. These best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. Assumptions are also made about reinvestment/disinvestment strategies for net cash flows.

(e) **Economic scenario testing**

A variety of economic scenarios are tested for most products. Scenarios include increases or decreases in interest rates, as well as changing patterns of these rates. The level of actuarial liabilities is determined by considering the amount of assets that must be set aside currently to provide for all future obligations under the more adverse economic scenarios tested.

4. ACQUISITIONS AND DISPOSITIONS

On October 1, 2002, the Company completed an agreement to acquire a substantial block of group life and long term disability insurance business in the United Kingdom, reinsuring these risks on that date. Formal transfer of the business will occur after court approval, expected in mid-2003. Results are included in the Consolidated Statements of Income since the date of acquisition. The acquisition had a purchase price of approximately \$53 million, including transaction costs, net of tax, of \$3 million.

The purchase price allocation is as follows:

Net liabilities acquired:

Cash.....	\$ 410
Bonds	292
Other assets.....	120
	<u>822</u>
Policy liabilities	866
Other liabilities	80
	<u>946</u>
	<u>\$ (124)</u>
Consideration paid:	
Cash consideration	\$ 50
Transaction costs, net of taxes.....	3
	<u>\$ 53</u>
Goodwill on acquisition	<u>\$ 177</u>

On October 31, 2002, the Company completed a transaction to acquire a Canadian provider of preferred term life insurance products in Canada. The acquisition had a purchase price of \$58 million, including transaction costs of \$1 million. The Company acquired \$26 million of assets including \$3 million of cash, \$24 million of negative actuarial liabilities, and \$7 million of other liabilities and recorded goodwill on the acquisition of \$15 million.

In 2000, the Company sold its 100% interest in its general insurance subsidiary, Canada Life Casualty Insurance Company. Included in the December 31, 2000 Consolidated Statement of Net Income was revenue of \$132 million and net income of \$10 million relating to the general insurance subsidiary, and included in fee and other income, a gain of \$18 million, net of tax from the disposition of this subsidiary.

5. INTEREST RATE, FOREIGN CURRENCY, CREDIT AND LIQUIDITY RISK

(a) **Interest rate risk**

Interest rate risk is the risk that the economic value of the Company is adversely impacted by changes in interest rates. The interest rate risk associated with the Company's annuity and pension products is of particular importance because these products constitute

approximately 59% (58% in 2001) of the Company's general fund actuarial liabilities. The timing and amount of the Company's obligations under annuity and pension products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in the Company's Investment Policy.

The following table shows the estimated amount of the future asset and liability cash flows associated with the Company's annuity and pension products that were in force at December 31 and reflects the appropriate repricing or maturity date. The cash flow gap between the assets and the liabilities is also noted. These cash flows include the effect of any off-balance sheet derivative financial instruments the Company has entered into for asset/liability management purposes.

For the years ended December 31:

	Repricing or maturity date				
	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
(in millions of Canadian dollars)					
2002					
Assets	\$2,459	\$8,877	\$5,762	\$8,567	\$6,244
Liabilities	<u>2,395</u>	<u>8,813</u>	<u>5,893</u>	<u>7,931</u>	<u>6,832</u>
Cash flow gap	<u>\$ 64</u>	<u>\$ 64</u>	<u>\$ (131)</u>	<u>\$ 636</u>	<u>\$ (588)</u>
2001					
Assets	\$2,740	\$8,423	\$5,669	\$7,679	\$5,655
Liabilities	<u>2,827</u>	<u>8,331</u>	<u>5,470</u>	<u>7,065</u>	<u>6,445</u>
Cash flow gap	<u>\$ (87)</u>	<u>\$ 92</u>	<u>\$ 199</u>	<u>\$ 614</u>	<u>\$ (790)</u>

Two related methods are used by the Company to measure and to monitor the interest rate risk associated with the Company's annuity and pension products.

(i) **Duration mismatch**

The following table indicates, in years, the duration mismatch that is associated with the Company's annuity and pension products as at December 31:

	2002	2001
	(in years)	
Asset duration	7.73	7.01
Liability duration	<u>7.67</u>	<u>6.99</u>
Duration mismatch	<u>0.06</u>	<u>0.02</u>

(ii) **Net present value**

The impact on the net present value (NPV) of the Company's annuity and pension products of a 1% parallel change in interest rates, as at December 31, is shown in the following table:

	2002	2001
	(in millions of Canadian dollars)	
NPV	\$321	\$366
Impact on NPV if interest rate changed +1%	(50)	(53)
Impact on NPV if interest rate changed -1%	34	44

The margins for adverse deviations set aside in the actuarial liabilities, as described in note 3, take into account adverse interest rate movements that are significantly more adverse than the parallel 1% change shown above.

(b) **Foreign currency risk**

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which the Company operates would reduce shareholders' retained earnings by \$33 million (\$24 million in 2001) and net income by \$3 million (\$3 million in both 2001 and 2000) after taking into account the effect of any off-balance sheet derivative financial instruments that the Company has entered into for purposes of hedging against adverse changes in foreign exchange rates.

(c) **Credit risk**

Credit risk is the risk of financial loss due to the failure of a debtor to honour its obligations to the Company. Potential areas of significant concentration of credit risk include non-investment grade bonds and non-insured mortgages, which in 2002 amounted to carrying values of \$864 million and \$6,654 million, respectively (in 2001, \$818 million and \$7,121 million, respectively) and represented 21% of the total invested asset portfolio (24% in 2001). The carrying values of impaired non-investment grade bonds and non-insured mortgages in 2002

were \$65 million and \$6 million, respectively (in 2001, \$138 million and \$15 million, respectively) and represented 0.19% of the invested asset portfolio in 2002 (0.46% in 2001).

Credit risk associated with an individual counterparty is indicated by the Company's largest exposure to any one corporate entity's fixed term investments, including term preferred shares. The Company's largest exposure to any one corporate entity in 2002 was \$191 million (\$192 million in 2001).

The Company's exposure to credit risk relating to its off-balance sheet investments in derivative financial instruments is disclosed in note 20.

(d) Liquidity risk

Liquidity risk refers to the ability of the Company to meet its obligations to policyholders and creditors as they fall due.

The sources of liquidity are as follows:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Cash, cash equivalents and short-term investments	\$ 1,159	\$ 1,142
Senior government securities	6,938	5,283
Other government securities and corporate bonds	8,591	7,353
Insured mortgages	968	875
Total	<u>\$17,656</u>	<u>\$14,653</u>

At December 31, 2002, the Company had \$431 million (\$472 million in 2001) available from the unused portion of revolving lines of credit.

Liquidity must be maintained, in particular, to provide for life insurance policies, which permit policyholders to surrender their policies for a guaranteed surrender value at any time. Some annuity policies may also be surrendered prior to the end of the stated maturity dates for a value determined by the terms of the policy. The aggregate amount of outstanding cash surrender values if all policies had been surrendered as at December 31, 2002 was \$12,593 million (\$12,977 million in 2001). Actual cash surrenders during the year amounted to \$1,446 million (\$1,500 million in 2001). Policyholder dividends left on deposit with the Company can be withdrawn on demand at any time, and as at December 31, 2002 totalled \$306 million (\$301 million in 2001). Policyholder dividends withdrawn during the year totalled \$34 million (\$31 million in 2001).

6. REINSURANCE

(a) Reinsurance

The Company has a variety of reinsurance business arrangements in place whereby the Company accepts reinsurance from other insurers and reinsurers and, as well, uses reinsurance to manage underwriting and liability risk in the normal course of business. Reinsurance arrangements do not relieve the Company of its liability as the primary insurer. Therefore, the Company may be exposed to credit risk relating to its reinsurers and retrocessionaires.

The following summarizes the gross and net impacts of reinsurance on certain financial statement line items:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Premiums			
Direct written	\$ 6,618	\$ 5,976	\$ 5,007
Reinsurance assumed	569	436	387
Reinsurance ceded	(1,272)	(1,054)	(718)
Net premiums	<u>\$ 5,915</u>	<u>\$ 5,358</u>	<u>\$ 4,676</u>
Payments to policyholders and beneficiaries and increase in actuarial liabilities			
Gross expense	\$ 7,151	\$ 7,262	\$ 6,040
Reinsurance ceded	(670)	(1,072)	(409)
Net expense	<u>\$ 6,481</u>	<u>\$ 6,190</u>	<u>\$ 5,631</u>
Policy liabilities			
Gross policy liabilities	\$31,993	\$29,835	\$27,177
Reinsurance ceded	(1,431)	(1,223)	(491)
Net policy liabilities	<u>\$30,562</u>	<u>\$28,612</u>	<u>\$26,686</u>

(b) Impact of September 11, 2001

As part of its reinsurance business, the Company has special risk reinsurance (including workers' compensation and catastrophe coverage) contracts with other insurers and reinsurers on which it has incurred losses as a result of the terrorist attack of September 11, 2001. During 2002, the Company paid claims and updated its estimate as appropriate for experience, reducing the overall net provision to \$122 million

pre-tax as at December 31, 2002 (\$131 million pre-tax in 2001). The Company believes its current estimates of gross and net losses incurred are sufficient, but they may be subject to adjustment as additional information is received.

The total provision is comprised as follows:

Impact of September 11, 2001	Gross exposure	Reinsurance recoveries	Exposure net of recoveries	Catastrophe coverage	Net exposure	Additional provision	Total provision
(in millions of Canadian dollars)							
Total provision, beginning of year (1)	\$606	\$(415)	\$191	\$(100)	\$ 91	\$40	\$131
Paid claims	(44)	34	(10)	—	(10)	—	(10)
Change in estimate	(69)	43	(26)	—	(26)	27	1
Paid expenses	—	—	—	—	—	(6)	(6)
Effect of changes in currency translation rates	11	(6)	5	—	5	1	6
Total provision, end of year (1) ..	<u>\$504</u>	<u>\$(344)</u>	<u>\$160</u>	<u>\$(100)</u>	<u>\$ 60</u>	<u>\$62</u>	<u>\$122</u>

(1) All amounts included in the table in note 6(a).

The reinsurance recoveries at December 31, 2002 relate to over 20 reinsurance relationships. Of the reinsurance recoverable amount at December 31, 2002, according to A.M. Best, 34% (58% in 2001) is with companies rated A+ or better, 56% (34% in 2001) is with companies rated A and 10% (8% in 2001) is with companies rated A-.

The Company has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in the process of collecting all amounts owed by such parties. Based on the information that the Company has to date, the Company believes that it will succeed in enforcing its rights in respect of each of its reinsurance arrangements.

7. GENERAL FUND INVESTMENTS AND NET INVESTMENT INCOME

(a) Invested assets

	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Unrealized losses	Fair value of investments
(in millions of Canadian dollars)						
2002						
Bonds						
Government — Canada	\$ 2,972	\$ —	\$ 2,972	\$ 249	\$ (2)	\$ 3,219
Government — foreign	5,296	—	5,296	337	(1)	5,632
Corporate and other	13,966	83	14,049	1,244	(162)	15,131
Mortgages						
Residential	2,890	—	2,890	347	(36)	3,201
Non-residential	4,726	6	4,732	514	(30)	5,216
Common and preferred stocks	2,072	1	2,073	124	(316)	1,881
Real estate (including foreclosed properties) ...	1,063	3	1,066	145	(15)	1,196
Other invested assets	3,380	16	3,396	—	—	3,396
Total	<u>\$36,365</u>	<u>\$109</u>	<u>\$36,474</u>	<u>\$2,960</u>	<u>\$(562)</u>	<u>\$38,872</u>
2001						
Bonds						
Government — Canada	\$ 2,873	\$ —	\$ 2,873	\$ 143	\$ (21)	\$ 2,995
Government — foreign	3,501	—	3,501	175	(27)	3,649
Corporate and other	12,534	138	12,672	732	(182)	13,222
Mortgages						
Residential	2,907	—	2,907	212	(7)	3,112
Non-residential	5,074	15	5,089	328	(15)	5,402
Common and preferred stocks	2,475	—	2,475	275	(179)	2,571
Real estate (including foreclosed properties) ...	938	3	941	124	(42)	1,023
Other invested assets	2,968	19	2,987	15	—	3,002
Total	<u>\$33,270</u>	<u>\$175</u>	<u>\$33,445</u>	<u>\$2,004</u>	<u>\$(473)</u>	<u>\$34,976</u>

Invested assets of the Company with a carrying value of \$31,555 million (\$29,671 million in 2001) and a fair value totaling \$34,019 million (\$31,174 million in 2001), as well as the cash flows derived therefrom, support the actuarial and other liabilities of the operating funds, participating policyholders' equity and the non-operating fund liabilities disclosed in note 9(c). Changes in the fair value

of these assets generally will not cause a corresponding change in equity, as they would be offset by changes in actuarial liabilities. For the methods and assumptions used to estimate fair values, refer to note 2(f).

Invested assets with a carrying value of \$4,919 million (\$3,774 million in 2001) and a fair value totaling \$4,853 million (\$3,802 million in 2001) support the shareholders' equity, subordinated debentures and other liabilities of the Company. Changes in the fair value of these assets would result in unrealized gains or losses, which would ultimately cause a corresponding change in shareholders' equity. In addition, the Company has recorded net deferred realized gains relating to the sale of assets supporting shareholders' equity of \$257 million (\$332 million in 2001). These net deferred realized gains and the unrealized gains or losses will be amortized to net income in the future in accordance with the accounting policies described in note 2(e).

The carrying value and fair value of bonds, by contractual maturity, are as follows:

	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
	(in millions of Canadian dollars)			
Due in 1 year or less	\$ 1,522	\$ 1,531	\$ 663	\$ 665
Due after 1 year through 5 years	5,024	5,260	4,146	4,279
Due after 5 years through 10 years	3,175	3,362	3,502	3,603
Due after 10 years	12,596	13,829	10,735	11,319
Total	<u>\$22,317</u>	<u>\$23,982</u>	<u>\$19,046</u>	<u>\$19,866</u>

(b) Provisions for losses

The carrying values of impaired investments have been reduced by the following provisions for losses:

	2002	2001	2000
	(in millions of Canadian dollars)		
Bonds	\$ 53	\$ 48	\$ 20
Mortgages	2	17	25
Common and preferred stocks	—	—	3
Real estate (including foreclosed properties)	1	1	2
Other invested assets	3	5	2
Total	<u>\$ 59</u>	<u>\$ 71</u>	<u>\$ 52</u>
The change in the provisions for losses for the year is as follows:			
Provisions for losses, beginning of year	\$ 71	\$ 52	\$ 70
Net increase (decrease) in provisions for losses on impaired investments (note 7(c))	(12)	17	(17)
	59	69	53
Effect of changes in currency translation rates	—	2	(1)
Provisions for losses, end of year	<u>\$ 59</u>	<u>\$ 71</u>	<u>\$ 52</u>

In addition to the above specific provisions, actuarial liabilities as at December 31, 2002 include \$569 million (\$514 million in 2001) to provide for potential future asset defaults.

(c) Net investment income

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Interest	\$2,079	\$2,063	\$1,978
Dividends	40	59	49
Net rents	76	61	62
Amortized net gains from:			
Bonds	100	102	63
Mortgages	12	11	10
Common and preferred stocks	27	78	153
Real estate	22	20	20
Sundry	(112)	(70)	22
Losses on impaired investments:			
Net (increase) decrease in provisions for losses on impaired investments (<i>note 7(b)</i>)	12	(17)	17
Write-offs and net realized losses on sale of impaired investments	(43)	(13)	(22)
Total investment income	<u>\$2,213</u>	<u>\$2,294</u>	<u>\$2,352</u>
Less: investment expenses	<u>59</u>	<u>53</u>	<u>46</u>
Total	<u><u>\$2,154</u></u>	<u><u>\$2,241</u></u>	<u><u>\$2,306</u></u>

(d) Net deferred gains

Net deferred gains are calculated in accordance with note 2(e) and include deferred realized gains and losses on the sale of investments. The balances are as follows:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Bonds	\$1,044	\$ 951
Mortgages	73	56
Common and preferred stocks	258	388
Real estate	97	96
Total	<u><u>\$1,472</u></u>	<u><u>\$1,491</u></u>

8. OTHER ASSETS

Other assets consist of the following:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Future income taxes (<i>note 13</i>)	\$ 303	\$ 394
Investment income due and accrued	435	369
Accounts receivable	271	285
Capital assets	206	140
Goodwill	331	137
Premiums receivable	157	123
Prepaid expenses and other assets	14	58
Total	<u><u>\$1,717</u></u>	<u><u>\$1,506</u></u>

9. ACTUARIAL LIABILITIES

(a) Changes in actuarial liabilities

	2002			2001		
	Participating	Non-participating	Total	Participating	Non-participating	Total
	(in millions of Canadian dollars)					
Balance, beginning of year	\$5,680	\$21,489	\$27,169	\$5,215	\$20,266	\$25,481
Set aside on new and existing business	375	779	1,154	341	658	999
Reclassification from non-participating to participating	38	(38)	—	—	—	—
Net change resulting from revised assumptions and refinements used in calculating certain liabilities (1)	(9)	(16)	(25)	(6)	(21)	(27)
	<u>404</u>	<u>725</u>	<u>1,129</u>	<u>335</u>	<u>637</u>	<u>972</u>
Acquisitions	—	842	842	—	—	—
Reclassification from the general fund to the segregated funds	—	(642)	(642)	—	—	—
Effect of changes in currency translation rates	170	382	552	130	586	716
Balance, end of year	<u><u>\$6,254</u></u>	<u><u>\$22,796</u></u>	<u><u>\$29,050</u></u>	<u><u>\$5,680</u></u>	<u><u>\$21,489</u></u>	<u><u>\$27,169</u></u>

(1) Included in actuarial liability releases for 2002 were releases for maintenance expenses of \$34 million, releases for individual insurance mortality of \$48 million, a net strengthening of \$55 million in the U.K. for annuitant mortality and guaranteed annuity options, and miscellaneous other changes netting to a strengthening of \$2 million.

Included in actuarial liability releases for 2001 were reductions of \$14 million in U.S. individual insurance on account of mortality and expenses and \$11 million in U.K. and Irish unit-linked insurance on account of mortality. Additionally, there was a further net release of \$2 million in respect of a variety of other items.

(b) Distribution of actuarial liabilities

The actuarial liabilities, by line of business and geographic territory, consist of the following:

	Participating	Non-participating			
	Insurance and annuities	Annuities	Individual life and health insurance	Group life and health insurance	Total
	(in millions of Canadian dollars)				
2002					
Canada	\$2,733	\$ 6,607	\$ 988	\$1,173	\$11,501
United Kingdom	1,256	4,580	311	1,309	7,456
United States	1,433	5,290	1,829	435	8,987
Republic of Ireland	454	156	(97)	16	529
International and Reinsurance	378	29	103	67	577
Total	<u><u>\$6,254</u></u>	<u><u>\$16,662</u></u>	<u><u>\$3,134</u></u>	<u><u>\$3,000</u></u>	<u><u>\$29,050</u></u>
2001					
Canada	\$2,521	\$ 6,570	\$1,048	\$1,137	\$11,276
United Kingdom	1,196	3,630	289	347	5,462
United States	1,268	5,214	1,919	387	8,788
Republic of Ireland	343	318	413	15	1,089
International and Reinsurance	352	39	104	59	554
Total	<u><u>\$5,680</u></u>	<u><u>\$15,771</u></u>	<u><u>\$3,773</u></u>	<u><u>\$1,945</u></u>	<u><u>\$27,169</u></u>

Actuarial liabilities have been reduced by reinsurance ceded as follows:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Canada	\$551	\$327
United Kingdom	134	113
United States	46	47
Republic of Ireland	18	19
International and Reinsurance	<u>117</u>	<u>97</u>
Total	<u>\$866</u>	<u>\$603</u>

c) **Carrying value of assets supporting each product line**

The carrying value of total assets backing actuarial liabilities, other liabilities and equity is as follows:

	Operating funds				Equity, subordinated debentures, non-operating fund and other liabilities (1)	Total	
	Participating	Non-participating					
	Insurance and annuities	Annuities	Life and health insurance			2002	2001
			Individual	Group			
(in millions of Canadian dollars)							
Canada							
Bonds	\$1,938	\$ 4,201	\$ 924	\$ 876	\$ 208	\$ 8,147	\$ 7,621
Mortgages	569	2,294	250	402	75	3,590	3,886
Common and preferred stocks	217	24	2	—	275	518	543
Real estate (including foreclosed properties)	51	—	—	—	236	287	282
Other invested assets	373	419	(29)	138	76	977	1,194
All other assets	41	95	38	115	311	600	505
	<u>\$3,189</u>	<u>\$ 7,033</u>	<u>\$1,185</u>	<u>\$1,531</u>	<u>\$1,181</u>	<u>\$14,119</u>	<u>\$14,031</u>
United Kingdom							
Bonds	\$ 848	\$ 3,567	\$ 114	\$ 585	\$1,332	\$ 6,446	\$ 4,508
Mortgages	1	521	6	—	—	528	509
Common and preferred stocks	419	171	5	5	347	947	763
Real estate (including foreclosed properties)	143	472	1	—	66	682	573
Other invested assets	150	5	280	324	381	1,140	581
All other assets	82	136	13	36	335	602	487
	<u>\$1,643</u>	<u>\$ 4,872</u>	<u>\$ 419</u>	<u>\$ 950</u>	<u>\$2,461</u>	<u>\$10,345</u>	<u>\$ 7,421</u>
United States							
Bonds	\$ 822	\$ 3,115	\$ 985	\$ 296	\$ 921	\$ 6,139	\$ 5,768
Mortgages	406	2,145	487	191	15	3,244	3,352
Common and preferred stocks	56	1	1	—	353	411	457
Real estate (including foreclosed properties)	—	2	—	—	38	40	40
Other invested assets	238	13	379	37	111	778	872
All other assets	61	129	48	32	108	378	453
	<u>\$1,583</u>	<u>\$ 5,405</u>	<u>\$1,900</u>	<u>\$ 556</u>	<u>\$1,546</u>	<u>\$10,990</u>	<u>\$10,942</u>
Republic of Ireland							
Bonds	\$ 386	\$ 223	\$ 293	\$ 17	\$ 18	\$ 937	\$ 739
Common and preferred stocks	112	5	35	—	—	152	710
Real estate (including foreclosed properties)	39	9	—	—	5	53	41
Other invested assets	18	—	—	—	208	226	159
All other assets	13	5	—	5	10	33	(40)
	<u>\$ 568</u>	<u>\$ 242</u>	<u>\$ 328</u>	<u>\$ 22</u>	<u>\$ 241</u>	<u>\$ 1,401</u>	<u>\$ 1,609</u>
International and Reinsurance							
Bonds	\$ 182	\$ 10	\$ 84	\$ 143	\$ 229	\$ 648	\$ 410
Mortgages	138	8	67	47	—	260	249
Common and preferred stocks	—	20	—	—	25	45	2
Real estate (including foreclosed properties)	—	—	4	—	—	4	5
Other invested assets	108	2	35	130	—	275	181
All other assets	5	5	7	—	87	104	101
	<u>\$ 433</u>	<u>\$ 45</u>	<u>\$ 197</u>	<u>\$ 320</u>	<u>\$ 341</u>	<u>\$ 1,336</u>	<u>\$ 948</u>
Total	<u>\$7,416</u>	<u>\$17,597</u>	<u>\$4,029</u>	<u>\$3,379</u>	<u>\$5,770</u>	<u>\$38,191</u>	<u>\$34,951</u>

(1) Non-operating fund liabilities include employee and agent retirement benefit liabilities and other miscellaneous liabilities of the Company. Other liabilities include non-controlling interest in the Canada Life Capital Securities.

10. OTHER LIABILITIES

Other liabilities are comprised of the following items:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Accounts payable	\$ 770	\$548
Current income taxes	92	69
Future income taxes (<i>note 13</i>)	53	—
Security repurchase transactions	53	—
Premium and other taxes payable	19	18
Other	203	240
Total	<u>\$1,190</u>	<u>\$875</u>

11. SUBORDINATED DEBENTURES

	<u>Maturity</u>	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)		
Subordinated debentures bearing interest at a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance Rate plus 1%	2011	\$250	\$250
Series 1 subordinated debentures bearing interest at a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance Rate plus 1%	2013	200	200
Series 2 subordinated debentures bearing interest at a fixed rate of 6.4%	2028	100	100
Total		<u>\$550</u>	<u>\$550</u>

At December 31, 2002, the fair value of the subordinated debentures was \$599 million (\$580 million in 2001).

Subordinated debentures were issued by CLA. All of the above debentures constitute direct, unsecured and subordinated obligations of CLA and are redeemable at the option of CLA with the prior approval of OSFI. The subordinated debentures qualify as Tier 2B capital for Canadian regulatory purposes.

Interest expense relating to the subordinated debentures was \$38 million (\$38 million in both 2001 and 2000) and is included as part of interest expense in the Consolidated Statements of Net Income, along with other interest of nil (\$1 million in both 2001 and 2000).

12. NON-CONTROLLING INTEREST IN SUBSIDIARY

On March 14, 2002, Canada Life Capital Trust ("CLCT"), a trust established under the laws of Ontario by The Canada Trust Company and administered by CLA, issued \$450 million of non-voting Canada Life Capital Securities ("CLiCS"). CLCT issued \$300 million of non-voting CLiCS — Series A and \$150 million of non-voting CLiCS — Series B which qualify as Tier 1 capital for Canadian regulatory purposes. Holders of the CLiCS — Series A and CLiCS — Series B will be entitled to receive semi-annual, non-cumulative fixed cash distributions of \$33.395 and \$37.645 per \$1,000 of CLiCS respectively, representing respective annual yields of 6.679% and 7.529% of the one thousand dollars initial issue price, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem any series of CLiCS, in whole or in part, at any time on or after June 30, 2007, and in certain limited circumstances, may also redeem all but not less than all of the CLiCS prior to June 30, 2007. The holders of the CLiCS will have the right at any time to surrender each one thousand dollars face amount of CLiCS and to receive from CLCT in exchange, in the case of CLiCS — Series A, 40 newly issued CLA Class A Shares Series 2, or in the case of CLiCS — Series B, 40 newly issued CLA Class A Shares Series 4, subject to compliance with the declaration of trust governing CLCT.

Pursuant to the share exchange agreement, the Company and CLA agreed that if CLCT fails to pay on any regular distribution date the required cash distributions on the CLiCS in full, CLA would not pay dividends on any of its public preferred shares that may be outstanding. If there are no public preferred shares of CLA outstanding, the Company will not pay dividends on any of its preferred and common shares. As at December 31, 2002, CLA did not have any public preferred shares outstanding. In each case, the ability to restart distributions on the CLiCS and dividend payments to the public depends on the resumption of dividend payments on the CLA Class A Shares Series 1.

In addition, as long as any CLiCS are outstanding, and provided that CLA does not have outstanding public preferred shares, the Company will not declare or pay dividends on outstanding preferred and common shares unless CLA has declared and paid a dividend on the CLA Class A Shares Series 1.

The non-controlling interest in subsidiary on the Consolidated Balance Sheets consists of \$450 million in CLiCS issued by CLCT.

13. INCOME TAXES

(a) Income tax provision

	2002	2001	2000
	(in millions of Canadian dollars)		
Current income tax provision	\$ (33)	\$ 55	\$107
Future income taxes relating to temporary differences	166	81	57
Future income taxes resulting from changes in tax rates	—	17	31
Total	\$133	\$153	\$195

(b) Reconciliation of income tax provision

	2002	2001	2000
	(in millions of Canadian dollars)		
Net income before income tax provision	\$ 635	\$ 491	\$ 547
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 39.00% (42.25% in 2001 and 44.25% in 2000)	247	207	242
Adjusted for:			
Federal and provincial statutory rate changes	—	17	31
Tax-exempt investment income	(15)	(18)	(21)
Foreign operations taxed at different rates and bases	(73)	(51)	(45)
Large corporations and other capital taxes	4	3	3
Recognition of tax losses of prior years	(15)	(1)	(9)
Other	(15)	(4)	(6)
Income tax provision	\$ 133	\$ 153	\$ 195

(c) Future income taxes

The net future tax assets of \$250 million arise from temporary differences on the following items:

	2002			2001		
	Future tax assets	Future tax liabilities	Net	Future tax assets	Future tax liabilities	Net
	(in millions of Canadian dollars)					
Investments	\$ 81	\$ 6	\$ 75	\$151	\$ 1	\$150
Actuarial liabilities	170	171	(1)	184	100	84
Employee future benefits	—	26	(26)	—	16	(16)
Deferred acquisition costs	133	—	133	128	—	128
Other	104	35	69	50	2	48
Total	\$488	\$238	\$250	\$513	\$119	\$394

Net future income taxes of \$250 million (\$394 million in 2001) are reflected in the Consolidated Balance Sheets as future income tax assets of \$303 million (\$394 million in 2001) and future income tax liabilities of \$53 million (nil in 2001).

A portion of the undistributed net income of non-Canadian subsidiaries will be taxed in Canada upon repatriation. The Company will recognize the future tax liability on the undistributed net income at the time when management determines that they will be repatriated in the foreseeable future.

As at December 31, 2002, the Company has tax loss carryforwards, primarily in Canada, totaling \$675 million (\$329 million in 2001). The future tax benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of \$187 million (\$120 million in 2001) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable. In addition, an accumulated tax loss carryforward of \$139 million (\$178 million in 2001) has not been recognized as a future tax asset.

14. SHARE CAPITAL

(a) Authorized:

(i) Preferred shares

There is an unlimited number of authorized non-voting preferred shares without nominal or par value, issuable in series. The Company's by-laws authorize the Board, prior to the issue of any series of preferred shares, to fix the number of shares in, and to designate the rights, privileges, restrictions and conditions of each series, subject to the provisions of the Company's by-laws and the ICA.

(ii) *Common shares*

There is an unlimited number of authorized voting common shares without nominal or par value.

(b) **Issued and outstanding:**

	2002		2001	
	Number of shares	Share value	Number of shares	Share value
	(in millions)			
Preferred shares				
Balance, beginning of year	6.0	\$145	—	\$ —
Series B shares issued (1)	—	—	4.0	95
Series B shares issued to underwriters	—	—	2.0	50
Balance, end of year	6.0	\$145	6.0	\$145
Common shares				
Balance, beginning and end of year	160.4	\$317	160.4	\$317

- (1) On December 28, 2001, the Company issued 6 million non-cumulative redeemable Series B preferred shares at \$25.00 per share for net proceeds of \$145 million after deducting total issue expenses and underwriting fees of \$5 million.

The Series B non-cumulative preferred shares are entitled to non-cumulative preferential cash dividends of \$1.5625 per share, payable quarterly. The redemption price if the shares are redeemed prior to December 31, 2007 is \$26.00 per Series B share. Beginning on December 31, 2007, the redemption price declines \$0.25 annually until after 2010 at which time the redemption price is \$25.00 per share.

15. EARNINGS PER COMMON SHARE

	2002	2001	2000
	(in millions, except per share amounts)		
Basic earnings per common share			
Common shareholders' net income	\$ 490	\$ 342	\$ 356
Goodwill expense	—	25	24
Common shareholders' net income excluding goodwill expense	\$ 490	\$ 367	\$ 380
Weighted daily average number of common shares outstanding	160.4	160.4	160.4
Basic earnings per common share	\$ 3.05	\$ 2.13	\$ 2.22
Basic earnings per common share excluding goodwill expense	\$ 3.05	\$ 2.29	\$ 2.37
Diluted earnings per common share			
Common shareholders' net income	\$ 490	\$ 342	\$ 356
Goodwill expense	—	25	24
Common shareholders' net income excluding goodwill expense	\$ 490	\$ 367	\$ 380
Weighted daily average number of common shares outstanding	160.4	160.4	160.4
Dilutive effect of stock options granted and outstanding	—	0.2	—
Weighted daily average diluted number of common shares outstanding	160.4	160.6	160.4
Diluted earnings per common share	\$ 3.05	\$ 2.13	\$ 2.22
Diluted earnings per common share excluding goodwill expense	\$ 3.05	\$ 2.29	\$ 2.37

16. MINIMUM CAPITAL REQUIREMENTS AND SHAREHOLDER DIVIDEND RESTRICTIONS

The Company is regulated by OSFI as a Canadian insurance company. OSFI requires Canadian insurance companies to maintain minimum levels of capital and surplus with respect to their worldwide insurance operations in order to provide additional assurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. The Company's policy is to maintain an MCCSR ratio well in excess of the minimum required level. At the end of 2002, the ratio was 202% (191% in 2001). This ratio represents an excess of available capital of \$1,214 million (\$857 million in 2001) over OSFI's minimum capital requirements.

The Company's ability to meet its cash requirements and pay dividends on the common and preferred shares will depend on the receipt of dividends and other payments from CLA. CLA's insurance subsidiaries and branches are required to maintain minimum solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to CLA and to the Company.

In 2002, the Company distributed \$105 million (\$84 million in 2001) of cash dividends to shareholders.

17. STOCK-BASED COMPENSATION

(a) Stock option plan

Under the Company's stock option plan, stock options are periodically granted to selected employees and non-employee Directors at an exercise price not less than the closing price of the common shares on the TSX on the last trading day prior to the date the option was granted. The number of options granted, the exercise price, the expiry date and the vesting period are determined by the Board. Options granted to Directors vest on the date of grant. Options granted to employees vest 25% each year over a four-year period, commencing on the one year anniversary of the grant date, and expire 10 years after the date of grant.

At the discretion of the Board, options awarded in 2000 and 2001 were granted with SARs in tandem. The SARs have the same vesting, expiry and exercise terms and conditions as the options to which they are attached. The SARs give the option-holder the choice to either exercise the option or forfeit the option and receive a cash payment equal to the difference between the market value of the shares on the date of exercise and the exercise price.

The following table summarizes activity under the Company's stock option plan:

	2002		2001	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	2,046,410	\$39.86	962,046	\$36.95
Granted (1)	1,167,916	41.88	1,161,079	42.25
Exercised	(9,679)	36.95	—	—
Forfeited (2)	(138,618)	40.44	(76,715)	39.46
Outstanding, end of year	3,066,029	\$40.62	2,046,410	\$39.86
Exercisable, end of year	787,317	\$38.59	308,330	\$37.78
Available for grant	4,924,292		5,953,590	

(1) In 2002 no options were granted with SARs attached (1,139,593 options were granted with SARs attached in 2001).

(2) 2002 includes 343 options forfeited due to the exercise of SARs during the year (4,209 in 2001).

The stock options outstanding and exercisable as at December 31, 2002, by exercise price, were as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options	Weighted average exercise price
\$30.52 to \$36.95	979,140	8.10	\$36.20	492,357	\$36.36
\$42.20 to \$44.62	2,086,889	8.62	\$42.69	294,960	\$42.30
	<u>3,066,029</u>		\$40.62	<u>787,317</u>	\$38.59

Under the fair value method of accounting for stock options, the fair value is estimated at the grant date and the total fair value of the stock options is amortized over the vesting periods as compensation expense. The weighted average fair value of stock options at the grant date for the year ended December 31, 2002 was estimated to be \$13.52 per stock option using the Black-Scholes options pricing model. The pricing model assumes the following weighted average information: risk-free interest rate of 5%, an expected life of seven years, an expected common share volatility of 24.4% and an expected dividend yield of 1.3%. Had the Company used the fair value method to measure option-based compensation, the common shareholders' net income, earnings per common share and diluted earnings per common share for the year ended December 31, 2002 would have been reduced by \$4 million, \$0.02 and \$0.02, respectively.

The Company recognizes compensation expense for those stock options that have been awarded SARs in tandem based on the excess of the market value over the exercise price. The Company expects the SARs to be settled in cash and therefore accrues compensation expense on SARs over the vesting period equal to the excess of quoted market price at the balance sheet date over the exercise price. Compensation expense related to this plan is included in general expenses on the Consolidated Statements of Net Income and was not material for the years ended December 31, 2002 and 2001.

(b) Directors share purchase plan

In 2001 the Company introduced a Directors share purchase plan ("DSPP"). Under this plan, each Director may choose to receive all or a percentage of his/her annual fees in the form of Company shares. This election to participate must be made on an annual basis and terminates once the plan member ceases to be a Director. The shares are purchased on the TSX quarterly by a plan administrator based on the amounts allocated by each Director. The plan allows the Directors to sell all or a portion of the accumulated shares and withdraw funds from their account at any time, subject to applicable securities laws and the Company's Insider Trading Policy. Compensation expense for DSPPs is recorded under general expenses in the Consolidated Statements of Net Income.

Compensation expense related to this plan was not material for the years ended December 31, 2002 and 2001.

(c) **Deferred stock unit plan**

In 2001 the Company introduced a deferred stock unit ("DSU") plan. The plan is offered to senior executive officers and non-employee Directors of the Company. Under this plan, each member may choose to receive all or a percentage of his/her annual incentive bonus or Director's fee in the form of deferred stock units. This election to participate must be made on an annual basis prior to receiving the compensation. The initial and redemption values of each unit are based on the closing price of the Company's common shares on the TSX on the date of converting cash amounts to or from units, as applicable. DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. Units are redeemable only when a plan member ceases to be a Company employee or Director. Compensation expense for the DSUs is recorded under general expenses in the Consolidated Statements of Net Income. Compensation expense related to this plan was not material for the years ended December 31, 2002 and 2001.

(d) **Employee share purchase plan**

In 2001 the Company introduced an employee share purchase plan ("ESPP") with Company matching, in Canada and in the United Kingdom. In Canada, qualifying employees can choose to contribute up to 10% of their annual base salary to purchase the Company's common shares. Shares are purchased on the TSX by a plan administrator. The Company matches up to 50% of the employee contribution amount to a maximum of the lesser of \$1,500 per year or 2.5% of eligible annual earnings. The U.K. plan is the same as the plan in Canada except that the Company matches 10% of the employee contribution amount to a maximum of £150. In each case, the Company's contributions vest after the first year of continuous participation in the plan, and all subsequent contributions vest immediately. Matching contributions made by the Company on the purchase of shares are expensed over the vesting period. Compensation expense related to this plan was not material for the years ended December 31, 2002 and 2001.

18. EMPLOYEE FUTURE BENEFITS

The Company provides pension and other post-retirement life, health and dental insurance benefits, as well as post-employment benefits, for its eligible employees and agents.

Information about the Company's defined benefit pension and other arrangements, in aggregate, is as follows:

	Pension benefits		Other benefits	
	2002	2001	2002	2001
	(in millions of Canadian dollars)			
Accrued benefit obligation				
Balance, beginning of year	\$ 925	\$ 826	\$ 134	\$ 125
Service cost	44	43	4	4
Employee contributions	6	6	—	—
Interest cost	64	60	9	9
Benefits paid	(44)	(42)	(5)	(6)
Actuarial losses (gains)	11	16	4	1
Other	—	7	(1)	—
Effect of changes in currency exchange rates	21	9	—	1
Balance, end of year	\$1,027	\$ 925	\$ 145	\$ 134
Funded plan assets				
Fair value, beginning of year	\$1,156	\$1,257	\$ —	\$ —
Actual return on plan assets	(70)	(244)	—	—
Employer contributions	19	162	—	—
Employee contributions	6	6	—	—
Benefits paid	(44)	(42)	—	—
Other	—	7	—	—
Effect of changes in currency exchange rates	16	10	—	—
Fair value, end of year	\$1,083	\$1,156	—	\$ —
Net funded status, end of year	\$ 56	\$ 231	\$ (145)	\$ (134)
Unamortized net actuarial losses (gains)	409	209	6	3
Unamortized transitional obligation (asset)	(252)	(268)	—	—
Prepaid (accrued) benefit asset (liability)	\$ 213	\$ 172	\$ (139)	\$ (131)

Included in the above aggregate of pension benefits plans are several individual plans that are in a net unfunded status. For these net unfunded plans, the accrued benefit obligations at the end of 2002 total \$320 million (\$114 million in 2001) and the fair value of plan assets total \$201 million (\$41 million in 2001). The other benefits obligations are supported by assets held within the Company's general fund.

The Company's net expense for defined benefit pension and post-retirement benefit plans is as follows:

	Pension benefits			Other benefits		
	2002	2001	2000	2002	2001	2000
	(in millions of Canadian dollars)					
Service cost	\$ 44	\$ 43	\$ 34	\$ 4	\$ 4	\$ 5
Expected interest cost	64	60	54	9	9	8
Expected return on plan assets	(102)	(102)	(80)	—	—	—
Amortization of net actuarial losses (gains)	(5)	(10)	—	1	—	1
Amortization of transitional liability (asset)	(21)	(21)	(21)	—	—	—
Net benefit plan expense (recovery)	\$ (20)	\$ (30)	\$ (13)	\$ 14	\$ 13	\$ 14

The Company's net expense for defined contribution pensions is \$1 million (\$1 million in 2001 and \$2 million in 2000).

The significant assumptions adopted in measuring the Company's end-of-year accrued benefit obligations are as follows (weighted average assumptions):

	Pension benefits		Other benefits	
	2002	2001	2002	2001
Discount rate	6.48%	6.65%	6.97%	7.02%
Expected long-term rate of return on plan assets	7.10%	7.69%	—	—
Rate of compensation increase	4.63%	4.98%	5.38%	5.45%

The effect of a 1% increase or decrease in the weighted average expected long-term rate of return on plan assets on the 2002 pension expense would be a \$13 million decrease or increase, respectively.

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 1% change in the assumed health care cost trend rates would be as follows:

	1% increase	1% decrease
	(in millions of Canadian dollars)	
Effect on total of service and interest costs for 2002	\$ 2	\$ (2)
Effect on year-end post-retirement benefit obligation for 2002	\$15	\$(15)

The assumed weighted average increase in health care costs for 2002 is 7.1%, gradually decreasing to 5.5% by 2007 and remaining at that level thereafter.

19. SEGMENTED INFORMATION

(a) Basis of segmentation

The Company manages its business and distributes its general fund and segregated funds insurance and annuity products through operating divisions in Canada, the United Kingdom, the United States and the Republic of Ireland, as well as an International and Reinsurance Division and a Corporate Division. Each operating division includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets and is responsible for its own product functions. The Corporate Division manages invested assets, provides certain administrative services and is responsible for capital management.

The operating divisions are charged overhead costs for head office corporate functions using cost allocations based on services provided. In addition, the operating divisions share in the net income from the assets backing equity. The total net income on the assets backing equity is allocated to the divisions based on the level of required capital deployed in each division. The level of capital deployed is based on the MCCR for branch operations and on the actual equity held for subsidiary companies.

(b) Reportable information

The Company's primary sources of revenue are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, and annuity products that provide asset accumulation or wealth management benefits;
- net investment income (which is detailed in note 7(c)); and
- fee and other income derived primarily from investment management services.

(c) **Segmented information**

	<u>Canada</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Republic of Ireland</u>	<u>International and Reinsurance</u>	<u>Corporate</u>	<u>Total</u>
	(in millions of Canadian dollars)						
2002							
Revenues							
Premiums							
Annuities	\$ 600	\$ 1,009	\$ 805	\$ 42	\$ 18	\$ —	\$ 2,474
Individual life and health insurance	595	144	427	93	251	—	1,510
Group life and health insurance	908	355	552	4	112	—	1,931
	<u>2,103</u>	<u>1,508</u>	<u>1,784</u>	<u>139</u>	<u>381</u>	<u>—</u>	<u>5,915</u>
Net investment income	897	384	705	55	67	46	2,154
Fee and other income	182	225	21	95	5	1	529
	<u>3,182</u>	<u>2,117</u>	<u>2,510</u>	<u>289</u>	<u>453</u>	<u>47</u>	<u>8,598</u>
Expenditures							
Payments to policyholders and beneficiaries	2,068	1,130	1,822	76	256	—	5,352
Increase in actuarial liabilities	249	568	252	25	35	—	1,129
General operating expenses	328	216	150	88	33	(1)	814
Commissions	173	81	119	70	96	—	539
Premium and other taxes (recovery)	58	—	18	(12)	2	—	66
Interest expense	—	4	—	—	1	33	38
Goodwill amortization	—	—	—	—	—	—	—
Non-controlling interest in subsidiary	—	—	—	—	—	25	25
Income tax provision (recovery)	113	(30)	51	7	6	(14)	133
	<u>2,989</u>	<u>1,969</u>	<u>2,412</u>	<u>254</u>	<u>429</u>	<u>43</u>	<u>8,096</u>
Net income including participating policyholders' net income (loss)	193	148	98	35	24	4	502
Participating policyholders' net income (loss) ...	1	—	(3)	5	—	—	3
Shareholders' net income	\$ 192	\$ 148	\$ 101	\$ 30	\$ 24	\$ 4	\$ 499
Preferred share dividends	—	—	—	—	—	9	9
Common shareholders' net income	\$ 192	\$ 148	\$ 101	\$ 30	\$ 24	\$ (5)	\$ 490
General fund assets	\$14,119	\$10,345	\$10,990	\$1,401	\$1,336	\$ —	\$38,191
Segregated funds							
Deposits	\$ 1,283	\$ 1,554	\$ 222	\$ 660	\$ 2	\$ —	\$ 3,721
Total assets	<u>\$ 7,397</u>	<u>\$10,671</u>	<u>\$ 698</u>	<u>\$3,128</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$21,899</u>

	<u>Canada</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Republic of Ireland</u>	<u>International and Reinsurance</u>	<u>Corporate</u>	<u>Total</u>
	(in millions of Canadian dollars)						
2001							
Revenues							
Premiums							
Annuities	\$ 499	\$ 674	\$ 790	\$ 286	\$ 23	—	\$ 2,272
Individual life and health insurance	548	159	433	98	190	—	1,428
Group life and health insurance	846	246	448	7	111	—	1,658
	<u>1,893</u>	<u>1,079</u>	<u>1,671</u>	<u>391</u>	<u>324</u>	<u>—</u>	<u>5,358</u>
Net investment income	951	422	692	65	66	45	2,241
Fee and other income	177	208	16	58	5	1	465
	<u>3,021</u>	<u>1,709</u>	<u>2,379</u>	<u>514</u>	<u>395</u>	<u>46</u>	<u>8,064</u>
Expenditures							
Payments to policyholders and beneficiaries	2,069	927	1,758	94	370	—	5,218
Increase in actuarial liabilities	114	343	234	250	31	—	972
General operating expenses	323	206	155	74	35	1	794
Commissions	175	66	106	54	60	—	461
Premium and other taxes (recovery)	53	—	16	(9)	4	—	64
Interest expense	—	—	—	—	4	35	39
Goodwill amortization	2	20	2	—	1	—	25
Income tax provision (recovery)	123	25	30	13	(42)	4	153
	<u>2,859</u>	<u>1,587</u>	<u>2,301</u>	<u>476</u>	<u>463</u>	<u>40</u>	<u>7,726</u>
Net income (loss) including participating policyholders' net income (loss)	162	122	78	38	(68)	6	338
Participating policyholders' net income (loss) ...	<u>1</u>	<u>—</u>	<u>(9)</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>(4)</u>
Common shareholders' net income (loss)	\$ 161	\$ 122	\$ 87	\$ 34	\$ (68)	\$ 6	\$ 342
General fund assets	\$14,031	\$ 7,421	\$10,942	\$1,609	\$ 948	\$ —	\$34,951
Segregated funds							
Deposits	\$ 1,395	\$ 1,888	\$ 102	\$ 442	\$ 1	\$ —	\$ 3,828
Total assets	<u>\$ 8,118</u>	<u>\$11,053</u>	<u>\$ 825</u>	<u>\$2,090</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$22,090</u>

	<u>Canada</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Republic of Ireland</u>	<u>International and Reinsurance</u>	<u>Total</u>
	(in millions of Canadian dollars)					
2000						
Revenues						
Premiums						
Annuities	\$ 312	\$ 589	\$ 580	\$ 254	\$ 11	\$ 1,746
Individual life and health insurance	547	160	428	82	167	1,384
Group life and health insurance	890	206	343	8	99	1,546
	<u>1,749</u>	<u>955</u>	<u>1,351</u>	<u>344</u>	<u>277</u>	<u>4,676</u>
Net investment income	995	475	698	77	61	2,306
Fee and other income	177	221	21	57	3	479
	<u>2,921</u>	<u>1,651</u>	<u>2,070</u>	<u>478</u>	<u>341</u>	<u>7,461</u>
Expenditures						
Payments to policyholders and beneficiaries	2,231	704	1,679	112	198	4,924
Increase (decrease) in actuarial liabilities	(135)	539	51	222	30	707
General operating expenses	348	172	128	68	27	743
Commissions	155	73	86	42	53	409
Premium and other taxes (recovery)	53	—	13	(2)	4	68
Interest expense	23	—	12	—	4	39
Goodwill amortization	1	20	2	—	1	24
Income tax provision	122	31	25	11	6	195
	<u>2,798</u>	<u>1,539</u>	<u>1,996</u>	<u>453</u>	<u>323</u>	<u>7,109</u>
Net income including participating policyholders' net income (loss)	<u>123</u>	<u>112</u>	<u>74</u>	<u>25</u>	<u>18</u>	<u>352</u>
Participating policyholders' net income (loss)	—	—	(8)	3	1	(4)
Common shareholders' net income	<u>\$ 123</u>	<u>\$ 112</u>	<u>\$ 82</u>	<u>\$ 22</u>	<u>\$ 17</u>	<u>\$ 356</u>
General fund assets	<u>\$13,970</u>	<u>\$ 6,855</u>	<u>\$ 9,870</u>	<u>\$1,300</u>	<u>\$ 741</u>	<u>\$32,736</u>
Segregated funds						
Deposits	\$ 1,909	\$ 1,258	\$ 115	\$ 407	\$ 3	\$ 3,692
Total assets	<u>\$ 8,326</u>	<u>\$11,219</u>	<u>\$ 854</u>	<u>\$1,980</u>	<u>\$ 4</u>	<u>\$22,383</u>

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments, including futures, forwards, options and swaps, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. The Company does not enter into these financial instruments for trading or speculative purposes. Realized and unrealized gains and losses on these derivatives are included in net investment income or the currency translation account on a basis consistent with the underlying positions being hedged. Derivative assets are included with the underlying assets being hedged, and derivative liabilities are included with other liabilities.

Derivative financial instruments are either negotiated over-the-counter between two counterparties or traded on a regulated exchange. The notional amounts of the over-the-counter and exchange-traded contracts are \$4,319 million (\$3,485 million in 2001) and \$814 million (\$674 million in 2001), respectively.

The following table summarizes the Company's outstanding derivative financial instruments:

	Notional amount by remaining term to maturity				Fair Value			Credit Equivalent Amount	Risk- Weighted Amount
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net		
	(in millions of Canadian dollars)								
2002									
Interest rate contracts:									
Swap contracts	\$ 29	\$242	\$ 314	\$ 585	\$ 12	\$ (19)	\$ (7)	\$ 18	\$ 7
Futures contracts	522	—	—	522	—	—	—	—	—
Options purchased	55	—	792	847	64	—	64	76	20
Sub-total	\$ 606	\$242	\$1,106	\$1,954	\$ 76	\$ (19)	\$ 57	\$ 94	\$ 27
Foreign exchange contracts:									
Swap contracts	71	98	867	1,036	3	(187)	(184)	73	28
Forward contracts	1,728	—	—	1,728	11	(47)	(36)	29	6
Sub-total	\$1,799	\$ 98	\$ 867	\$2,764	\$ 14	\$(234)	\$(220)	\$102	\$ 34
Equity contracts	415	—	—	415	14	(14)	—	25	5
Total	<u>\$2,820</u>	<u>\$340</u>	<u>\$1,973</u>	<u>\$5,133</u>	<u>\$104</u>	<u>\$(267)</u>	<u>\$(163)</u>	<u>\$221</u>	<u>\$ 66</u>
2001									
Interest rate contracts:									
Swap contracts	\$ 163	\$170	\$ 344	\$ 677	\$ 6	\$ (39)	\$ (33)	\$ 13	\$ 5
Futures contracts	633	—	—	633	—	—	—	—	—
Options purchased	43	50	721	814	64	—	64	74	20
Sub-total	\$ 839	\$220	\$1,065	\$2,124	\$ 70	\$ (39)	\$ 31	\$ 87	\$ 25
Foreign exchange contracts:									
Swap contracts	39	119	880	1,038	2	(129)	(127)	74	29
Forward contracts	840	—	—	840	1	(14)	(13)	10	2
Sub-total	\$ 879	\$119	\$ 880	\$1,878	\$ 3	\$(143)	\$(140)	\$ 84	\$ 31
Equity contracts	157	—	—	157	4	(2)	2	11	2
Total	<u>\$1,875</u>	<u>\$339</u>	<u>\$1,945</u>	<u>\$4,159</u>	<u>\$ 77</u>	<u>\$(184)</u>	<u>\$(107)</u>	<u>\$182</u>	<u>\$ 58</u>

Notional amount represents the face amount of derivative financial instruments to which a rate or price is applied to determine the amount of cash flows to be exchanged. It represents the volume of outstanding derivative financial instruments and does not represent the potential gain or loss associated with market risk or credit risk of such instruments.

Fair value of a derivative financial instrument is equivalent to the replacement cost. When available, quoted market prices are used. In all other cases, fair values are based on present value estimates of the future cash flows.

Positive fair value, representing an unrealized gain to the Company, is the maximum credit risk measured as of the balance sheet date if the counterparties were to default on their obligations to the Company.

Credit equivalent amount is the sum of maximum credit risk and the potential future credit exposure. The potential future credit exposure, which is calculated based on a formula prescribed by OSFI, represents the potential for future losses that may result from future changes in fair value.

Risk-weighted amount estimates actual credit risk for a derivative financial instrument based on the creditworthiness of the counterparty. OSFI prescribes a measure of counterparty credit risk to be applied to the credit equivalent amount to arrive at the risk-weighted amount.

21. COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings and other matters

The Company has, in the normal course of business, a number of outstanding lawsuits. The aggregate liability, which may result from these lawsuits, is not considered to be a material amount.

In the United Kingdom, life insurance companies are required by the U.K. regulators to review and compensate policyholders who previously acquired personal pension and free-standing additional voluntary contribution products offered by such companies in situations in which they could otherwise have remained in or joined employer-sponsored pension plans and who suffered a financial loss as a result. The Company carried a provision of \$25 million at December 31, 2002 (\$111 million in December 31, 2001). During 2002, the provision was reduced by \$86 million, primarily for payments to policyholders during the year and for the costs for the review process. The respective provision and payments are net of estimated and actual recoveries from vendors of the businesses acquired by the Company in the United Kingdom. This provision is based on management's current estimate, and the amount of the actual compensation to policyholders is not expected to exceed this amount.

(b) Securities Lending

The Company lends its own securities for periods of time to other institutions on a fully collateralized basis in order to generate additional income. Collateral, which exceeds the market value of the loaned securities, is deposited by the borrower with the Company's custodian and retained by the custodian until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. Loaned securities (included in invested assets) at December 31, 2002 had a carrying value and market value of \$620 million and \$691 million, respectively (\$1,264 million and \$1,353 million, respectively, in 2001).

(c) Crown acquisition arrangements

As part of the 1999 acquisition of the majority of Crown Life's insurance operations, the Company has the option, or may be required, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, in which case Canada Life would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

(d) Operating lease commitments

The Company leases offices and certain equipment, which are operating leases with rents charged to operations in the year to which they relate. Total future rental payments are \$324 million, with annual payments of \$64 million for 2003, \$55 million for 2004, \$46 million for 2005, \$33 million for 2006, \$24 million for 2007 and \$102 million thereafter.

Rent expense incurred for the year ended December 31, 2002 was \$43 million (\$45 million in 2001 and \$44 million in 2000).

22. SUBSEQUENT EVENTS

(a) Acquisition

On January 1, 2003, the Company completed the acquisition of the Irish-based German life operations of a significant international insurer for \$205 million. The transaction involved the transfer of a block of business to the Company for \$158 million, primarily consisting of liabilities for unit-linked and critical illness products. This transfer will require High Court approval in Ireland, which is expected to be received in 2003. In the interim, the business will be reinsured by the Company. Additionally, the Company acquired a Germany-based sales and marketing company for \$40 million, and an Irish-based life company for \$7 million. Immediately following the acquisition, the Company entered into assumed reinsurance arrangements on the transferred block of business, for which it received \$107 million.

(b) Recommendation to common shareholders

On January 13, 2003, the Company's Board of Directors issued a recommendation to the Company's common shareholders to reject an offer made on December 27, 2002 by Manulife Financial Corporation to acquire all of the outstanding common shares of the Company. It is not possible to project the outcome of the offer nor the impact on the Company's future results.

23. MATERIAL DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Consolidated Financial Statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from United States generally accepted accounting principles ("U.S. GAAP").

The 2001 U.S. GAAP condensed consolidated statements of net income and condensed balance sheets have been revised due to computation adjustments and as a result, actuarial liabilities have decreased by \$30 million and future income tax liabilities have increased by \$30 million. There was no impact on 2001 net income.

(a) Condensed consolidated statements of net income and comprehensive income

U.S. GAAP includes comprehensive income, which is a measure of changes in the equity of the Company during the year. It is comprised of both net income and other comprehensive income, which includes changes to deferred acquisition costs and other liabilities and the income tax effect arising from the unrealized gains and losses on securities classified as available for sale.

(i) *Condensed consolidated statements of net income*

<u>For the years ended December 31</u>	<u>U.S. GAAP</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars, except per share data)		
Revenues			
Premiums	\$4,616	\$3,851	\$3,569
Net investment income	1,960	1,918	2,046
Net realized investment gains	26	60	749
Fee and other income	626	603	707
	<u>7,228</u>	<u>6,432</u>	<u>7,071</u>
Expenditures			
Payments to policyholders and beneficiaries	4,442	4,128	3,892
Increase in actuarial liabilities	942	780	1,180
Expenses, including commissions, interest and premium taxes	1,672	1,347	1,142
	<u>7,056</u>	<u>6,255</u>	<u>6,214</u>
Net income before income tax provision	172	177	857
Income tax provision	4	133	353
	<u>168</u>	<u>44</u>	<u>504</u>
Net income including participating policyholders' net income (loss)	(38)	(7)	6
Shareholders' net income	\$ 206	\$ 51	\$ 498
Preferred share dividends	(9)	—	—
Common shareholders' net income	<u>\$ 197</u>	<u>\$ 51</u>	<u>\$ 498</u>
Earnings per common share			
Common shareholders' net income	\$ 197	\$ 51	\$ 498
Weighted daily average number of common shares outstanding	160.4	160.4	160.4
Add: dilutive effect of stock options granted and outstanding	—	0.2	—
Weighted daily average diluted number of common shares outstanding	<u>160.4</u>	<u>160.6</u>	<u>160.4</u>
Basic and diluted earnings per common share	<u>\$ 1.23</u>	<u>\$ 0.32</u>	<u>\$ 3.10</u>

(ii) *Condensed consolidated statements of comprehensive income*

<u>For the years ended December 31</u>	<u>U.S. GAAP</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Common shareholders' net income	\$ 197	\$ 51	\$ 498
Other comprehensive income (loss), net of tax:			
Currency translation account movement for the year (1)	\$ 88	\$ 76	\$ (7)
Net unrealized gains (losses):			
Bonds	761	118	495
Derivatives	(47)	5	—
Common and preferred stocks	(162)	(175)	(320)
Deferred acquisition costs	(73)	(9)	(126)
Actuarial liabilities	(260)	342	(293)
Policyholder dividend obligation	(63)	(126)	—
Value of business acquired	(9)	(10)	—
Minimum pension liability	(108)	—	—
Future income taxes	(142)	(105)	98
Other comprehensive income (loss)	<u>\$ (15)</u>	<u>\$ 116</u>	<u>\$ (153)</u>
Total comprehensive income	<u>\$ 182</u>	<u>\$ 167</u>	<u>\$ 345</u>

- (1) Fiscal 2001 includes \$33 million of after-tax losses arising from hedges of the Company's investment positions in foreign operations.

(b) **Condensed consolidated balance sheets**

The following balance sheet items of the Company as at December 31, 2002 and 2001, reflect the impact of valuation, income recognition and presentation differences between Canadian GAAP and U.S. GAAP.

<u>As at December 31</u>	<u>2002</u>		<u>2001</u>	
	<u>Canadian GAAP</u>	<u>U.S. GAAP</u>	<u>Canadian GAAP</u>	<u>U.S. GAAP</u>
	(in millions of Canadian dollars)			
Assets				
Bonds	\$22,317	\$23,982	\$19,046	\$19,866
Mortgages	7,622	7,569	7,996	7,993
Common and preferred stocks	2,073	1,884	2,475	2,571
Real estate	1,066	850	941	779
Other investments	3,396	3,398	2,987	3,162
Deferred acquisition costs	—	1,568	—	1,415
Future income taxes	303	269	394	174
Reinsurance deposits and amounts recoverable	117	860	155	983
Other assets	1,297	1,822	957	1,333
Segregated funds (1)	—	21,899	— (1)	22,090
Total assets	<u>\$38,191</u>	<u>\$64,101</u>	<u>\$34,951</u>	<u>\$60,366</u>
Liabilities and Equity				
Actuarial liabilities	\$29,050	\$33,633	\$27,169	\$30,929
Other policy liabilities	1,512	1,822	1,443	1,808
Net deferred gains	1,472	—	1,491	—
Future income taxes	53	359	—	216
Other liabilities	1,137	1,366	875	794
Subordinated debentures	550	550	550	550
Non-controlling interest in subsidiary	450	450	—	—
Segregated funds (1)	—	21,899	—	22,090
	<u>34,224</u>	<u>60,079</u>	<u>31,528</u>	<u>56,387</u>
Equity				
Participating policyholders' equity	48	2	40	40
Share capital	462	448	462	448
Retained earnings	3,457	2,967	2,921	2,871
Accumulated other comprehensive income	—	605	—	620
	<u>3,967</u>	<u>4,022</u>	<u>3,423</u>	<u>3,979</u>
Total liabilities and equity	<u>\$38,191</u>	<u>\$64,101</u>	<u>\$34,951</u>	<u>\$60,366</u>

(1) U.S. GAAP terminology is Separate accounts. In Canadian GAAP, segregated funds are included separately from the general funds. Changes in retained earnings and accumulated other comprehensive income were as follows:

<u>As at December 31</u>	<u>U.S. GAAP</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Retained earnings, beginning of year	\$2,871	\$2,904	\$2,483
Shareholders' net income	206	51	498
Dividends paid to preferred shareholders	(9)	—	—
Dividends paid to common shareholders	(96)	(84)	(77)
Issuance costs	(5)	—	—
Retained earnings, end of year	<u>\$2,967</u>	<u>\$2,871</u>	<u>\$2,904</u>
Accumulated other comprehensive income, beginning of year	\$ 620	\$ 504	\$ 657
Other comprehensive income (loss)	(15)	116	(153)
Accumulated other comprehensive income, end of year	<u>\$ 605</u>	<u>\$ 620</u>	<u>\$ 504</u>

Reconciliation of total equity from Canadian GAAP to U.S. GAAP:

<u>For the years ended December 31</u>	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Equity		
Canadian GAAP equity	\$3,967	\$3,423
Current year adjustment to consolidated net income	(334)	(294)
Current year adjustment to other comprehensive income	(167)	28
Cumulative effect of prior year adjustment to consolidated net income	(102)	192
Cumulative effect of prior year adjustment to other comprehensive income	658	630
U.S. GAAP equity	<u>\$4,022</u>	<u>\$3,979</u>

(c) **Reconciliation of selected Canadian GAAP Financial Statement information to U.S. GAAP**

The following table provides a reconciliation of Canadian GAAP shareholders' net income to U.S. GAAP shareholders' net income:

<u>For the years ended December 31</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in millions of Canadian dollars)		
Shareholders' net income determined in accordance with Canadian GAAP	\$ 499	\$ 342	\$ 356
Adjustments in respect of:			
Bonds	61	(32)	1
Mortgages	12	—	3
Common and preferred stocks	(214)	(148)	164
Real estate	(40)	(4)	270
Cumulative effect of adopting FAS 133	—	(25)	—
Deferred acquisition costs	(70)	32	209
Actuarial liabilities	(78)	(77)	(313)
Value of business acquired and goodwill amortization	(98)	(5)	(62)
Other items	5	(53)	29
Future income taxes	129	21	(159)
Shareholders' net income determined in accordance with U.S. GAAP	<u>\$ 206</u>	<u>\$ 51</u>	<u>\$ 498</u>

(d) **Additional information required to be reported under U.S. GAAP**

(i) **Deferred acquisition costs**

Changes in deferred acquisition costs were as follows:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Balance, beginning of year	\$1,415	\$1,318
Capitalization	326	286
Accretion of interest	115	80
Amortization	(327)	(301)
Effect of net unrealized gains and losses on bonds and stocks	(68)	(9)
Other	58	—
Foreign currency translation adjustment	49	41
Balance, end of year	<u>\$1,568</u>	<u>\$1,415</u>

(ii) **Investments**

The net unrealized investment gains (losses), which are included in the Consolidated Balance Sheets as a component of equity, were as follows:

	<u>2002</u>	<u>2001</u>
	(in millions of Canadian dollars)	
Gross unrealized gains	\$2,224	\$1,622
Gross unrealized losses	(339)	(288)
	<u>1,885</u>	<u>1,334</u>
Effect on deferred acquisition costs	(278)	(201)
Effect on actuarial liabilities	(633)	(314)
Effect on future income taxes	(280)	(139)
Effect on value of business acquired	(19)	(10)
Total	<u>\$ 675</u>	<u>\$ 670</u>

(e) **The following provides a general review of the material valuation and income recognition differences between Canadian GAAP and U.S. GAAP.**

For a complete description of Canadian GAAP accounting policies, refer to Note 2.

- (i) **Bonds:** Under U.S. GAAP, bonds may be classified as available for sale, held to maturity or trading securities. All bonds are classified as available for sale by the Company. Bonds accounted for as available for sale are carried at fair value. A decline in the value of a specific bond that is considered other than temporary results in a write-down of the bond value through a charge to income in the period of recognition. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains and losses on bonds classified as available for sale are excluded from income and are reported net of tax as other comprehensive income.

Under Canadian GAAP, bonds are carried at amortized cost, less an allowance for specific losses, with realized gains and losses on disposal deferred and brought into income over the remaining term to maturity.

- (ii) **Mortgages:** Under U.S. GAAP, mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses on disposal are recognized in income immediately.

Under Canadian GAAP, mortgages are also carried at amortized cost less repayments and an allowance for specific losses, however, realized gains and losses on disposal are deferred and amortized into income over the remaining term of the mortgage sold.

- (iii) **Stocks:** Under U.S. GAAP, stocks may be classified as available for sale or trading securities. All stocks are classified as available for sale by the Company and are carried at fair value. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains or losses on stocks classified as available for sale are excluded from income and are reported net of tax as other comprehensive income. Other than temporary declines in the value of stocks result in a write-down of the stock value through a charge to income in the period of recognition.

Under Canadian GAAP, stocks are carried at a value that is adjusted toward fair value each quarter at a rate of 5% of the difference between the carrying value and period-end fair value, with this adjustment being reflected in net income. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 5% per quarter.

- (iv) **Real estate:** Under U.S. GAAP, real estate is carried at cost less accumulated amortization. Realized gains and losses on disposal are recognized in income as they occur. Unrealized gains and losses are not recognized. Specific properties are written down to fair value if an impairment in the value of the property is considered to be other than temporary.

Under Canadian GAAP, real estate, including Company occupied premises, is carried at a value that is adjusted toward fair value each quarter at a rate of 3% of the difference between the carrying value and period-end appraised value, with this adjustment being reflected in net income. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 3% per quarter. Specific properties are written down to fair value if an impairment in the value of the property is considered to be other than temporary.

- (v) **Deferred acquisition costs ("DAC"):** Under U.S. GAAP, the costs of acquiring new business that vary with and are related primarily to the production of new business are deferred and recorded as an asset to the extent such costs are deemed recoverable from future profits. DAC consists principally of commissions, and policy issue and underwriting expenses.

The amortization of the costs is dependent on the type of policy to which the costs relate. For non-participating traditional life and annuity policies with life contingencies, DAC is amortized in proportion to expected future premiums. Assumptions on expected future premiums are made at the date of policy issue and are consistently applied over the life of the contracts. For participating traditional life, universal life and investment-type contracts, DAC is amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contract. The assumptions used to estimate future gross profits change as experience emerges. In addition, DAC relating to these contracts is adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on the bonds and stocks classified as available for sale had actually been realized. This adjustment is not included in income but is recognized directly in equity.

Under Canadian GAAP, Life SOP allows the amortization of acquisition expenses over a period extending beyond the term of the liability of certain products, such as segregated funds products without material insurance components, and group life and health products with short guaranteed periods, to the extent that these acquisition expenses are recoverable. The amount of DAC is included as a negative reserve in the actuarial liabilities.

- (vi) **Actuarial liabilities:** Under U.S. GAAP, there are three main standards for valuing actuarial liabilities, depending on the nature of the insurance contract.

For traditional non-participating contracts, disability insurance and reinsurance contracts, actuarial liabilities are calculated using a net level premium method, where the liabilities represent the present value of future benefits to be paid and related expenses less the present value of future net premiums. The assumptions used are based on best estimates at the time the policy is issued, with a mild provision for adverse deviation. The assumptions are not changed (locked in) for future valuations unless it is determined that future income is no longer adequate to recover the existing DAC. In this case, this DAC is reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening of actuarial liabilities no longer apply.

For universal life and investment-type contracts, the actuarial liabilities are equal to the policyholder account values. The assumptions used are based on best estimates without any provision for adverse deviation and are not locked in. If it is determined that the future income for universal life-type contracts is no longer adequate to recover the existing DAC, these costs would be reduced or written off, and actuarial liabilities would increase as necessary. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply.

For participating contracts, the actuarial liability is computed using a net level premium method. The assumptions used are based on best estimates without any provision for adverse deviation and are not locked in. If it is determined that future income is no longer adequate to recover the existing DAC, the DAC is reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply.

In addition, U.S. GAAP requires that certain actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on stocks and bonds classified as available for sale had been realized. This adjustment is not included in income but is reported as other comprehensive income.

Under Canadian GAAP, the Company follows Life SOP issued by the Canadian Institute of Actuaries for the calculation of actuarial liabilities. Life SOP allows the amortization of acquisition expenses over a period extending beyond the term of the liability of certain products, such as segregated funds products without material insurance components, and group life and health products with short guaranteed periods, to the extent that these acquisition expenses are recoverable. The actuarial liabilities represent the amount required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy maintenance expenses for all insurance and annuity policies in force with the Company. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Assumptions are updated regularly, and the effects of any changes in assumptions are recognized in income immediately.

- (vii) **Deferred revenue:** Under U.S. GAAP, for universal life insurance and investment-type contracts, fees charged to policyholders relating to future services to be provided are recorded as deferred revenue and are amortized to income in the same manner as DAC.

Under Canadian GAAP, all premium income is recorded as revenue when due and the anticipated costs of future services are included within actuarial liability calculations.

- (viii) **Business combinations and goodwill:** Under U.S. GAAP, the actuarial liabilities assumed on acquisition of a business are valued in accordance with the policies described in the Actuarial Liabilities discussion using current assumptions as at the date of acquisition. The present value of future profits on the in force business acquired is recognized as an intangible asset and is amortized over future periods, on a basis consistent with the amortization of DAC as described above. Goodwill represents the excess of cost over the sum of the estimated fair value of net assets, including the present value of future profits on the in force business acquired. Effective January 1, 2002, the Company adopted the new U.S. Financial Accounting Standards Board (FASB) recommendations for Business Combinations and Goodwill and Other Intangible Assets, at which time goodwill was no longer amortized.

Under Canadian GAAP, the actuarial liabilities assumed on acquisition of a business are valued based on accepted actuarial practice following the CALM, including the use of best estimate assumptions as at the date of acquisition. Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Effective January 1, 2002, the Company adopted the new CICA recommendations for Business Combinations and Goodwill and Other Intangible Assets, at which time goodwill was no longer amortized. Refer to note 2(a)(i) for a description of changes to this policy.

- (ix) **Policyholders' dividend obligation ("PDO"):** Under U.S. GAAP, in determining net income attributed to closed participating blocks of business arising from demutualization, when there is a limit on the amount of earnings that can be distributed to shareholders, the excess of cumulative actual closed block earnings over cumulative expected earnings on a U.S. GAAP basis is set up as a PDO to the participating policyholders. For open blocks of participating business, earnings in excess of the shareholder transfer (3.5% of dividends paid) are set up as PDO. The amount of the PDO as at December 31, 2002 is \$183 million (\$134 million for 2001) and is included in the actuarial liabilities.

Under Canadian GAAP, net income attributable to closed blocks of business arising from demutualization is recognized in the participating policyholders' account as earned.

- (x) **Accounting for derivatives:** Under U.S. GAAP, the Company recognizes all derivatives as assets or liabilities on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. Derivatives that qualify as hedges must

be designated as hedging instruments, based on the exposure being hedged, either as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

Under Canadian GAAP, the Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Realized and unrealized gains and losses resulting from the use of these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

- (xi) **Income tax rates:** Under U.S. GAAP, future income tax liabilities and assets are recognized based on the differences between the accounting values of assets and liabilities and their related tax bases using currently enacted income tax rates.

Under Canadian GAAP, future income tax liabilities and assets are recorded based on substantially enacted income tax rates.

- (xii) **Minimum pension liability:** Under U.S. GAAP, the excess of any unfunded accumulated benefit obligation is required to be reflected as an additional minimum pension liability in the Consolidated Balance Sheets with an offsetting adjustment to intangible assets to the extent of unrecognized prior service costs, with the remainder recorded in other comprehensive income.

Under Canadian GAAP, there is no requirement to reflect a minimum pension liability.

(f) **The following provides a general review of the material presentation differences between Canadian GAAP and U.S. GAAP.**

- (i) **Premium revenue:** Under U.S. GAAP, premiums collected on universal life insurance and investment contracts (such as annuities) are not reported as revenue in the Consolidated Statements of Net Income but are recorded as deposits to policyholders' account balances. Fees assessed against the policyholders relating to the contracts are recognized as revenue.

Under Canadian GAAP, premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Net Income.

- (ii) **Reinsurance:** Under U.S. GAAP, reinsurance recoverables are presented on a gross basis as a separate balance sheet asset, rather than netted against the related liabilities.

Under Canadian GAAP, reinsurance recoverables from ceded contracts are recorded as an offset against policy liabilities.

- (iii) **Segregated funds assets and liabilities:** Under U.S. GAAP, segregated funds assets and liabilities are separately presented in summary lines on the balance sheet, titled "separate accounts".

Under Canadian GAAP, segregated funds are managed separately from the general fund of the Company. Therefore, they are reported separately from the general fund assets and liabilities on the Consolidated Balance Sheets.

- (iv) **Statement of cash flows:** Under U.S. GAAP, the cash flows from investment contracts are disclosed as a financing activity.

Under Canadian GAAP, the cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity.

CERTIFICATE OF THE CORPORATION

Dated: March 14, 2003

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all the provinces of Canada. For the purposes of the Province of Québec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

By: (Signed) RAYMOND L. MCFEETORS
Co-President and Chief Executive Officer

By: (Signed) WILLIAM W. LOVATT
Vice-President, Finance, Canada
as Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) JAMES W. BURNS
Director

By: (Signed) GAIL S. ASPER
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: March 14, 2003

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all the provinces of Canada. For the purposes of the Province of Québec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

BMO NESBITT BURNS INC.

MERRILL LYNCH CANADA INC.

By: (Signed) THOMAS E. FLYNN

By: (Signed) MICHAEL G. BOYD

CIBC WORLD MARKETS INC.

RBC DOMINION SECURITIES INC.

SCOTIA CAPITAL INC.

By: (Signed) DONALD A. FOX

By: (Signed) LINDA WONG

By: (Signed) DARCY DOHERTY

TD SECURITIES INC.

By: (Signed) MICHAEL FARALLA

NATIONAL BANK FINANCIAL INC.

By: (Signed) IAN MCPHERSON

CASGRAIN & COMPANY LIMITED

By: (Signed) GASTON SIMONEAU

GREAT-WEST
LIFECO_{INC.}