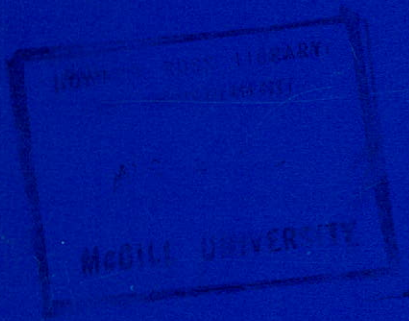


THE *Investors* GROUP  
38th ANNUAL REPORT 1978





# THE *Investors* GROUP

Incorporated by Special Act of the Legislature of the Province of Manitoba

*The Investors Group is a financial services holding company. Through its principal operating companies it provides a broad range of financial services to individuals and corporations. Investors Syndicate Limited, Investors Securities Management Ltd., Investors Group Trust Co. Ltd. and Investors Syndicate Realty Limited offer a wide choice of investment contracts, mutual funds, registered retirement savings plans, pension services and mortgage facilities. The Great-West Life Assurance Company and Montreal Trust Company offer respectively a full line of individual and group life insurance products and a complete range of personal and corporate trust services.*

## Principal Operating Companies

Investors Syndicate Limited  
Les Services Investors Limitée  
Investors Securities Management Ltd.  
Investors Syndicate Realty Limited  
Investors Group Trust Co. Ltd.  
The Great-West Life Assurance Company  
(95.7% owned)  
Montreal Trust Company (50.4% owned)

---

## Head Office

175 Hargrave Street,  
Winnipeg Manitoba  
R3C 3S1

---

## Auditors

Deloitte, Haskins & Sells

---

## Transfer Agent

Montreal Trust Company  
Vancouver, Calgary, Regina,  
Winnipeg, Toronto, Montreal

---

## Listing of Stock

The Toronto Stock Exchange  
The Montreal Stock Exchange  
The Winnipeg Stock Exchange

---

## Mutual Funds

Investors Mutual of Canada Ltd.  
Investors Growth Fund of Canada Ltd.  
Investors International Mutual Fund Ltd.  
Investors Japanese Growth Fund Ltd.  
Investors Retirement Mutual Fund  
Investors Mortgage Fund  
Investors Dividend Fund Ltd.  
Provident Stock Fund Ltd.

## BOARD OF DIRECTORS

Norman J. Alexandert  
Winnipeg  
*Investment Consultant*

C.E. Atchison  
Winnipeg  
*Company Director*

W.J. Bennett  
Montreal  
*Consultant,  
Iron Ore Company of  
Canada*

J.W. Burns\*  
Winnipeg  
*President,  
Power Corporation of  
Canada, Limited*

Peter D. Curry\*  
Montreal  
*Deputy Chairman,  
Power Corporation of  
Canada, Limited*

Paul Desmarais\*  
Montreal  
*Chairman and  
Chief Executive Officer,  
Power Corporation of  
Canada, Limited*

J.C. Gilmer†  
Vancouver  
*Company Director  
Formerly President and  
Chief Executive Officer,  
CP Air*

A.S. Jackson  
Winnipeg  
*President,  
Investors Syndicate Limited*

Robert H. Jones\*  
Winnipeg  
*President and Chief  
Executive Officer,  
The Investors Group*

Fred P. Mannix  
Calgary  
*Chairman of the Board,  
Loram Co. Ltd.*

Arthur V. Mauro, Q.C.  
Winnipeg  
*Executive Vice-President,  
The Investors Group*

Hon. W.J. McKeag  
Winnipeg  
*President,  
McKeag Realty Ltd.*

Paul Britton Paine, Q.C.\*  
Montreal  
*Chairman of the Board  
and President,  
Montreal Trust Company*

R.W. Purcell  
New York  
*Business Consultant,  
Rockefeller Family  
and Associates*

W.I.M. Turner, Jr.  
Montreal  
*President and  
Chief Executive Officer,  
Consolidated-Bathurst  
Limited*

G.J. van den Berg†  
Montreal  
*Company Director*

\*Member of the Executive  
Committee

†Member of the Audit  
Committee

---

## EXECUTIVE OFFICERS

Peter D. Curry  
*Chairman of the Board*

Robert H. Jones  
*President and  
Chief Executive Officer*

Arthur V. Mauro, Q.C.  
*Executive  
Vice-President*

D.E. Rettie  
*Vice-President and  
Treasurer*

D.C. Bjarnason  
*Vice-President,  
Secretary and Counsel*

## DIRECTORS' REPORT

The Directors are pleased to present the Company's 38th Annual Report together with consolidated financial statements for the year ended December 31, 1978.

Consolidated Net Operating Income for 1978 was \$35,665,000 compared with \$21,496,000 for 1977. Final earnings after extraordinary items were \$2.52 per share in 1978 compared with \$1.52 per share in 1977.

During the third quarter of 1978 the Company increased its ownership in The Great-West Life Assurance Company to 95.7% through the acquisition of a further 911,370 shares at a price of \$100 (Canadian funds) per share. The long term financing of this acquisition was completed in October by a \$40,000,000 public issue of twenty year 9 $\frac{7}{8}$ % debentures and a private placement of \$60,000,000 cumulative redeemable preference shares.

Power Corporation of Canada, Limited, during the year, increased its holding of all classes of common stock and of the preferred stock of the Company. Power Corporation now owns 96.2% of the common shares and 96.9% of the Preferred Shares 1969 Series.

Before deducting the after-tax cost of bank loan and debenture interest, earnings of the Company excluding Great-West Life and Montreal Trust Company increased to \$10,890,000 in 1978 compared with \$8,786,000 in 1977. Consolidated income from investment certificates and service fees was \$9,323,000, an increase of \$2,199,000 over 1977 while income from management, distribution and trust services declined by \$95,000 to \$1,567,000.

The Company's share of the earnings of The Great-West Life Assurance Company was \$22,228,000 compared with \$10,014,000 in 1977, an increase of \$12,214,000. Of this increase, \$7,322,000 is attributable to a change in the basis of accounting for Canadian life insurance companies. A description of the accounting change is to be found in Note 3 to the Company's financial statements. The balance of the increase reflects the higher earnings attributable to the increased share ownership and improvement in the operating results of Great-West Life. A condensed balance sheet and summary of operations for Great-West Life are included in this report.

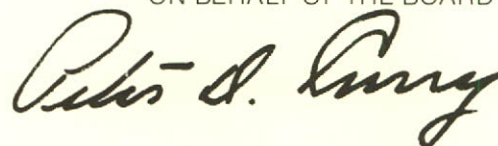
The Company's share of earnings of Montreal Trust Company increased to \$3,548,000 from \$2,881,000 recorded in 1977. Included in this report are a condensed balance sheet and consolidated statement of income of Montreal Trust Company.

During the year, quarterly dividends of 12 $\frac{1}{2}$  cents per share were paid on the common convertible and Class A convertible shares and quarterly "tax-deferred" dividends of 12 $\frac{1}{2}$  cents per share were paid on the Class B and Class C convertible shares. The regular quarterly dividends of 31 $\frac{1}{4}$  cents per share were paid on the Preferred Shares, 1969 Series and the initial dividend of 23.835 cents per share on the Preferred Shares, 1978 Series was paid on December 1, 1978.

At a meeting of the directors held February 9, 1979 dividends of 15 cents per share on all classes of common shares and the regular quarterly dividend of 31 $\frac{1}{4}$  cents on the Preferred Shares, 1969 Series were declared payable on May 1, 1979 to shareholders of record April 12, 1979. The regular quarterly dividend of 37 $\frac{1}{2}$  cents per share on the Preferred Shares, 1978 Series was declared payable March 1, 1979 to shareholders of record February 12, 1979.

The directors wish to express their warm appreciation to the staff and sales representatives of the companies making up The Investors Group for their continuing co-operation and enthusiasm over the past year.

ON BEHALF OF THE BOARD



Peter D. Curry  
Chairman



Robert H. Jones  
President

March 1, 1979

# The Investors Group and Consolidated Subsidiary Companies

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1978

	1978	1977
Income:		
Investment income .....	<b>\$57,905,549</b>	\$51,231,297
Service fees .....	<b>2,234,904</b>	2,325,074
Management and distribution fees .....	<b>13,458,027</b>	12,544,633
Trust services .....	<b>1,821,308</b>	1,508,509
Share of earnings of unconsolidated subsidiaries:		
The Great-West Life Assurance Company (Note 3) .....	<b>22,227,674</b>	10,013,518
Montreal Trust Company (Note 4) .....	<b>3,548,483</b>	2,881,229
	<b><u>101,195,945</u></b>	<u>80,504,260</u>
Expenses:		
Interest on certificate liabilities .....	<b>23,105,943</b>	20,429,632
Additional credits to certificates .....	<b>13,864,262</b>	11,610,733
Certificate and service fee costs .....	<b>11,923,522</b>	11,169,668
Management and distribution operating costs .....	<b>11,179,370</b>	9,800,976
Trust services operating costs .....	<b>1,085,321</b>	995,030
Interest on bank loans and debentures .....	<b>2,025,874</b>	378,397
Provision for income taxes .....	<b>2,346,926</b>	4,624,207
	<b><u>65,531,218</u></b>	<u>59,008,643</u>
Net operating income .....	<b>35,664,727</b>	21,495,617
Extraordinary items (Notes 3 and 9) .....	<b>(609,429)</b>	(218,854)
Net income .....	<b><u>\$35,055,298</u></b>	<u>\$21,276,763</u>
Earnings per share after deducting dividends on preferred stock (Notes 3 and 10)		
- Net operating income .....	<b><u>\$2.57</u></b>	<u>\$1.54</u>
- Net income .....	<b><u>\$2.52</u></b>	<u>\$1.52</u>

The accompanying notes are an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1978

	1978	1977
Source of Funds:		
From Operations -		
Net operating income .....	<b>\$ 35,664,727</b>	\$ 21,495,617
Less share of earnings retained by unconsolidated subsidiaries .....	<b>20,350,688</b>	8,647,480
	<b>15,314,039</b>	12,848,137
Add (deduct) net non-cash charges (credits) to operations including deferred income taxes of \$548,339 (1977 - \$369,109) .....	<b>1,638,281</b>	(803,620)
Total funds from operations .....	<b>16,952,320</b>	12,044,517
Interest and additional credits to certificates .....	<b>36,970,205</b>	32,040,363
Certificate sales and collections .....	<b>138,475,081</b>	92,207,349
Proceeds from securities transactions .....	<b>32,225,142</b>	38,660,406
Mortgage principal collections and sales .....	<b>28,642,071</b>	32,880,926
Net proceeds from issue of debentures and preferred shares .....	<b>99,193,773</b>	—
Receipt of advances to trustee under employee stock purchase plan .....	<b>1,154,991</b>	—
Miscellaneous .....	<b>37,497</b>	345,366
	<b>353,651,080</b>	208,178,927
Use of Funds:		
Certificate maturities and surrenders .....	<b>87,743,429</b>	69,704,229
Investments in marketable securities .....	<b>92,378,606</b>	84,499,675
Investments in first mortgages .....	<b>66,824,579</b>	57,916,000
Increase in investment in The Great-West Life Assurance Company .....	<b>91,481,462</b>	—
Net additions to real estate and fixed assets .....	<b>4,752,034</b>	313,658
Decrease in bank loans .....	<b>1,783,000</b>	2,000,000
Dividends paid .....	<b>8,599,275</b>	7,899,952
	<b>353,562,385</b>	222,333,514
Increase (Decrease) in Cash and Temporary Investments .....	<b>\$ 88,695</b>	\$(14,154,587)

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1978

	1978	1977
Balance at beginning of the year .....	<b>\$ 85,910,464</b>	\$ 74,839,645
Adjustment resulting from change to new basis of accounting by The Great-West Life Assurance Company (Note 3) .....	<b>12,602,709</b>	—
As adjusted .....	<b>98,513,173</b>	74,839,645
Add (Deduct):		
Net income for the year .....	<b>35,055,298</b>	21,276,763
Company's share of credits and charges recorded in retained earnings by The Great-West Life Assurance Company .....	<b>(5,052,695)</b>	(2,283,557)
Dividends - Preferred shares .....	<b>(2,192,409)</b>	(1,622,200)
- Common shares .....	<b>(6,384,277)</b>	(6,300,187)
Balance at end of the year .....	<b>\$119,939,090</b>	\$ 85,910,464

The accompanying notes are an integral part of the financial statements.

## CONSOLIDATED BALANCE SHEET

as at December 31, 1978

ASSETS	1978	1977
Cash and Investments:		
Cash and temporary investments .....	<b>\$ 20,472,423</b>	\$ 20,383,728
Marketable securities - at cost and accrued income, market value \$227,842,130 (1977 - \$162,307,489) (Note 2) .....	<b>226,461,642</b>	169,622,541
First mortgages on real estate - at cost and accrued interest receivable .....	<b>446,229,594</b>	407,884,530
Real estate - at cost less accumulated depreciation \$1,002,061 (1977 - \$893,947) .....	<b>6,448,178</b>	2,208,122
Loans to certificate holders - not exceeding cash surrender values .....	<b>22,582,979</b>	19,139,730
	<b>722,194,816</b>	619,238,651
 Investment in Unconsolidated Subsidiaries:		
The Great-West Life Assurance Company (Note 3) .....	<b>216,961,490</b>	93,531,074
Montreal Trust Company (Note 4) .....	<b>35,011,989</b>	32,739,860
Office Premises - at cost less accumulated depreciation \$4,472,170 (1977 - \$4,153,388) .....	<b>4,348,987</b>	4,366,433
Accounts and Notes Receivable .....	<b>1,630,486</b>	1,695,325
Income Taxes Recoverable .....	<b>2,655,992</b>	—
Advance to Trustee under Employee Stock Purchase Plan .....	<b>—</b>	1,154,991
Other Assets .....	<b>7,225,964</b>	5,976,151
Excess of Cost of Shares of Consolidated Subsidiaries over Book Value of Net Assets at Date of Acquisition .....	<b>734,084</b>	734,084
	<b>\$990,763,808</b>	\$759,436,569

The accompanying notes are an integral part of the financial statements.



LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
Certificate and Current Liabilities:		
Certificate liabilities (Note 5) .....	<b>\$641,584,427</b>	\$551,982,250
Bank loan .....	<b>217,000</b>	2,000,000
Tax deposits on mortgages .....	<b>13,678,400</b>	12,364,392
Income taxes payable .....	<b>—</b>	922,402
Dividends payable .....	<b>2,021,509</b>	2,044,098
Other liabilities .....	<b>15,332,587</b>	10,949,782
	<b><u>672,833,923</u></b>	<u>580,262,924</u>
Income Deferred to Future Years .....	<b>907,233</b>	900,559
Deferred Income Taxes .....	<b>9,690,126</b>	9,141,787
9 <sup>7</sup> / <sub>8</sub> % Debentures, 1978 Series (Note 6) .....	<b>40,000,000</b>	—
Shareholders' Equity:		
Capital stock (Note 7) - Preferred .....	<b>92,406,500</b>	32,444,000
- Common .....	<b>8,209,698</b>	8,155,946
	<b>100,616,198</b>	40,599,946
Contributed surplus arising from premium on capital stock (Note 8) .....	<b>46,777,238</b>	42,620,889
Retained earnings .....	<b>119,939,090</b>	85,910,464
	<b>267,332,526</b>	169,131,299
	<b><u>\$990,763,808</u></b>	<u>\$759,436,569</u>

Approved by the Board:

  
DIRECTOR

  
DIRECTOR

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1978

## 1. STATEMENT OF ACCOUNTING POLICIES

A description of those accounting policies which are considered important to an understanding of the accompanying financial statements is set out below.

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include the accounts of all subsidiary companies except The Great-West Life Assurance Company and Montreal Trust Company. The assets and liabilities of these two companies are not consolidated in the balance sheet as they operate within regulated industries and it is not considered appropriate to consolidate in the circumstances. Summary financial statements of these companies are presented on pages 13 to 16 of this report.

All inter-company accounts and transactions have been eliminated in consolidation. The equity method of accounting has been used for the two non-consolidated subsidiaries, with the necessary adjustments having been made to reflect the disposal during 1978 of the previous investment by The Great-West Life Assurance Company in 650,000 common convertible shares of this Company.

**MARKETABLE SECURITIES.** It is a statutory requirement of the investment contract industry to amortize any differences between the original cost of bonds and debentures and their par value over the period to maturity in such a manner as to equalize the yield to maturity. The bonds and debentures included in this category are carried at amortized cost and all other securities are carried at original cost.

**OFFICE PREMISES.** The depreciable properties and related equipment and furnishings are depreciated on a straight-line basis over their estimated life. Furnishings, once they have been fully depreciated, are eliminated from the accounts.

**CERTIFICATE LIABILITIES.** Investment certificates entitle certificate holders to receive at maturity a definite sum of money. A portion of payments made by installment certificate holders is added to certificate liabilities and the balance to service fee income. The portion of the certificate payments added to certificate liabilities, when combined with the interest compounded at government approved rates, will accumulate to equal the specified maturity value at the maturity date. The aggregate accumulated certificate liabilities always exceed the aggregate cash surrender values of the outstanding investment certificates.

**SERVICE FEE INCOME AND SELLING EXPENSES.** On installment investment certificates, service fees received during the first year may exceed or be less than the aggregate of commissions paid to sales representatives and selling costs incurred. To achieve a better matching of income and expense, the differential is amortized over the first 60 months that installment certificates are in force.

On single payment certificates, a portion of commissions paid to sales representatives is amortized over the first 60 months that they are in force with the balance and all other selling expenses being charged against income in the year of sale.

**ADDITIONAL CREDITS.** In addition to the guaranteed maturity and cash surrender values, certificate holders are entitled to additional amounts on the attainment of each certificate anniversary, as declared by the Boards of Directors of the respective companies. These amounts are allocated to the certificates on their anniversary dates. Full provision has been made for all additional credits, both earned and accrued.

## 2. MARKETABLE SECURITIES

	1978		1977	
	Cost	Market	Cost	Market
Government of Canada bonds .....	\$ 31,596,922	\$ 29,399,587	\$ 20,049,010	\$ 18,639,587
Canadian provincial and municipal bonds .....	16,599,795	14,715,471	23,587,251	20,971,312
Canadian corporate bonds, debentures and obligations .....	35,661,103	32,122,839	36,927,165	34,340,490
Aircraft certificates* .....	5,421,318	5,421,318	5,707,819	5,707,819
Canadian preferred stocks .....	102,000,430	103,871,415	59,924,000	58,199,929
Canadian common stocks .....	31,784,993	38,914,418	20,447,904	21,468,960
	<b>223,064,561</b>	<b>224,445,048</b>	166,643,149	159,328,097
Accrued interest and dividends receivable .....	3,397,081	3,397,082	2,979,392	2,979,392
	<b>\$226,461,642</b>	<b>\$227,842,130</b>	<b>\$169,622,541</b>	<b>\$162,307,489</b>

\*Aircraft certificates represent part ownership of two aircraft leased to a major Canadian airline after deducting a liability for 11% serial debentures. The debentures amount to \$2,391,000, mature in 1991 and are secured by a mortgage on one aircraft and the related lease payments.

### 3. THE GREAT-WEST LIFE ASSURANCE COMPANY

Value of investment at beginning of the year net of investment of the subsidiary in 650,000 common convertible shares of the parent .....	\$ 93,531,074
<i>Add:</i>	
Adjustment resulting from sale of its investment in the parent .....	4,172,632
Share of net credit to retained earnings of subsidiary resulting from change in basis of accounting (see below) .....	12,602,709
	<u>110,306,415</u>
<i>Add (Deduct):</i>	
Cost of shares acquired during the year .....	91,481,462
Share of 1978 net income from operations .....	22,227,674
Share of 1978 extraordinary items .....	2,123,496
Share of dividends paid by the Company on reciprocal investment .....	81,413
Dividends received .....	(4,206,275)
Share of net charges recorded in retained earnings of subsidiary .....	(5,052,695)
Value of investment at end of the year .....	<u>\$216,961,490</u>

During 1978 amendments to the Canadian and British Insurance Companies Act changed the basis of accounting of The Great-West Life Assurance Company. Extracts from the notes to the 1978 financial statements of that company, which summarize the major areas of change, are presented on pages 14 and 15 of this report. These changes have had the following effect on the financial statements of The Investors Group:

- A. Of the increase in the shareholders' equity of The Great-West Life Assurance Company as at December 31, 1977, \$39,541,859 is attributable to the 1,002,000 shares (50.1% interest) of that company that were owned by The Investors Group at December 31, 1977. Of this amount, \$26,939,150 has been calculated as having accumulated prior to the date of acquisition of the 50.1% interest. This amount reduces the excess of the cost of 1,002,000 shares over their book value at date of acquisition from \$27,589,000 to \$650,000 which is included in the carrying value of the investment. The remaining \$12,602,709 has resulted in an increase in the carrying value of the investment and a credit to retained earnings.
- B. Of the \$12,214,156 increase in the Company's share of the earnings of The Great-West Life Assurance Company, approximately \$7,322,000 of the increase (57¢ per share) is attributable to the change in the basis of accounting. In addition, \$2,123,496 of the extraordinary items (16¢ per share) is also attributable to the change in the basis of accounting.

The excess of the book value at the dates of acquisition of the 911,370 shares of the subsidiary acquired during 1978 over their cost was \$14,841,000; the cost of these shares is included in the carrying value.

### 4. MONTREAL TRUST COMPANY

Value of investment at beginning of the year .....	\$32,739,860
<i>Add:</i>	
Share of 1978 net operating income .....	3,548,483
Share of 1978 extraordinary items .....	24,253
	<u>36,312,596</u>
<i>Deduct:</i>	
Dividends received .....	1,300,607
Value of investment at end of the year .....	<u>\$35,011,989</u>

The excess of the cost of the 1,300,607 shares held in this subsidiary over their book value at the date control was acquired was \$8,271,000 which is included in the carrying value of \$35,011,989.

## 5. CERTIFICATE LIABILITIES

As security for investment certificates issued by subsidiaries, assets which qualify as investments under the Canadian and British Insurance Companies Act having a value in excess of net certificate liabilities must be lodged by each subsidiary with approved depositories. As at December 31, 1978 the aggregate excess was \$24,027,000.

## 6. 9 $\frac{7}{8}$ % DEBENTURES, 1978 SERIES

The Debentures are due October 4, 1998 with a sinking fund requirement of \$1,500,000 per annum to commence October 4, 1984. Under certain circumstances the Company will be required to purchase for cancellation up to \$800,000 of debentures per annum, commencing October 4, 1979 for four years.

## 7. CAPITAL STOCK

Authorized:

- 1,296,260 - 5% cumulative redeemable convertible preferred shares, 1969 Series - entitled to \$1.25 annual cumulative dividend; redeemable at \$25; and convertible into 1 $\frac{2}{3}$  common Class A convertible shares up to April 30, 1979.
- 2,400,000 - cumulative redeemable preferred shares, 1978 Series - entitled to an annual cumulative dividend of \$1.50 to September 1, 1985 and thereafter at a floating rate equal to  $\frac{1}{2}$  of the prime rate plus 1 $\frac{1}{4}$ %; redeemable on and after September 1, 1983 at \$26 to August 31, 1988, decreasing to \$25 $\frac{1}{4}$  per share during the period to August 31, 1991 and at \$25 thereafter.
- 20,000,000 - voting common convertible and common Class B convertible shares, in total, which are interconvertible.
- 20,606,843 - non-voting common Class A convertible and common Class C convertible shares, in total, which are interconvertible.

All of the classes of common stock now have the same characteristics except for voting rights. Until December 31, 1978 the common Class B and Class C convertible shares were entitled to receive "tax-deferred" dividends. Dividends on all classes of common shares to be paid in 1979 and thereafter are taxable.

Under the provisions of the Manitoba Corporations Act, all of the shares of the Company are deemed to be without par value. During the year the Company's articles of incorporation were amended increasing the authorized number of preferred shares by 2,400,000 and increasing the maximum consideration for which all of the shares of the Company may be issued from \$82,000,000 to \$142,000,000.

Under the terms of the preferred shares, 1978 Series, all of which were issued during 1978, the Company is required to purchase 168,000 shares at \$25 per share on September 1 in each of the years 1984 to 1993 inclusive. The holders of the shares outstanding on September 1, 1993 have the right to have the Company redeem them on that date; otherwise 20% of the shares then outstanding will be purchased by the Company on September 1 in each of the years 1994 to 1998.

Issued and Outstanding:

	December 31, 1978		December 31, 1977	
	Shares	Amount	Shares	Amount
Preferred shares, 1969 Series .....	1,296,260	\$32,406,500	1,297,760	\$32,444,000
Preferred shares, 1978 Series .....	2,400,000	60,000,000	—	—
	<u>3,696,260</u>	<u>\$92,406,500</u>	<u>1,297,760</u>	<u>\$32,444,000</u>
Common shares:				
Common convertible .....	6,842,005	\$ 342,100	6,631,530	\$ 331,576
Common Class B convertible .....	100	5	210,575	10,529
Interest of unconsolidated subsidiary in common convertible shares .....		—		(16,282)
Common Class A convertible .....	6,085,843	304,287	5,751,024	287,551
Common Class C convertible .....	3,455	178	335,776	16,789
Surplus arising from conversion of preferred shares .....		7,563,128		7,525,783
	<u>12,931,403</u>	<u>\$ 8,209,698</u>	<u>12,928,905</u>	<u>\$ 8,155,946</u>

During the year 1,500 convertible preferred shares were converted into 2,498 common Class A convertible shares resulting in an increase of \$37,345 in surplus arising from conversion of such shares.

At December 31, 1977, 118,248 common Class A convertible shares were reserved for the Employee Stock Purchase Plan. No shares were allotted during 1978 and, as a result of a Plan amendment during 1978, no shares were reserved for the Plan at December 31, 1978.

#### 8. CONTRIBUTED SURPLUS

The change during the year was as follows:

Balance beginning of the year .....	\$42,620,889
Add: Elimination of interest of unconsolidated subsidiary in common convertible shares .....	<u>4,156,349</u>
Balance end of year .....	<u>\$46,777,238</u>

#### 9. EXTRAORDINARY ITEMS

Details of these amounts are as follows:

	1978	1977
Net loss on investments net of income taxes - \$1,922,046 (1977-\$436,855) .....	<b>\$(1,950,951)</b>	\$(242,949)
Debentures and preferred stock issuance costs net of income taxes \$347,347 .....	<b>(806,227)</b>	—
Share of extraordinary items:		
The Great-West Life Assurance Company .....	<b>2,123,496</b>	—
Montreal Trust Company .....	<b>24,253</b>	24,095
	<u><b>\$ (609,429)</b></u>	<u>\$(218,854)</u>

#### 10. EARNINGS PER SHARE

	1978	1977
(a) Basic:		
Net operating income .....	<b>\$2.57</b>	\$1.54
Net income .....	<b>2.52</b>	1.52
Basic earnings per share have been determined after deducting \$2,498,163 (1977 - \$1,622,200) attributable to preferred shares to December 31.		
(b) Fully diluted:		
Net operating income .....	<b>\$2.31</b>	\$1.42
Net income .....	<b>2.27</b>	1.41

It has been assumed in calculating the fully diluted earnings per share that all the preferred shares, 1969 Series outstanding at December 31 of each year had been converted as of January 1 of each year.

---

## 11. OTHER

(a) Investors Mortgage Fund, a mutual fund managed by a subsidiary, invests in first mortgages on improved real estate in Canada. It is anticipated that there will always be ample cash and marketable securities in the Fund available to meet future withdrawals. However, should the withdrawals exceed available cash and marketable securities, The Investors Group has guaranteed to find a purchaser for (or failing to do so, purchase itself) sufficient mortgages at prices not less than 95% of the then prevailing market value thereof, to realize sufficient monies to enable the Trustee to meet all such withdrawals.

As at December 31, 1978 total assets of Investors Mortgage Fund were \$319,078,000 comprising \$37,138,000 cash and other liquid assets and \$281,940,000 in mortgages.

(b) Included as charges against net income are the following:

	1978	1977
Depreciation and amortization . . . . .	\$529,423	\$426,484
Remuneration of directors and senior officers . . . .	488,150	654,774

During 1977 the Board of Directors approved an executive incentive plan under which awards may become payable to a director, who is an officer of a wholly-owned subsidiary, at the close of the five year period ending December 31, 1981. Payments of awards and the amount thereof are contingent on the attainment by the Company of certain earnings levels during the five year period. A provision of \$39,600 has been made by a consolidated subsidiary in 1978 for this contingency which is not included in the above remuneration figures.

(c) Aggregate remuneration paid by the Company's unconsolidated subsidiaries to directors of the Company for service as directors or senior officers of the unconsolidated subsidiaries including the cost of pension benefits amounted to \$308,517 (1977-\$309,501).

(d) The Company was subject to the federal anti-inflation legislation relative to income, compensation and dividends to the end of 1978. In the opinion of management the Company operated in compliance with the legislation and supporting regulations.

(e) The foregoing consolidated financial statements and notes thereto were approved by the Board of Directors of the Company on February 9, 1979.

---

## AUDITORS' REPORT

To the Shareholders of The Investors Group:

We have examined the consolidated balance sheet of The Investors Group as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For The Investors Group and the consolidated subsidiary companies, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For the unconsolidated subsidiary companies referred to in Notes 3 and 4 of the financial statements and accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, which insofar as it relates to the amounts included for companies not examined by us is based solely on the reports of other auditors, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles (except that, insofar as the net income of The Great-West Life Assurance Company is concerned, the accounting practices employed are those prescribed or permitted by the Department of Insurance of Canada). Further in our opinion, except for the change in the basis of accounting used by The Great-West Life Assurance Company as referred to in Note 3 to the financial statements, such accounting principles are applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba  
February 9, 1979

DELOITTE, HASKINS & SELLS  
Chartered Accountants

**THE GREAT-WEST LIFE ASSURANCE COMPANY**  
**CONDENSED SUMMARY OF OPERATIONS**

for the year ended December 31 (000 omitted)

	1978	1977 (Restated)
Income		
Insurance and annuity premiums .....	<b>\$1,015,950</b>	\$756,033
Investment income .....	<b>268,500</b>	222,023
Net realized and unrealized capital gains on assets of segregated investment funds .....	<b>5,848</b>	1,744
	<u><b>1,290,298</b></u>	<u>979,800</u>
Benefits and Expenses		
Benefits paid and accrued to policyholders .....	<b>598,725</b>	518,836
Increase in policy reserves (Note 2g) .....	<b>463,932</b>	272,116
Dividends to policyholders .....	<b>37,115</b>	31,494
Total paid or credited to policyholders .....	<b>1,099,772</b>	822,446
Commissions and operating expenses .....	<b>114,560</b>	93,894
Premium taxes .....	<b>13,935</b>	11,039
	<u><b>1,228,267</b></u>	<u>927,379</u>
Net income before taxes .....	<b>62,031</b>	52,421
Income taxes (Note 2e) .....	<b>18,100</b>	14,997
Net operating income .....	<b>43,931</b>	37,424
Extraordinary items .....	<b>5,659</b>	3,347
Net income .....	<u><b>\$ 49,590</b></u>	<u>\$ 40,771</u>
Summary of Income (Note 2h)		
Attributable to participating policyholders		
Net operating income after policyholder dividends .....	<b>\$ 10,090</b>	\$ 8,097
Extraordinary items .....	<b>2,225</b>	792
	<u><b>\$ 12,315</b></u>	<u>\$ 8,889</u>
Attributable to shareholders		
Net operating income .....	<b>\$ 33,841</b>	\$ 29,327
Extraordinary items .....	<b>3,434</b>	2,555
	<u><b>\$ 37,275</b></u>	<u>\$ 31,882</u>
Earnings per share		
Net operating income .....	<b>\$ 16.92</b>	\$ 14.66
Net income .....	<b>\$ 18.63</b>	\$ 15.94

**THE GREAT-WEST LIFE ASSURANCE COMPANY**  
**CONDENSED BALANCE SHEET**

as at December 31 (000 omitted)

	1978	1977 (Restated)
<b>ASSETS</b>		
Bonds (Note 2a) .....	<b>\$ 934,889</b>	\$ 809,565
Stocks (Note 2b) .....	<b>317,016</b>	252,502
Mortgages and sale agreements (Note 2a) .....	<b>1,412,550</b>	1,209,932
Real estate (Note 2c) .....	<b>275,178</b>	219,074
Loans to policyholders .....	<b>189,921</b>	180,816
Segregated investment funds (Note 2d) .....	<b>383,717</b>	293,970
Cash and other assets .....	<b>177,151</b>	134,203
	<b><u>\$3,690,422</u></b>	<b><u>\$3,100,062</u></b>
<b>LIABILITIES</b>		
Policy reserves (Note 2g) .....	<b>\$2,353,188</b>	\$1,979,165
Policyholders' funds .....	<b>192,339</b>	161,388
Provision for policyholders' dividends .....	<b>36,802</b>	31,722
Provision for experience rating refunds .....	<b>36,803</b>	26,119
Provision for claims .....	<b>186,218</b>	159,324
Segregated investment funds .....	<b>383,717</b>	293,970
Other liabilities .....	<b>56,155</b>	45,923
	<b><u>3,245,222</u></b>	<b><u>2,697,611</u></b>
Special reserves appropriated from surplus .....	<b>94,818</b>	88,724
Capital stock .....	<b>2,000</b>	2,000
Unappropriated Surplus		
Participating policyholders .....	<b>108,764</b>	94,851
Shareholders .....	<b>239,618</b>	216,876
	<b><u>348,382</u></b>	<b><u>311,727</u></b>
	<b><u>\$3,690,422</u></b>	<b><u>\$3,100,062</u></b>

The following has been extracted from the notes to the 1978 financial statements of The Great-West Life Assurance Company:

1. Accounting basis change

In 1978, amendments to the Canadian and British Insurance Companies Act came into effect which changed the basis of accounting for life insurance companies operating in Canada. Following is a brief description of these changes:

- (a) the book values of invested assets under the new basis are essentially amortized cost for bonds and mortgages, depreciated cost for real estate and adjusted cost for stocks (adjusted for market gains and losses as described below). Formerly these assets were carried at written-down values;
- (b) realized and unrealized gains and losses between cost and market value of the life branch stock portfolio are taken into account over a period of years in the determination of earnings rather than being recorded in the surplus account when realized;
- (c) realized gains and losses on the disposal of life branch debt securities (bonds and mortgages) formerly reported in surplus in the year of disposal are amortized into earnings over the period remaining between disposal date and maturity;
- (d) policy reserves are now calculated using interest and mortality assumptions which more closely reflect current conditions. This results in generally lower reserves than those produced by the assumptions used under the former basis;
- (e) certain expenses of acquiring new business formerly charged to income in the year of acquisition are spread over a period of years;
- (f) certain miscellaneous assets which were previously written off as acquired, are now charged to earnings over varying periods of time, using more conventional accounting principles;
- (g) income taxes charged against operations are calculated using a deferred-tax accounting method, compared with the former taxes-payable method;
- (h) surplus appropriations are required by regulation to provide reserves for investment valuation, the excess of cash values over actuarial reserves and certain miscellaneous assets.

Conversion to the new basis at January 1, resulted in adjustments to surplus as described in the following schedule.



## SCHEDULE OF ADJUSTMENTS AT JANUARY 1, 1978

	Participating Policyholders	Shareholders	Total
Balances December 31, 1977			
Contingency Reserve .....	\$ 16,000,000	\$ 54,000,000	\$ 70,000,000
Surplus - Shareholders Account .....	—	1,603,492	1,603,492
- Unassigned .....	28,589,450	82,345,998	110,935,448
Total .....	44,589,450	137,949,490	182,538,940
Policy reserves (note 1d and 1e) .....	44,942,788	90,265,328	135,208,116
Investment revaluation (note 1a) .....	31,790,512	25,066,025	56,856,537
Recognition of assets previously expensed as acquired (note 1f) .....	8,531,750	22,423,639	30,955,389
Adoption of deferred method of income tax recognition (note 1g) .....	<u>(3,016,163)</u>	<u>(2,092,004)</u>	<u>(5,108,167)</u>
Sub-Total .....	126,838,337	273,612,478	400,450,815
Special reserve appropriations (note 1h)			
Investment valuation and currency reserve - net .....	8,090,864	9,443,405	17,534,269
Reserve for cash value deficiencies and amounts of negative reserves .....	15,353,923	24,857,200	40,211,123
Reserve for miscellaneous assets .....	<u>8,542,329</u>	<u>22,436,520</u>	<u>30,978,849</u>
Unappropriated Surplus as adjusted at January 1, 1978 .....	<u>\$ 94,851,221</u>	<u>\$216,875,353</u>	<u>\$311,726,574</u>

### 2. Significant Accounting Practices

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

- (a) Investments in bonds, debentures and mortgages (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold.
- (b) Investments in stocks (equity securities) in the life account, are carried at cost plus an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1978 amounted to \$2,562,207. Equity investments in respect of the accident and health business are carried at cost.
- (c) Real estate held for investment is carried at cost of \$527,497,866 less accumulated depreciation of \$165,093,326 and mortgage liabilities of \$87,226,566.
- (d) Investments held for segregated investment funds are carried at market value.
- (e) Income taxes are calculated using the deferred-tax method. The balance of deferred income taxes included in other liabilities at December 31, 1978 was \$8,910,167.
- (f) Income from subsidiaries is included in these statements under the equity method of accounting.
- (g) Policy reserves represent the amount required, together with future premiums and investment income, to provide for future benefits, administrative expenses and unamortized acquisition expenses on insurance and annuity policies. Policy reserves are calculated using assumptions appropriate to the policies in force and recognize the deferral of certain costs of acquiring policies. The amount of unamortized deferred acquisition costs deducted in arriving at the policy reserves was \$61,486,577 at December 31, 1978.
- (h) Net income includes earnings of the participating, non-participating and health insurance accounts. Earnings applicable to shareholders include net earnings of the non-participating and the health accounts and 2½%, as restricted by law, of the distributions from the participating account.

*The Condensed Summary of Operations and Balance Sheet contained in this Report represent a summary of information contained in the audited financial statements included in the Annual Report of The Great-West Life Assurance Company. A copy of the Annual Report may be obtained by writing to the Secretary of The Great-West Life Assurance Company, 60 Osborne Street North, Winnipeg, Manitoba, R3C 3A5.*

**MONTREAL TRUST COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

as at December 31 (000 omitted)

	1978	1977
<b>ASSETS</b>		
Cash, bank deposits and secured loans .....	<b>\$ 70,440</b>	\$115,965
Securities .....	<b>193,547</b>	151,451
Mortgages and real estate investments .....	<b>735,423</b>	665,541
Office premises and equipment .....	<b>14,316</b>	14,177
Other assets .....	<b>12,992</b>	10,083
	<b><u>\$1,026,718</u></b>	<u>\$957,217</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Guaranteed Trust Accounts:		
Deposits .....	<b>\$ 253,858</b>	\$248,849
Investment certificates .....	<b>701,090</b>	641,463
	<b>954,948</b>	890,312
Company liabilities .....	<b>18,738</b>	18,424
Shareholders' Equity:		
Capital stock .....	<b>2,580</b>	2,577
Contributed surplus .....	<b>5,844</b>	5,803
Retained earnings .....	<b>44,608</b>	40,101
	<b><u>\$1,026,718</u></b>	<u>\$957,217</u>

**MONTREAL TRUST COMPANY**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

for the year ended December 31 (000 omitted)

	1978	1977
<b>Revenue</b>		
Fees and commissions .....	<b>\$49,476</b>	\$43,012
Mortgage interest .....	<b>68,071</b>	62,478
Other interest and dividends .....	<b>27,334</b>	23,832
	<b><u>144,881</u></b>	<u>129,322</u>
<b>Expense</b>		
Interest paid .....	<b>77,578</b>	69,855
Operating expenses .....	<b>57,168</b>	50,717
	<b><u>134,746</u></b>	<u>120,572</u>
Net income before taxes .....	<b>10,135</b>	8,750
Income taxes .....	<b>3,096</b>	3,041
Net operating income .....	<b>7,039</b>	5,709
Other income .....	<b>48</b>	48
Net income .....	<b><u>\$ 7,087</u></b>	<u>\$ 5,757</u>
<b>Earnings per Share</b>		
Net operating income .....	<b>\$ 2.73</b>	\$ 2.22
Net income .....	<b>2.75</b>	2.23

*The preceding statements represent a summary of information contained in the audited financial statements included in the Annual Report of Montreal Trust Company. A copy of the Annual Report may be obtained by writing to the Secretary of Montreal Trust Company, 1 Place Ville Marie, Montreal, Quebec, H3B 3L6.*



1978 ANNUAL REPORT

THE *Investors* GROUP

175 Hargrave Street  
Box 1698 Winnipeg, Canada R3C 3S1