


 Power
Financial
Corporation



Annual Report 1985

Power Financial Corporation brings together three long-established Canadian financial services companies and assists in co-ordinating the distribution of their comprehensive selection of products. Power Financial also has an interest in a European international investment company.

Power Financial Corporation	The Great-West Life Assurance Company	The Investors Group	Montreal Trustco Inc.	Pargesa Holding S.A.
	<p>Great-West Life, the largest Canadian shareholder-owned life insurance company, moved into its new head office in Winnipeg in 1983. The Company's extensive operations in the United States are directed from new regional headquarters in Denver, Col. Great-West Life, incorporated by an Act of Parliament in 1891, is 96.2 per cent owned by Power Financial, through subsidiaries.</p>	<p>Investors, the largest distributor of mutual funds in Canada, will move into its new head office in Winnipeg in 1987. The Company draws on its own broad range of products, supplemented by those of the other operating companies, to develop integrated personal financial plans to meet individual requirements. Investors, incorporated in 1940, is 98.1 per cent owned by Power Financial.</p>	<p>Montreal Trustco ranks with the leading Canadian trust companies in the supply of corporate and personal fiduciary and financial intermediary services. The Company moves into its new Montreal head office in Place Montréal Trust in 1988. Montreal Trustco, incorporated in 1889, is 55.4 per cent owned by Power Financial, directly and through subsidiaries.</p>	<p>Pargesa is a large international banking and investment group with its head office in Geneva. Pargesa's extensive financial services portfolio presents Power Financial with unique opportunities for complementary growth in Europe as well as in the United States. Power Financial holds a minority position in Pargesa.</p>
				

Power Corporation of Canada

NOTICE OF SPECIAL AND ANNUAL MEETING OF SHAREHOLDERS

To the holders of 7½¢ Participating Preferred Shares and Subordinate Voting Shares:

NOTICE IS HEREBY GIVEN that the Special and Annual Meeting of Shareholders of POWER CORPORATION OF CANADA will be held in the Auditorium of The Royal Bank of Canada Building, Floor M-2, Place Ville Marie, Montréal, Québec, Canada, on Thursday, May 1, 1986, at 11:00 a.m., local time, for the following purposes:

- (1) to consider and, if deemed advisable, adopt a special resolution increasing the maximum number of directors from 27 to 28 (the full text of this special resolution is set out in the accompanying Management Proxy Circular);
- (2) to elect directors;
- (3) to appoint auditors;
- (4) to receive the report of the directors for the year ended December 31, 1985, and the consolidated financial statements for such period and the auditors' report thereon; and
- (5) to transact such other business as may properly come before the Meeting.

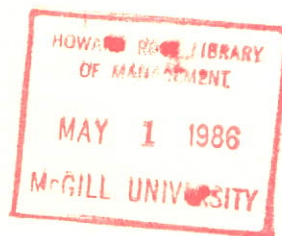
BY ORDER OF THE BOARD OF DIRECTORS

J. Edward Johnson
Vice-President and Secretary

Montréal, Québec
March 21, 1986

IF YOU DO NOT EXPECT TO BE PRESENT AT THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ACCOMPANYING FORM OF PROXY AND RETURN IT IN THE ENVELOPE ENCLOSED FOR THE PURPOSE.

Si vous préférez recevoir un exemplaire en français, veuillez vous adresser au Vice-président et secrétaire, Power Corporation du Canada, 759, Square Victoria, Montréal (Québec), Canada H2Y 2K4



MANAGEMENT PROXY CIRCULAR

This Management Proxy Circular is sent in connection with the solicitation by the management of Power Corporation of Canada (the "Corporation") of proxies for use at the Special and Annual Meeting of Shareholders of the Corporation to be held on Thursday, May 1, 1986 (the "Meeting"), or any adjournment thereof. The method of solicitation will be primarily by mail. However, proxies may also be solicited by regular employees or agents of the Corporation personally or in writing or by telephone. The cost of solicitation will be borne by the Corporation.

The following abbreviations have been used throughout this Management Proxy Circular:

<u>Name in full</u>	<u>Abbreviation</u>
Power Financial Corporation	Power Financial
The Great-West Life Assurance Company	Great-West
The Investors Group	Investors
Montreal Trustco Inc.	Montreal Trust

Revocation of Proxy

A shareholder giving a proxy may revoke the proxy by instrument in writing executed by the shareholder or his attorney authorized in writing or, if the shareholder is a corporation, by an officer or attorney thereof duly authorized, and deposited either at the registered office of the Corporation, 759 Victoria Square, Montréal, Québec, Canada H2Y 2K4, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof, or in any other manner permitted by law, but prior to the exercise of such proxy in respect of any particular matter.

Voting Shares and Principal Holders Thereof

On March 21, 1986, there were outstanding 5,661,902 7/8¢ Participating Preferred Shares without nominal or par value (herein called "Participating Preferred Shares") and 55,532,844 Subordinate Voting Shares without nominal or par value (herein called "Subordinate Voting Shares") of the Corporation. The Participating Preferred Shares and the Subordinate Voting Shares are herein sometimes collectively referred to as the "Voting Shares".

Each holder of Participating Preferred Shares is entitled to ten votes and each holder of Subordinate Voting Shares is entitled to one vote at the Meeting, or any adjournment thereof, for each share registered in the holder's name as at the close of business on the date immediately preceding the day on which the Notice of Special and Annual Meeting is given (the "Determination Date"), except that a transferee of Voting Shares acquired since the Determination Date shall be entitled to vote such shares at the Meeting, or any adjournment thereof, if the transferee produces properly endorsed share certificates for such shares, or otherwise establishes that such shares are owned by the transferee, and has demanded not later than ten days before the Meeting that the transferee's name be included in the list of shareholders entitled to receive the Notice of Special and Annual Meeting, such list having been prepared as of the Determination Date.

To the knowledge of the directors and officers of the Corporation, only Gelco Enterprises Ltd. ("Gelco") and Transportation Management Corporation ("TMC") each own shares carrying more than 10% of the votes attached to the outstanding Voting Shares of the Corporation. Gelco and TMC are associates of Mr. Paul Desmarais, Chairman and Chief Executive Officer of the Corporation. On March 21, 1986, Mr. Paul Desmarais and associates, Gelco, TMC, Monceau Investments Inc. and Prime Investors Ltd. owned, in the aggregate, 5,577,730 Participating Preferred Shares representing 98.51% of the outstanding Participating Preferred Shares and 11,670,872 Subordinate Voting Shares representing 21.02% of the outstanding Subordinate Voting Shares; family trusts of which a majority of the trustees consist of Mr. Paul Desmarais and associates or of associates of Mr. Paul Desmarais exercise control or direction over 42,600 Participating Preferred Shares and 1,048 Subordinate Voting Shares. In total, the shares owned by Mr. Paul Desmarais and associates or over which the said trustees exercise control or direction represent 60.52% of the 112,151,864 votes attached to the outstanding Voting Shares of the Corporation.

Special Resolution - Increase in Maximum Number of Directors

The articles of the Corporation provide that the maximum number of directors is 27. The holders of the Voting Shares will be asked at the Meeting, or any adjournment thereof, to consider and, if deemed advisable, adopt the following special resolution which increases the maximum number of directors to 28.

SPECIAL RESOLUTION - INCREASE IN MAXIMUM NUMBER OF DIRECTORS

RESOLVED:

THAT the articles of Power Corporation of Canada - Power Corporation du Canada are hereby amended to increase the maximum number of directors from 27 to 28; and

THAT any officer or director of the Corporation is hereby authorized to sign and execute the said articles of amendment and to do all things necessary and advisable to implement this special resolution.

In order to be effective, this special resolution must be adopted by the affirmative vote of not less than two-thirds of the votes cast by the holders of the Voting Shares at the Meeting or any adjournment thereof. Except where the nominees named in the accompanying form of proxy are directed to vote against the special resolution increasing the maximum number of directors, the said nominees will vote the shares represented by the proxy for the adoption of the said special resolution.

If the special resolution increasing the maximum number of directors is adopted, the Corporation shall deliver articles of amendment to the Director pursuant to the Canada Business Corporations Act in order to give effect to the said special resolution.

Election of Directors

The Board of Directors of the Corporation consists of 27 members. If the special resolution increasing the maximum number of directors from 27 to 28 is adopted, the 28 persons named hereunder will be proposed for election as directors of the Corporation. Except where authority to vote in respect of the election of directors is withheld, the nominees named in the accompanying form of proxy will vote the shares represented thereby for the election of the 28 persons named hereunder. The management of the Corporation does not contemplate that any of the persons named hereunder will, for any reason, become unable or unwilling to serve as a director. However, if such event should occur prior to the election, the nominees named in the accompanying form of proxy reserve the right to vote for the election in his stead of such other person as they in their discretion determine.

Each director shall hold office until the close of the next annual meeting of shareholders, unless he shall resign or his office becomes vacant for any reason.

Name, Municipality of Residence, Principal Occupation and Other Major Positions with the Corporation and its Affiliates	Served as Director from	Approximate Number of Shares of Each Class of Shares of the Corporation Directly or Indirectly Held as of March 21, 1986
The Honourable John B. Aird, O.C., Q.C. Toronto, Ontario Senior partner of Aird & Berlis, barristers and solicitors, from September, 1985; previously, Lieutenant-Governor of the Province of Ontario, from September, 1980 to September, 1985;	March, 1986	—
Michel Bélanger (b) Outremont, Québec Chairman of the Board and Chief Executive Officer of National Bank of Canada, a chartered bank	May, 1977 to June, 1978, and from May, 1981	2,000 Subordinate Voting Shares
Charles R. Bronfman, O.C. (c) Westmount, Québec Deputy Chairman of the Board and Chairman of the Executive Committee of The Seagram Company Ltd., a producer and marketer of distilled spirits and wines	May, 1983	20,000 Subordinate Voting Shares
James W. Burns (a) Montréal, Québec President of the Corporation; President and Chief Executive Officer of Power Financial; Chairman of Great-West	May, 1978	151,664 Subordinate Voting Shares
Peter D. Curry (a) Montréal, Québec Deputy Chairman of the Corporation	November, 1968	200,000 Subordinate Voting Shares
Hon. William G. Davis, P.C., Q.C. Brampton, Ontario Counsel, Tory, Tory, DesLauriers & Binnington, barristers and solicitors	May, 1985	—

(a) Member of the Executive Committee

(b) Member of the Audit Committee

(c) Member of the Compensation Committee

Name, Municipality of Residence, Principal Occupation and Other Major Positions with the Corporation and its Affiliates	Served as Director from	Approximate Number of Shares of Each Class of Shares of the Corporation Directly or Indirectly Held as of March 21, 1986
Paul Desmarais, O.C. (a) Westmount, Québec Chairman and Chief Executive Officer of the Corporation; Chairman of Power Financial	May, 1968	See “Voting Shares and Principal Holders Thereof” on page 2.
Gérard Eskenazi Saint-Cloud, France Chairman of Banque Paribas (Suisse) S.A., a commercial bank; Deputy Chairman and President of Groupe Bruxelles Lambert S.A., a financial and industrial group; and Managing Director and Chairman of the Executive Committee of Pargesa Holding S.A., a bank holding company	November, 1979	2,000 Subordinate Voting Shares
Rowland C. Frazee Town of Mount Royal, Québec Chairman and Chief Executive Officer of The Royal Bank of Canada, a chartered bank	May, 1982	1,000 Subordinate Voting Shares
Albert P. Frère Brussels, Belgium Deputy Chairman and Chairman of the Executive Committee of Groupe Bruxelles Lambert S.A., a financial and industrial group; Chairman and Chief Executive Officer of Frère-Bourgeois S.A., a family holding company	May, 1985	—
William M. Fuller (b) Fort Worth, Texas Chairman of Fuller Petroleum, Inc., an oil exploration company	April, 1975	144,800 Subordinate Voting Shares
Pierre Genest, Q.C. (b) Toronto, Ontario Partner of Cassels, Brock & Blackwell, barristers and solicitors	November, 1973	400 Subordinate Voting Shares
Jean-Paul Gignac, O.C. Shawinigan, Québec Director	May, 1970	14,200 Subordinate Voting Shares
Roland Giroux, C.C. (a) Montréal, Québec Director	May, 1977	1,200 Subordinate Voting Shares
Pierre Haas Paris, France Honorary Chairman of Paribas International, a merchant bank	May, 1978	2,000 Subordinate Voting Shares
Jean-Yves Haberer Paris, France Chairman and Chief Executive Officer of Compagnie Financière de Paribas and of Banque Paribas, commercial banks	May, 1982	2,000 Subordinate Voting Shares

(a) Member of the Executive Committee
(b) Member of the Audit Committee
(c) Member of the Compensation Committee

Name, Municipality of Residence, Principal Occupation and Other Major Positions with the Corporation and its Affiliates	Served as Director from	Approximate Number of Shares of Each Class of Shares of the Corporation Directly or Indirectly Held as of March 21, 1986
Arden R. Haynes Don Mills, Ontario Chairman, President and Chief Executive Officer of Imperial Oil Limited, an energy company	July, 1984	400 Subordinate Voting Shares
F. Ross Johnson (c) New York, New York President and Chief Executive Officer of R. J. Reynolds Inc., a producer and marketer of consumer products, beverages and tobacco	May, 1982	400 Subordinate Voting Shares
Robert H. Jones Winnipeg, Manitoba Chairman of Investors	February, 1976	1,400 Subordinate Voting Shares
A. F. Knowles, C.A. (a) Beaconsfield, Québec Executive Vice-President of the Corporation and of Power Financial	May to September, 1969, and from May, 1978	151,104 Subordinate Voting Shares 975 First Preferred Shares, 1965 Series
Paul Britton Paine, Q.C. (b)(c) Westmount, Québec Director	May, 1970	30,300 Subordinate Voting Shares
Robert Parizeau Montréal, Québec President and Chief Executive Officer of Sodarcan inc., an insurance and reinsurance holding company	May, 1985	4,800 Subordinate Voting Shares
P. Michael Pitfield, P.C., Q.C. (a) Ottawa, Ontario Member of the Senate of Canada, Ottawa, and Vice-Chairman of the Corporation	May, 1985	16,000 Subordinate Voting Shares
Yves Pratte, Q.C. (a)(c) Montréal, Québec Partner of Clarkson, Tétrault, barristers and solicitors	May, 1981	600 Subordinate Voting Shares
The Right Honourable The Viscount Rothermere London, England Chairman of Associated Newspapers Holdings plc, a newspaper and magazine publishing company, since 1970	—	—
Pierre Scohier Salles-Chimay, Belgium Managing Director, Chief Executive Officer and Chairman of the Executive Committee of Compagnie Belge de Participations Paribas "COBEPA" S.A., a holding company	May, 1985	—

(a) Member of the Executive Committee

(b) Member of the Audit Committee

(c) Member of the Compensation Committee

Name, Municipality of Residence, Principal Occupation and Other Major Positions with the Corporation and its Affiliates	Served as Director from	Approximate Number of Shares of Each Class of Shares of the Corporation Directly or Indirectly Held as of March 21, 1986
Peter N. Thomson Nassau, Bahamas Chairman and President of West Indies Power Corporation Limited, a public utility corporation	August, 1956	2,020 Subordinate Voting Shares
William I. M. Turner, Jr. (a) Westmount, Québec Chairman and Chief Executive Officer of Consolidated-Bathurst Inc., a producer and marketer of paper and forest products	May, 1966	110,000 Subordinate Voting Shares

(a) Member of the Executive Committee

(b) Member of the Audit Committee

(c) Member of the Compensation Committee

Directors' and Officers' Remuneration

The aggregate cash remuneration paid or payable by the Corporation and by each of its subsidiaries in respect of the last completed financial year ended December 31, 1985, (i) to the directors of the Corporation in their capacity as directors of the Corporation and any of its subsidiaries, and (ii) to officers of the Corporation in their capacity as officers or employees of the Corporation and any of its subsidiaries, was as follows:

NATURE OF REMUNERATION

	Directors' Fees	Salaries	Other Remuneration	Total
Total number of directors and officers (38)				
REMUNERATION OF DIRECTORS				
Directors (26)				
Body Corporate incurring the expense:				
the Corporation	\$358,065	—	—	\$ 358,065
Power Financial	117,500	—	—	117,500
Investors	50,200	—	—	50,200
Great-West and subsidiaries	105,600	—	—	105,600
Montreal Trust	33,700	—	—	33,700
Gesca Ltée and subsidiaries	47,500	—	—	47,500
REMUNERATION OF OFFICERS				
Officers (12)				
Body Corporate incurring the expense:				
the Corporation	—	\$2,275,000	—	\$2,275,000
Power Financial	—	526,000	—	526,000
Great-West	—	75,000	—	75,000
TOTALS	\$712,565	\$2,876,000		\$3,588,565

The aggregate value of remuneration other than cash remuneration or remuneration under plans does not exceed 10% of the cash remuneration as reported above.

The estimated aggregate cost to the Corporation and its subsidiaries in the last completed financial year of all benefits proposed to be paid under any pension plans upon retirement at normal retirement age to directors and officers of the Corporation is \$6,485.

In May, 1985, the Board of Directors approved a Supplementary Employee Retirement Plan (“SERP”) under which a pension benefit may become payable to such of the executive officers of the Corporation as may be designated for participation by the Compensation Committee of the Board of Directors. To date, five such officers have been so designated.

Under the SERP a participant becomes entitled to a maximum annual pension at normal retirement age equal to sixty percent of the average of the highest three years of the participant’s salary out of the final ten years of employment, less the annual amount of the participant’s pension under the Corporation’s pension plan and less the amount of the benefit payable under the Canada Pension Plan on the date of retirement. Entitlement to the maximum supplementary pension under the SERP requires 15 years of employment with the Corporation. The amount of the supplementary pension is reduced by six and two-thirds percent for each year of employment with the Corporation less than 15. No benefit is payable to a participant with less than five years employment at retirement. In the event of retirement prior to normal retirement age, the supplementary pension earned to the date of early retirement becomes payable, provided the participant has completed 10 years of employment with the Corporation and subject to a reduction in the supplementary pension benefit of six percent for each year by which the retirement precedes age 60. Early retirement may not be elected prior to age 55. On the death of a participant following retirement, the surviving spouse, if any, becomes entitled to a pension of fifty percent of the supplementary pension of the participant.

SERP payments are not being funded and will be paid when due out of the general funds of the Corporation. No benefits were paid during 1985. The estimated level dollar amortization in 1985 of the aggregate cost to the Corporation of all benefits proposed to be paid under the SERP to present participants upon retirement at normal retirement age was \$612,000.

The Power Executive Stock Option Plan (“Plan”) was established by the Board of Directors of the Corporation on March 8, 1985 and approved by the shareholders on May 10, 1985. Purposes of the Plan are (i) to grant to certain officers of the Corporation options to purchase Subordinate Voting Shares of the Corporation in order to encourage the productivity of such officers in furthering the growth and development of the Corporation and (ii) to assist the Corporation in retaining and attracting executives with experience and ability.

The Plan is administered by the Compensation Committee of the Board of Directors of the Corporation. No member of the committee, while he is a member thereof, may participate in the Plan. The Board of Directors of the Corporation may amend, suspend or terminate the Plan in whole or in part at any time. The Board of Directors may not, however, materially increase the benefits accruing to participants under the Plan, increase the number of shares issuable pursuant to the Plan or materially modify the requirements as to eligibility for participation in the Plan without the approval of the shareholders of the Corporation.

The committee designates certain officers of the Corporation to whom options are to be granted and the number of shares covered by each option. Officers may hold more than one option, and options may be exercised in whole at any time or in part from time to time during the option period.

The committee establishes the exercise price for each share covered by an option. The Plan requires, however, that the exercise price under any option must not be less than 90% of the market value of a share on the date of granting of the option. The Plan defines “market value” to mean the average of the high and low prices of shares on The Montreal Exchange and The Toronto Stock Exchange on the relevant day or on the last preceding day on which there were two or more reported sales.

The committee determines the period during which each option is exercisable, provided that such period may not commence earlier than the date of granting of the option and may not terminate later than ten years after such date, or earlier in the event of termination of employment due to retirement, death or other cause.

A total of 1,600,000 Subordinate Voting Shares are available for issue pursuant to the exercise of options under the Plan, subject to adjustment by the committee in the event of any change in the number of shares outstanding by reason of a stock dividend, share capital reorganization or the like. All shares subject to options that have terminated, been forfeited or been surrendered become available for subsequent options under the Plan.

On May 10, 1985, options to purchase an aggregate of 1,050,000 Subordinate Voting Shares of the Corporation were granted to officers of the Corporation, three of whom are also directors, under the terms of the Plan. The options are exercisable at a price of \$16.938 (the “exercise price”) and expire on May 9, 1995. During the 30 days preceding May 10, 1985, the high and low prices of the Subordinate Voting Shares of the Corporation, adjusted for the two-for-one subdivision effective June 3, 1985, were \$17.00 and \$15.5625 respectively. Also, on March 18, 1986, options to purchase an aggregate of 100,000 Subordinate Voting Shares of the Corporation were granted to an officer of the Corporation under the terms of the Plan. The options are exercisable at a price of \$27.316 and expire on March 17, 1996. During the 30 days preceding March 18, 1986, the high and low prices of the Subordinate Voting Shares of the Corporation were \$29.25 and \$24.75 respectively.

On February 19, 1986, options to purchase 25,000 Subordinate Voting Shares of the Corporation under the Plan were exercised at the exercise price. During the 30 days preceding February 19, 1986, the high and low prices of the Subordinate Voting Shares of the Corporation were \$26.375 and \$21.125 respectively and, on the exercise date, the aggregate net value of the Subordinate Voting Shares underlying the options exercised was \$232,800.

The maximum aggregate annual amount of all remuneration payments, other than payments reported above, paid or proposed to be paid by the Corporation or any of its subsidiaries, pursuant to existing plans or arrangements, to directors and officers of the Corporation, was \$149,780 in 1985, will be \$209,791 in 1986, will be \$239,791 from 1987 to 1989, and will then reduce to \$233,958 from 1990, payable during the lifetime of the recipients or their widow.

The Corporation compensates each director for services during his term of office as follows: Each director receives a basic annual retainer of \$10,000 and an additional annual fee of \$2,000 is paid to the Chairman of the Audit Committee and the Chairman of the Compensation Committee. In addition the Corporation pays each director a fee of \$750 for each board meeting or committee meeting which he attends.

The Corporation has loaned \$150,000 on an interest-free basis to Mr. John A. Rae, an officer, for investment purposes. The largest aggregate amount outstanding during 1985 and as of March 21, 1986 was \$150,000.

During 1985, the Corporation loaned \$125,000 on an interest-free basis to Mr. J. Edward Johnson, an officer, in connection with the purchase of a residence. The largest aggregate amount outstanding at any time during 1985 was \$125,000 and as of March 21, 1986 was \$124,504.

Appointment of Auditors

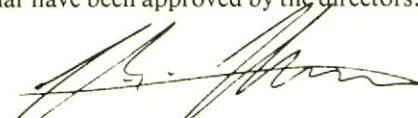
Touche Ross & Co. or its predecessor firms have been the auditors of the Corporation since its incorporation in 1925. It is proposed to re-appoint at the Meeting, or any adjournment thereof, Touche Ross & Co. as auditors of the Corporation to hold office until the close of the next annual meeting of shareholders. Except where authority to vote in respect of the appointment of auditors is withheld, the nominees named in the accompanying form of proxy will vote the shares represented thereby for the appointment of Touche Ross & Co. as auditors of the Corporation.

Discretionary Authority

The accompanying form of proxy confers discretionary authority with respect to amendments to the matters identified in the Notice of Special and Annual Meeting and on such other business as may properly come before the Meeting or any adjournment thereof. The management is not aware that any such amendments or other business are to be submitted to the Meeting. **If such amendments or other business properly come before the Meeting, or any adjournment thereof, the nominees named in such form of proxy will vote the shares represented thereby in their discretion.**

Approval of Management Proxy Circular

The contents and the sending of this Management Proxy Circular have been approved by the directors.



J. Edward Johnson
Vice-President and Secretary

Dated at Montréal, Québec
March 21, 1986

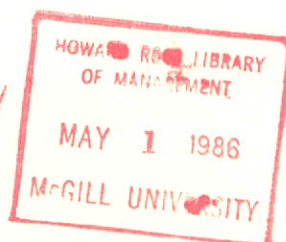
For the year ended December 31	1985	1984*
Net operating income	\$ 115,098,000	\$ 101,596,000
Net income	\$ 108,693,000	\$ 95,204,000
Earnings per share		
Net operating income after minority interest	\$ 2.65	\$ 2.35
Net income	\$ 2.66	\$ 2.37

*1984 figures are shown on a pro forma basis for purposes of comparability.

As at December 31		
Assets under administration (billions)	\$ 41.9	\$ 35.4
Shareholders' equity (millions)	\$ 635.3	\$ 530.8

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Si vous préférez recevoir ce rapport annuel en français, veuillez vous adresser au Secrétaire, Corporation Financière Power, 759, Square Victoria, Montréal (Québec) Canada H2Y 2K4

Report to Shareholders

The year was marked by continuing growth in all aspects of your Company's operations...

The year 1985 was marked by continued growth in your Corporation's asset base, its profits and the dividends paid to its shareholders.

Consolidated net income for the year was \$115.7 million, including other items of \$578,000, and, after minority interest, was equal to \$108.7 million or \$2.66 per share. On a pro forma basis, 1984 consolidated net income, including other items of \$687,000, and, after minority interest of \$7.1 million, was \$95.2 million or \$2.37 per share.

The net income from operations attributable to shareholders of The Great-West Life Assurance Company in 1985 was \$85.6 million. In 1984, net income from operations totalled \$77.6 million. Including other items of \$601,000, net income for the year was \$86.2 million as against \$78.3 million for the previous year.

The net income of The Investors Group, excluding its share of the earnings of The Great-West Life Assurance Company and Montreal Trustco Inc. and before the after-tax cost of debenture interest, was \$24.4 million for 1985 compared with \$21.2 million for 1984.

The net income of Montreal Trustco Inc. for 1985 was \$18.4 million compared with \$15.6 million in 1984.

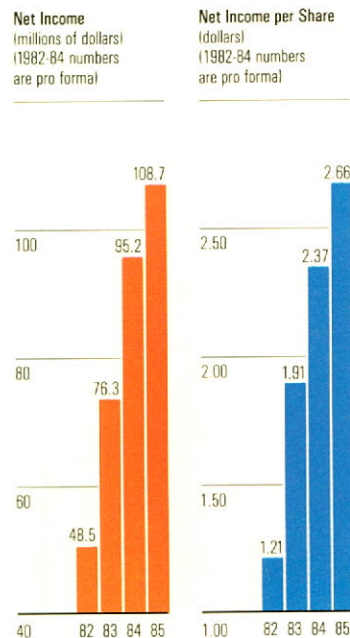
Some of the factors behind these figures include:

- * improved operating income in group life and health insurance and group annuity operations in Canada and the United States by The Great-West Life Assurance Company;
- * a very substantial increase in sales of mutual funds and investment certificates by The Investors Group;
- * continued growth in the financial intermediary and real estate sales operations of Montreal Trustco Inc.

Further information on the subsidiary and associated companies appears in this report.

Corporate Developments

Power Financial Corporation raised \$26.2 million during the year through the sale of one million of its common shares concurrent with a secondary offering by Power Corporation of Canada of three million common shares of your Corporation. As a result, Power Corporation's holding in Power Financial Corporation has been reduced to 70.3 per cent and the public float of the Corporation's shares has increased to approximately four million shares.



Power Financial increased its investment in the outstanding equity of Pargesa Holding S.A. by \$55.3 million. The increase was financed in part by a short-term Swiss bank loan which is to be replaced by a privately placed medium-term loan in Swiss francs. Your Corporation also acquired 1,089,000 common shares of Montreal Trustco Inc. for \$18.7 million through the exercise of share purchase warrants. This brought Power Financial's holding to 2,785,000 shares. The combined holding of Power Financial and The Investors Group in Montreal Trustco Inc. remains at 55.4 per cent.

The Great-West Life Assurance Company issued a new series of 7.70 per cent preferred shares in 1985. Net proceeds of the issue were \$147 million.

The Investors Group raised \$50 million through an issue of 20-year, 10.6 per cent debentures. Proceeds from the issue were received early in 1986.

During 1985 and early in 1986 Montreal Trustco raised \$60 million through an offering of 99-year floating rate debentures, \$30 million through an offering of 7 per cent debentures and warrants, \$29.5 million through the issue of common stock upon the exercise of warrants, \$50.0 million through an 11.0 per cent Euro-dollar debenture issue, \$65 million through a 12-year issue of debentures and \$50 million through a 10 per cent Euro-Canadian debenture issue maturing in 1991.

The additional capital raised, and the reinvestment of retained earnings, substantially strengthened the capital base of all of the companies in the Power Financial group.

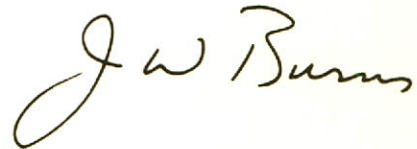
Dividend

At its August meeting your Board of Directors increased the quarterly dividend to 20 cents per common share indicating an annual dividend rate of 80 cents per share compared with 60 cents at the end of 1984. This reflects the continuing growth in earnings and dividends paid by the subsidiaries and is consistent with your Corporation's policy of flowing through to its shareholders the dividends received from the operating companies.

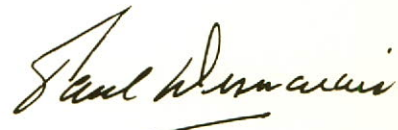
The evolution of the financial services industry in Canada, the United States and Europe continued at a rapid pace in 1985. Power Financial is working with its subsidiary companies as they develop new products and services to meet emerging demands and your Directors believe that your Corporation is well positioned to participate in the growth of the industry, and to adapt to any changes that may occur in the regulatory environment.

On behalf of the Directors of your Corporation, we wish to express our appreciation to the people of the companies in the Power Financial group for their contribution in making 1985 such a successful year.

On behalf of the Board,



President and
Chief Executive Officer



Chairman
Montréal, Québec, March 6, 1986

Power Financial Corporation

Power Financial is continuing to build on the established strengths of its three operating companies...

Power Financial Corporation is engaged in the supply and distribution of a comprehensive selection of financial services and products through its three long-established operating companies.

The three operating companies are:

- * The Great-West Life Assurance Company, the largest Canadian shareholder-owned life insurance company, in which Power Financial holds, through subsidiaries, a 96.2 per cent equity interest;
- * The Investors Group, Canada's largest distributor of mutual funds, in which Power Financial holds a 98.1 per cent equity interest; and
- * Montreal Trustco Inc., the leading Canadian trust company in the provision of corporate fiduciary services, in which Power Financial holds, directly and through subsidiaries, a 55.4 per cent equity interest.

Power Financial also holds an equity interest in Pargesa Holding S.A., an international investment group based in Geneva.

One of the most valuable assets of Power Financial is the number and quality of the networks established by the three operating companies for the distribution of their financial services and products.

Among them, they have 12 major distribution networks which extend across Canada and the United States and are supported by 220 regional offices. Together they provide individual and group life and health insurance, individual and corporate financial planning and management services, and individual and corporate fiduciary and financial intermediary services.

The geographic scope of the networks and the diversity of the services and products they distribute is unmatched by any other Canadian financial services company. In 1985 they increased the total administered assets of the three operating companies to \$41.9 billion from \$35.4 billion in 1984.

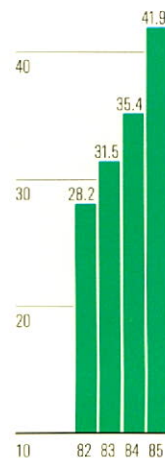


The Investors Group provides personal financial planning carefully designed to meet individual requirements. Garnet Brown (left) is assisted with his retirement savings and investment plan by Dave Salmon, Investors' leading financial planner for the Atlantic Region, at Investors' Halifax office.



Head office of Banque Paribas (Suisse) S.A., Geneva, a key element in Pargesa's extensive banking and finance portfolio. Through its interest in Pargesa, Power Financial has access to opportunities abroad.

Total Assets Under Administration (billions of dollars)



As extensive and as firmly emplaced as the networks are, and as comprehensive the financial services and products they distribute, their ultimate effectiveness depends on the ability and dedication of the individual sales representatives. Together, the three operating companies have a sales force of more than 8,000 men and women. They are carefully recruited to meet the companies' high standards and undergo intensive and continuing in-house training in all aspects of the services and products they represent.

The distribution networks and their sales representatives are also supplied with new financial services and products to meet the requirements of rapidly changing markets. With their sophisticated information systems, the three operating companies can move decisively to satisfy demanding and complex client needs as quickly as they can be defined.

Through Power Financial, the development and supply of new services and products by the operating companies can be co-ordinated in ways which are most cost-effective and market-oriented. Co-ordination is achieved at the level of the chief executive officers of the

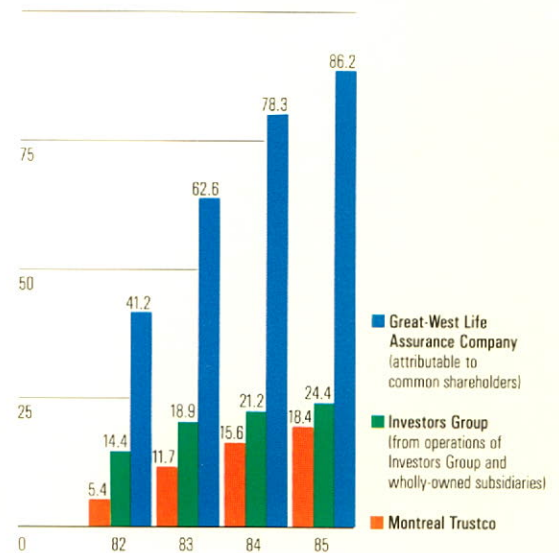
operating companies who participate in the direction of Power Financial as members of the Board, and who also constitute a management committee.

The emphasis on co-ordination, as distinct from consolidation, exemplifies Power Financial's management philosophy of building on the individual strengths of the operating companies while maintaining their established corporate identities and tested operating practices.



All Power Financial operating companies employ sophisticated information processing in the provision of financial services and products. Here a Great-West Life agent uses a portable computer system developed by Great-West to supply on-the-spot data to meet a client's particular needs.

Net Income of Operating Companies (millions of dollars)



Montreal Trust renovated many offices and opened new ones including the new office in Town of Mount Royal, Quebec. The Company's broad range of financial products and integrated distribution networks provide expanding opportunities for delivering fiduciary and financial intermediary services.



The Investors Group

Sales of mutual funds by Investors, the largest distributor in Canada, increased by 68 per cent...

The Investors Group and its wholly-owned subsidiaries reported an increase in net income, exclusive of its share of the net income of other Power Financial operating companies, of 15 per cent to \$24.4 million in 1985. Sales of the Company's financial products increased by 52 per cent to \$1.05 billion.

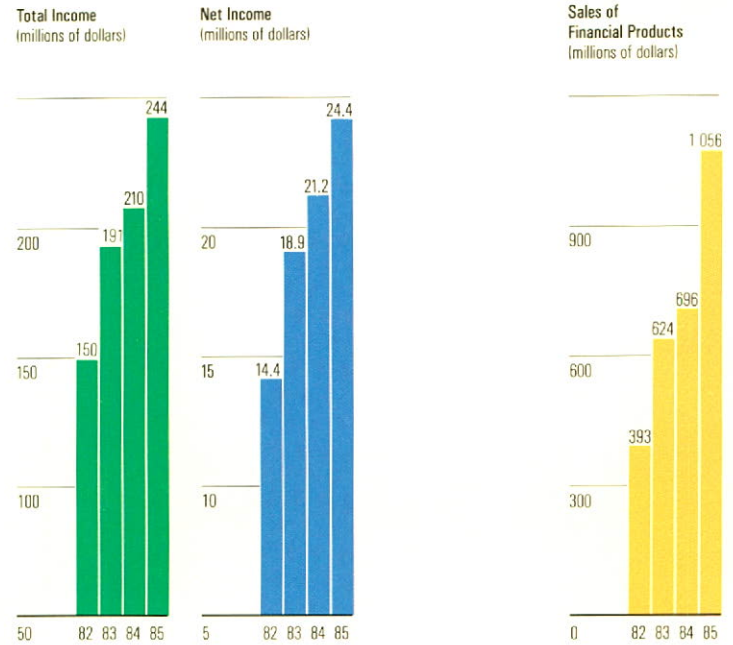
The Investors Group maintained by a wide margin its position as Canada's largest distributor of mutual funds. In 1985, sales of Investors' mutual funds increased by 68 per cent to \$834 million. Total assets under administration increased by 31 per cent to \$6.3 billion. The number of shareholder accounts increased by 56,800 to 339,900.

The year was particularly notable for the strengthening interest in equity-based investments, resulting from lower interest rates and improving markets for equities.

Sales of investment certificates increased by 24 per cent to \$121 million. Sales of term life insurance on behalf of Great-West Life Assurance Company continued to increase but sales of annuities and

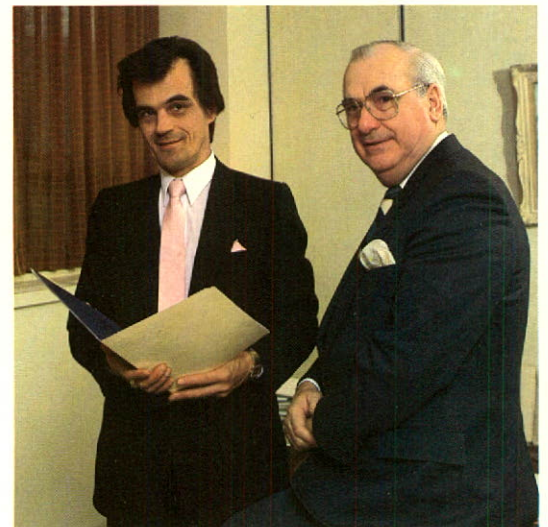
other products showed a modest decline, with the result that overall sales in these categories were \$100.8 million compared to \$103.5 million in 1984.

During the year, Investors introduced a money market fund, raising the number of its mutual funds to 12. The new fund was well received and Investors' clients are able to choose from among mutual funds that span a broad spectrum from interest-rate oriented funds to all classes



Ralph Weekes, based in The Investors Group office in Oakville, Ontario, assists Ms. Sigrid Sharkey in selecting the right investment fund to meet her requirements. Mr. Weekes was Investors' leading financial planner for the Central Canada Region in 1985.

Lucien Larochelle, Region Manager of the Quebec City office for The Investors Group, discusses arrangements for one of the Company's regular financial planning seminars with Raymond Thomassin (left). Mr. Thomassin was Investors' top financial planner for the Quebec region in 1985.



of equity. Investors' clients can also select from funds with investments denominated in Canadian and U.S. dollars, and Japanese yen.

This breadth of choice, together with term life insurance, investment certificates and other financial products available through the Company, enables Investors to develop integrated personal financial plans designed to meet the individual requirements of each client.

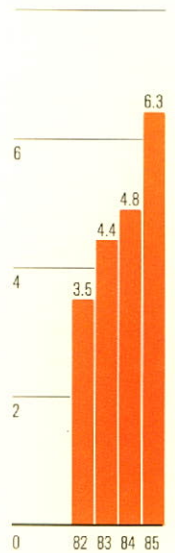
During the year, Investors increased the number of its sales representatives from over 1,100 to over 1,300, most of whom are licensed to sell both mutual funds and life insurance. Investors' commitment to the maintenance of a skilled, mature and experienced sales force is supported by extensive and continuing training programs, both in-house and through such courses as those sponsored by the Investment Funds Institute of Canada leading to the designation of Chartered Financial Planner.

The Company is placing increasing emphasis on programs to help clients prepare more effectively for retirement. It also offers pension

plans for small businesses through The Investors Group Trust Co. Ltd.

Investors announced in August, 1985, its intention to build a new 19-storey head office in Winnipeg at an estimated cost of \$35 million. The building will constitute visible evidence of continued growth and is an expression of confidence in the future of this dynamic and unique Canadian financial institution.

Assets Under Administration
(billions of dollars)



Ted Foreman (left) keeps John Ferguson, General Manager of the Winnipeg Jets, up to date on the performance of Mr. Ferguson's personal investment program. Mr. Foreman, of The Investors Group's Winnipeg Broadway office, was the top financial planner in the Mid-western Canada region in 1985.



Vince O'Shea, in the Edmonton South Side office of The Investors Group, discusses investment fund results with Floyd Black, Region Manager. Investors' 12 mutual funds give clients an unparalleled selection for personal financial planning. Mr. O'Shea was the leading financial planner for the Western Canada region.

The Great-West Life Assurance Company

Life insurance in force, individual and group combined, now exceeds \$100 billion...

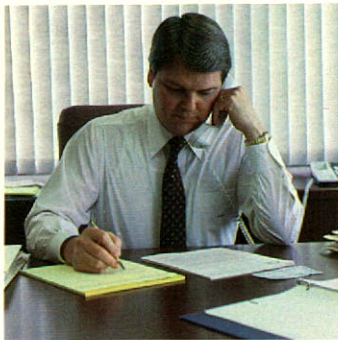
The Great-West Life Assurance Company reported net income attributable to common shareholders of \$86.2 million or \$43.11 a share compared with \$78.3 million or \$39.16 a share in 1984.

Sales of new life insurance in terms of the protection provided were \$14.5 billion. Life insurance business in force, individual and group combined, was \$100.3 billion at year-end, assets under administration were \$10.8 billion, and investment income exceeded \$1 billion.

Great-West Life, with its head office in Winnipeg, and headquarters for the United States in Denver, Colorado, sells insurance in every

Canadian province and in 48 states and the District of Columbia. It is the largest Canadian shareholder-owned life insurance company in terms of assets, premium income and insurance in force. In the United States, it is the largest shareholder-owned life insurance company, in terms of premium income, based west of the Mississippi.

Sales of individual insurance products in both Canada and the United States recorded solid gains in response to the Company's continuing program of intensive new product development. At the



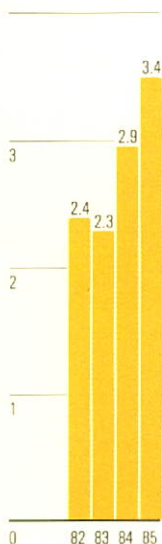
Dave Hunter of the Denver agency led all Canadian and United States agents in 1985 in the sale of individual life insurance. Great-West Life offers a broad range of life insurance and related products in Canada and the U.S. which are uniquely adaptable to individual client needs. Half of Great-West Life's assets are held in the United States.

Assets Under Administration (billions of dollars)

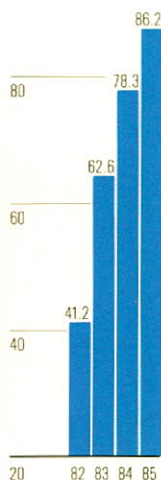


Great-West Life is the syndicate manager for the \$54.5 million Purdy's Wharf development in Halifax. The new development has 325,000 square feet of prime office space and lists several prestigious Canadian companies among its tenants.

Total Income (billions of dollars)



Net Income Attributable to Common Shareholders (includes "other items") (millions of dollars)



Great-West Life group insurance marketing strategy in the United States focuses on claims control and cost containment programs. Left to right are Steve Ferry, Steve Miller and Steve Freeman of the San Francisco office who led all other United States agents in group life and health insurance sales.



same time, the accompanying diversification of product lines has given sales representatives a broader access to the market.

The Company leads all other insurance companies in the provision of group life and health insurance in Canada. It continued to strengthen its position in the group market with the introduction during the year of several product innovations, designed to more closely reflect changing social, political, medical and economic conditions. All of them were well received.

In the U.S., the Company founded the limited partnership, Private Healthcare Systems (PHS), a joint venture of eight commercial insurers which represent \$4 billion in combined group health premiums and premium equivalents. The purpose of PHS is to establish a national network of managed healthcare systems which deliver the best balance between quality and cost. Its is intended to have managed health care plans established in 40 metropolitan centres by the end of 1986.

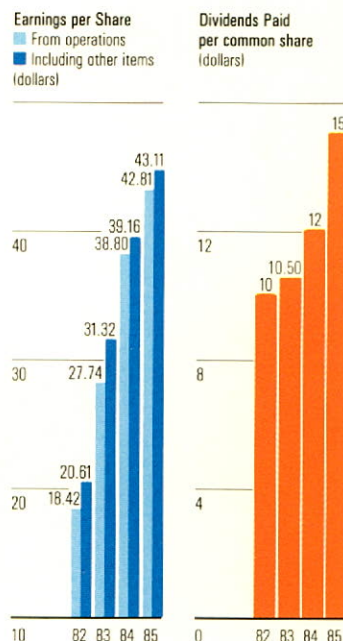
The Company continues its primary thrust toward developing greater distribution capacity in its own sales organizations. At the same

time, it is pursuing the establishment of supplementary distribution channels through compatible external networks, particularly in the United States.

Great-West is also building on the close liaison between lines of business and its investment operations through increased application of computer technology and the improved management it makes possible. The application of sophisticated methods of cost and service management continue to be directed toward increasing productivity and improving customer service.



Great-West Life derives a larger share of premium income from group policies than any other Canadian life insurance company. Left to right, Vic Carpick, John Andrew, Don Howie and Doug Cooper of the Southern Ontario Group office led group sales in Canada in 1985 for the second successive year.



Doug Cox of Great-West Life's Central Ontario agency led all the Company's agents in sales of individual life insurance policies in Canada for the third successive year. Great-West Life has sales representation all across Canada for insurance products that are continuously refined to meet changing market conditions.

Montréal Trustco Inc.

Financial intermediary and real estate operations grew substantially in 1985...

Montreal Trustco Inc. reported an increase in net income of 18 per cent to \$18.4 million in 1985. Gross revenues increased 21 per cent to \$409 million. Corporate assets increased 23 per cent to \$3.1 billion. Total assets under administration increased 12.6 per cent to \$24.2 billion.

New levels of activity were recorded in all aspects of the Company's operations. Particularly significant were the 43 per cent increase in new residential loans to \$516 million; the 41 per cent increase in income property loans to \$195 million; the 106 per cent increase in corporate and government loans to \$268 million; the 43 per cent increase in new sales of one-to-five-year guaranteed income certificates to \$900 million; and the 35 per cent increase in real estate commissions to \$43 million.

Montreal Trust, already the leader in the provision of corporate fiduciary and related services, was appointed trustee and agent for the employee stock purchase plans of four of Canada's six largest banks. It was also the transfer agent for 55 per cent of the total value of the issues eligible for Québec Stock Savings Plans in 1985.

Progress toward extending and diversifying cross-selling of Montreal Trust financial products and services continued. Cross-selling is the delivery of two or more complementary financial products and services to the same client. Last year, for example, Montreal Trust real estate agents generated \$136 million of residential mortgages compared to \$55 million in 1984, the year the cross-selling program was introduced.

Client response to another innovative step by Montreal Trust, the establishment of two investment affiliates in late 1984, has been most favourable. MT Associates in Toronto and Monrusco Associates in Montreal completed their staffing, established their support systems and began servicing their expanding client lists early in 1985.

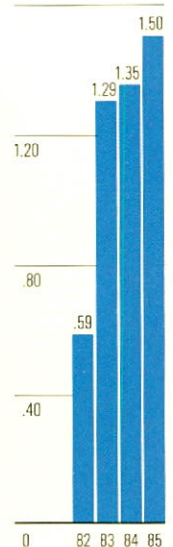
Gross Revenue
(millions of dollars)



Net Income
(millions of dollars)



Net Income per Share
(dollars)



Monrusco Associates, the Company's Montreal-based investment affiliate, combines an entrepreneurial approach with Montreal Trust resources in its approach to investment management. President André Marsan (centre) is flanked by his operations team: (left to right) Monique Roy, Michel Bastien, Sebastien von Berkorn and Michel Labonté.

MT Associates, Toronto, another Montreal Trust Investment affiliate, brings an experienced team of professionals to the management of personal and corporate investments. From left to right Keith Lupton, Nugent Schneider, Martin Taylor (seated), President Alex Wilson, Peter Hargrove, and Geoffrey Logan map strategies.



The combination of the institutional support of Montreal Trust and the entrepreneurial approach of experienced investment management professionals gives the two affiliates the resources needed to establish them as leaders in the complex and demanding investment management market for both institutional and individual accounts.

The Company strengthened its capital base with a \$60 million issue of 99-year debentures in January 1985, and a \$30 million issue of five-year, 7 per cent debentures with warrants in July. A total of 99.3 per cent of the warrants were exercised, adding \$29.5 million to the Company's common equity. The Company also placed a \$50 million five-year issue on the Eurodollar market in October followed early in 1986 by a \$65 million 12-year issue and a \$50 million 10 per cent Euro-Canadian debenture issue maturing in 1991.

Montreal Trust will have a new head office in 1988 in Place Montréal Trust. The Company will be the lead tenant in the 30-storey office

tower which is part of the 1.1 million square-foot complex being developed in downtown Montreal by Cadillac Fairview. Montreal Trust will have an equity interest in the complex and will provide financing.

The Company moved into new regional headquarters in Vancouver's Montreal Trust Centre early in 1985, opened new income property lending offices in Halifax and Ottawa, a personal services branch in Montreal and five real estate offices in Montreal and Toronto. It also renovated branches in Kelowna, Kingston and Halifax.

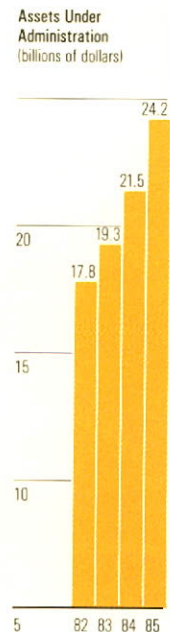
With its major new computer systems now on stream, Montreal Trust has advanced technological support for its present range of products and services, and for new products as they are developed.



Commissions from residential real estate sales by Montreal Trust agents increased by 35% during 1985. The Company's real estate agents also generated \$136 million in residential mortgages compared with \$55 million in 1984.



Early in 1985, Montreal Trust established new regional headquarters in the Montreal Trust Center in downtown Vancouver. The Company also opened new offices in Halifax, Ottawa, Toronto and Montreal as part of its carefully integrated program for extending its distribution networks.



Pargesa Holding S.A.

Pargesa provides a window on Europe for Power Financial...

Pargesa Holding S.A. is an international investment group based in Geneva. For the 12 months ended June 30, 1985, it reported assets of Sfr. 893.2 million and unconsolidated net income of Sfr. 46.3 million. Pargesa's fiscal yearend was recently changed from June 30 to December 31. Assets at December 31, 1985 were Sfr. 977.3 million and unconsolidated net income for the six-month period was Sfr. 23.6 million.

During 1985, Power Financial increased its equity interest in Pargesa. The additional investment was financed in part by a 69.4 million Swiss franc loan. Power Financial's investment in Pargesa was carried on Power Financial's books at \$82 million at fiscal yearend. Market value was \$116.7 million.

Power Financial, AB Volvo of Sweden, Groupes Frères Bourgeois/Erbe of Belgium, and Compagnie de Participations Internationales (Benelux) together own more than 50 per cent of the voting rights attached to Pargesa's shares and approximately 30 per cent of the equity.

The largest part of Pargesa's portfolio, 54.5 per cent, is invested directly and indirectly in retail and investment banking, and related financial services, in Switzerland, the Benelux countries, France, Britain and the United States.

Pargesa's banking interests include Banque Paribas (Suisse) S.A., which is actively engaged in financing international trade as well as doing a significant volume of investment banking. Pargesa's interest in Henry Ansbacher Holdings Plc, a City of London merchant banker, insurance and ship broker, was further increased during 1985.

Pargesa has an interest in Banque Internationale à Luxembourg which employs 1,700 people and has 50 branches, as well as representation in Singapore, London and New York. It is the oldest and

The Banque Internationale à Luxembourg, in which Pargesa has an interest, is the oldest and largest private banking institution in Luxembourg. It launched the first paper currency issue in the Grand Duchy and retains the right of issue.



Pargesa's holdings extend beyond banking and finance. Here technicians record a performance in the Radio-Television Luxembourg studio of Compagnie Luxembourgeoise de Télédiffusion (C.L.T.), owner of Europe's largest private television station. Other Pargesa interests include real estate, transportation, energy and agriproducts.



Entrance to the main office of Banque Paribas (Suisse) S.A., Geneva, one of the several European banking and financial companies in which Pargesa has an interest. More than half of Pargesa's portfolio is invested in banking, insurance, and related financial services.



largest private banking institution in the Grand Duchy. Pargesa also has an interest in Banque Bruxelles Lambert which has 980 branches employing 12,000 people. It has recently expanded its operations to Australia.

Power Financial's participation in Pargesa gives it valuable access to an international financial services network with accompanying opportunities for augmenting, as becomes appropriate, its own financial services networks.

In addition to its interests in operating companies in banking and finance, Pargesa has a broad range of portfolio investments which include holdings in broadcasting, real estate, transportation, energy and agriproducts.



The international scope of Pargesa's holdings is reflected in the composition of its advisory board, meeting here in Geneva. Directors are from Sweden, Luxemburg, Belgium, France, Switzerland, the United States, Canada, Brazil and Kuwait. Three members of the Board of Directors of Power Financial are directors of Pargesa.

Board of Directors

***Douglas A. Berlis, Q.C.**
Counsel, Aird & Berlis

André Bisson, C.M.
Senior Vice-President and
General Manager,
The Bank of Nova Scotia

James W. Burns
President and Chief Executive
Officer of the Corporation

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

Paul Desmarais, O.C.
Chairman of the Corporation

Paul Desmarais, Jr.
Vice-President of the Corporation

Gérard Eskenazi
Chairman, Banque Paribas (Suisse) S.A.

Robert Gratton
Chairman, President and
Chief Executive Officer,
Montreal Trustco Inc.

Kevin P. Kavanagh
President and Chief Executive Officer,
The Great-West Life
Assurance Company

A. F. Knowles, C.A.
Executive Vice-President of
the Corporation

Arthur V. Mauro, Q.C.
President and Chief Executive Officer,
The Investors Group

Hon. P. Michael Pitfield, P.C., Q.C.
Vice-Chairman,
Power Corporation of Canada

Yves Pratte, Q.C.
Partner, Clarkson, Tétrault

Raymond Royer
President and Chief Operating Officer,
Bombardier Inc.

***A.M. Runciman**
Director

*Member of the Audit Committee

Officers

Paul Desmarais, O.C.
Chairman

James W. Burns
President and Chief Executive Officer

A. F. Knowles, C.A.
Executive Vice-President

Michel Plessis-Bélair, C.A.
Vice-President, Finance and Administration

Paul Desmarais, Jr.
Vice-President

J. Edward Johnson
Vice-President and Secretary

Paul Morimanno, C.A.
Vice-President and Treasurer

André Gervais, C.G.A.
Vice-President and Controller

Ginette Murray-Leroy
Assistant Secretary

Power Financial Corporation

Registered Office
759 Victoria Square
Montréal, Québec H2Y 2K4

Transfer Agent and Registrar
Montreal Trust Company
Halifax, Saint John, Montreal, Toronto,
Winnipeg, Regina, Calgary, Vancouver

Stock Listings
Common Shares
The Montreal Exchange
The Toronto Stock Exchange

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	The Investors Group	*
	Pargesa Holding S.A.	**

*The Investors Group financial statements are consolidated with those of Power Financial Corporation.

**Pargesa Holding S.A. financial statements are not included.

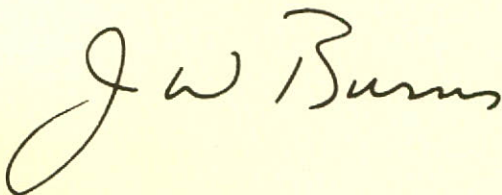
Power Financial Corporation

Consolidated Balance Sheet

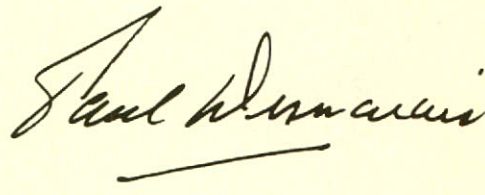
As at December 31

	Thousands	
Assets	1985	1984
Cash and investments		
Cash and temporary investments	\$ 41,347	\$ 74,472
Marketable securities and accrued income (Note 3)	485,894	328,780
Mortgages on real estate and accrued income	850,929	823,705
Real estate	22,756	20,734
Loans to certificate holders	8,307	11,924
	1,409,233	1,259,615
Investment in unconsolidated subsidiaries (Note 4)	606,665	527,687
Office premises	7,175	5,949
Accounts and notes receivable	9,534	7,462
Income taxes recoverable		394
Deferred expenses	8,069	7,322
Other assets	5,327	2,885
	\$ 2,046,003	\$ 1,811,314

Approved by the Board of Directors



Director



Director

	Thousands	
Liabilities	1985	1984
Certificate and other liabilities		
Certificate liabilities (Note 5)	\$ 725,821	\$ 750,434
Provision for additional certificate credits	4,440	4,939
Guaranteed trust accounts (Note 2)	421,608	326,291
Bank loans	6,993	1,288
Tax deposits on mortgages	20,805	21,282
Dividends payable	8,796	6,565
Mortgage on real estate	7,153	6,136
Other liabilities	31,026	19,625
Income taxes payable	1,480	
	1,228,122	1,136,560
Income deferred to future years	3,928	5,029
Deferred income taxes	5,877	8,737
Long-term debt (Note 6)	78,404	32,796
	1,316,331	1,183,122
Minority interest (Note 7)	94,387	97,420
Shareholders' Equity		
Stated capital (Note 8)	501,339	473,964
Retained earnings	133,946	56,808
	635,285	530,772
	\$ 2,046,003	\$ 1,811,314

	Thousands	
	1985	1984
Income		
Investment income	\$ 147,696	\$ 139,152
Management and distribution fees	91,929	67,290
Other	8,111	4,897
	247,736	211,339
Expenses		
Interest on certificate and trust liabilities	85,426	72,982
Additional credits to certificates	37,940	39,312
Certificate and service fee costs	19,741	17,077
Management and distribution costs	70,430	53,236
Trust operating costs	2,611	2,535
Interest	461	395
	216,609	185,537
Income from operations	31,127	25,802
Provision for income taxes (Note 9)	6,174	4,785
Net income from operations	24,953	21,017
Share of earnings of unconsolidated subsidiaries (Note 4)	91,721	82,295
	116,674	103,312
Debenture interest costs net of tax	1,576	1,716
Net operating income	115,098	101,596
Share of other items of unconsolidated subsidiary	578	687
Net income before minority interest	115,676	102,283
Minority interest	6,983	7,079
Net income before the following	108,693	95,204
Pre-acquisition net income		19,816
Net income	\$ 108,693	\$ 75,388
Earnings per share		
Net operating income after minority interest	\$ 2.65	\$ 2.03
Net income	\$ 2.66	\$ 1.88
Pro forma earnings per share (Note 1)		
Net operating income after minority interest		\$ 2.35
Net income		\$ 2.37

Consolidated Statement of
Retained Earnings

For the year ended December 31

Balance, beginning of year	\$ 56,808	\$
Net income	108,693	75,388
	165,501	75,388
Share of charges to retained earnings of unconsolidated subsidiary		(176)
Share issue expenses	(1,206)	(295)
Dividends	(30,349)	(18,109)
Balance, end of year	\$ 133,946	\$ 56,808

Consolidated Statement of Changes in Financial Position

For the year ended December 31

	Thousands	
	1985	1984
Operations		
Net operating income	\$ 115,098	\$ 101,596
Less share of earnings retained by unconsolidated subsidiaries	59,400	56,559
	55,698	45,037
Non-cash charges (credits) to operations		
Deferred income taxes	(2,860)	(2,660)
Other	1,006	2,448
	53,844	44,825
Interest and additional credits on certificate and trust liabilities	123,366	112,294
Certificate and guaranteed trust sales and receipts	223,758	126,717
Certificate maturities and surrenders	(277,231)	(172,782)
Preferred dividends of a subsidiary	(4,958)	(5,147)
Miscellaneous	6,115	3,630
	124,894	109,537
Financing activities		
Proceeds from issue of shares	27,375	138,000
Mortgage on real estate	1,017	6,136
Increase in bank loans	5,705	181
Issue of long-term debt	44,902	
Reduction of long-term debt	(1,500)	(2,504)
Redemption of preferred shares of a subsidiary	(4,200)	(4,200)
Dividends paid	(28,659)	(23,976)
Repayment of demand notes		(114,250)
	44,640	(613)
Investment activities		
Proceeds from security transactions	38,815	58,000
Mortgage principal collections and sales	111,812	75,461
Proceeds from sale of real estate		5,880
Decrease in loans to certificate holders	3,493	1,688
Investment in marketable securities	(135,208)	(99,653)
Investment in mortgages	(145,265)	(101,278)
Net additions to real estate and office premises	(1,725)	(10,014)
Purchase of investments	(74,581)	(23,374)
	(202,659)	(93,290)
(Decrease) increase in cash and temporary investments	(33,125)	15,634
Cash and temporary investments, beginning of year	74,472	58,838
Cash and temporary investments, end of year	\$ 41,347	\$ 74,472

Note 1. Financial statements presentation and summary of significant accounting policies

The accounting principles followed by Power Financial Corporation and its subsidiaries are in accordance with generally accepted accounting principles, except that the accounting practices followed by The Great-West Life Assurance Company are as prescribed or permitted by the Department of Insurance of Canada, as described in the notes to the financial statements of that company on page 28 of this Report.

The pro forma earnings per share as set out in the consolidated statement of income are presented to show what the Corporation's earnings per share in 1984 would have been if Power Financial Corporation had acquired The Investors Group at the beginning of 1984.

a) Principles of consolidation

The consolidated financial statements include the accounts of The Investors Group and its wholly-owned subsidiary companies.

The investments in The Great-West Life Assurance Company and Montreal Trustco Inc. are accounted for respectively on the modified equity basis and on the equity basis. A full consolidation of the financial statements of Power Financial Corporation and its subsidiaries has not been prepared as such statements would not be appropriate in the circumstances. Financial information for these subsidiaries is presented on pages 24 to 32 of this Report.

b) 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.

c) Mortgages and real estate

Mortgages are valued at amortized cost less provision for losses. Real estate is valued at cost less accumulated depreciation and provision for losses.

d) Office premises

Office premises are recorded at cost less accumulated depreciation of \$6,623,000 (1984-\$5,786,000). The depreciable properties and related equipment and furnishings are depreciated on a straight-line basis over their estimated life.

e) Certificate liabilities

Investment certificates entitle certificate holders to receive at maturity a definite sum of money. A portion of payments made by instalment 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 accumu-

late 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.

f) Deferred expenses

On single payment certificates, first year commissions paid to sales representatives together with all selling expenses are amortized over the first 36 months that they are in force. In prior years only the first year commissions were amortized, the selling costs were charged against income in the year of the sale. Under the new method selling costs of \$87,000 were charged to income in 1985 whereas under the previous method the charge to income would have been \$516,000. A special commission which is payable on the tenth anniversary of certain certificates is being provided for by an annual charge against income.

On guaranteed investment certificates, all commissions paid to sales representatives and all other selling expenses are amortized over the terms of the certificates.

g) Additional credits

In addition to the guaranteed maturity and cash surrender values, certificate holders are entitled to additional amounts. Full provision has been made for all additional credits, both earned and accrued.

h) Income taxes

The Corporation follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred as a result of claims made in excess of charges in the accounts for capital cost allowances, mortgage reserves and certificate selling costs.

i) Foreign currency translation

For transactions denominated in foreign currencies, assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Income and expenses are translated at average exchange rates prevailing during the year, currency gains and losses are reflected in earnings except for unrealized gains or losses on translation of foreign long-term debt which are deferred and amortized over the life of the related obligation.

j) Pensions

The Corporation has a pension plan for employees, which is being funded, and the current service cost portion is charged to earnings as incurred.

Note 2. **Assets held for guaranteed trust accounts**

Included in the consolidated balance sheet are the following assets of the guaranteed trust accounts of Investors Group Trust Co. Ltd.:

	Thousands	
	1985	1984
Cash and other investments	\$ 52,215	\$ 42,472
Marketable securities	54,167	28,223
First mortgages	315,226	255,596
	\$ 421,608	\$ 326,291

Note 3. **Marketable securities and accrued income**

	Thousands			
	1985		1984	
	Cost	Market	Cost	Market
Canadian government and corporate bonds and obligations	\$ 130,804	\$ 136,300	\$ 81,529	\$ 75,823
Canadian preferred stocks	236,898	236,776	193,089	179,275
Canadian common stocks	33,341	59,155	24,136	42,439
Aircraft certificates*	2,812	2,812	3,254	3,254
Pargesa Holding S.A.	82,039	116,714	26,772	27,236
	\$ 485,894	\$ 551,757	\$ 328,780	\$ 328,027

*Aircraft certificates represent part ownership of two aircraft leased to a major Canadian airline after deducting a liability of 11% serial debentures. The debentures amount to \$1,442,500

(1984-\$1,625,500), mature in 1991 and are secured by a mortgage on one aircraft and the related lease payments.

Note 4. **Investment in unconsolidated subsidiaries**

	The Great-West Life Assurance Company	Montreal Trustco Inc.	Total
	Equity interest, December 31, 1985	96.2%	55.4%
	Thousands		
Carrying value of investments, beginning of year	\$ 454,605	\$ 73,082	\$ 527,687
Add (deduct)			
Allocation, upon the acquisition of shares of The Investors Group, of the excess of the acquisition cost over the net book value	269		269
Cost of shares acquired during the year		18,731	18,731
Share of net operating income	82,347	9,374	91,721
Share of other items	578		578
Dividends received	(28,854)	(3,467)	(32,321)
Carrying value of investments, end of year	\$ 508,945	\$ 97,720	\$ 606,665
Share of equity, December 31, 1985	\$ 551,319*	\$ 85,696	\$ 637,015

*Statutes governing the life insurance industry require that a portion of surplus be segregated as appropriated surplus for investment and other

asset valuations. Such appropriated surplus is not presently available for distribution to shareholders.

Note 5. **Certificate liabilities**

As security for investment certificates issued by a subsidiary, 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 the subsidiary with an approved depository. As at December 31, 1985 the excess was \$78,657,000 (1984-\$104,124,000).

December 31, 1985

Note 6. **Long-term debt**

	Thousands	
	1985	1984
Swiss bank loans maturing to March 31, 1986 bearing interest at an average rate of 5.5% (Sfr. 69,421,000)*	\$ 47,108	\$
9 ⁷ / ₈ % debentures, 1978 Series due by a subsidiary on October 4, 1998 with a sinking fund requirement of \$1,500,000 per annum, which may be increased to \$2,500,000 at the subsidiary's option	31,296	32,796
	\$ 78,404	\$ 32,796

*Arrangements will be made to refinance these bank loans on a seven year term.

Note 7. **Minority interest**

Minority interest represents the portion of the shareholders' equity of The Investors Group attributable to shares not owned by the Corporation:

	Thousands	
	1985	1984
Preferred shares, 1969 Series*	\$ 32,179	\$ 32,179
Preferred shares, 1978 Series	51,600	55,800
Common shares and class A Non-Voting shares	10,608	9,441
	\$ 94,387	\$ 97,420

*Power Corporation of Canada, the parent corporation, owns 99% of the outstanding shares.

Note 8. **Stated capital**

Authorized

First preferred shares, issuable in series - unlimited
Second preferred shares, issuable in series - unlimited
Common shares - unlimited

Issued and outstanding

	Common shares	
	Number	Stated value
	Thousands	
Balance, beginning of year	40,242,026	\$ 473,964
Issued for cash	1,000,000	27,375
Balance, end of year	41,242,026	\$ 501,339

1,200,000 common shares have been reserved for issuance pursuant to an Employee Stock Option Plan established on March 7, 1985. Options were granted to purchase, until March 25, 1995, up to an aggregate of

710,000 shares, at the price of \$27.50 per share. As at December 31, 1985, no shares had been issued under this Plan.

Note 9. **Income taxes**

	Thousands	
	1985	1984
Income from operations	\$ 31,127	\$ 25,802
Deduct dividend and other non-taxable income	21,411	16,545
Adjusted income from operations	\$ 9,716	\$ 9,257
Effective rate of income taxes	51.52%	51.69%
Provision for income taxes based on effective rate	\$ 5,006	\$ 4,785
Provision for prior years' income tax adjustments	1,168	
Provision for taxes on income from operations	6,174	4,785
Income taxes recovered on debenture interest	1,771	1,859
Net provision for income taxes	\$ 4,403	\$ 2,926

Note 10. Contingencies and commitments

- a) In connection with real estate investments, The Investors Group is contingently liable for guarantees of mortgage financing totalling \$4,947,000 and letters of credit totalling \$8,390,000 less a guarantee of \$3,146,000 from a participant in certain real estate projects.
- b) 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, 1985 total assets of Investors Mortgage Fund were \$699,951,000 comprising \$128,926,000 in cash and other liquid assets and \$571,025,000 in mortgages.

- c) A subsidiary and The Investors Group as a covenantor are committed to the construction and completion of a Head Office building by March 31, 1988 at an estimated cost of \$35,000,000.

Note 11. Subsequent event

Pursuant to an underwriting agreement dated December 11, 1985, The Investors Group sold on January 16, 1986, \$50,000,000 of 10.6% Debentures, 1986 Series for proceeds of \$49,550,000. The debentures

will mature on January 16, 2006, are redeemable by the company commencing in 1991 and carry an annual sinking fund requirement of \$1,785,000 commencing in 1992.

Note 12. Related party transactions

The Corporation and its subsidiaries and affiliates have transactions with each other in the normal course of business at competitive prices

but such transactions are not significant to the Corporation or its subsidiaries and affiliates.

Note 13. Segmented information

The Corporation operates in three distinct industry segments: the life insurance industry as represented by its controlling interest in The Great-West Life Assurance Company, the trust company industry as represented by its controlling interest in Montreal Trustco Inc. and the

financial services industry as represented by the operations of The Investors Group and its wholly-owned subsidiaries. Financial information on each segment is provided in the consolidated financial statements and on pages 24 to 32 of this Report.

Note 14. Other

- a) Depreciation and amortization for the year amounted to \$1,097,000 (1984 - \$956,000).

- b) Certain of the comparative figures have been reclassified to conform with the presentation adopted in 1985.

Auditors' Report

To the Shareholders of
Power Financial Corporation

We have examined the consolidated balance sheet of Power Financial Corporation as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

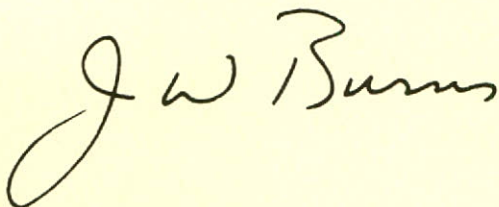
In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montréal, Québec, March 6, 1986

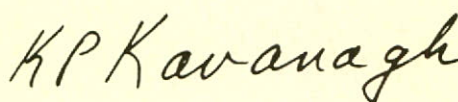
Touche Ross & Co.
Chartered Accountants

Assets	Thousands	
	1985	1984
Bonds (Note 1b)	\$ 2,904,374	\$ 2,648,812
Mortgages and sale agreements (Note 1b)	4,833,997	3,582,981
Stocks (Note 1c)	262,654	371,125
Real estate (Note 1d)	701,410	676,049
Loans to policyholders	318,910	322,842
Cash and certificates of deposit	114,424	92,221
Premiums in course of collection	72,592	95,536
Interest due and accrued	148,299	131,969
Segregated investment funds (Note 1e)	1,342,539	1,136,763
Other assets	101,823	127,841
	\$ 10,801,022	\$ 9,186,139

Approved by the Board of Directors



Director



Director

	Thousands	
Liabilities	1985	1984
Policy benefit liabilities		(Note 9)
Policy reserves (Note 1g)	\$ 6,973,391	\$ 5,908,388
Segregated investment funds	1,342,539	1,136,763
Provision for claims	443,988	399,181
Provision for 1986 policyholders' dividends	70,660	64,839
Provision for experience rating refunds	75,833	81,922
	8,906,411	7,591,093
Policyholders' funds	392,935	365,960
Mortgages on real estate	273,818	280,333
Income taxes payable	5,836	4,940
Deferred income taxes (Note 1f)	16,832	11,874
Other liabilities	150,686	115,700
	9,746,518	8,369,900
Capital stock and surplus		
Capital stock (Note 2)	152,000	2,000
Appropriated surplus (Note 4)		
Participating policyholders	72,644	70,861
Shareholders	232,624	201,327
Unappropriated surplus		
Participating policyholders	258,639	228,377
Shareholders	338,597	313,674
	1,054,504	816,239
	\$ 10,801,022	\$ 9,186,139

	Thousands	
	1985	1984
Income		(Note 9)
Life insurance and annuity premiums	\$ 1,772,749	\$ 1,514,025
Accident and health premiums	533,649	533,520
Property and casualty premiums	13,305	11,848
Net investment income	1,001,464	855,538
Net realized and unrealized capital gains on assets of segregated investment funds (Note 1e)	94,140	9,493
	3,415,307	2,924,424
Benefits and expenses		
Life and annuity benefits	1,066,570	925,292
Accident and health benefits	411,180	414,504
Property and casualty benefits	12,969	10,541
Interest on funds on deposit	42,446	35,846
Increase in policy reserves (Note 1g)	1,270,335	989,817
Policyholder dividends and experience refunds	100,964	101,735
Total paid or credited to policyholders	2,904,464	2,477,735
Commissions and operating expenses	368,639	324,804
Premium taxes	20,675	22,010
Net operating income before income taxes	121,529	99,875
Income taxes - current	3,414	4,503
- deferred	2,280	(5,275)
Net income from operations	115,835	100,647
Other items (Note 3)	4,784	18,635
Net income	\$ 120,619	\$ 119,282
Summary of net income (Note 1h)		
Attributable to participating policyholders		
Net income before policyholder dividends	\$ 99,752	\$ 87,541
Policyholder dividends	71,890	64,500
Net income from operations	27,862	23,041
Other items (Note 3)	4,183	17,920
Net income - participating policyholders	\$ 32,045	\$ 40,961
Attributable to shareholders		
Net income from operations	\$ 87,973	\$ 77,606
Other items (Note 3)	601	715
Net income - shareholders	88,574	78,321
Dividends to preferred shareholders	2,354	
Net income - common shareholders	\$ 86,220	\$ 78,321
Earnings per common share		
From operations	\$ 42.81	\$ 38.80
Including other items	\$ 43.11	\$ 39.16

Consolidated Statement of Surplus

For the year ended December 31, 1985

	Thousands		
	Participating Policyholders	Shareholders	Total
Appropriated			
Balance, January 1	\$ 70,861	\$ 201,327	\$ 272,188
Add			
Increase in special reserves			
Investment valuation and currency reserve - net	937	1,015	1,952
Reserve for cash value deficiencies and amounts of negative reserves	2,421	35,217	37,638
Reserve for miscellaneous assets	(1,575)	(4,935)	(6,510)
	1,783	31,297	33,080
Balance, December 31	\$ 72,644	\$ 232,624	\$ 305,268
Unappropriated			
Balance, January 1	\$ 228,377	\$ 313,674	\$ 542,051
Add			
Total net income for year from summary of operations	32,045	88,574	120,619
Deduct			
Dividends to shareholders			
- preferred shareholders		2,354	2,354
- common shareholders		30,000	30,000
Changes in special reserves appropriated from surplus	1,783	31,297	33,080
Balance, December 31	\$ 258,639	\$ 338,597	\$ 597,236

December 31, 1985

Note 1. Summary of significant accounting practices

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

- a) Financial results for 1985 are reported on a consolidated basis. All significant intercompany balances and transactions are eliminated on consolidation. The Company's principal subsidiaries are:
- Great-West Life & Annuity Insurance Company
 - Torwest Properties U.S.A. Limited
 - Gold Circle Insurance Company
 - G.W.L. Properties Ltd.
 - Great-West Realty Investments, Inc.

During 1986, the Gold Circle Insurance Company will cease operations with its in-force business being transferred to The Personal Insurance Company of Canada. In return, Great-West Life will receive an equity interest in The Personal Insurance Company of Canada. GWL Realty Investment Inc. was sold in September with the gain on sale recorded in other items.

- b) Investments in bonds, mortgages and sale agreements (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold. The unamortized balances at December 31, 1985 are \$7,101,000 of net gains for bonds (\$41,014,000 of net losses in 1984) and \$320,000 of net gains for mortgages (\$200,000 in 1984).

Bonds, mortgages and sale agreements have a market value on a basis authorized by the Department of Insurance of \$7,813,543,000 (\$5,902,403,000 in 1984). In most instances, the carrying value of debt securities will be realized since they will be held to maturity to discharge policy contract liabilities maturing at the same time.

- c) Investments in stocks (equity securities) in the life account are carried at cost less an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1985 amounted to \$128,661,000 (\$62,266,000 in 1984). Equity investments in respect of the accident and health business are carried at cost.

Equity securities have a market value on a basis authorized by the Department of Insurance of \$541,233,000 (\$599,451,000 in 1984).

- d) Real estate at December 31, 1985 is carried at a written down cost of \$739,779,000 (\$709,603,000 in 1984) less accumulated depreciation of \$38,369,000 (\$33,554,000 in 1984).

The market value of the real estate portfolio has been calculated at \$808,338,000 (\$775,599,000 in 1984).

- e) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital gains on segregated investment funds were \$94,140,000 in 1985 (\$9,493,000 in 1984). Such capital gains to the funds are reflected in the increase in policy reserves and do not affect net income of the Company.
- f) Income taxes are calculated using the deferred-tax method on a present value basis.
- g) Policy reserves represent the amount which, in the judgement of the Valuation Actuary, is required, together with future premiums and investment income, to provide for future policy benefits, administrative expenses and taxes on insurance and annuity policies. Asset values and projected maturities of assets and liabilities are continuously monitored and appropriately considered in the determination of policy reserves.

Policy reserves are calculated using assumptions considered to be 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 \$229,138,000 at December 31, 1985 (\$171,542,000 at December 31, 1984).

- h) Net income includes earnings of the participating, non-participating and the health insurance accounts. Earnings applicable to shareholders include net earnings of the non-participating and the health accounts and 2½%, as restricted by law, of the distributions from the participating account.
- i) Commencing in 1985, subsidiaries are being reported on a consolidated basis rather than in other items on an equity basis as in prior years and, as well, realized gains on transfer of currency from United States to Canada have been moved to net income from operations before other items. These changes had no effect on net income.

Note 2. **Capital Stock**

	Thousands	
	1985	1984
Authorized		
20,000,000 Preferred Shares, par value of \$25		
50,000,000 Common Shares, par value of \$1		
Issued and Outstanding		
6,000,000 Series A, 7.70% Cumulative Preferred Shares	\$150,000	\$
2,000,000 Common Shares	2,000	2,000
	\$152,000	\$ 2,000

By supplementary letters patent dated May 3, 1985, the authorized capital of the Company was increased from \$2,000,000 to \$550,000,000 by the creation of 20,000,000 preferred shares, issuable in series, par value of \$25 and 48,000,000 additional common shares par value of \$1.

On October 17, 1985, the Company issued, for cash, 6,000,000 Series A, 7.70% Cumulative Preferred Shares, par value \$25. This issue

is redeemable on December 31, 1990 at par, with earlier redemption privileges. Expenses of the issue amounting to \$3,311,000 are being amortized over the period to redemption and the unamortized balance is included in other assets. Appropriated surplus for miscellaneous assets has been increased by the unamortized balance of the expenses of issue.

Note 3. **Other items**

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

	Thousands			
	1985		1984	
Attributable to:	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
Net realized gains on sale of assets (Note 3a)	\$ 1,509	\$ 12,303	\$ 1,133	\$ 6,839
Net write-down of assets	7,500	(12,620)	(2,436)	(15,542)
Prior years' income tax adjustment			13,614	2,810
Gain due to change in book rates of exchange			5,441	11,043
Changes in policy reserves	(4,928)			(2,780)
Provision for strengthening of employee benefit plans			(426)	(2,150)
Provision for insurance guarantee association assessments	102	918	(408)	(3,672)
Accounting basis change for subsidiaries			1,002	4,167
	\$ 4,183	\$ 601	\$17,920	\$ 715
	\$ 4,784		\$18,635	

a) Realized gains, net of income taxes of \$1,892,000 (\$833,000 in 1984), on sales of assets include the results of:

- i. all disposals of assets of the accident and health account;
- ii. disposals of real estate in the life account;
- iii. gain on sale of GWL Realty Investment Inc.

Note 4. **Appropriation of surplus**

Appropriated surplus represents reserves required by the Department of Insurance of Canada and comprises the following:

	Thousands	
	1985	1984
Participating account		
Investment valuation and currency reserve – net	\$ 17,941	\$ 17,004
Reserve for cash value deficiencies and amounts of negative reserves	34,256	31,835
Reserve for miscellaneous assets	20,447	22,022
	\$ 72,644	\$ 70,861
Non-participating and health accounts		
Investment valuation and currency reserve – net	\$ 59,128	\$ 58,113
Reserve for cash value deficiencies and amounts of negative reserves	111,897	76,680
Reserve for miscellaneous assets	61,599	66,534
	\$ 232,624	\$ 201,327

Note 5. **United States dollar transactions**

United States currency items are translated at a book rate of \$1.20 in Canadian dollars. A gain in 1984 of \$16,484,000 resulted from a change in the book rates of exchange from \$1.15 to \$1.20. It is the intention of the Company to alter this rate whenever it is evident that currency rates have changed significantly and in the opinion of the Company the rate will not be reversed in the near term.

Conversion to Canadian dollars of the excess of United States dollar assets over United States dollar liabilities at the December 31, 1985 exchange rate rather than the book rate of \$1.20 would have produced an increase in net assets of approximately \$68,939,000 (\$42,204,000 in 1984). In accordance with reporting requirements \$32,382,000 (\$30,651,000 in 1984) is reflected in the balance sheet by a reduction in the investment valuation and currency reserve shown in note 4.

Note 6. **Related party transactions**

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

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

Note 7. **Company's effective income tax rate**

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

	1985	1984
Combined basic Canadian federal and provincial tax rate	51.3%	(Note 9) 50.4%
Increase (Decrease) in the income tax rate resulting from:		
Adjustment of deferred taxes to a present value basis	(34.1)	(38.7)
Tax exempt dividends on stocks	(2.3)	(1.9)
Tax exempt portion of capital gains	(2.9)	(2.5)
Lower effective tax rates on income not subject to tax in Canada	(4.8)	(8.4)
Miscellaneous	(2.5)	0.3
Effective income tax rate	4.7%	(0.8%)

Note 8. Contingent liabilities

The Company has entered into a number of joint ventures and partnerships and has equity positions in a number of real estate development corporations which have not been consolidated in its

financial results. The contingent liability opposite these participations is \$185,100,000 and this amount is supported by the underlying value of the assets of the various entities.

Note 9. Comparative figures

The 1984 comparative figures have been reclassified on a consolidated basis to be consistent with the financial statement presentation adopted in 1985.

Valuation Actuary's Certificate

To the Policyholders, Shareholders
and Directors of
The Great-West Life Assurance Company

I have made the valuation of the policy benefit liabilities of The Great-West Life Assurance Company and its consolidated life insurance company subsidiary, Great-West Life & Annuity Insurance Company, for the consolidated balance sheet at December 31, 1985 and the summary of consolidated operations for the year then ended. In my opinion: i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of

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

January 30, 1986

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

Auditors' Report

To the Policyholders, Shareholders
and Directors of
The Great-West Life Assurance Company

We have examined the consolidated balance sheet of The Great-West Life Assurance Company as at December 31, 1985 and the summary of consolidated operations and the consolidated statement of surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations for the year then ended in accordance with the accounting practices described in Note 1 to the financial statements applied, after giving retroactive effect to the change in the method of accounting for subsidiaries as described in Note 1(i) to the financial statements, on a basis consistent with that of the preceding year.

Winnipeg, Manitoba, January 30, 1986

Touche Ross & Co.
Chartered Accountants

	Thousands	
Condensed Income Statement	1985	1984
Gross revenue	\$ 409,481	\$ 338,880
Operating revenue		
Fiduciary	\$ 64,204	\$ 62,090
Financial intermediary	45,747	38,528
Real estate	14,835	11,206
	124,786	111,824
Operating expenses	(106,901)	(97,340)
Income taxes	521	1,149
Net income	\$ 18,406	\$ 15,633
Net income per common share	\$ 1.50	\$ 1.35
Dividends per common share	\$ 0.555	\$ 0.48
Power Financial's share of earnings	\$ 9,374	\$ 7,655
Book value of Power Financial's investment in Montreal Trustco - year-end	\$ 97,720	\$ 73,082

Condensed Balance Sheet

Cash, deposit receipts and treasury bills	\$ 375,000	\$ 271,368
Short-term notes and demand loans	354,466	389,535
Securities	287,411	321,127
Corporate and government loans	268,172	130,469
Mortgages	1,768,385	1,374,780
Premises and equipment	20,730	17,240
Other assets	27,063	24,698
Total assets	\$ 3,101,227	\$ 2,529,217
Deposits	\$ 511,584	\$ 471,683
Investment certificates	2,208,272	1,858,204
	2,719,856	2,329,887
Other liabilities	116,685	34,943
99 year debentures	60,000	
Subordinated debentures	30,000	30,000
Preferred shares	20,000	20,000
Common shareholders' equity	154,686	114,387
Total liabilities and shareholders' equity	\$ 3,101,227	\$ 2,529,217



Power
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Corporation

