



Power  
Financial  
Corporation

Annual Report  
1987







# Power Financial Corporation

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the holders of common shares:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of POWER FINANCIAL CORPORATION will be held in the Oval Room of the Ritz-Carlton Hotel, 1228 Sherbrooke Street West, Montréal, Québec, Canada, on Tuesday, May 10, 1988, at 3:00 p.m., local time, for the following purposes:

- (1) to elect directors;
- (2) to appoint auditors;
- (3) to receive the report of the directors for the year ended December 31, 1987, the financial statements for such period and the auditors' report thereon; and
- (4) to transact such other business as may properly come before the Meeting.

BY ORDER OF THE BOARD OF DIRECTORS

Montréal, Québec  
March 11, 1988

J. Edward Johnson  
*Vice-President and Secretary*

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 secrétaire,  
Corporation Financière Power  
759, square Victoria  
Montréal (Québec)  
H2Y 2K4

# MANAGEMENT PROXY CIRCULAR

This Management Proxy Circular is sent in connection with the solicitation by the management of Power Financial Corporation (the "Corporation") of proxies for use at the Annual Meeting of Shareholders of the Corporation to be held on Tuesday, May 10, 1988 (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 Corporation of Canada	Power
Great-West Lifeco Inc.	Lifeco
The Great-West Life Assurance Company	Great-West
Gold Circle Insurance Company	Gold Circle
Investors Group Inc.	Investors
Montreal Trustco Inc.	Montreal Trust

## Right of Revocation

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, 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 11, 1988, there were outstanding 84,078,963 Common Shares without nominal or par value (herein called "Common Shares") of the Corporation. Each holder of Common Shares is entitled at the Meeting, or any adjournment thereof, to one vote for each share registered in the holder's name as at the close of business on March 31, 1988 (the "Record Date"), except that a transferee of Common Shares acquired since the Record 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 notice of the Meeting, such list having been prepared as of the Record Date.

To the knowledge of the directors and officers of the Corporation, only Power and Caisse de dépôt et placement du Québec ("Caisse de dépôt") each own shares carrying more than 10% of the votes attached to the outstanding Common Shares of the Corporation. On March 11, 1988, Power owned 58,005,312 Common Shares, representing 69.0% of the outstanding Common Shares of the Corporation. Mr. Paul Desmarais, a director of the Corporation, and his associates, Gelco Enterprises Ltd., Monceau Investments Inc. and Prime Investors Ltd., have voting control of Power. On March 11, 1988, they owned, in the aggregate, 12,043,034 3/4¢ Participating Preferred Shares of Power, representing 98.6% of the outstanding 3/4¢ Participating Preferred Shares, and 24,175,913 Subordinate Voting Shares of Power, representing 21.1% 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 91,923 3/4¢ Participating Preferred Shares and 2,096 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 61.48% of the 236,713,932 votes attached to the outstanding 3/4¢ Participating Preferred Shares and Subordinate Voting Shares of Power.

On March 11, 1988, Caisse de dépôt owned 10,493,600 Common Shares of the Corporation, representing 12.5% of the outstanding Common Shares.

## Election of Directors

The Board of Directors of the Corporation consists of not less than 3 and not more than 18 members as determined from time to time by the directors. The 18 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 18 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, may determine.

Each director shall hold office until the close of the next annual meeting of shareholders unless he resigns 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 the Corporation and of its affiliates held directly or indirectly as of March 11, 1988
Douglas A. Berlis, Q.C. (a) Don Mills, Ontario Counsel, Aird & Berlis, barristers and solicitors	April, 1980	5,000 Common Shares of the Corporation 2,000 Subordinate Voting Shares of Power 1,000 Common Shares of Investors 11,000 Common Shares of Montreal Trust
André Bisson, C.M. (a) Baie d'Urfé, Québec President, Logistec Corporation, an integrated maritime transport corporation	December, 1986	1,000 Common Shares of the Corporation 800 Subordinate Voting Shares of Power 500 Common Shares of Lifeco 100 Common Shares of Investors
James W. Burns (b) Montréal, Québec Chairman and Chief Executive Officer of the Corporation; Deputy Chairman of Power; Chairman of Great-West; Chairman of Lifeco	September, 1971	2,000 Common Shares of the Corporation 203,320 Subordinate Voting Shares of Power 18,000 Common Shares of Lifeco 50 Common Shares of Great-West 10 Series A Preferred Shares of Great-West 50 Common Shares of Gold Circle 10,000 Common Shares of Investors 30,000 Common Shares of Montreal Trust
André Desmarais Montréal, Québec Vice-President of Power since February, 1984; employee of Power since June, 1983; employee of Richardson Greenshields of Canada from January, 1982 to May, 1983	—	2,400 Common Shares of the Corporation 3,500 Common Shares of Montreal Trust
Paul Desmarais, C.C. (b) Westmount, Québec Chairman and Chief Executive Officer of Power	February, 1966	See "Voting Shares and Principal Holders Thereof" on page 2. 8,000 Common Shares of Lifeco 50 Common Shares of Great-West 10 Series A Preferred Shares of Great-West 50 Common Shares of Gold Circle
Paul Desmarais, Jr. (b) Montréal, Québec President and Chief Operating Officer of the Corporation; Vice-President of Power	April, 1983	400 Common Shares of the Corporation 8,000 Common Shares of Lifeco 50 Common Shares of Great-West 10 Series A Preferred Shares of Great-West 10,000 Common Shares of Investors 10,000 Common Shares of Montreal Trust

(a) Member of the Audit Committee

(b) Member of the Executive 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 the Corporation and of its affiliates held directly or indirectly as of March 11, 1988
G�rard Eskenazi Saint-Cloud, France Chairman of the Board and Chairman of the Executive Committee of Pargesa Holding S.A., a bank holding company; Co-Chairman and President of Groupe Bruxelles Lambert S.A., a financial and industrial group	December, 1986	4,000 Subordinate Voting Shares of Power
William M. Fuller (1) Fort Worth, Texas, U.S.A. Chairman of Fuller Petroleum, Inc., an oil exploration company	—	289,600 Subordinate Voting Shares of Power
Robert Gratton Outremont, Qu�bec Chairman of the Board, President and Chief Executive Officer of Montreal Trust	December, 1986	214,700 Common Shares of Montreal Trust
Pierre Haas (1) Paris, France Honorary Chairman of Paribas International, a merchant bank	—	4,000 Subordinate Voting Shares of Power
Kevin P. Kavanagh Winnipeg, Manitoba President and Chief Executive Officer of Great-West; President and Chief Executive Officer of Lifeco	December, 1986	8,000 Common Shares of Lifeco 50 Common Shares of Great-West 800 Series A Preferred Shares of Great-West 50 Common Shares of Gold Circle
A. F. Knowles, C.A. (b) Beaconsfield, Qu�bec Deputy Chairman of the Corporation; President and Chief Operating Officer of Power	May, 1979	2,000 Common Shares of the Corporation 202,208 Subordinate Voting Shares of Power 10,000 Common Shares of Lifeco 1,000 Series A Preferred Shares of Great-West 50 Common Shares of Gold Circle 1,000 Common Shares of Investors 1,754 Common Shares of Montreal Trust
Arthur V. Mauro, Q.C. Winnipeg, Manitoba President and Chief Executive Officer of Investors	February, 1978	4,000 Subordinate Voting Shares of Power 10,000 Common Shares of Lifeco 10,000 Common Shares of Investors

(a) Member of the Audit Committee

(b) Member of the Executive Committee

(1) Mr. Fuller and Mr. Haas have occupied their present position for at least the last 5 years



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 the Corporation and of its affiliates held directly or indirectly as of March 11, 1988
P. Michael Pitfield, P.C., Q.C. Ottawa, Ontario Member of the Senate of Canada, Ottawa; Vice-Chairman of the Corporation and of Power	April, 1986	2,000 Common Shares of the Corporation 30,000 Subordinate Voting Shares of Power 20 Series A Preferred Shares of Great-West 4,000 Common Shares of Investors 4,012 Common Shares of Montreal Trust
Michel Plessis-Bélair, C.A. Town of Mount-Royal, Québec Senior Vice-President, Finance and Administration of the Corporation and of Power since March, 1986; Executive Vice-President of Société générale de financement du Québec from September, 1981 to March, 1986	—	—
Yves Pratte, Q.C. (b) Montréal, Québec Partner, Clarkson, Tétrault, barristers and solicitors	December, 1986	400 Common Shares of the Corporation 46,200 Subordinate Voting Shares of Power 200 Common Shares of Lifeco
Raymond Royer Montréal, Québec President of Bombardier Inc., a company involved in the design, development, manufacturing and marketing of transportation related equipment and products	December, 1986	200 Common Shares of the Corporation
A. M. Runciman (a) Winnipeg, Manitoba Director	December, 1986	2,000 Common Shares of the Corporation 2,000 Common Shares of Investors 1,000 Common Shares of Montreal Trust

(a) Member of the Audit Committee

(b) Member of the Executive Committee

#### Directors' and Officers' Remuneration

The aggregate cash remuneration paid by the Corporation and its subsidiaries to the nine executive officers of the Corporation for services rendered during 1987, including salaries, fees, directors' fees, commissions and bonuses, was \$1,410,000. The aggregate value of all remuneration other than cash remuneration or remuneration under plans during 1987 did not exceed \$90,000.

Great-West has in effect contractual arrangements under which it has undertaken to make compensation payments to certain of its executive officers subject to the fulfillment of certain conditions. The aggregate annual amount of all such payments made in 1987 and proposed to be made in subsequent years to executive officers of the Corporation pursuant to such arrangements and assuming commencement of payments at the earliest permitted date, are as follows:

Years	Aggregate
1987 . . . . .	nil
1988 and subsequent years during the lifetime of the recipients . . . . .	\$43,200



Entitlement to certain of such payments is contingent on completion by the proposed recipient of prescribed periods of service and/or on compliance with conditions as to the provision of consulting services or as to non-competition. Such payments are payable either for the lifetime of the proposed recipients or for a prescribed period. If commencement of payments should be deferred, the amount then payable would be increased by a predetermined amount.

The original Power Financial Employee Stock Option Plan was established by the Board of Directors of the former Power Financial Corporation on March 7, 1985 and approved by its shareholders on May 7, 1985. The options issued under such plan were converted into options under the present Power Financial Employee Stock Option Plan (the "Plan") which was established by the Board of Directors of the Corporation on November 6, 1986 and approved by its shareholders on December 4, 1986. Each conversion was on a share-for-share basis, for the same option periods and at the same subscription prices.

The purposes of the Plan are (i) to grant to employees of the Corporation and its subsidiaries options to purchase Common Shares of the Corporation in order to encourage the productivity of such employees 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 a committee of three or more members 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 the employees of the Corporation and its subsidiaries to whom options are to be granted and the number of shares covered by each option. Employees 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 trades.

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 2,359,000 Common Shares are reserved 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. Options to purchase an aggregate of 1,806,600 Common Shares of the Corporation were outstanding under the Plan as of March 11, 1988.

The options granted to date have been granted only to employees of subsidiaries of the Corporation and not to employees of the Corporation itself.

In connection with options granted during the most recently completed financial year of the Corporation, the following table summarizes the date of granting, the expiry date, the number of Common Shares covered by options granted and the exercise price. In each case the exercise price is not less than market value, as defined above, at the time of the granting of the option:

<u>Date of granting</u>	<u>Date of expiry</u>	<u>Number of Shares under option</u>	<u>Exercise price</u>
October 9, 1987	October 8, 1997	140,000	\$15.59375
March 8, 1988	March 7, 1998	118,000	\$14.09375

During the month of November, 1987, 270,000 options were surrendered and at the same time 270,000 options were issued upon terms identical in all respects to those governing the options so surrendered with the exception that the exercise price was \$15.59375.

There were no options exercised during the most recently completed financial year of the Corporation.

The Corporation compensates each director for services during his term of office as follows: each director receives a basic annual retainer of \$7,000 and an additional annual fee of \$2,000 is paid to the Chairman of the Audit Committee. In addition, the Corporation pays each director a fee of \$600 for each board meeting or committee meeting which he attends.

#### **Purchase of Common Shares**

On November 18, 1987, the Corporation filed with the appropriate regulatory authorities a Notice of Intention to Make a Normal Course Issuer Bid (the "Notice"). In the Notice, the Corporation stated its intention to purchase on the open market at prevailing market prices, through the facilities of The Montreal Exchange and/or The Toronto Stock Exchange, up to a maximum of 4,200,000 of its Common Shares, being less than 5% of such shares as at November 6, 1987. The Corporation may purchase Common Shares under the bid, if it considers it advisable, at any time and from time to time between November 6, 1987 and November 5, 1988 inclusive.



The purchase of Common Shares of the Corporation provides, in the appropriate circumstances, an economically worthwhile investment for the Corporation and may help to prevent dilution of the holdings of the Corporation's common shareholders resulting from the issue of treasury shares under the Corporation's Employee Stock Option Plan.

Since November 6, 1987, the Corporation has purchased on the open market for cancellation 1,900 of its Common Shares at an average price of \$12.55 per share.

To the Corporation's knowledge, no insider of the Corporation or any associate or affiliate of such person or of the Corporation has sold or intends to sell its common shares under the bid.

Shareholders may obtain without charge copies of such documents as have been filed with the regulatory authorities in respect of the above-mentioned share purchases of the Corporation by writing to the Secretary of the Corporation.

#### **Appointment of Auditors**

Touche Ross & Co. have been the auditors of the Corporation since fiscal year end 1981. 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 the 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.**

#### **Available Documentation**

The Corporation is a reporting issuer under the securities acts of certain provinces of Canada and is thereby required to file financial statements and information circulars with the various securities commissions in such provinces. The Corporation also files an annual information form with such securities commissions. Copies of the Corporation's latest annual information form, audited financial statements and proxy circular may be obtained on request from the Secretary of the Corporation. The Corporation may require the payment of a reasonable charge when the request is made by someone other than a holder of securities of the Corporation, unless the Corporation is in the course of a distribution of its securities pursuant to a short form prospectus, in which case such documents will be provided free of charge.

#### **Approval by Directors**

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

Signed at Montréal, Québec  
March 11, 1988



J. Edward Johnson  
Vice-President and Secretary







# FINANCIAL HIGHLIGHTS

For the year ended December 31	1987	1986
Earnings before extraordinary and other items	\$144,884,000	\$132,634,000
Net earnings	\$182,407,000	\$305,206,000
Earnings per share		
Before extraordinary and other items	\$ 1.59	\$ 1.49
After extraordinary and other items	\$ 2.04	\$ 3.54

As at December 31		
Assets under administration (billions)	\$ 63.2	\$ 54.4
Shareholders' equity (millions)	\$ 1,237	\$ 1,098

## CONTENTS

Financial Highlights	1
Report to Shareholders	2
Power Financial Corporation	4
Board of Directors and Officers	14
Financial Statements	15



Copies of the annual reports of Power Financial Corporation's subsidiary companies, Great-West Lifeco Inc., Investors Group Inc. and Montreal Trustco Inc., are available from the Secretary, Power Financial Corporation, 759 Victoria Square, Montreal, Quebec H2Y 2K4.

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



# REPORT TO SHAREHOLDERS

Your directors are pleased to report another year of growth in the Corporation's asset base, profits and dividends.

Earnings before extraordinary and other items for the year ended December 31, 1987, were \$144.9 million or \$1.59 a share compared with \$132.6 million or \$1.49 a share.

Extraordinary and other items were \$37.5 million compared to \$172.6 million last year. Extraordinary items included primarily gains from the sale of shares of Investors Group Inc. in 1987 offset by Other charges of Great-West Lifeco Inc.

Net earnings were \$182.4 million or \$2.04 a share, compared to \$305.2 million or \$3.54 a share last year.

Dividends received from the operating companies, the primary source of the Corporation's cash flow, amounted to \$61 million during 1987.

Great-West Lifeco Inc., in which the Corporation has an equity interest of

86.2%, holds 97.4% of The Great-West Life Assurance Company so that its results are essentially those of Great-West Life. In 1987, Great-West Life had total income of \$4.8 billion compared with \$4.4 billion in 1986. Net income before other items attributable to shareholders was \$81.3 million compared with \$99.7 million for the previous year.

Great-West Life earnings reflect the provisions made for investment losses and write-downs of mortgage loans, and for increases in taxes resulting from the Canadian federal government tax reform proposals.

During the year, Great-West Lifeco declared dividends totalling 50 cents a share.

Investors Group Inc., in which the Corporation has an equity interest of 71.8%, had gross revenue in 1987 of \$300.2 million compared with \$285.0 million in 1986. Net operating income was \$46.1 million compared with \$34.0 million.

During the year, Investors declared dividends totalling 57.5 cents a share. In February 1988 it announced an increase in its annual dividend rate from 60 cents to 70 cents a share.

Montreal Trustco Inc., in which the Corporation has an equity interest of 60.5%, had gross revenue in 1987 of \$898.8 million compared with \$631.6

million in 1986. Net income was \$52.2 million compared with \$27.0 million.

During the year, Montreal Trustco raised its quarterly dividend twice. The dividend was raised again to an annual rate of 54 cents in February, 1988, for a total increase of 64% in one year.

Pargesa Holding S.A., in which the Corporation has an equity interest of 17.7%, reported a preliminary consolidated net income of Sfr. 159.9 million in 1987, compared to Sfr. 146.0 million.

During the year, Pargesa declared dividends totalling Sfr. 60 a bearer share.

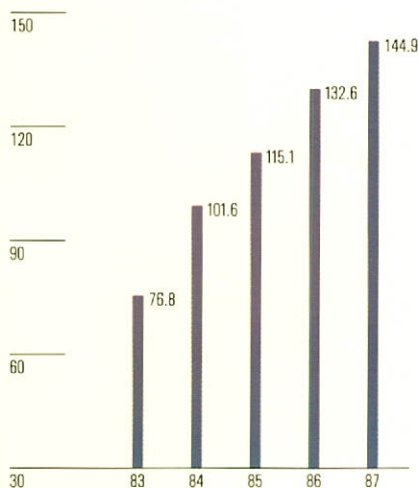
## Corporate Developments

In February 1987, Power Financial participated in a new issue and secondary offering of common shares of Investors Group. The total offering was 4 million shares of which 1 million were treasury shares of Investors Group and the remainder were sold by Power Financial from its holding. The shares were sold to the public at a price of \$23.50 a share. A total of 1,650,000 shares were offered outside Canada. Power Financial now owns 17,800,010 of the 24,800,010 outstanding common shares of Investors Group.

In March, Power Financial issued Sfr. 120 million 5% bonds maturing in 1997, at an issue price of Sfr. 100.5. Net proceeds to the Corporation of approximately Sfr. 116.7 million were used to repay the Corporation's Swiss bank indebtedness of Sfr. 90 million and for general corporate purposes.

## POWER FINANCIAL CORPORATION

Earnings Before Extraordinary and Other Items  
(millions of dollars; 1983-84 figures are pro forma)





Two new financial services companies were established during the year for which the Corporation provided the initial funding and in which it retains the majority interest.

The first was HD International Limited, a global asset management company based in the City of London. The Corporation has a 50.1% interest and Henry Ansbacher & Co. Ltd., 9.9%. The balance of 40% is held by the founding partners. HD International will manage pension funds and other large pools of funds.

The second was Power Financial Capital Corporation, a merchant bank based in Montreal with a target capitalization of \$100 million. The Corporation has a 90% interest, the founding partners, 10%.

#### Dividends

Your Corporation's policy is to maintain the maximum possible flow-through of dividends from its investments in the operating companies to its shareholders. The Corporation's dividend rate was 40 cents in 1985, the year after it was established.

The rate was increased to 50 cents in April 1986 and to 54 cents in February 1987. It was increased to 60 cents effective July 31, 1987. Total dividends paid in 1987 were 56 cents per share compared with 45 cents in 1986.

#### The Outlook

The demand for financial services of proven quality has been intensified, rather than diminished, by the events leading to, and following from, the stock market correction of October 1987.

The companies in which your Corporation is invested are extremely well placed to respond to that demand and to a marketplace that has become more selective in the employment of personal and corporate savings.

Each of the four larger companies – Great-West Life, Investors, Montreal Trustco and Pargesa – has an established record of performance spanning difficult situations in the past. They have the experienced management, the products, as well as the extensive networks for their distribution and the necessary financial resources with which to continue to maintain their growth.

The two new companies in which your Corporation is invested – HD International and Power Financial Capital Corporation – are similarly well placed to

meet the demand for their services. Your directors are confident they can achieve the same high level of performance.

Mr. Peter D. Curry, who has been a Director of your Corporation since its inception, will retire from the Board at the annual meeting in May, 1988 under the mandatory retirement provisions contained in the by-laws. Mr. Curry has served subsidiaries of Power Financial for over 20 years including terms as Chairman of The Great-West Life Assurance Company and of The Investors Group. He also served as President of Power Corporation of Canada. His contribution to the growth and prosperity of these companies has been immeasurable.

The directors are pleased to here acknowledge that the progress achieved in 1987 would not have been possible without the contribution of the men and women who work in the Power Financial group of companies and who share their objectives.

On behalf of the Board,

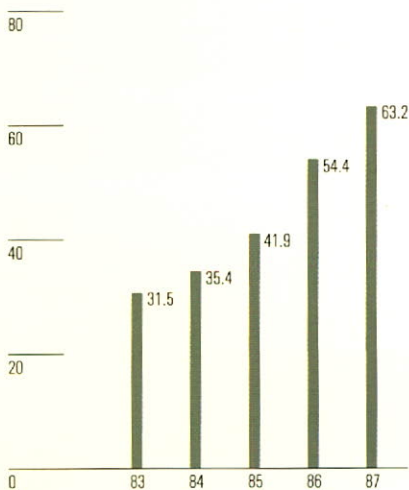
Paul Desmarais, Jr.  
President and  
Chief Operating Officer

James W. Burns  
Chairman and  
Chief Executive Officer

March 8, 1988

#### POWER FINANCIAL CORPORATION

Assets Under Administration  
(billions of dollars)



Power Financial Corporation is engaged through its constituent companies in the development and distribution of personal and corporate financial and fiduciary services in Canada, the United States and Europe.

The companies are Great-West Lifeco Inc., which holds a 97.4% interest in The Great-West Life Assurance Company, Investors Group Inc., Montreal Trustco Inc., Pargesa Holding S.A., HD International Limited and Power Financial Capital Corporation.

The shares of Great-West Lifeco, Investors and Montreal Trustco are traded on Canadian exchanges, those of Pargesa on European exchanges. The shares of HD International and Power Financial Capital Corporation are not publicly traded.

Total assets under administration of the Power Financial group have more than doubled over the last five years. At year-end 1987, they amounted \$63.2 billion, an increase of 16.2% over \$54.4 billion at year-end 1986.

The Corporation does not consolidate the corporate assets of its constituent companies. Were it to do so, it would report

total assets on its balance sheet of more than \$24 billion. The Corporation instead continues to use the equity method to report assets in the belief that it is the best and most informative way to present its financial results. Under the equity method, the Corporation reports total assets of \$1.5 billion.

The strengthening contributions to the Corporation's total share of earnings from the operating companies over the last two years by Investors, Montreal Trustco and Pargesa have affected significant changes in the composition of those earnings.

Great-West Life, through Great-West Lifeco, continues to make the largest single contribution to the Corporation's share of earnings, accounting for 44% (66% in 1986). The lower contribution in 1987 resulted mainly from provisions that were made for investment losses, write-downs of real estate investments in the southwest United States, and higher taxes in Canada.

The contribution by Investors was 23%, about the same as in 1986, in spite of the reduction in the Corporation's interest in it from 100% to 71.8%, and reflects the increased popularity of Investors' mutual funds and the accompanying demand for its financial planning services.



*Great-West with 160 offices in Canada and the United States, and Investors and Montreal Trust with a combined total of more than 215 offices in Canada, give the Power Financial group of companies a formidable presence in North America.*



The contribution by Montreal Trustco has almost doubled to 18% from 10% in 1986 as a result of a significant increase in net income of Montreal Trustco resulting in large part from its acquisitions of Credit Foncier effective August 1, 1986, and Bank of America Canada Mortgage Corporation effective November 28, 1986 and your Corporation's increased ownership from 55.4% to 60.5% in late 1986.

The contribution of Pargesa was 15%. This was the first year during which your corporation accounted for Pargesa on the equity basis.

Further changes in the composition of the Corporation's earnings are anticipated as the many new projects of the operating companies mature, the effect of which will be to further broaden and diversify the Corporation's income base.

The services provided in North America by the Power Financial group of companies are extensive. They include individual and group life and health insurance and annuity products; the development, management and sale of mutual funds and accompanying individual and corporate financial planning; the provision of personal and corporate fiduciary and financial intermediary services including real estate brokerage and financing; global asset management; and merchant banking.

The services provided by the group companies are distributed through 12 solidly established networks across

*Executives of the new Power Financial Capital Corporation are from left to right, Mark Feldman, Managing Partner; Denis Giroux, President and Managing Partner, and Jean Dumoulin, Managing Partner.*



A new merchant bank based in Montreal began operations early in 1988...

*Founding partners of HD International from left to right are, Florian Von Hirsch, Director; Andrew Baker, Director; Richard Bronk, Director; Richard Chandler, Director; James Heyworth-Dunne, Managing Director; Luke Nunneley, Director.*



Matching seed money with proven expertise to create a new global asset management company operating from headquarters in the City of London...

Canada and, for insurance products, in the United States. Additionally, Power Financial's investment in Pargesa gives it access to European financial and consumer markets.

Power Financial, as the major investor in the operating group companies, provides them with such financial and other assistance as they may require to expand and further strengthen their operations within their respective jurisdictions of insurance, financial planning, and fiduciary and financial intermediary services.

Power Financial Corporation and the companies in its group are also continuing to look for acquisitions. The opportunities for acquisitions at realistic prices have greatly improved in the current financial environment.

Meanwhile, it has funded two new companies – HD International Limited, and Power Financial Capital Corporation – and is prepared to participate in other start-up ventures which would further broaden and complement the activities of the companies already in the group.

HD International, based in the City of London, manages pension funds and other large pools of corporate, institutional and private capital on a global basis. At year-end, it had more than \$200 million of client portfolios committed to discretionary management.

Power Financial holds a 50.1% interest in HD International. The London merchant bank, Henry Ansbacher & Co. Ltd., which is part of the Pargesa group, holds



9.9%. The founding group of James Heyworth-Dunne and colleagues holds the balance of 40%.

Power Financial Capital Corporation is engaged in making investments for its own account, holding securities, and providing management counsel and other financial services. Its investment objectives are an above-average rate of return on its equity through capital gains realized on the sale of investments, and fees earned for its services. It is headquartered in Montreal and is already operating on a national level. It will eventually operate on an international level.

Power Financial holds a 90% interest in the company with the balance held by Denis Giroux, President and Managing Partner, and other founding partners.

Common to both new ventures is the match of Power Financial funding with the proven skills and extensive experience of the founding partners in the provision of highly specialized financial services. Such matches confer many significant advantages; most importantly, the new companies can be established in predetermined target markets where their

potential for growth and the synergy with other members of the Power Financial group is greatest.

Power Financial and its constituent companies are continuously refining their existing products and services, and developing new ones to serve emerging demands.

Their collective capacity to respond quickly and prudently to the dynamic market for financial services, and their possession of established networks for the distribution of those services, underpins much of their corporate growth.

Working from within their established franchises of insurance, financial planning, financial intermediary and fiduciary services – and more recently, global asset management and merchant banking – the Power Financial group provides an extremely broad range of financial services.

The broader powers granted by regulators to financial institutions in the new regulatory environment towards which the financial services industry is moving will

further intensify competition to the advantage of low-cost suppliers of quality services.

Federal and provincial authorities have shown a commendable willingness to consult with the industry in drafting the new regulations by which the industry will be governed.

The new regulations have yet to be precisely defined, in part because of this consultative process. Their general thrust, however, is apparent.

Of critical importance is the need for strict and forceful rules against abusive self-dealing and conflicts of interest for which Power Financial has been pressing in its presentations to the authorities.



*Principal financial services components of Pargesa are (1) Henry Ansbacher Holdings Plc, London; (2) Banque de Gestion Privée/SIB, Paris; (3) Banque Paribas (Suisse) S.A., Geneva; (4) Banque Internationale à Luxembourg; (5) Banque Bruxelles Lambert S.A., Belgium; and (6) the recently acquired Royale Belge, Belgium's second largest insurer.*

Directing the corporate growth of Great-West are, from left to right: R.B. Pennycook, Executive Vice-President, Corporate Resources; O.T. Dackow, Executive Vice-President, Corporate Finance and Control; K.P. Kavanagh, President and Chief Executive Officer; M.G. Smith, Executive Vice-President, Investments.



Building on strength for another year of growth in income and assets, with further expansion and diversification of product in the United States...

GREAT-WEST LIFECO INC.

	1987	1986*
Total income (billions)	\$ 4.8	\$ 4.4
Net income from operations (millions)	111.6	134.7
Net income (millions)	63.9	98.0
Earnings per share (dollars)	.82	1.26
Dividend rate per share (at year end) (dollars)	.50	.45

\*1986 figures are pro forma

GREAT-WEST LIFECO INC.

Great-West Lifeco Inc. was established in 1986. Its most significant asset is a 97.4% equity interest in The Great-West Life Assurance Company and, as such, its financial results are essentially those of Great-West Life.

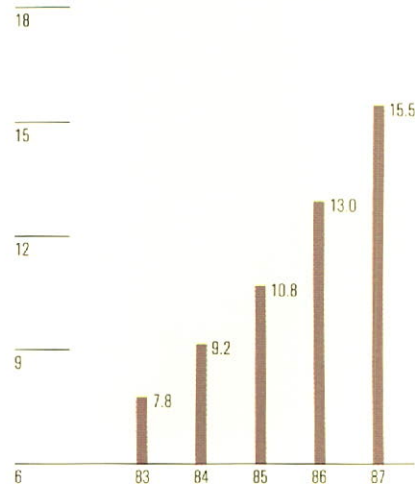
Great-West Life experienced continuing growth and development in both its Canadian and United States operations. It is the largest shareholder-owned Canadian life insurance company with more than 59% of its assets in the United States where it is licensed to do business in 48 states and the District of Columbia.

The Company reported individual and group life insurance in force at year-end December 31, 1987 of \$127.9 billion, an increase of 13.5% over \$112.7 billion a year ago. Net income from operations attributable to common shareholders was \$81.3 million compared to \$99.7 million in 1986.

During the course of 1987, following intensive examination of the Company's mortgage loan portfolio in Texas and Colorado, \$61.7 million was charged to earnings to reflect the write-down of a number

GREAT-WEST LIFECO INC.

Assets Under Administration (billions of dollars)





of loans, and to provide for the potential need for write-downs in others.

Earnings were also affected adversely by an increased provision for income taxes, the result of Canadian federal government proposals for tax reform.

Premium income increased during the year by 9.4%. Net investment income increased by 12.1%, the result of a significant increase in invested assets. Total assets increased by \$2.5 billion from the beginning of 1987 to reach a total of \$15.5 billion by year end.

Sales of individual life insurance coverage increased 6% to \$8.6 billion. Annuity sales increased 3% to \$1.9 billion of revenue premium. Individual and group health insurance sales, in terms of gross annual premiums, increased 22% to \$276.8 million. Group life insurance sales, in terms of coverage, were \$5.6 billion.

Group sales in terms of coverage reached record levels, including the provision of benefits to the largest dental care

program ever introduced in Canada – the federal government’s civil service dental care plan covering more than 200,000 civil servants and their dependents.

Two new marketing initiatives in the United States showed continuing growth.

Private HealthCare Systems, Ltd., a partnership of 17 United States insurers established by the Company in 1985 and of which it is managing partner, generated \$2.5 billion of premium income. PHCS provides managed health care services to corporations and institutions.

Benefits Communications Corporation, a wholly-owned U.S. subsidiary which specializes in plan enrollment and communicating information about financial products to individual consumers, now accounts for a third of voluntary group pension sales.



Great-West’s expanding U.S. operations are the corporate responsibility of, from left to right: W.T. McCallum, Executive Vice-President, Chief Operating Officer, United States; A.D. MacLennan, Senior Vice-President, Group; D. Low, Senior Vice-President, Individual.

**INVESTORS GROUP INC.**

Sales by Investors Group Inc. of mutual funds and other financial products and services for 1987 increased 24% from \$1.6 billion to \$2 billion. Assets under administration increased 13% from \$7.6 billion to \$8.5 billion. Net income increased 36% from \$34.0 million to \$46.1 million.

Investors is a leading Canadian distributor of personal financial services. Its sales representatives distribute 14 mutual funds, each of which has a different investment objective. Investors also distributes investment certificates, pension plans, deferred profit-sharing plans and group and individual registered retirement savings plans. Life insurance products under-



Canadian operations of Great-West are headed by, from left to right: J.R. Grant, Senior Vice-President, Group; C.D. Chapman, Senior Vice-President, Individual; J.D. Green, Executive Vice-President, Chief Operating Officer, Canada.

**INVESTORS GROUP INC.**

	1987	1986
Assets under administration (billions)	\$ 8.5	\$ 7.6
Net income (millions)	46.1	34.0*
Net income per share (dollars)	1.88	1.43*
Dividend rate per share (at year end) (dollars)	.60	.50

\*Pro forma

*Investors' senior corporate executives are, from left to right: Richard E. Archer, Executive Vice-President, Investments and Trust; Arthur V. Mauro, President and Chief Executive Officer; Sterling J. McLeod, Executive Vice-President, Sales and Marketing; Dale A.G. Parkinson, Executive Vice-President, Finance and Administration.*



Prudent financial planning linked to diversified savings vehicles generated record increases in sales and earnings...

written by The Great-West Life Assurance Company complement the products available through the Investors organization.

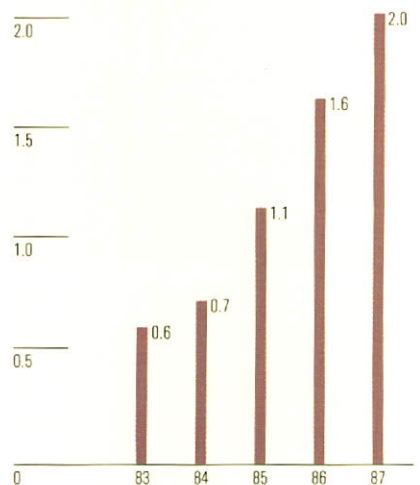
The Company advocates a balanced portfolio approach to personal investing. Early in 1987 Investors advised its sales force that equity markets appeared to be overvalued. Many clients repositioned their investment portfolios to emphasize fixed-income and interest-sensitive products. As a result, the effect of the October market correction on most Investors clients following a balanced portfolio program was minimized. The rate of mutual fund redemptions remained significantly lower than industry levels.

During the year, Investors further expanded its product line.

It introduced a Managing Retirement Resources program designed to help Canadians nearing retirement, or already retired, to maximize retirement income. A self-directed registered education savings plan designed for investment in certain of the Investors mutual funds was introduced January 1, 1988 for sale by Investors representatives.

INVESTORS GROUP INC.

Sales of Financial Products\*  
(billions of dollars)



\*1986 restated to reflect change in accounting begun in 1987.



Late in 1987, the company acquired a 40% interest in Scholarship Consultants of North America (SCONA) which markets pooled registered education savings plans.

Investors clients are served by more than 1,800 full-time sales representatives, an increase of some 220 over last year. Continuing emphasis is placed on training of representatives in personal financial planning both in-house and through the program of the Canadian Institute of Financial Planning. Over 1,500 Investors representatives are licensed to sell life insurance as well as mutual funds and investment certificates. The Company plans continued expansion of the sales force.

The number of Investors Financial Planning Centres located across Canada was increased from 68 at year end to 77 early in 1988. Much of this expansion is focussed in eastern Canada where opportunities are seen for above average rates of growth.

#### MONTREAL TRUSTCO INC.

The year 1987 was one of record profitability and consolidation, both of which were strongly influenced by the acquisition of Crédit Foncier in the latter part of 1986.

Gross revenue increased by 42% to \$898.8 million from \$631.6 million a year earlier. Net income increased by 93% to \$52.2 million or \$1.36 a share from \$27.0 million or 94 cents a share. The earnings per share are restated to reflect the two-for-one share split in July, 1986.

The quarterly dividend rate was increased twice during the year. The

dividend was raised further in February 1988, an increase of 64% in one year.

Total assets under administration increased by 10% to \$35.7 billion from \$32.6 billion a year earlier. Shareholders' equity increased by 9% to \$380.1 million from \$349.8 million.

*The senior management group of Montreal Trust comprises, from left to right: S. Leclaire, Senior Vice-President, Systems and Support Services; N. Cunningham, Senior Vice-President, Investment Management Services; F.P. Keefe, Senior Vice-President, Financial Operations and Control; R. Gratton, Chairman of the Board, President and Chief Executive Officer; W.K. Proctor, Senior Vice-President, Personal Services; R. Bond, Senior Vice-President, Corporate Services.*

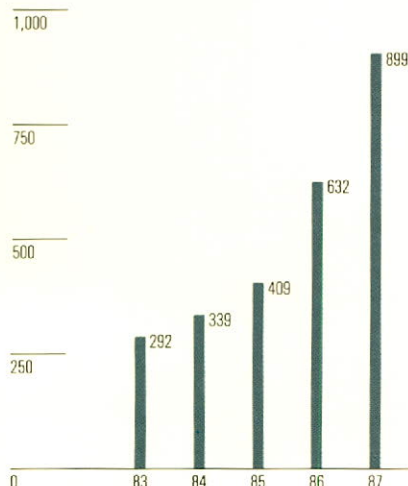


Of particular interest is the growth in fee-related activities and in new business: investment management fees were up 59%; personal trust 13.9%; pension administration 22%; real estate brokerage 26%; mortgage and deposit fees 57%; new residential loans 30%; deposits 20%; sales of GIC's 33%; and new income property loans 125%.

The consolidation strategy pursued by the Company resulted in a measured

A year of consolidation with accelerated profitability, establishing a new plateau from which to launch new growth and further diversify services...

## MONTREAL TRUSTCO INC.

Gross Revenue  
(millions of dollars)

growth of assets from \$7.1 billion to \$7.7 billion.

The Company's first objective in its consolidation strategy was to improve the quality of its new asset base. This was achieved in part by reducing the number of loans 90 days or more in arrears by almost half.

A second aspect of its consolidation strategy was to expand and redirect some of the Company's marketing efforts to accommodate the additional *Crédit Foncier* clientele and the new size of the Company.

A third aspect was the disposal of certain real estate assets acquired with *Crédit Foncier*. Of the 840 properties in this category in August 1986, 830 had been sold to the Company's advantage by the end of 1987.

The profitability achieved in 1987 is rooted in the Company's strategies since 1982. The five-year period 1982-1987 saw the most dramatic improvement in the affairs of the Company since it was established. This has been the result of a carefully drafted plan, a total reorganization of the Company, and the efforts of a highly motivated management and staff.

In its 99th year of operations, with a strong, sound balance sheet and a proven record of steady, sustained growth and profitability, the Company is well prepared to meet new challenges and opportunities.

## PARGESA HOLDING S.A.

In 1987, Pargesa Holding S.A. reported an increase of 9.6% in preliminary consolidated net income to Sfr. 159.9 million from Sfr. 146.0 million.

Pargesa, in which Power Financial has a 17.7% equity interest and a 19.2% voting interest, is an international investment and management group based in Geneva.

With the increase in the Corporation's equity interest in Pargesa, its contribution to the Corporation's earnings can now be accounted in the Corporation's statements on an equity basis.

More than half of Pargesa's total investment is in financial services in Switzerland, Luxemburg, Belgium, England, the United States and France.

The principal financial services components in the Pargesa portfolio are in the banking and insurance sectors. Banque Paribas (Suisse) S.A., fourth largest Swiss bank in terms of profitability; Banque Internationale à Luxembourg S.A., the largest private bank in the Grand Duchy; and Banque Bruxelles Lambert S.A., a major Belgian bank held through Groupe Bruxelles Lambert S.A., make up the bulk of the banking sector. The insurance sector is represented by a controlling stake in Royale Belge, Belgium's second largest insurer, held indirectly through Groupe Bruxelles Lambert.

Additionally, Pargesa has interests directly and indirectly in Henry Ansbacher Holdings Plc., City of London merchant

## MONTREAL TRUSTCO INC.

	1987	1986
Assets administered (billions)	\$ 35.7	\$ 32.6
Net income (millions)	52.2	27.0
Net income per share (dollars)	1.36	.94
Dividend rate per share (at year end) (dollars)	.48	.33



banker; Drexel Burnham Lambert, New York investment banker (through Lambert Brussels Associates); and BGP/SIB, a private, Paris-based, specialty bank.

Groupe Bruxelles Lambert, with which Pargesa has joint-ventured in many of its investments and in which it has a 30% interest, is the largest single source of Pargesa's earnings, generating 43% of the operating earnings. The other main contributors to Pargesa's earnings were Banque Paribas (Suisse), 21%; Lambert Brussels Associates, 17% and Banque Internationale à Luxembourg, 9%.

During 1987, Pargesa undertook several major initiatives.

Parfinance, a holding company formed in 1986 and listed on the Paris Stock Exchange, has an equity capitalization of FF 4 billion and held a cash balance of FF 2 billion at year end. Pargesa and Groupe Bruxelles Lambert now jointly control more than 50% of the company.

In Belgium, through the takeover of Contibel Holdings by Groupe Bruxelles Lambert, the group increased its participa-

tion in Petrofina, to become the principal shareholder in one of the world's largest petroleum companies.

The transaction was followed shortly by the takeover of Royale Belge, of Brussels. Groupe Bruxelles Lambert now has a 22.5% equity interest in the company.

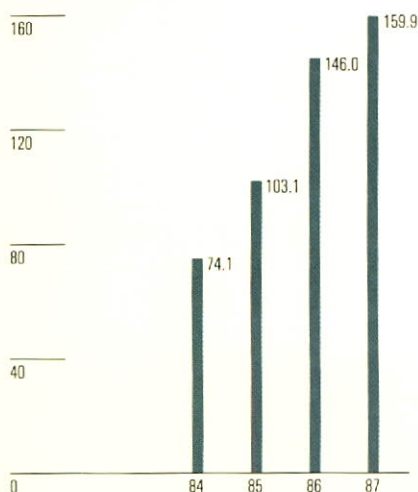
*Pargesa Holding S.A. principal officers shown are Gérard Eskenazi, Co-Chief Executive Officer, Chairman of the Board of Directors and the Executive Committee of Pargesa (left) and Albert Frère, Co-Chief Executive Officer of Pargesa and Chairman of the Board and of the Executive Committee of Groupe Bruxelles Lambert. Not shown is Pierre Scohier, Managing Director of Pargesa and Chief Executive Officer and Chairman of the Executive Committee of la Compagnie Belge de Participations Paribas (COBEPA) S.A.*



Broadening the participation of Power Financial Corporation in the growth and development of the financial services industry in Europe, England and the United States...

PARGESA HOLDING S.A.

Consolidated Net Income  
(millions of Swiss francs)



The Corporation's investment in Pargesa gives it an unexcelled overview of developments in international financial markets, and provides access to a large and dynamic international network. It also presents opportunities for joint ventures and for access to large international pools of capital.

In addition to banking and related financial services, Pargesa is invested in broadcasting, real estate, energy, and agri-products in Europe and North America.

## BOARD OF DIRECTORS

### **Douglas A. Berlis, Q.C.**<sup>(2)</sup>

*Counsel, Aird & Berlis*

### **André Bisson, C.M.**<sup>(2)</sup>

*President,  
Logistec Corporation*

### **James W. Burns**<sup>(1)</sup>

*Chairman and Chief Executive Officer of the Corporation  
and Deputy Chairman of Power Corporation of Canada*

### **Peter D. Curry**<sup>(2)</sup>

*Director*

### **Paul Desmarais, C.C.**<sup>(1)</sup>

*Chairman and Chief Executive  
Officer of Power Corporation of Canada*

### **Paul Desmarais, Jr.**<sup>(1)</sup>

*President and Chief Operating Officer of the Corporation*

### **Gérard Eskenazi**

*Chairman of the Board and Chairman of the  
Executive Committee,  
Pargesa Holding S.A.*

### **Robert Gratton**

*Chairman, President and Chief Executive Officer,  
Montreal Trustco Inc.*

### **Kevin P. Kavanagh**

*President and Chief Executive Officer,  
Great-West Lifeco Inc. and The Great-West  
Life Assurance Company*

### **A. F. Knowles, C.A.**<sup>(1)</sup>

*Deputy Chairman of the Corporation and President and  
Chief Operating Officer of Power Corporation of Canada*

### **Arthur V. Mauro, Q.C.**

*President and Chief Executive Officer,  
Investors Group Inc.*

### **The Honourable P. Michael Pitfield, P.C., Q.C.**

*Vice-Chairman of the Corporation*

### **Yves Pratte, Q.C.**<sup>(1)</sup>

*Partner, Clarkson, Tétrault*

### **Raymond Royer**

*President,  
Bombardier Inc.*

### **A. M. Runciman**<sup>(2)</sup>

*Director*

## OFFICERS

### **James W. Burns**

*Chairman and Chief Executive Officer*

### **A. F. Knowles, C.A.**

*Deputy Chairman*

### **The Honourable P. Michael Pitfield, P.C., Q.C.**

*Vice-Chairman*

### **Paul Desmarais, Jr.**

*President and Chief Operating Officer*

### **Michel Plessis-Bélair, C.A.**

*Senior Vice-President, Finance and Administration*

### **Jacques J. Helbronner**

*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*

### **Jeannine Robitaille**

*Assistant Secretary*

## POWER FINANCIAL CORPORATION

### **Registered Office**

*759 Victoria Square  
Montreal, Quebec 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  
The Winnipeg Stock Exchange*

### **First Preferred Shares, 1969 Series**

*The Montreal Exchange  
The Winnipeg Stock Exchange*

### **First Preferred Shares, Series A**

*The Montreal Exchange  
The Toronto Stock Exchange*

<sup>(1)</sup>Member of the Executive Committee

<sup>(2)</sup>Member of the Audit Committee



**FINANCIAL STATEMENTS**

Power Financial Corporation 16

**CONDENSED FINANCIAL STATEMENTS**

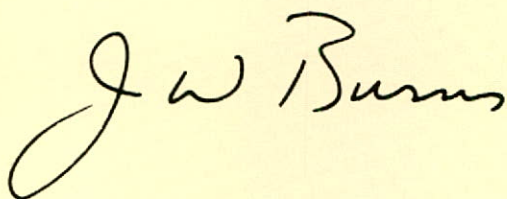
Great-West Lifeco Inc. 22

Investors Group Inc. 23

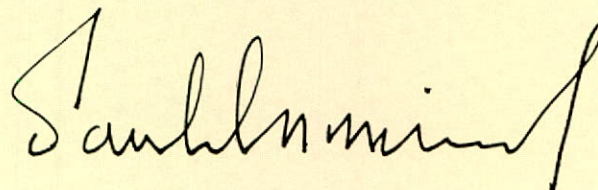
Montreal Trustco Inc. 24

	Thousands	
Assets	1987	1986
<b>Current assets</b>		
Cash and short-term investments	\$ 143,592	\$ 169,122
Dividends and interest receivable	6,438	4,077
	150,030	173,199
<b>Investments</b>		
Subsidiaries and affiliate at equity (Note 2)	1,236,555	1,107,832
Other investments at cost	77,935	5,092
	1,314,490	1,112,924
<b>Other assets</b>	2,075	
	\$ 1,466,595	\$ 1,286,123
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued charges	\$ 1,173	\$ 1,135
Dividends payable	14,745	13,194
Interest payable	8,246	3,501
Income taxes payable	2,509	6,655
Current portion of long-term debt		1,500
	26,673	25,985
<b>Long-term debt (Note 3)</b>	203,247	161,727
<b>Shareholders' Equity</b>		
Stated capital (Note 4)	677,282	681,493
Retained earnings	502,845	395,863
Foreign currency translation adjustments	56,548	21,055
	1,236,675	1,098,411
	\$ 1,466,595	\$ 1,286,123

Approved by the Board of Directors



Director



Director



Statement of Earnings  
for the year ended December 31, 1987

	Thousands	
	1987	1986
Share of earnings of subsidiaries and affiliate (Note 2)	\$ 154,713	\$ 140,765
Income from investments	17,761	6,741
	172,474	147,506
Operating expenses	6,027	5,587
Interest expense	13,970	9,852
Amortization and depreciation	4,950	479
Provision for (recovery of) income taxes	2,643	(1,046)
	27,590	14,872
Earnings before extraordinary and other items	144,884	132,634
Extraordinary and other items (Note 5)	37,523	172,572
Net earnings	\$ 182,407	\$ 305,206
Earnings per share		
Before extraordinary and other items	\$ 1.59	\$ 1.49
After extraordinary and other items	\$ 2.04	\$ 3.54

Statement of Retained Earnings  
for the year ended December 31, 1987

	Thousands	
	1987	1986
Retained earnings, beginning of year	\$ 395,863	\$ 144,542
Add		
Net earnings	182,407	305,206
Other		323
	578,270	450,071
Deduct		
Dividends		
Preferred shares	11,083	7,204
Common shares	49,187	39,895
Share issue expenses, net of income taxes of \$530,000		1,750
Share of foreign currency translation adjustments and charges to retained earnings of subsidiaries and affiliate	15,155	5,359
	75,425	54,208
Retained earnings, end of year	\$ 502,845	\$ 395,863

	Thousands	
	1987	1986
<b>Operations</b>		
Earnings before extraordinary and other items	\$ 144,884	\$ 132,634
Non cash charge (credit)		
Earnings not received in cash	(93,730)	(75,094)
Amortization and depreciation	4,950	479
	56,104	58,019
Increase in dividends and interest receivable	(2,361)	(4,037)
Increase in interest payable	4,084	2,668
Decrease in bank loans		(6,993)
Other	476	(13,903)
Cash from operations	58,303	35,754
<b>Dividends paid</b>		
Preferred shares	(11,634)	(4,923)
Common shares	(47,085)	(37,778)
	(58,719)	(42,701)
<b>Financing activities</b>		
Issue of long-term debt	85,327	66,750
Issue of shares		100,563
Repayment of long-term debt	(67,326)	(4,500)
Share issue expenses		(2,280)
Redemption of shares	(4,211)	(4,200)
	13,790	156,333
<b>Investment activities</b>		
Disposal of investments	69,253	803,650
Purchase of investments	(96,039)	(788,153)
Other	(12,118)	
	(38,904)	15,497
Increase (decrease) in cash and short-term investments	(25,530)	164,883
Cash and short-term investments, beginning of year	169,122	4,239
Cash and short-term investments, end of year	\$ 143,592	\$ 169,122



**Note 1. Summary of significant accounting policies**

The accounting principles followed by Power Financial Corporation and its subsidiaries and affiliate 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 Office of the Superintendent of Financial Institutions.

The investments in subsidiaries and affiliate are accounted for on the equity basis or on the modified equity basis in the case of The Great-West Life Assurance Company. A full consolidation of the financial statements of Power Financial Corporation and its subsidiaries has not been prepared as such consolidation would not be appropriate in the circumstances and the Corporation believes that the equity method provides a more informative presentation to the shareholders. Condensed financial statements of the subsidiaries are presented on pages 22 to 24 of this Report.

**Amortization of goodwill**

The goodwill, being the difference between the cost of the investment in corporations accounted for on the equity basis and the book value of the underlying net assets at the dates of acquisition, is included in the carrying value of these investments; such goodwill to the extent it relates to the cost of shares purchased subsequent to 1984 is being amortized over twenty years using the straight-line method.

**Foreign currency translation**

All 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 transaction dates for non-monetary items. All income and expenses are translated at average rates prevailing during the year. Exchange gains or losses are included in earnings except for foreign currency adjustments relating to the translation of the self-sustaining equity investment and financing related thereto which are deferred in the shareholders' equity section of the balance sheet.

**Income taxes**

The Corporation follows the tax allocation basis in accounting for income taxes.

**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. Subsidiaries and affiliate at equity**

	Subsidiaries			Affiliate	Total
	Great-West Lifeco Inc.	Investors Group Inc.	Montreal Trustco Inc.	Pargesa Holding S.A.	
Voting and equity interest, December 31, 1987	86.2%	71.8%	60.5%	(a)	n/a
	Thousands				
Carrying value, December 31, 1986	\$ 512,229	\$ 169,565	\$ 172,324	\$ 253,714	\$ 1,107,832
Purchase of investments			4	21,988	21,992
Gain resulting from issue of common shares		12,500			12,500
Share of earnings	68,718	35,054	27,265	23,676	154,713
Share of other items	(13,730)				(13,730)
Foreign currency translation adjustments				52,814	52,814
Share of foreign currency translation adjustments and charges to retained earnings		(272)	(34)	(14,849)	(15,155)
Disposal of investments		(18,510)			(18,510)
Amortization of goodwill			(956)	(3,962)	(4,918)
Dividends	(33,488)	(10,235)	(8,821)	(8,439)	(60,983)
Carrying value, December 31, 1987	\$ 533,729	\$ 188,102(b)	\$ 189,782	\$ 324,942	\$ 1,236,555
Share of equity, December 31, 1987	\$ 526,341	\$ 187,668(b)	\$ 169,486	\$ 237,000	\$ 1,120,495

(a) Represents a voting interest of 19.0% and an equity interest of 17.3%. The investment is accounted for on the equity basis since January 1, 1987.

(b) Includes note of \$50,000,000 having terms identical to the 10.6% Debentures, 1986 Series, issued by the Corporation.



## Note 3. Long-term debt

	Thousands	
	1987	1986
6% Series "A" redeemable debentures, due September 1, 1994 to Investors Syndicate Limited and secured by certain assets	\$ 3,600	\$ 4,900
Swiss franc bonds of Sfr. 120,000,000 maturing March 3, 1997 bearing interest at 5% payable annually in arrears	122,724	
9 <sup>7</sup> / <sub>8</sub> % Debentures, 1978 Series due October 4, 1998 with a sinking fund requirement of \$1,500,000 per annum, which may be increased to \$2,500,000 at the Corporation's option	29,796	31,296
10.6% Debentures, 1986 Series due January 16, 2006 with a sinking fund requirement of \$1,785,000 per annum in each of the years 1992 to 2005, both inclusive	50,000	50,000
Swiss bank loans of Sfr. 90,000,000		77,031
	206,120	163,227
Deduct: Instalment due within one year		1,500
Debentures, 1978 Series purchased for cancellation	2,873	
	\$ 203,247	\$ 161,727

The Debentures, 1978 Series and the Debentures, 1986 Series are secured by a floating charge on the assets of the Corporation.

## Note 4. Stated capital

## Authorized

First preferred shares, issuable in series – unlimited

Second preferred shares, issuable in series – unlimited

Common shares – unlimited

## Issued and outstanding

	1987		1986	
	Number of shares	Stated Capital	Number of shares	Stated Capital
		Thousands		Thousands
First Preferred Shares 1969 Series	1,287,152	\$ 32,179	1,287,152	\$ 32,179
First Preferred Shares, 1978 Series	1,728,000	43,200	1,896,000	47,400
Series A First Preferred Shares	4,000,000	100,000	4,000,000	100,000
Common shares	84,078,963	501,903	84,080,863	501,914
		\$ 677,282		\$ 681,493

The First Preferred Shares 1969 Series are entitled to a \$1.25 annual cumulative dividend and are redeemable at \$25 per share.

The First Preferred Shares, 1978 Series are entitled to an annual cumulative dividend at a floating rate equal to 1/2 of the prime rate of a major Canadian chartered bank plus 1/4%, redeemable at \$26 per share to August 31, 1988, decreasing to \$25<sup>3</sup>/<sub>4</sub> per share during the period to August 31, 1991 and \$25 per share thereafter. The Corporation is required to purchase 168,000 shares at \$25 per share on September 1 in each year to 1993 inclusive. The holders of the shares outstanding on September 1, 1993 have the right to have the Corporation redeem them on that date; otherwise 20% of the shares then

outstanding will be purchased by the Corporation on September 1 in each of the years 1994 to 1998.

The Series A First Preferred Shares are entitled to an annual cumulative dividend at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and will be redeemable after November 14, 1991 at \$25 per share.

2,359,000 common shares have been reserved for issuance pursuant to the Employee Stock Option Plan. Options were outstanding at December 31, 1987 to purchase, until October 8, 1997, up to an aggregate of 1,765,000 shares at prices of \$13.75 and \$15.59 per share.

In December 1987, the Corporation purchased and cancelled 1,900 common shares at a cost of \$24,000.



Note 5. **Extraordinary and other items**

	Thousands	
	1987	1986
Gain on sale of assets, net of income taxes of \$14,775,000	\$ 34,753	\$
Gain resulting from issue of common shares by a subsidiary, net in 1986 of income taxes of \$9,007,000	12,500	174,376
Share of other items of a subsidiary	(13,730)	(1,804)
Tax reduction resulting from the application of prior years' losses	4,000	
	\$ 37,523	\$ 172,572

Note 6. **Other**

a) Related party transactions

The Corporation, its subsidiaries and affiliates have transactions with each other in the normal course of business at competitive prices; such transactions are not significant to the Corporation or its subsidiaries and affiliates.

b) Segmented information

The nature of the business is that of a holding and management corporation. Condensed financial statements of the subsidiaries are presented on pages 22 to 24 of this Report.

**Auditor's Report**

To the Shareholders of  
Power Financial Corporation

We have examined the balance sheet of Power Financial Corporation as at December 31, 1987 and the statements of earnings, 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.

Montreal, Quebec  
March 8, 1988

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.  
Chartered Accountants

	Thousands	
Condensed Summary of Operations	1987	1986
Premium income	\$ 3,489,043	\$ 3,188,615
Other income	1,322,078	1,251,078
	4,811,121	4,439,693
Paid or credited to policyholders and beneficiaries	4,213,236	3,853,916
Commissions, operating expenses and other	466,070	438,174
Income taxes	20,253	12,865
	4,699,559	4,304,955
Net income from operations	111,562	134,738
Other items	(18,910)	(10,677)
Minority interest	(28,705)	(26,060)
Net income before the following item	63,947	98,001
Pre-acquisition net income		44,784
Net income	\$ 63,947	\$ 53,217
Earnings per share		
Net income from operations	\$ 1.026	\$ 0.707
Net income	\$ 0.821	\$ 0.683
Pro forma earnings per share		
Net income from operations		\$ 1.310
Net income		\$ 1.258

**Condensed Balance Sheet**

Bonds	\$ 4,912,717	\$ 3,868,170
Mortgages and sale agreements	6,807,815	5,917,062
Segregated investment funds	1,657,658	1,546,832
Other assets	2,116,744	1,757,472
Total assets	\$ 15,494,934	\$ 13,089,536
Policy reserves	\$ 11,077,831	\$ 8,864,533
Segregated investment funds	1,657,658	1,546,832
Other policy benefit liabilities	768,355	668,364
Demand notes payable to parent company		122,250
Other liabilities	853,311	788,767
Minority and other interests	527,175	511,079
Common shareholders' equity	610,604	587,711
Total liabilities and shareholders' equity	\$ 15,494,934	\$ 13,089,536

**Notes**

The pro forma earnings per share are presented to show what Great-West Lifeco's earnings in 1986 would have been if Great-West Lifeco had acquired The Great-West Life Assurance Company at the beginning of 1986.

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



	Thousands	
Condensed Income Statement	1987	1986
Investment income	\$ 140,779	\$ 149,303
Management and distribution fees	148,937	126,476
Other	10,519	9,246
	300,235	285,025
Interest on certificate and trust liabilities	79,575	90,577
Management and distribution costs	109,892	94,857
Other	43,725	53,869
Income taxes	20,914	11,684
	254,106	250,987
Net operating income for the year	46,129	34,038
Pre-acquisition net operating income (9 months)		24,047
Net income (1986 – for 3 months)	\$ 46,129	\$ 9,991
Earnings per share (1986 – for 3 months)	\$ 1.88	\$ 0.45
Pro forma earnings per share		\$ 1.43

**Condensed Balance Sheet**

Cash and temporary investments	\$ 77,772	\$ 47,132
Marketable securities	455,791	458,209
Mortgages on real estate	842,205	833,220
Other assets	117,014	65,310
Total assets	\$ 1,492,782	\$ 1,403,871
Certificate liabilities	\$ 625,276	\$ 672,320
Guaranteed trust accounts	515,419	432,896
Demand note payable to parent company		35,000
Long-term debt	54,130	50,000
Other liabilities	106,219	76,908
Common shareholders' equity	191,738	136,747
Total liabilities and shareholders' equity	\$ 1,492,782	\$ 1,403,871

**Note**

The pro forma earnings per share are presented to show what the company's earnings per share would have been if Investors Group Inc. had acquired the wholly-owned subsidiary companies at the beginning of 1986.

	Thousands	
Condensed Income Statement	1987	1986
Gross revenue	\$ 898,844	\$ 631,644
Operating revenue		
Fiduciary	\$ 87,456	\$ 73,088
Financial intermediary	110,828	67,680
Real estate	25,465	19,655
	223,749	160,423
Operating expenses	(158,758)	(131,324)
Income taxes	(12,830)	(2,093)
Net income	\$ 52,161	\$ 27,006
Net income per common share	\$ 1.36	\$ 0.94

#### Condensed Balance Sheet

Investments	\$ 2,052,216	\$ 1,708,447
Corporate and government loans	553,159	476,438
Mortgages	4,931,526	4,686,542
Other assets	125,363	182,863
Total assets	\$ 7,662,264	\$ 7,054,290
Deposits	\$ 834,477	\$ 695,326
Investment certificates	5,789,911	5,509,066
Long-term debt	494,625	351,625
Other liabilities	73,109	58,505
Debentures due 2084	60,000	60,000
Subordinated notes	30,000	30,000
Preferred shares	100,000	100,000
Common shareholders' equity	280,142	249,768
Total liabilities and shareholders' equity	\$ 7,662,264	\$ 7,054,290





