



IGI

**Investors Group Inc.**

**Timeless Principles. Fundamental Strength.**



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*Third Quarter Report—For the three and nine months ended September 30, 2003*

## FINANCIAL HIGHLIGHTS

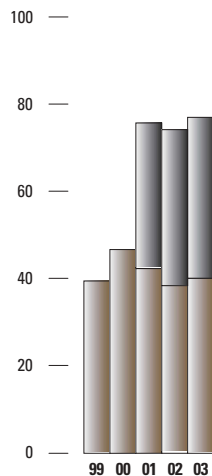
	For the three months ended September 30			As at and for the nine months ended September 30		
	2003	2002	Change	2003	2002	Change
<b>Net income available to common shareholders</b> (\$ Millions)						
Excluding dilution gain	\$ 140.6	\$ 124.7	12.8 %	\$ 389.7	\$ 371.8	4.8 %
Including dilution gain	155.4	124.7	24.6	404.5	371.8	8.8
<b>Diluted earnings per share</b>						
Excluding dilution gain	0.53	0.47	12.8	1.47	1.40	5.0
Including dilution gain	0.59	0.47	25.5	1.53	1.40	9.3
<b>Dividends per share</b>	0.255	0.225	13.3	0.735	0.635	15.7
<b>Return on equity</b>						
Excluding dilution gain				18.7 %	19.6 %	
Including dilution gain				19.4 %	19.6 %	
(\$ Millions)						
<b>Mutual funds</b>						
<b>Investors Group</b>						
Sales	\$ 887.8	\$ 964.0	(7.9)%	\$ 3,023.5	\$ 3,951.1	(23.5)%
Net sales (redemptions)	(283.5)	(216.2)	(31.1)	(746.5)	330.6	N/M
Assets under management				38,448.2	36,422.8	5.6
<b>Mackenzie Financial Corporation<sup>(1)</sup></b>						
Sales	1,124.2	1,177.0	(4.5)	3,664.4	4,678.0	(21.7)
Net sales (redemptions)	(38.5)	(100.8)	61.8	(257.9)	276.9	N/M
Assets under management				31,497.7	30,037.2	4.9
<b>Combined mutual fund assets under management</b>				69,945.9	66,460.0	5.2
<b>Insurance in force</b> (face amount)				30,295.6	26,725.0	13.4
<b>Securities operations assets under administration</b>				5,347.0	4,089.4	30.8
<b>Mortgages serviced</b>				6,529.3	7,087.7	(7.9)
<b>Deposits and certificates</b>				714.0	700.2	2.0
<b>Clients</b>				2,551,379	2,656,556	(4.0)%
<b>Client accounts</b>				9,303,554	9,588,221	(3.0)
<b>Consultants</b>				3,192	3,266	(2.3)
<b>Employees</b>				3,039	3,300	(7.9)
<b>Financial Planning Centres</b>				110	108	1.9

<sup>(1)</sup> Canadian operations only.

N/M – Not Meaningful

### Client Assets Under Management and Administration

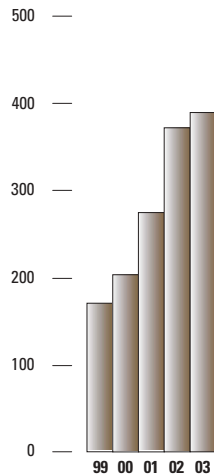
As at September 30  
(\$ Billions)



Mackenzie  
33.2 35.0 35.7  
Investors Group  
39.0 47.1 42.3 38.4 40.6

### Net Income\*

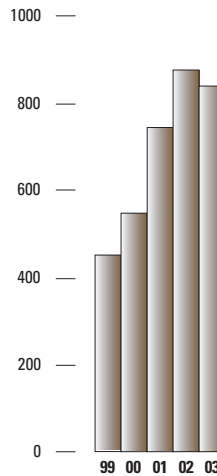
For the nine months ended September 30  
(\$ Millions)



170 204 275 372 390  
\* Excluding goodwill amortization, restructuring costs and dilution gain

### Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)\*

For the nine months ended September 30  
(\$ Millions)



468 546 746 875 840  
\* Excluding restructuring costs, discontinued operations and dilution gain

The Company's operating units have been focusing on the fundamentals of their businesses to provide clients, advisors and consultants with the best advice, products and services available in the industry.

#### To Our Shareholders

Interim consolidated financial statements for the three and nine months ended September 30, 2003 are presented with this report.

#### Financial Results

For the three months ended September 30, 2003 net income attributable to common shareholders, excluding a dilution gain of \$14.8 million, was \$140.6 million compared to \$124.7 million in 2002. Earnings per share on this basis were 53 cents compared with 47 cents in 2002, an increase of 13%.

Net income attributable to common shareholders, excluding a dilution gain of \$14.8 million, was \$389.7 million for the nine months ended September 30, 2003 compared to \$371.8 million in 2002. Earnings per share on this basis were \$1.47 compared with \$1.40 in 2002, an increase of 5%.

During the quarter, Investors Group purchased \$100 million of common shares of Great-West Lifeco Inc. ("GWL") which were issued as part of the funding of the Canada Life acquisition by GWL. Investors Group's percentage ownership of GWL was slightly reduced to 4.2%, resulting in a dilution gain for the quarter of \$14.8 million. Including the dilution gain, the Company's net income attributable to common shareholders was \$155.4 million and \$404.5 million for the three and nine month periods ended September 30, 2003, respectively. Earnings per share on this basis were 59 cents and \$1.53 for the three and nine month periods ended September 30, 2003, respectively.

Gross revenues for the third quarter were \$474.4 million, unchanged from the prior year. Gross revenues for the first nine months of 2003 were \$1.4 billion, compared to \$1.5 billion last year. Operating expenses were \$258.7 million for the quarter and \$784.3 million for the nine months compared with \$264.5 million and \$845.6 million respectively in 2002.

## Report to Shareholders

### **Investors Group Operations**

Investors Group recorded mutual fund sales of \$888 million for the third quarter, compared to \$964 million in the prior year. For the quarter, mutual fund net redemptions were \$283 million compared to net redemptions of \$216 million in 2002 and net redemptions of long-term funds were \$276 million compared to net redemptions of \$220 million in 2002.

Year-to-date mutual fund sales were \$3.0 billion compared to \$4.0 billion in the prior year and net redemptions were \$746 million, compared to last year's net sales of \$331 million. Net redemptions of long-term funds (excluding money market funds) were \$719 million compared to net sales of \$239 million last year.

Redemption rates (excluding money market funds) were 11.4% at the end of the quarter, up from 9.6% at the same time last year. The corresponding rate at September 30, 2003 for all other members of the Investment Funds Institute of Canada was 14.3%.

On a year-to-date basis, insurance sales were down 7.2% from last year while mortgage originations increased 9.4%. External assets gathered into the securities operations were down 27.4% from the same time last year.

Investors Group's mutual fund assets at September 30, 2003 were \$38.4 billion, an increase of 5.6%, compared to \$36.4 billion at September 30, 2002.

The number of Investors Group Consultants was 3,192 at September 30, 2003 compared to 3,324 at year-end.

### **Mackenzie Operations**

Mackenzie recorded sales of mutual funds of \$1.1 billion for the quarter compared to \$1.2 billion last year. Mutual fund net redemptions for the period were \$39 million, compared to net redemptions of \$101 million in the prior year. Net sales of long-term funds (excluding money market and managed yield funds) were \$17 million for the period, compared with net redemptions of \$83 million in 2002.

Year-to-date mutual fund sales were \$3.7 billion compared to \$4.7 billion in the prior year and net redemptions were \$258 million compared to last year's net sales of \$277 million. Net sales of long-term funds (excluding money market and managed yield funds) were \$17 million for the period compared with net sales of \$696 million in 2002.

Mackenzie's redemption rate for long-term funds was 12.5% at the end of September 2003, compared to 11.8% at the end of September 2002. The corresponding rate at September 30, 2003 for all other members of the Investment Funds Institute of Canada was 14.1%.

Mackenzie's mutual fund assets under management at September 30, 2003 were \$31.5 billion, compared to \$30.0 billion one year ago.

### Industry Overview

With equity markets continuing to rise, the industry experienced an overall increase in assets in the third quarter. Total mutual fund assets under management increased by 4.6%, or \$18.1 billion for the three month period ended September 30, 2003. In the quarter, there were modest net sales of long-term funds. Canadian investors remained cautious, having a preference for products offering capital preservation and income, such as dividend and fixed income funds, over those offering capital appreciation. The Investment Funds Institute of Canada reported industry assets under management at September 30, 2003 were \$408.9 billion, up 7.3% from \$381.1 billion from the same quarter end in 2002.

The Company remains optimistic about the long-term prospects for the industry and in the importance and strength of an advisor-based business model. The Company's operating units have been focusing on the fundamentals of their businesses to provide clients, advisors and consultants with the best advice, products and services available in the industry while continuing their efforts to contain costs and achieve synergies. The Company is confident that as a result of its efforts, it is well-positioned to benefit from future industry growth.

### Dividends

The Board of Directors has declared a quarterly dividend of \$0.359375 per share on the Company's 5.75% Non-Cumulative First Preferred Shares, Series "A" payable on December 31, 2003 to shareholders of record on November 28, 2003 and has declared a quarterly dividend of 25.5 cents per share on the Company's common shares payable on January 30, 2004 to shareholders of record on December 31, 2003.

On behalf of the Board of Directors,



**R. Jeffrey Orr**

*President and Chief Executive Officer  
Winnipeg, Canada  
October 30, 2003*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the financial position and performance of Investors Group Inc. (Company) as at and for the three and nine months ended September 30, 2003, compared with the same period in 2002, and should be read in conjunction with the MD&A as set out on pages 21- 45 of the 2002 Annual Report and in the 2003 First and Second Quarter Reports to Shareholders.

## Investors Group Inc.

### SUMMARY OF CONSOLIDATED OPERATING RESULTS

For the three months ended September 30, 2003 net income attributable to common shareholders, excluding a dilution gain of \$14.8 million, was \$140.6 million compared to \$124.7 million in 2002. Earnings per share on this basis were 53 cents compared with 47 cents in 2002, an increase of 12.8%.

Net income attributable to common shareholders, excluding a dilution gain of \$14.8 million, was \$389.7 million for the nine months ended September 30, 2003 compared to \$371.8 million in 2002. Earnings per share on this basis were \$1.47 compared with \$1.40 in 2002, an increase of 5.0%.

During the quarter, Investors Group purchased \$100 million of common shares of Great-West Lifeco Inc. (GWL) which were issued as part of the funding of the Canada Life acquisition by GWL. Investors Group's percentage ownership of GWL was slightly reduced to 4.2%, resulting in a dilution gain for the quarter of \$14.8 million. Including the dilution gain, the Company's net income attributable to common shareholders was \$155.4 million and \$404.5 million for the three and nine month periods ended September 30, 2003, respectively. Earnings per share on this basis were 59 cents and \$1.53 for the three and nine month periods ended September 30, 2003, respectively.

Shareholders' equity was \$3.16 billion as at September 30, 2003, up from \$2.95 billion at December 31, 2002. Return on average common equity for the nine months ended September 30, 2003 was 18.7%, excluding the dilution gain, compared with 19.6% in 2002. The quarterly dividend per common share was 25.5 cents, up from 24.0 cents in the second quarter of 2003.

The Company's reportable segments, which reflect the current organizational structure, are Investors Group, Mackenzie, and Corporate and Other. Management measures and evaluates the performance of these segments based on earnings before interest and taxes as shown in Table 1.

Discussion of segment operating results for Investors Group and Mackenzie is contained later in this report. Earnings before interest and taxes for Corporate and Other, the segment which represents net investment income earned on unallocated investments and other income, totalled \$11.1 million in the third quarter of 2003 compared to \$2.9 million in 2002. For the nine months, earnings before interest and taxes were \$26.4 million compared to \$12.1 million in 2002.

Expenses reflected in Table 1 that are not allocated to segments include:

- Interest expense, which primarily represents the cost of financing the Mackenzie acquisition, totalled \$19.3 million and \$19.8 million for the three months ended September 30, 2003 and 2002 respectively. For the nine month period in 2003, interest expense was \$61.8 million compared to \$60.1 million for the same period in 2002.
- Effective income tax rates were 30.3% and 32.2% for the three and nine month periods under review compared with 37.4% and 38.2%, respectively, in 2002. The decline in the effective rate was due to reductions in statutory tax rates, the dilution gain related to GWL issuance of common shares, as well as other tax benefits including those related to gains on sale of securities and the Company's share of GWL's earnings which are reflected in net investment income and other.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Table 1: Consolidated Operating Results by Segment**

(\$ Millions)	Investors Group		Mackenzie		Corporate & Other		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
<b>Three months ended September 30</b>								
Fee income	\$ 245.9	\$ 250.9	\$ 186.2	\$ 190.4	\$ –	\$ –	\$ 432.1	\$ 441.3
Net investment income and other	23.7	25.9	7.5	4.3	11.1	2.9	42.3	33.1
	<b>269.6</b>	<b>276.8</b>	<b>193.7</b>	<b>194.7</b>	<b>11.1</b>	<b>2.9</b>	<b>474.4</b>	<b>474.4</b>
Operating expenses								
Commissions	47.0	45.2	70.2	73.6	–	–	117.2	118.8
Non-commission	58.1	59.6	64.1	66.3	–	–	122.2	125.9
	<b>105.1</b>	<b>104.8</b>	<b>134.3</b>	<b>139.9</b>	<b>–</b>	<b>–</b>	<b>239.4</b>	<b>244.7</b>
<b>Earnings before interest and taxes</b>	<b>\$ 164.5</b>	<b>\$ 172.0</b>	<b>\$ 59.4</b>	<b>\$ 54.8</b>	<b>\$ 11.1</b>	<b>\$ 2.9</b>	<b>235.0</b>	<b>229.7</b>
Interest expense							19.3	19.8
							<b>215.7</b>	<b>209.9</b>
Dilution gain							14.8	–
Income before income taxes and discontinued operations							<b>230.5</b>	<b>209.9</b>
Income taxes							69.9	78.5
Income before discontinued operations							<b>160.6</b>	<b>131.4</b>
Discontinued operations							–	(1.5)
<b>Net income</b>							<b>160.6</b>	<b>129.9</b>
Preferred dividends							5.2	5.2
<b>Net income available to common shareholders</b>							<b>\$ 155.4</b>	<b>\$ 124.7</b>
<b>Nine months ended September 30</b>								
Fee income	\$ 718.2	\$ 783.1	\$ 549.4	\$ 598.7	\$ –	\$ –	\$ 1,267.6	\$ 1,381.8
Net investment income and other	79.4	67.4	16.0	13.9	26.4	12.1	121.8	93.4
	<b>797.6</b>	<b>850.5</b>	<b>565.4</b>	<b>612.6</b>	<b>26.4</b>	<b>12.1</b>	<b>1,389.4</b>	<b>1,475.2</b>
Operating expenses								
Commissions	138.3	150.9	210.7	229.4	–	–	349.0	380.3
Non-commission	176.7	192.8	196.8	212.4	–	–	373.5	405.2
	<b>315.0</b>	<b>343.7</b>	<b>407.5</b>	<b>441.8</b>	<b>–</b>	<b>–</b>	<b>722.5</b>	<b>785.5</b>
<b>Earnings before interest and taxes</b>	<b>\$ 482.6</b>	<b>\$ 506.8</b>	<b>\$ 157.9</b>	<b>\$ 170.8</b>	<b>\$ 26.4</b>	<b>\$ 12.1</b>	<b>666.9</b>	<b>689.7</b>
Interest expense							61.8	60.1
							<b>605.1</b>	<b>629.6</b>
Dilution gain							14.8	–
Income before income taxes and discontinued operations							<b>619.9</b>	<b>629.6</b>
Income taxes							199.9	240.7
Income before discontinued operations							<b>420.0</b>	<b>388.9</b>
Discontinued operations							–	(1.6)
<b>Net income</b>							<b>420.0</b>	<b>387.3</b>
Preferred dividends							15.5	15.5
<b>Net income available to common shareholders</b>							<b>\$ 404.5</b>	<b>\$ 371.8</b>

## Investors Group

### ASSETS UNDER MANAGEMENT

The level of assets under management is influenced by four factors: sales, redemption rates, capital markets and relative investment performance. The changes in assets under management in 2003 compared with 2002 are summarized in Table 2.

(\$ Millions)	Three months ended September 30			Nine months ended September 30		
	2003	2002	Change	2003	2002	Change
<b>Sales</b>						
Investors Masterseries™	\$ 788.7	\$ 829.2	(4.9)%	\$ 2,697.9	\$ 3,278.0	(17.7)%
IG Mackenzie	37.6	83.4	(54.9)	99.0	246.9	(59.9)
iProfile™ funds	7.4	15.7	(52.9)	24.0	63.6	(62.3)
Partner funds	54.1	35.7	51.5	202.6	362.6	(44.1)
	<b>887.8</b>	964.0	(7.9)	<b>3,023.5</b>	3,951.1	(23.5)
Redemptions	<b>1,171.3</b>	1,180.2	(0.8)	<b>3,770.0</b>	3,620.5	4.1
<b>Net sales (redemptions)</b>	<b>(283.5)</b>	(216.2)	(31.1)	<b>(746.5)</b>	330.6	(325.4)
Market and income	<b>1,137.4</b>	(3,282.0)	134.7	<b>1,606.6</b>	(5,551.8)	128.9
Net change in assets	<b>853.9</b>	(3,498.2)	124.4	<b>860.1</b>	(5,221.2)	116.5
Beginning assets	<b>37,594.3</b>	39,921.0	(5.8)	<b>37,588.1</b>	41,644.0	(9.7)
<b>Ending assets</b>	<b>\$ 38,448.2</b>	\$ 36,422.8	5.6 %	<b>\$ 38,448.2</b>	\$ 36,422.8	5.6 %
<b>Consist of:</b>						
Investors Masterseries™				<b>\$ 33,218.7</b>	\$ 31,375.2	5.9 %
IG Mackenzie				<b>1,105.0</b>	1,035.4	6.7
iProfile™ funds				<b>364.4</b>	325.6	11.9
Partner funds				<b>3,760.1</b>	3,686.6	2.0
				<b>\$ 38,448.2</b>	\$ 36,422.8	5.6 %
<b>Average assets</b>	<b>\$ 38,545.4</b>	\$ 38,148.2	1.0 %	<b>\$ 37,401.8</b>	\$ 40,630.6	(7.9)%

For the three months ended September 30, 2003, sales of Investors Group mutual funds sold through its Consultant Network were \$888 million, a decrease of 7.9% from 2002. This compares to an overall industry decrease in mutual fund sales of 2.7%. Mutual fund redemptions totalled \$1.17 billion for the same period, a decrease of 0.8% from the \$1.18 billion recorded in 2002. While Investors Group's redemption rate increased to 13.9% at September 30, 2003 from 11.7% at September 30, 2002, it continues to be among the lowest in the industry. The corresponding redemption rate for the industry was 25.7% at September 30, 2003 compared with 27.3% in 2002 (the redemption rate represents the total of the last twelve months redemptions as a percentage of average mutual fund assets during the same period). Net redemptions of Investors Group mutual funds were \$283 million compared with net redemptions of \$216 million in 2002.

Sales of long-term funds (excluding money market funds) were \$680 million for the three months ended September 30, 2003, compared with \$709 million in 2002, a decrease of 4.1%. Net redemptions of long-term funds were \$276 million compared to net redemptions of \$220 million in 2002.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2003, sales of Investors Group mutual funds sold through its Consultant Network were \$3.02 billion, a decrease of 23.5% from 2002. This compares to an overall industry decrease in mutual fund sales of 22.4%. Mutual fund redemptions totalled \$3.77 billion for the same period, an increase of 4.1% from the \$3.62 billion recorded in 2002. Net redemptions of Investors Group mutual funds were \$746 million compared with net sales of \$331 million in 2002.

Sales of long-term funds (excluding money market funds) were \$2.34 billion for the nine months ended September 30, 2003, compared with \$3.12 billion in 2002, a decrease of 25.1%. Net redemptions of long-term funds were \$719 million compared to net sales of \$239 million in 2002.

Investment management services have provided reasonable levels of returns to date in 2003. During the third quarter of 2003, Investors Masterseries™ mutual funds maintained their year-end 2002 ratings from the independent Morningstar service. Morningstar Ratings are an objective, quantitative measure of a fund's historical risk-adjusted performance relative to other funds in its category, of which the top 10 per cent of the funds in each category receive a five-star rating. At September 30, 2003, 38% of Masterseries™ funds had a four or five star rating and 84% had a rating of three stars or better, both higher than the Morningstar universe. This compares to 47% and 81% respectively for the Masterseries™ funds at December 31, 2002.

Investors Group's mutual fund assets under management were \$38.4 billion at September 30, 2003, an increase of \$2.0 billion or 5.6% from September 30, 2002, an increase of \$854 million or 2.3% from June 30, 2003 levels and an increase of \$860 million or 2.3% from December 31, 2002. The increase in assets in each of these periods reflects positive market action partially offset by net redemptions of mutual funds and is consistent with the overall changes in industry assets.

## SEGMENT OPERATING RESULTS

Investors Group's earnings from operations before interest and taxes for the three and nine month periods ended September 30, 2003 compared with 2002 are presented in Table 3.

(\$ Millions)	Three months ended September 30			Nine months ended September 30		
	2003	2002	Change	2003	2002	Change
<b>Fee and net investment income</b>						
Management	\$ 189.4	\$ 189.6	(0.1)%	\$ 546.4	\$ 603.9	(9.5)%
Administration	34.1	38.4	(11.2)	103.1	110.2	(6.4)
Distribution	22.4	22.9	(2.2)	68.7	69.0	(0.4)
Net investment income and other	23.7	25.9	(8.5)	79.4	67.4	17.8
	<b>269.6</b>	276.8	(2.6)	<b>797.6</b>	850.5	(6.2)
<b>Operating expenses</b>						
Commissions	47.0	45.2	4.0	138.3	150.9	(8.3)
Non-commission						
Fixed	44.1	45.4	(2.9)	135.2	145.3	(7.0)
Variable	14.0	14.2	(1.4)	41.5	47.5	(12.6)
	<b>58.1</b>	59.6	(2.5)	<b>176.7</b>	192.8	(8.4)
	<b>105.1</b>	104.8	0.3	<b>315.0</b>	343.7	(8.4)
<b>Earnings before interest and taxes</b>	<b>\$ 164.5</b>	\$ 172.0	(4.4)%	<b>\$ 482.6</b>	\$ 506.8	(4.8)%

## Fee and Net Investment Income

Investors Group earns management fees for investment management services provided to its mutual funds. For the three months ended September 30, 2003, management fee income decreased marginally by \$0.2 million to \$189.4 million. The effect of the 1% increase in the third quarter's average mutual fund assets was offset by income from hedging activities related to the Company's mutual fund assets under management reflected in 2002.

For the nine months, management fee revenue decreased by \$57.5 million or 9.5% to \$546.4 million. The decrease in the nine month period ending September 30 reflects the 7.9% decline in average mutual fund assets compared with 2002 which was due principally to negative market action. In addition, 2002 results included \$3.3 million in income from hedging activities related to the Company's mutual fund assets under management.

Investors Group earns administration fees for providing administrative services to its mutual funds through its subsidiaries and trusteeship services to its mutual funds through Investors Group Trust Co. Ltd. Administration fees totalled \$34.1 million for the three months ended September 30, 2003, down 11.2% from \$38.4 million in 2002. Fees for the nine months were \$103.1 million in 2003, a decrease of 6.4% compared to \$110.2 million in 2002. During the three and nine month periods, fees for providing administrative services to its mutual funds declined due to reductions in related expenses.

Distribution fees are earned from:

- Redemption fees or back-end loads on mutual funds sold with a deferred sales charge, excluding money market funds. In 2003, Investors Group revised redemption fee rates on mutual funds sold with a deferred sales charge (DSC). Fees charged on redemptions subject to a DSC range from 5.5% in the first year reducing to nil after seven years and are consistent with industry rates. Previously, redemption fee rates ranged from 3.0% in the first year reducing to nil after six years. This change has not had a significant effect on redemption fee revenues in 2003 compared with 2002.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Provision of securities services through Investors Group Securities Inc.

Distribution fee income of \$22.4 million for the three months ended September 30, 2003 was down 2.2% from \$22.9 million in 2002. Fee income for the nine months was \$68.7 million compared with \$69.0 million in 2002. Distribution fee income from all sources was at or near prior year levels for both the three and nine month periods ending September 30, 2003.

Net investment income is measured as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt. Net investment income and other totalled \$23.7 million for the three months ended September 30, 2003, a decrease of \$2.2 million from \$25.9 million in 2002. For the nine months, net investment income and other totalled \$79.4 million, an increase of \$12.0 million from \$67.4 million in 2002. For the three month period the decline was due to a decrease in gains on the sale of securities and lower mortgage banking revenue offset in part by an increase in Investors Group's share of GWL's earnings. For the nine month period, income was impacted favourably by increases in Investors Group's share of GWL's earnings and gains on the sale of securities offset in part by lower mortgage banking revenue.

## Operating Expenses

Commission expense for the three months ended September 30, 2003 increased by \$1.8 million, or 4.0%, to \$47.0 million compared with \$45.2 million in 2002. Higher asset retention bonus expense resulting from an increase in mutual fund assets during the three month period in 2003 compared to 2002 accounted for a significant portion of this increase.

For the nine month period, commission expense of \$138.3 million decreased by \$12.6 million or 8.3% from \$150.9 million. The decrease in commission expense was related to:

- Lower average mutual fund assets under management which resulted in lower asset retention bonus expense.
- Lower mutual fund sales in 2003.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-commission expense totalled \$58.1 million for the three months ended September 30, 2003 compared with \$59.6 million in 2002, representing a decrease of \$1.5 million, or 2.5%. For the nine months, non-commission expense was \$176.7 million which was a decrease of \$16.1 million or 8.4%.

Variable expenses declined by \$0.2 million in the three months ended September 30, 2003 to \$14.0 million and represents a decline of 1.4%. For the nine months, variable expenses declined by \$6.0 million or 12.6% to \$41.5 million. These expenses fluctuate with the level of sales, the number of Consultants and clients, and the level of assets under management and administration. They include variable compensation, distribution support costs and costs of investment advisory services. Decreases were experienced in all variable expense categories in 2003 due to:

- The decline in mutual fund sales as discussed previously.
- The reduction in the Consultant Network which stood at 3,192 at September 30, 2003 compared to 3,266 one year ago and 3,324 at December 31, 2002.
- The decreases in average assets on which sub-advisory fees are based.

Fixed expenses decreased by \$1.3 million to \$44.1 million, or 2.9%, for the three months ended September 30, 2003. For the nine months, fixed expenses decreased by \$10.1 million to \$135.2 million, or 7.0%. The decrease in fixed costs resulted from:

- The impact of synergies related to the transition work completed to date with Mackenzie.
- Management of discretionary expenses.
- Improvements in productivity and the benefits derived from continued investment in technology.

## Mackenzie

### ASSETS UNDER MANAGEMENT

Mackenzie's mutual fund assets under management were \$31.5 billion at September 30, 2003, an increase of \$1.2 billion from \$30.3 billion as at June 30, 2003, and up \$1.5 billion from \$30.0 billion as at September 30, 2002.

During the three month period ended September 30, 2003, sales of Mackenzie's mutual funds were \$1.12 billion, a decrease of 4.5% from \$1.18 billion in the comparative period last year. Redemptions of mutual funds during these same periods were \$1.16 billion and \$1.28 billion respectively, resulting in net redemptions of mutual funds of \$39 million during the three month period ended September 30, 2003 as compared to net redemptions of mutual funds of \$101 million in the three month period ended September 30, 2002. Net sales of long-term funds were \$17 million in the current period as compared to net redemptions of \$83 million in the corresponding period last year.

During the nine month period ended September 30, 2003, sales of Mackenzie's mutual funds were \$3.66 billion, a decrease of 21.7% from \$4.68 billion in the comparative period last year. During 2003 redemptions of mutual funds were \$3.92 billion as compared to redemptions of \$4.40 billion in the nine month period ended September 30, 2002. Net redemptions of mutual funds during the nine month period ended September 30, 2003 were \$258 million, as compared to net sales of \$277 million in the comparative period last year. Net sales of long-term funds were \$17 million for the nine month period ended September 30, 2003, as compared to net sales of long-term funds of \$696 million in the comparative period last year.

Market performance during the three and nine month periods ended September 30, 2003 positively impacted mutual fund assets by \$1.3 billion and \$0.9 billion respectively. In the corresponding periods last year, market performance reduced mutual fund assets by \$2.3 billion and \$3.6 billion respectively.

**Table 4: Change in Assets Under Management and Administration**

(\$ Millions)	Three months ended September 30			Nine months ended September 30		
	2003	2002	Change	2003	2002	Change
<b>Mutual Funds</b>						
Sales	\$ 1,124.2	\$ 1,177.0	(4.5)%	\$ 3,664.4	\$ 4,678.0	(21.7)%
Redemptions	1,162.7	1,277.8	(9.0)	3,922.3	4,401.1	(10.9)
<b>Net sales (redemptions)</b>	<b>(38.5)</b>	<b>(100.8)</b>	<b>61.8</b>	<b>(257.9)</b>	<b>276.9</b>	<b>(193.1)</b>
Market and income	1,265.7	(2,326.1)	154.4	895.5	(3,639.3)	124.6
Net change in assets	1,227.2	(2,426.9)	150.6	637.6	(3,362.4)	119.0
Beginning assets	30,270.5	32,464.1	(6.8)	30,860.1	33,399.6	(7.6)
<b>Ending assets</b>	<b>\$ 31,497.7</b>	<b>\$ 30,037.2</b>	<b>4.9 %</b>	<b>31,497.7</b>	<b>30,037.2</b>	<b>4.9</b>
<b>Private and Institutional Clients</b>				<b>2,722.5</b>	2,807.6	(3.0)
<b>Segregated Funds</b>				<b>159.4</b>	115.3	38.2
<b>Labour Sponsored Funds</b>				<b>989.7</b>	961.5	2.9
<b>Total</b>				<b>\$ 35,369.3</b>	<b>\$ 33,921.6</b>	<b>4.3 %</b>
<b>Average mutual fund assets</b>	<b>\$ 31,446.2</b>	<b>\$ 31,199.8</b>	<b>0.8 %</b>	<b>\$ 30,290.6</b>	<b>\$ 32,887.0</b>	<b>(7.9)%</b>

As at September 30, 2003, Mackenzie held the top position among fund companies for offering the most Morningstar rated five-star funds of any fund company in Canada. Excluding funds that duplicate the investment mandate of another fund, Mackenzie had ten funds with the top ranking. Morningstar Ratings are an objective, quantitative measure of a fund's historical risk-adjusted performance relative to other funds in its category, of which the top 10 percent of the funds in each category get a five-star rating.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to its mutual fund business, an important component of Mackenzie's operations is the provision of investment management, administration and distribution services for other investment products. As at September 30, 2003, Mackenzie provided investment management services to \$159 million in segregated funds and to \$2.7 billion in private and institutional accounts and provided administration and distribution services to venture capital funds with \$1.0 billion in net assets.

### SEGMENT OPERATING RESULTS

Mackenzie's earnings from operations before interest and taxes for the three and nine month periods ended September 30, 2003 compared with 2002 are presented in Table 5.

(\$ Millions)	Three months ended September 30			Nine months ended September 30		
	2003	2002	Change	2003	2002	Change
<b>Fee and net investment income</b>						
Management	\$ 140.7	\$ 142.8	(1.5)%	\$ 407.9	\$ 454.4	(10.2)%
Administration	36.4	36.2	0.6	111.3	110.8	0.5
Distribution	9.1	11.4	(20.2)	30.2	33.5	(9.9)
Net investment income and other	7.5	4.3	74.4	16.0	13.9	15.1
	<b>193.7</b>	194.7	(0.5)	<b>565.4</b>	612.6	(7.7)
<b>Operating expenses</b>						
Commissions	33.7	37.7	(10.6)	106.6	115.4	(7.6)
Trailer fees	36.5	35.9	1.7	104.1	114.0	(8.7)
Non-commission	64.1	66.3	(3.3)	196.8	212.4	(7.3)
	<b>134.3</b>	139.9	(4.0)	<b>407.5</b>	441.8	(7.8)
<b>Earnings before interest and taxes</b>	<b>\$ 59.4</b>	\$ 54.8	8.4 %	<b>\$ 157.9</b>	\$ 170.8	(7.6)%

### Fee and Net Investment Income

Management fees were \$140.7 million for the three month period ended September 30, 2003, a decrease of \$2.1 million from \$142.8 million in the comparative period last year. Although average mutual fund assets increased marginally in the current quarter as compared to the prior year, management fees declined because of a drop in the average management fee rate, a result of an increase in the percentage of assets in money market and fixed income funds. For the nine month period ended September 30, 2003, management fees decreased \$46.5 million to \$407.9 million from \$454.4 million in the comparative period last year. This decline is consistent with the decrease in Mackenzie's average mutual fund assets under management and the decline in the average management fee rate, a result of an increase in the percentage of assets in money market and fixed income funds.

Administration fees include the following main components: operating expenses charged to funds; fees earned from administering the VenGrowth labour sponsored venture capital funds; and trustee and other administration fees generated from the MRS Group account administration business. Administration fees increased by \$0.2 million from \$36.2 million in the comparative period to \$36.4 million in the three month period ended September 30, 2003. In the nine month period ended September 30, 2003 administration fees were \$111.3 million as compared to \$110.8 million in the comparative period. These increases are primarily attributable to the administration fees earned by M.R.S. Trust Company for assuming responsibility for a portion of the Mackenzie and Investors Group mutual fund RRSP Clone counterparty activity. M.R.S. Trust began providing this service in December 2002 for the Mackenzie funds and in April 2003 for the Investors Group funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Distribution revenue, which represents redemption fees earned on units of mutual funds sold on a deferred sales charge basis for which Mackenzie was the primary distributor, decreased \$2.3 million to \$9.1 million in the three month period ended September 30, 2003 from \$11.4 million in the comparative period last year. Distribution revenue in the nine month period ended September 30, 2003 was \$30.2 million, a decrease of \$3.3 million from \$33.5 million in the comparative period last year. These decreases are consistent with the decline in the redemption of mutual funds that were subject to a redemption fee.

Net investment income and other represents the net interest margin from M.R.S. Trust's lending and deposit operations. Net investment income in the three month period ended September 30, 2003 was \$7.5 million, an increase of \$3.2 million as compared to the \$4.3 million in the corresponding period last year. The increase in the quarter is attributed to a gain realized on the disposition of real estate held for sale. There is no corresponding gain recorded in the previous year. Net investment income was \$16.0 million in the nine month period ended September 30, 2003, an increase of \$2.1 million from \$13.9 million in the comparative period last year.

### Operating Expenses

Mackenzie's operating expenses decreased 4.0% and 7.8% respectively, in the three and nine month periods ended September 30, 2003 as compared to the same periods last year.

Commissions expense, which represents the amortization of deferred selling commissions, was \$33.7 million in the three month period ended September 30, 2003 as compared to \$37.7 million in the previous year. Commission expense in the nine month period ended September 30, 2003 was \$106.6 million, as compared to \$115.4 million in the same period in 2002. Mackenzie amortizes deferred selling commissions over a maximum period of seven years. However, to the extent redemption fees are received on the redemption of the underlying mutual fund units, amortization is accelerated. The decrease in commissions expense as compared to the same periods in the previous year is consistent with the growth in deferred selling commissions which are now fully amortized and the decline in redemption fees.

Trailer fees paid to dealers were \$36.5 million in the three month period ended September 30, 2003, an increase of \$0.6 million from \$35.9 million in the three month period ended September 30, 2002. This increase is consistent with the overall increase in Mackenzie's average mutual fund assets under management in the current quarter as compared to the corresponding quarter last year. Trailer fees in the nine month period ended September 30, 2003 were \$104.1 million as compared to \$114.0 million in 2002. This decrease is consistent with the decline in Mackenzie's average mutual fund assets under management in the nine month period ended September 30, 2003 as compared to the corresponding period last year.

Non-commission expenses include costs incurred by Mackenzie in the administration, marketing and management of its mutual funds and all other expenses in the operation of its business. Non-commission expenses decreased \$2.2 million to \$64.1 million in the three month period ended September 30, 2003 from \$66.3 million in the comparative period last year. Non-commission expenses in the nine month period ended September 30, 2003 were \$196.8 million as compared to \$212.4 million in 2002. These declines were primarily due to:

- Synergies related to the transition work with Investors Group.
- Management of discretionary expenditures.
- Lower distribution fees paid to a limited partnership, consistent with the decline in average assets financed by limited partnership vehicles.
- Reduction in sub-advisory expenses due to a shift in assets from sub-advised funds to internally managed funds, some of which is attributed to fund mergers, and the renegotiation of a number of sub-advisory agreements in 2002.

## Investors Group Inc.

### CONSOLIDATED FINANCIAL POSITION

The Company's on-balance sheet assets totalled \$6.24 billion at September 30, 2003, compared to \$5.99 billion at December 31, 2002.

The Company's holdings of securities were \$108.9 million at September 30, 2003 – a decrease of \$47.3 million or 30.3%. Securities currently represent 1.7% of total assets as compared with 2.6% at December 31, 2002. The market value of the Company's portfolio at September 30, 2003 exceeded cost by \$113.2 million compared with \$125.1 million at year end 2002.

Loans, including mortgages and personal loans, increased by 12.1%, or \$66.6 million, to \$615.6 million at September 30, 2003 and represent 9.9% of total assets, compared to 9.2% at year end 2002. An increase of \$122.5 million in residential mortgage loans related to the Company's mortgage banking operations during the period was offset in part by a decrease of \$55.9 million in mortgages and personal loans attributed to the Company's intermediary activities.

Residential mortgage loans, sourced with the assistance of Investors Group Consultants, are primarily designated for sale to third parties on a fully serviced basis through Investors Group's mortgage banking operations. Mortgage loans sourced through mortgage brokers and personal loans sourced through the MRS Group relate to M.R.S. Trust's intermediary activities. M.R.S. Trust also sells mortgages and personal loans to third parties on a fully serviced basis through its securitization activities.

### CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

#### Liquidity

The Company's operating liquidity is required for:

- Financing ongoing operations, including the funding of selling commissions internally.
- Temporarily holding mortgages in its mortgage banking facility.
- Meeting regular interest and dividend obligations related to long-term debt and preferred shares.
- Maintaining liquidity requirements for the Company's regulated entities. At September 30, 2003, liquidity for these subsidiaries was in excess of regulatory requirements.

During the nine months ended September 30, 2003, the Company repaid \$275 million of the Floating Bankers' Acceptances due May 30, 2006 which were related to the acquisition of Mackenzie.

On July 10, 2003, the Company purchased, by way of private placement, 2,662,690 common shares of Great-West Lifeco Inc. (GWL), an affiliate of the Company, for total cash consideration of \$100 million in support of GWL's acquisition of Canada Life Financial Corporation.

The Company continues to rely on its strong financial position to address liquidity and funding issues. Earnings before interest, taxes, depreciation and amortization of commission expense (EBITDA) totalled \$839.6 million for the nine months ended September 30, 2003, compared to \$874.7 million in 2002. Although overall fee revenues were down 8.3% for the nine months ended September 30, 2003, the decrease in EBITDA was only 4.0% due to both a decrease in operating expenses and an increase in net investment income.

Other potential sources of liquidity are the Company's portfolio of securities and lines of credit. As at September 30, 2003, the market value of the marketable securities in its portfolios and its unregulated subsidiaries was \$191.6 million. The Company maintains operating lines of credit totalling \$235 million with various Schedule 1 Canadian chartered banks.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity can also be provided through the Company's ability to raise funds in domestic debt and equity markets as evidenced by the funds raised to finance its acquisition of Mackenzie and by the funds raised through the \$175 million and the \$300 million in debentures issued in December 2002 and March 2003 respectively.

### Capital Resources

Shareholders' equity increased to \$3.16 billion as at September 30, 2003 from \$2.95 billion at December 31, 2002. During the same period, long-term debt increased marginally to \$1.41 billion from \$1.39 billion at December 31, 2002.

To achieve its strategic objectives, the Company requires a strong capital base. The Company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet. Management is confident that the Company's current capital resources are adequate and can support its activities.

## OUTLOOK

### Investors Group — Mackenzie Transition

In 2001, the Company established a project structure to properly transition to the new post-acquisition environment and fully realize operating efficiencies and product enhancements which will benefit clients, financial advisors and shareholders.

The transition plan sought to achieve a target of approximately \$100 million (pre-tax basis) of synergies per year. This consisted of \$75 million per year in synergies to the Company's shareholders and \$25 million per year in synergies to Investors Group and Mackenzie mutual fund clients. Synergies realized by mutual fund clients are based upon reductions in fund costs. Management met its objective which was to achieve these synergies on a run rate basis in the second year following acquisition.

Investors Group and Mackenzie continue to pursue additional opportunities for product and service enhancements and operating efficiencies.

### Expanded Product Shelf and Service Offering

Offering a broader range of financial products and increasing the diversification of the Company's core products will help strengthen existing client relationships and attract new clients. This strategy will enhance the extent and quality of the Company's client relationships, protect its client base and expand its market share.

On February 26, 2003, the MRS Group acquired the remaining 31% interest in Winfund Software Corp. for total consideration of \$4.7 million. Winfund is the largest and fastest growing provider of software to Canadian mutual fund dealers. In September 2003, Winfund launched an internet version of its mutual fund dealer system.

On June 25, 2003, the Company launched Investors Group Solutions Banking™ on a national basis. The introduction of Solutions Banking™, with its range of loan and deposit products, Mastercard™ products, and loan insurance products, enhances Investors Group's ability to provide its clients with a number of solutions for their transactional needs.

In the third quarter, Investors Group re-branded its 1World™ portfolio funds as Allegro™ and added the Alto™ funds to its portfolio solutions offerings. Allegro™ and Alto™ are fund-of-fund programs which offer broad and diversified portfolios as well as an ongoing re-balancing mechanism. Both Allegro™ and Alto™ have seven underlying funds advised by leading investment management firms including Investors Group and Mackenzie. Investors Group also launched Symphony™, its new strategic investment planning approach which includes software that supports Investors Group Consultants in portfolio construction and asset allocation. Symphony™ is designed to provide an optimal investment portfolio according to clients' needs and preferences.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Mackenzie recently announced that it has revamped its tax efficient Capital Class funds so that all Capital Class funds qualify as domestic property and become 100 per cent RRSP eligible. Mackenzie's Capital Class program was originally designed primarily for taxable investors in non-registered plans. Capital Class allows fund investors to switch between 36 funds without immediately incurring a tax liability. Both non-registered and registered investors will benefit from the improved structure. Under the new program, registered investors can now choose Mackenzie Capital Class funds to diversify their investments globally without concern about 30 per cent foreign content limits or the need to rebalance their foreign holdings. Mackenzie plans to increase the number of funds eligible for tax-efficient switching by non-registered investors, thereby providing a wider variety of investment mandates in Capital Class.

### Market Influences

#### MUTUAL FUND INDUSTRY

At September 30, 2003, mutual fund industry assets in Canada totalled \$408.9 billion compared with \$391.3 billion at December 31, 2002 and \$381.1 billion one year ago.

The \$17.6 billion increase in industry assets from December 31, 2002 reflects year-to-date net redemptions of \$2.7 billion, the inclusion of approximately \$3.5 billion of new assets that were not previously categorized as mutual fund assets, as well as an estimated \$16.8 billion increase from positive market action. This positive market action represents a 4.3% increase over year end 2002 industry assets of \$391.3 billion.

Declines and volatility in domestic and international equity markets and changes in interest rates may affect the future outlook for the Company. Declines in the value of equity markets and changes in interest rates could have a significant impact on the level and mix of mutual fund sales and could also result in increased redemptions of mutual funds.

#### REDEMPTION RATES

The combined redemption rate for long-term funds for Investors Group and Mackenzie mutual funds was 11.9% at September 30, 2003, among the lowest in the industry. The corresponding redemption rate for the industry as a whole, excluding the Company's mutual funds, was 14.4%.

The mutual fund industry continues to believe in the benefits of long-term investing. Financial advisors play a key role in educating investors about the value of a long-term investment strategy and the benefits of an appropriate level of portfolio diversification. In periods of declining markets and market volatility, they can also be effective in encouraging clients to assume a long-term investment outlook and continue to invest.

Investors Group and Mackenzie provide Consultants and independent financial advisors, respectively, with superior levels of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships, and, as a result, the Company's redemption rates have been consistently among the lowest in the industry.

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three months ended September 30		Nine months ended September 30	
(in thousands of dollars, except shares and per share amounts)	2003	2002	2003	2002
<b>Fee and net investment income</b>				
Management	\$ 330,119	\$ 332,413	\$ 954,278	\$ 1,058,210
Administration	70,433	74,580	214,438	221,062
Distribution	31,569	34,300	98,838	102,540
Net investment income and other (Note 4)	42,255	33,111	121,857	93,408
<b>Total fee and net investment income</b>	<b>474,376</b>	474,404	<b>1,389,411</b>	1,475,220
<b>Operating expenses</b>				
Commission expense	117,143	118,821	348,980	380,346
Non-commission expense	122,255	125,877	373,541	405,177
Interest expense	19,302	19,801	61,754	60,043
<b>Total operating expenses</b>	<b>258,700</b>	264,499	<b>784,275</b>	845,566
	<b>215,676</b>	209,905	<b>605,136</b>	629,654
Dilution gain (Note 2)	14,820	–	14,820	–
Income before income taxes and discontinued operations	230,496	209,905	619,956	629,654
Income taxes	69,899	78,486	199,912	240,708
<b>Income before discontinued operations</b>	<b>160,597</b>	131,419	<b>420,044</b>	388,946
Discontinued operations	–	(1,576)	–	(1,641)
<b>Net income</b>	<b>160,597</b>	129,843	<b>420,044</b>	387,305
Preferred dividends	5,175	5,175	15,525	15,525
<b>Net income available to common shareholders</b>	<b>\$ 155,422</b>	\$ 124,668	<b>\$ 404,519</b>	\$ 371,780
Average number of common shares (in thousands) (Note 8)				
– Basic	263,948	263,568	263,870	263,407
– Diluted	265,370	264,962	265,099	265,171
Earnings per share (in dollars)				
Excluding discontinued operations				
– Basic	\$ .589	\$ .479	\$ 1.533	\$ 1.418
– Diluted	\$ .586	\$ .476	\$ 1.526	\$ 1.408
Including discontinued operations				
– Basic	\$ .589	\$ .473	\$ 1.533	\$ 1.411
– Diluted	\$ .586	\$ .471	\$ 1.526	\$ 1.402

(See accompanying notes to interim consolidated financial statements.)

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(unaudited)	Nine months ended September 30	
(in thousands of dollars)	2003	2002
<b>Balance, beginning of period</b>	<b>\$ 1,148,892</b>	\$ 884,531
Net income	420,044	387,305
Dividends		
Preferred	(15,525)	(15,525)
Common	(193,958)	(167,333)
Premium paid on common shares purchased for cancellation	(2,127)	–
<b>Balance, end of period</b>	<b>\$ 1,357,326</b>	\$ 1,088,978

(See accompanying notes to interim consolidated financial statements.)

## CONSOLIDATED BALANCE SHEETS

(unaudited) (in thousands of dollars)	<b>September 30 2003</b>	December 31 2002
<b>Assets</b>		
Cash and short-term investments	\$ 857,203	\$ 771,522
Securities	108,864	156,186
Loans	615,566	548,969
Investment in affiliate (Note 2)	462,847	320,988
Deferred selling commissions	755,938	726,718
Other assets	316,122	336,956
Goodwill and intangible assets (Note 3)	3,129,783	3,125,613
	<b>\$ 6,246,323</b>	<b>\$ 5,986,952</b>
<b>Liabilities</b>		
Deposits and certificates	\$ 714,045	\$ 709,012
Other liabilities	639,284	639,876
Future income taxes	321,502	301,744
Long-term debt (Note 5)	1,409,580	1,386,365
	<b>3,084,411</b>	<b>3,036,997</b>
<b>Shareholders' Equity</b>		
Share capital (Note 6)		
Preferred	360,000	360,000
Common	1,444,586	1,441,063
Retained earnings	1,357,326	1,148,892
	<b>3,161,912</b>	<b>2,949,955</b>
	<b>\$ 6,246,323</b>	<b>\$ 5,986,952</b>

(See accompanying notes to interim consolidated financial statements.)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	Three months ended September 30		Nine months ended September 30	
(in thousands of dollars)	2003	2002	2003	2002
<b>Operating activities</b>				
Net income	\$ 160,597	\$ 129,843	\$ 420,044	\$ 387,305
Adjustments to determine net cash from operating activities				
Future income taxes	7,087	2,836	19,758	36,869
Commission amortization	47,378	48,414	144,258	155,908
Depreciation	6,144	6,257	19,955	20,668
Discontinued operations	–	1,576	–	1,641
Changes in operating assets and liabilities and other	14,882	733	(62,137)	(86,410)
	<b>236,088</b>	189,659	<b>541,878</b>	515,981
Commissions paid	(49,217)	(53,468)	(173,478)	(224,856)
	<b>186,871</b>	136,191	<b>368,400</b>	291,125
<b>Financing activities</b>				
(Decrease) increase in deposits and certificates	(23,572)	1,586	5,033	28,985
Repayment of bankers' acceptances	–	–	–	(256,000)
Issue of debentures	–	–	300,000	–
Repayment of long-term debt	–	(11,860)	(276,785)	(36,882)
Issue of common shares	707	391	4,137	5,348
Preferred dividends paid	(5,175)	(5,175)	(15,525)	(15,525)
Common dividends paid	(63,345)	(54,042)	(186,010)	(158,025)
Common shares purchased for cancellation	–	–	(2,741)	–
	<b>(91,385)</b>	(69,100)	<b>(171,891)</b>	(432,099)
<b>Investing activities</b>				
Investment in affiliate (Note 2)	(100,000)	–	(100,000)	–
Acquisition of non-controlling interest (Note 3)	–	–	(4,733)	–
Purchase of securities	(4,132)	–	(5,079)	(18,790)
Proceeds from the sale of securities	7,617	6,369	76,639	102,496
Increase in loans	(48,772)	(50,060)	(118,200)	(134,271)
Proceeds from securitizations (Note 4)	–	98,011	51,573	143,572
Net proceeds from the sale of (additions to) real estate	–	54	(92)	429
Additions to office premises	(2,443)	(3,911)	(10,936)	(9,500)
	<b>(147,730)</b>	50,463	<b>(110,828)</b>	83,936
(Decrease) increase in cash and cash equivalents	(52,244)	117,554	85,681	(57,038)
Cash and cash equivalents, beginning of period	909,447	679,683	771,522	854,275
<b>Cash and cash equivalents, end of period</b>	<b>\$ 857,203</b>	\$ 797,237	<b>\$ 857,203</b>	\$ 797,237
Cash	\$ 54,416	\$ 206,471	\$ 54,416	\$ 206,471
Short-term investments	802,787	590,766	802,787	590,766
	<b>\$ 857,203</b>	\$ 797,237	<b>\$ 857,203</b>	\$ 797,237

(See accompanying notes to interim consolidated financial statements.)

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003 (unaudited)

(in thousands of dollars, except shares and per share amounts)

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2002 as set out on pages 46 to 66 of the 2002 Annual Report. Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

### 1. Summary of significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out in Note 1 to the consolidated financial statements for the year ended December 31, 2002.

### Disclosure of guarantees

In February 2003, the CICA issued Accounting Guideline 14 (AcG-14), Disclosure of Guarantees, which identifies disclosure requirements for certain guarantees, for financial statements of interim and annual periods starting on or after January 1, 2003.

In the normal course, the Company may enter into agreements which may contain features which meet the AcG-14 definition of a guarantee, and while the maximum guarantee cannot always be determined, given the nature of future events which may or may not occur, any such arrangements that were material have been previously disclosed by the Company.

### 2. Investment in affiliate

On July 10, 2003, the Company purchased, by way of private placement, 2,662,690 common shares of Great-West Lifeco Inc. (GWL), an affiliate of the Company, for total consideration of \$100 million in support of GWL's acquisition of Canada Life Financial Corporation (Canada Life). The Company currently holds 18,893,694 shares of GWL, which represents an equity interest of 4.2%. As a result of this investment and the common shares issued by GWL as part of its acquisition of Canada Life, a dilution gain of \$14.8 million was recognized.

### 3. Acquisition

At December 31, 2002, the Company owned 69.1% of the common shares of Winfund Software Corp. (Winfund). On February 26, 2003, the Company acquired the remaining outstanding common shares of Winfund for total cash consideration of \$4,733. In the second quarter, the Company completed an evaluation of the fair value of the net assets acquired. The excess of the consideration paid over the fair value of the tangible net assets acquired of \$4,170 has been recorded as goodwill and has been allocated to the Mackenzie segment.

### 4. Securitizations

In the second quarter the Company securitized \$51,794 of residential mortgages through sales to commercial paper conduits that in turn issued securities to investors and received net cash proceeds of \$51,573. The Company's retained interest in the securitized loans was valued at \$1,183. A pre-tax gain on sale of \$633 was recognized and reported in net investment income and other in the consolidated statements of income.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

### 5. Long-term debt

	September 30 2003	December 31 2002
– Note Payable to Quadrus Investment Services Ltd., due December 31, 2003, non-interest bearing	\$ 6,000	\$ 6,000
10.60% Note Payable to Power Financial Corporation, due January 16, 2006	28,580	30,365
– Floating Bankers' Acceptance, due May 30, 2006	175,000	450,000
6.75% Debentures 2001 Series, due May 9, 2011	450,000	450,000
6.58% Debentures 2003 Series, due March 7, 2018	150,000	–
6.65% Debentures 1997 Series, due December 13, 2027	125,000	125,000
7.45% Debentures 2001 Series, due May 9, 2031	150,000	150,000
7.00% Debentures 2002 Series, due December 31, 2032	175,000	175,000
7.11% Debentures 2003 Series, due March 7, 2033	150,000	–
	<b>\$ 1,409,580</b>	<b>\$ 1,386,365</b>

On March 5, 2003, the Company issued \$300 million of debentures in two series. On March 17, 2003, the Company utilized \$200 million of the debenture proceeds to repay a portion of the Floating Bankers' Acceptance due May 30, 2006, and, on April 16, 2003, a further \$75 million was repaid.

### 6. Share capital

#### Issued and outstanding

	September 30, 2003		December 31, 2002	
	Shares	Stated Value	Shares	Stated Value
First preferred shares, Series A	14,400,000	\$ 360,000	14,400,000	\$ 360,000
Common shares				
Balance, beginning of period	263,845,333	\$ 1,441,063	263,081,731	\$ 1,431,163
Issued under Stock Option Plan	239,762	4,137	763,602	9,900
Purchased for cancellation	(112,300)	(614)	–	–
Balance, end of period	263,972,795	\$ 1,444,586	263,845,333	\$ 1,441,063

#### Normal course issuer bid

The Company commenced a normal course issuer bid, effective for one year, on February 22, 2003. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares outstanding on January 31, 2003. As at September 30, 2003, 112,300 common shares were purchased at a cost of \$2,741 and the premium paid to purchase the shares was charged to retained earnings.

### 7. Stock-based compensation

	September 30, 2003	December 31, 2002
Common share options		
– Outstanding	6,534,998	5,536,834
– Exercisable	2,224,792	1,636,995

During the nine months ended September 30, 2003, the Company issued 1,450,594 options to employees and 86,500 options to non-employees. A portion of the options granted to employees are subject to performance targets. The fair value of options granted in 2003 has been estimated at \$5.34 using the Black-Scholes option pricing model, based on the following assumptions: (i) risk-free interest rate of 4.58%, (ii) expected option life of six years, (iii) expected volatility of 25.00% and (iv) expected dividend yield of 3.70%.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

### 7. Stock-based compensation (cont'd)

The Company recorded compensation expense of \$33 for the three months ended September 30, 2003 and \$126 for the nine months ended September 30, 2003 for options issued to non-employees.

If the Company had used the fair-value method of accounting for stock options granted to employees, the Company's results would have been as follows:

	Three months ended September 30, 2003	Nine months ended September 30, 2003
Pro-forma net income available to common shareholders	\$155,132	\$403,743
Pro-forma earnings per common share — basic	\$ 0.588	\$ 1.530
Pro-forma earnings per common share — diluted	\$ 0.585	\$ 1.523

### 8. Earnings per common share

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
<b>Earnings</b>				
Income before discontinued operations	\$ 160,597	\$ 131,419	\$ 420,044	\$ 388,946
Discontinued operations	—	(1,576)	—	(1,641)
Net income	<b>160,597</b>	129,843	<b>420,044</b>	387,305
Preferred dividends	<b>5,175</b>	5,175	<b>15,525</b>	15,525
Net income available to common shareholders	<b>\$ 155,422</b>	\$ 124,668	<b>\$ 404,519</b>	\$ 371,780
<b>Number of common shares</b> (in thousands)				
Average number of common shares outstanding	<b>263,948</b>	263,568	<b>263,870</b>	263,407
Add:				
– Potential exercise of outstanding stock options	<b>1,422</b>	1,394	<b>1,229</b>	1,764
Average number of common shares outstanding – diluted basis	<b>265,370</b>	264,962	<b>265,099</b>	265,171
<b>Earnings per common share</b> (in dollars)				
<b>Basic</b>				
Excluding discontinued operations	<b>\$ 0.589</b>	\$ 0.479	<b>\$ 1.533</b>	\$ 1.418
Including discontinued operations	<b>\$ 0.589</b>	\$ 0.473	<b>\$ 1.533</b>	\$ 1.411
<b>Diluted</b>				
Excluding discontinued operations	<b>\$ 0.586</b>	\$ 0.476	<b>\$ 1.526</b>	\$ 1.408
Including discontinued operations	<b>\$ 0.586</b>	\$ 0.471	<b>\$ 1.526</b>	\$ 1.402

In certain circumstances, the preferred shares referred to in Note 6 are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as the Company has the option to settle in cash instead of shares.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

### 9. Segmented information

#### Three months ended September 30

2003	Investors Group	Mackenzie	Corporate and Other	Total
Income	\$ 269,547	\$ 193,688	\$ 11,141	\$ 474,376
Expenses	105,118	134,280	–	239,398
Earnings before undernoted	\$ 164,429	\$ 59,408	\$ 11,141	234,978
Interest expense				19,302
				215,676
Dilution gain				14,820
Income before income taxes and discontinued operations				230,496
Income taxes				69,899
Income before discontinued operations				160,597
Discontinued operations				–
Net income				160,597
Preferred dividends				5,175
Net income available to common shareholders				\$ 155,422
2002	Investors Group	Mackenzie	Corporate and Other	Total
Income	\$ 276,799	\$ 194,676	\$ 2,929	\$ 474,404
Expenses	104,766	139,932	–	244,698
Earnings before undernoted	\$ 172,033	\$ 54,744	\$ 2,929	229,706
Interest expense				19,801
Income before income taxes and discontinued operations				209,905
Income taxes				78,486
Income before discontinued operations				131,419
Discontinued operations				(1,576)
Net income				129,843
Preferred dividends				5,175
Net income available to common shareholders				\$ 124,668

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

### 9. Segmented information (cont'd)

#### Nine months ended September 30

2003	Investors Group	Mackenzie	Corporate and Other	Total
Total assets under management and administration	\$ 40,794,541	\$ 36,123,175	\$ 676,462	\$ 77,594,178
Income	\$ 797,605	\$ 565,357	\$ 26,449	\$ 1,389,411
Expenses	315,035	407,486	–	722,521
Earnings before undernoted	\$ 482,570	\$ 157,871	\$ 26,449	666,890
Interest expense				61,754
				605,136
Dilution gain				14,820
Income before income taxes and discontinued operations				619,956
Income taxes				199,912
Income before discontinued operations				420,044
Discontinued operations				–
Net income				420,044
Preferred dividends				15,525
Net income available to common shareholders				\$ 404,519

2002	Investors Group	Mackenzie	Corporate and Other	Total
Total assets under management and administration	\$ 38,576,551	\$ 35,043,270	\$ 660,463	\$ 74,280,284
Income	\$ 850,461	\$ 612,636	\$ 12,123	\$ 1,475,220
Expenses	343,707	441,816	–	785,523
Earnings before undernoted	\$ 506,754	\$ 170,820	\$ 12,123	689,697
Interest expense				60,043
Income before income taxes and discontinued operations				629,654
Income taxes				240,708
Income before discontinued operations				388,946
Discontinued operations				(1,641)
Net income				387,305
Preferred dividends				15,525
Net income available to common shareholders				\$ 371,780

### 10. Restructuring

In connection with the acquisition of Mackenzie, the Company commenced the integration and rationalization of its administration, systems and operations in 2001. Estimated costs of \$95.6 million (\$56.0 million after tax) were charged to earnings in the second quarter of 2001. These costs include severance and related expenses, decommissioning of systems, and restructuring certain businesses. At September 30, 2003, the restructuring provision for work to be completed on projects in progress was \$41.1 million (\$24.1 million after tax).

The logo for Investors Group Inc. (IGI) is displayed in a large, bold, serif font. The letters are dark brown and are set against a light beige background that is part of a larger graphic element consisting of several overlapping rectangular shapes in shades of beige and brown.

**Head Office**

One Canada Centre  
447 Portage Avenue  
Winnipeg, Manitoba R3C 3B6  
Telephone: 204 943 0361  
Fax: 204 947 1659

**Stock Exchange Listing**

**Toronto Stock Exchange**

Shares of Investors Group Inc. are listed on the Toronto Stock Exchange under the following listings:  
Common Shares: IGI  
First Preferred Shares, Series A: IGI.PR.A

**Auditors**

**Deloitte & Touche LLP**

**Transfer Agent and Registrar  
Computershare Trust Company of  
Canada**

530 - 8th Avenue SW  
Suite 600  
Calgary, AB T2P 3S8  
Telephone: 888 267 6555  
Telephone: 403 267 6800  
Fax: 403 267 6529

**Analyst Contact**

For additional financial information about the Company, please contact:

**Gregory D. Tretiak,**  
*Executive Vice-President, Finance*

Telephone: 204 956 8748  
Fax: 204 956 1446  
Email: greg.tretiak@investorsgroup.com

**Shareholder Information**

For additional information about the Company, please contact:

**Donna L. Janovcik,**  
*Associate Corporate Secretary*

Telephone: 204 956 8532  
Fax: 204 949 9594  
Email: corpsec@investorsgroup.com

**Websites**

Visit our Websites at  
[www.investorsgroup.com](http://www.investorsgroup.com) and  
[www.mackenziefinancial.com](http://www.mackenziefinancial.com)

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire de Groupe Investors Inc., One Canada Centre, 447 Portage Avenue, Winnipeg, Manitoba R3C 3B6

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Investors Group Inc.



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