



THE NATIONAL
VICTORIA AND GREY
TRUSTCO LIMITED

ANNUAL REPORT 1984

HOWARD FERGUSON LIBRARY
OF MANAGEMENT

JUN 27 1986

McGILL UNIVERSITY

The handsome cover illustration presents The National Victoria and Grey Trust branch in Kingston, Ont. We are pleased to report that this year commemorates the branch's 30th year serving the Kingston community.

The building located at Wellington and Brock Streets became the property of Victoria and Grey Trust Company in 1954 and the architectural integrity of the building was restored, by us, in 1972.

We are most proud of this historically noteworthy location and are pleased to present it to you in the cover illustration by Fred Schonberger, a long time resident and noted artist of Kingston.

Financial Highlights

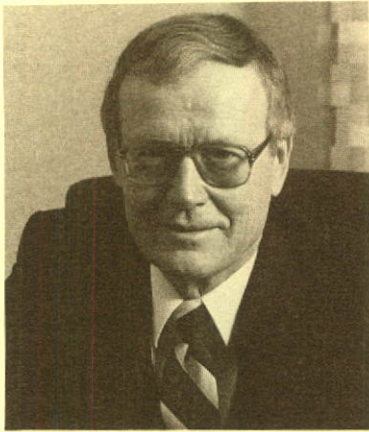
RESULTS FOR YEAR (\$000 omitted)	1984	1983
Revenue	\$ 639,575	\$ 509,514
Operating Income before Income Taxes ...	45,753	41,935
Net Operating Income	33,369	28,391
Net Operating Income per Common Share .	\$1.46	\$1.39
Net Income	45,395	36,623
Net Income per Common Share	\$1.98	\$1.79
Dividends Paid per Common Share	\$0.56	\$0.46
YEAR END POSITION		
Mortgages	5,190,740	3,302,018
Savings and Term Deposits	2,413,325	1,028,734
Guaranteed Investment Certificates	5,374,482	3,154,551
Shareholders' Equity	384,392	197,556
Assets – Company and Guaranteed Funds .	8,223,562	4,440,194
Estates, Trusts and Agencies	18,890,000	1,409,000

THE NATIONAL VICTORIA AND GREY TRUSTCO LIMITED
 THE NATIONAL VICTORIA AND GREY TRUST COMPANY
 VICTORIA AND GREY MORTGAGE CORPORATION
 THE PREMIER TRUST COMPANY

Executive Office
 21 King Street East,
 Toronto, Ontario
 M5C 1B3

Head Office
 1 Ontario Street, P.O. Box 128,
 Stratford, Ontario
 N5A 6S9

To our Shareholders



W.H. SOMERVILLE,
President and Chief Executive Officer

This is the sixth annual report of our holding company, renamed The National Victoria and Grey Trustco Limited, following the amalgamation of National Trust and Victoria and Grey Trust, and the successful share exchange offer which resulted in our holding company owning 99.5% of the amalgamated company. The financial results of the new National Victoria and Grey Trust, the Victoria and Grey Mortgage Corporation and the Premier Trust are consolidated in this report.

1984 was a significant year in the history of the two largest Ontario incorporated trust companies. On August 31st, these companies merged to create a very large trust company with corporate assets as at October 31st, 1984, of \$8.2 billion, and assets under administration for fiduciary and agency clients in excess of \$18.9 billion.

The head office of the new company is located in Stratford. The executive offices are located at 21 King Street East, Toronto, in the former National Trust Head Office. With 140 branches and a staff of 3,500 employees, the regional offices have been expanded to 10 and are located in Montreal, Stratford, Owen Sound, Hamilton, Edmonton, Vancouver, Mississauga, Belleville, East Toronto and West Toronto.

The origins of the merged company now called "The National Victoria and Grey Trust Company" go back to 1844. Both companies in the merger have a history of superior service to their clients and customers and an outstanding reputation for integrity and prudent financial management. It is the objective of the management of the merged company to carry on these traditions and to build upon these strengths to provide the Canadian public with

a truly acceptable and preferable alternative to the chartered banks.

The merged company has branches in all but the Maritime provinces. Using modern technology, it provides a full range of trust, agency and financial services to corporations and individuals. Its balance sheet is strong, with a high degree of liquidity and adequate provision for loan losses.

The rationale of the merger that occurred on August 31, 1984 was to bring together the businesses carried on by Victoria and Grey Trust and National Trust in a way that would combine the traditional strengths of each in the trust company sector of the financial services industry. Each company wanted to improve its ability to compete effectively in a market place that is changing dramatically because of shifts in demographics and technological advances combined with a noticeable trend towards deregulation. This on-going process of change requires that participants in the financial services industry enhance their financial, management and marketing strengths in order to prosper and grow in a new and evolving environment. Further, they must also be prepared to absorb the high costs of remaining technologically competitive in the development of advanced computer systems and electronic deposit-taking facilities.

It was against this background that the Boards of Directors of Victoria and Grey and National Trust decided to explore the possibility of a merger. After receiving favourable reports from their respective committees established to conduct the merger study, the Board of Directors of each company supported the concept of a merger that was overwhelmingly approved by the shareholders of each company in the belief that:

the merged company, with the combined financial resources and management strengths of both participants, would be better able to compete in the increasingly competitive financial services industry;

economies of scale would be achieved in the costly process of maintaining technological competitiveness in the provision of financial services;

National's traditional strength in the area of estates, trusts and agencies, together with Victoria and Grey's strength in deposit-taking and lending, would enable the merged company to compete vigorously in all areas of trust company business;

branch office locations complement each other as National's are mostly located in urban areas while Victoria and Grey has a large rural branch structure.

The Directors of the two companies became Directors of the new company and the holding company, creating a Board of 64 members. At our annual meeting on

January 9, 1985 we plan to reduce the number of Directors to 58. The Directors have decided that the age limit for Directors and Advisory Board Members, commencing January 1, 1986, be 74 and reduce a year at a time to an age limit of 70 by 1990.

During the year Louis G. Allen and The Hon. Barnett J. Danson resigned as Directors to assume other responsibilities. The following Directors, having reached the mandatory age for retirement, will not stand for re-election in January: H.M. Gale, J. Douglas Gibson, O.B.E., John R. Sinclair, and G. Graham Thomson. Mr. E. H. Heeney, who has devoted 48 years of his life to National Trust and has served as President, Chief Executive Officer, and Chairman for a number of years prior to his retirement in 1977, has opted to reduce his responsibilities and is therefore not standing for re-election. These directors have made a fine contribution to the growth and prosperity of our predecessor companies and I extend my personal thanks for their assistance and support.

Because of the increasing mortgage activity in Barrie and Orillia, separate Advisory Boards were set up with L.D. Jones, C.A. and A.G. Maw comprising the Barrie Board and M.S. Greer and S. Tudhope comprising the Orillia Board, Messrs. Jones and Greer being new members. J.N. Spencer resigned from the Orillia-Barrie Board during the year in order to take life a little easier. In Kingston, R.A. Little, Q.C. replaced Richard C. Oaks who resigned to relocate in Victoria. J.S. McKendy joined the Board in Vancouver and A.M. Runciman joined the Board in Winnipeg. Because of the age limit, E.H. Moncrieff will not stand for re-appointment to the Winnipeg Board. We would like to welcome the new members and thank the retiring members for their valued service.

With the amalgamation, J.L.A. Colhoun, former Chairman and Chief Executive Officer of National became Vice Chairman; Chris Wansbrough, former President of National, became President; and the senior officers of each company became senior officers of the new company.

Since that time, in September and October, a number of Senior Management appointments have been made: T. M. Kalvik, Assistant Vice-President, Stock Transfer; Richard J. Holloway, Assistant Vice-President, Personal Trust; G. W. Logan, Assistant Vice-President, Investments; Lou Dziedzic, Assistant Vice-President, Information Services; John Ambrose, Assistant Vice-President, Data Processing; David Richardson, Supervisor of Premises; Robert Waddell, Director of Security; Brian Sidsworth, Regional Manager, Metro West; Robert Mogridge, Regional Manager, Niagara Region; Murray Wallace, Vice-President, British Columbia Region; Richard Martin, Regional Manager,

Quebec Region. Other appointments made earlier in the year are listed in the back of this Annual Report.

The first financial statements to include the merged company are included in this Annual Report for the year ended October 31, 1984. The fiscal year for the merged company, as well as the holding company, will be the twelve months to October 31st which coincides with the fiscal year of each of the participants in the merger. The earnings statement includes the income of Victoria and Grey Trust, Victoria and Grey Trustco, the holding company, Victoria and Grey Mortgage Corporation and the Premier Trust, for twelve months and National Trust for the two months since the merger on August 31st. The weighted average number of shares outstanding for this fiscal year was 22,949,000.

Net operating income increased to \$33,369,000 from \$28,391,000 in 1983 or \$1.46 per share versus \$1.39 per share a year earlier. Gains on sale of securities, including Transohio, amounted to \$12,026,000, bringing final per share earnings to \$1.98 compared to \$1.79 in 1983. The annual dividend was increased from 46¢ per share to 56¢ per share during the year.

The after-tax profit on the sale of our 25% interest in Cleveland based Transohio Financial Corporation amounted to \$5.1 million.

Shareholders' equity amounts to \$384.4 million, compared to \$197.6 million for last year. The increase was mainly due to the merger but was also contributed to by \$33.7 million in retained earnings and \$5.0 million from the dividend reinvestment plan. Our capital position is very strong and provides additional deposit taking capacity of \$1.5 billion over current levels. Deposits are currently 20.7 times eligible capital.

While volatility remained a significant influence in the financial markets, it was more moderate than in recent years. The strong U.S. recovery in the early part of the year was accompanied by a more modest recovery in Canada. Nevertheless, interest rates in Canada followed U.S. interest rates upward for most of the year. The lower interest rates early in the year resulted in a substantial demand for mortgages and we were able to take advantage of this. As interest rates rose and the increase in economic activity moderated, demand slowed until late in the year when the current decline in interest rates commenced.

While the economy has improved during the past year, unemployment remains unacceptably high, farm prices unacceptably low and natural resource commodity prices unreasonably low. Therefore Canadian businessmen, farmers and home owners are fighting for their life after the recession. In this environment the quality of our loan portfolio continues to be an overriding priority for the National Victoria and Grey Trust management. That in-

cludes the quality of our existing business and for the new loans we are in business to make.

During the year we dealt with hundreds of new problem loans. We continued our policy of providing for all possible loan losses as soon as they appeared. We now have accumulated provision for loan losses of \$56.2 million, as compared with an accumulated amount in the predecessor companies of \$13.7 million as at October 31, 1983.

In Alberta, where the problem is particularly acute because of the depressed real estate market, we have designated a team of creative senior employees, led by Paul Ladano, recently appointed Vice-President of Real Estate, to minimize losses by repairing, renting, selling real estate held for sale and doing whatever is required to help borrowers meet their commitments.

We continued our policy of upgrading our existing branches rather than opening new ones. Alliston branch was completely rebuilt following the fire in 1983. Extensive renovations were made to Barrie, Goderich, Hanover and Montreal. The second floors in Lindsay and Belleville were leased to provide substantial new income. Land has been purchased and construction of a newly relocated branch in Cannington should be completed in 1985. Our branch at 1887 Eglinton Avenue was completely destroyed by fire earlier in the year, and our data processing people were able to provide immediate access to customer accounts through another Toronto branch, a truly remarkable achievement. A beautiful new full service branch was opened in Park Place, the largest office tower in downtown Vancouver.

At year-end we were providing on-line savings service in 120 of our 140 branches. We plan to complete the conversion to on-line for the balance of our branches in 1985. As well, with the assistance of D.M.R. Associates we have developed our own automatic teller system and now have nine machines in use. It is our intention to increase the number of automatic tellers as quickly as possible.

To keep pace with our growth and the increasing complexity of our services, the National Victoria and Grey Trust continues to stress high standards of education and staff training in every department. Both in-house and external programs are receiving management's concentrated attention. The excellent services provided by The Trust Companies Institute for professional development have been used effectively.

The computerization of the Estate, Trust, Agency, Corporate Trust and Stock Transfer departments provides our company with a great opportunity for growth and leadership in the industry. Under the guidance of David

Dunlop, Don Landreville, Murray Halliday and Tony Kalvik assets amounted to \$18,413 million.

Assets under administration in the mortgage banking department now total \$477 million. This is a growing part of our business. I am pleased to report that Tom G. McAlister has been appointed Vice-President of this department.

Our investment department provided us net gains of \$6,917,000 after taking \$2,589,000 losses in order to improve the quality of our portfolio. Duncan Baillie, Don Dique and Martin Taylor are responsible for this department.

Our mortgage department, under the direction of Bob Keller and George Anderson, had a very busy year. Our mortgage portfolio now totals \$5.2 billion. A great deal of time and effort was devoted to renewing existing loans and looking after problem loans.

With the decrease in mortgage growth, substantial emphasis has been placed on commercial and consumer lending. Hugh Mountford joined our senior commercial lending team at mid-year as Vice-President, Corporate Lending. He and Ray Brown are building a very effective commercial lending team which augurs well for the future growth in this area. Craig Millar has been actively promoting our consumer loans and our new home improvement loan package.

Computerization continues to be the order of the day. Under the direction of Bob Clayton, Lou Dziedzic and John Ambrose, plans are on the way to get the best out of the two computer systems. The National system will continue to be upgraded to provide even better service to our Estate, Trust, Agency, Corporate Trust and Stock Transfer customers. The Victoria and Grey system will be used to cover deposits, investments, loans and other savings and loans services. In this way we feel that we can provide the best possible service to all our customers.

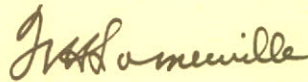
The present operations of your company are not adequately reflected in the earnings statement due to the timing of the merger. Net investment income is currently being earned at an annual rate of \$155 million, and fee and other income \$71 million. As we enter 1985 there is good momentum in most areas of our business. New Estate, Trust and Agency appointments are increasing as a result of excellent service from a competent staff and the leading data processing systems in the business. It is our intention to maintain this position. We also have the transfer agencies for more companies listed on the Toronto Stock Exchange than any other company, which is a testimony to the service provided.

The balance sheet reflects the size of the new company. With investments of \$8.1 billion, deposits of \$7.8 billion and equity of \$384 million, we will be able to compete even more effectively with other financial institutions. Our 140 branch system is an efficient source of deposits and investments. Friendly service and competitive products will allow us to continue to build the company.

While it will be increasingly difficult to sustain the historical return on equity that Victoria and Grey Trustco has had, because of the current low-growth environment, shareholders should be aware that the National Victoria and Grey Trustco is well positioned to grow and prosper because of economies of scale and expertise in all areas of our business and to play a major role in Canada's long-term economic future. Management is committed to superior performance for the long term.

On behalf of the Board of Directors we extend our sincere thanks to a dedicated group of employees who have done a remarkable job in a most difficult environment. We remain confident that our human and financial resources, together with the diversity of our activities, will allow us to achieve an improved level of profitability in the forthcoming year.

I personally want to express my thanks to Chris Wansbrough, Bryan Mehlenbacher and our entire staff for their generous assistance.



W.H. SOMERVILLE
President and Chief Executive Officer

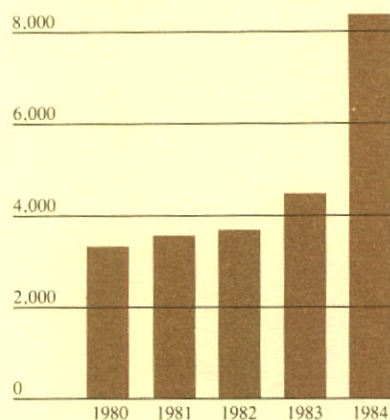


The National Victoria and
Grey Trust Company
Scotia Place,
Edmonton

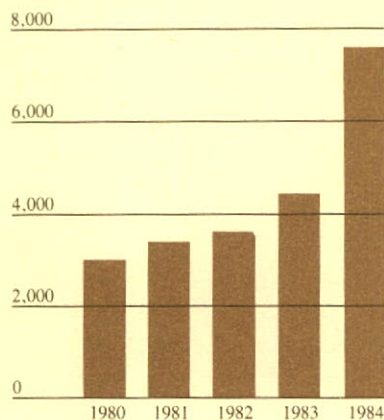
Five Year Record

THE NATIONAL VICTORIA AND GREY TRUST COMPANY

**Total Assets
Company and Guaranteed Funds**
\$ Millions

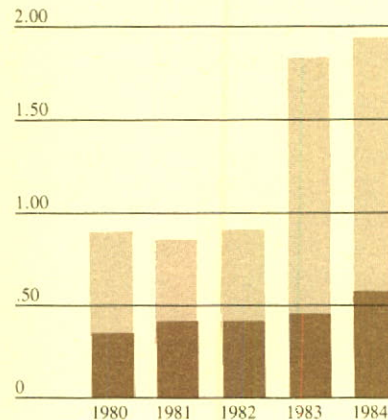


**Guaranteed Investment Certificates,
Debentures and Deposits**
\$ Millions

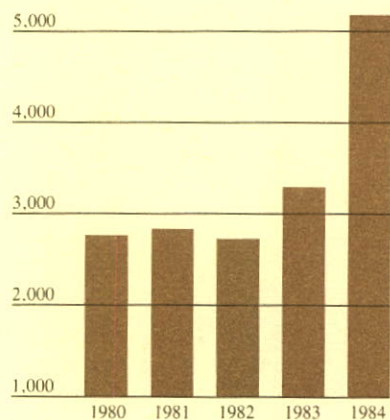


THE NATIONAL VICTORIA AND GREY TRUSTCO LIMITED

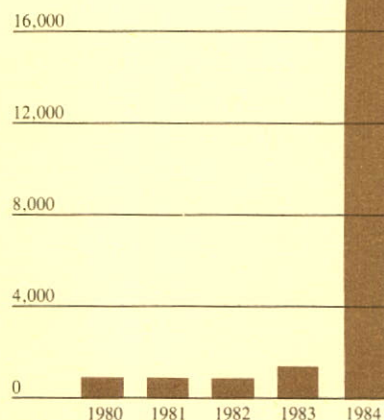
Net Income — Dividends
\$ per Common Share



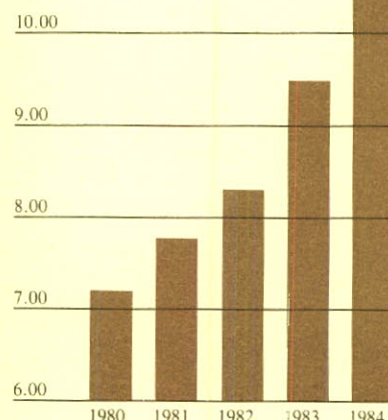
Mortgages
\$ Millions



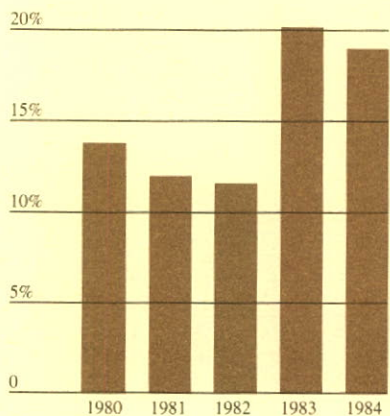
Estates, Trusts and Agencies
\$ Millions



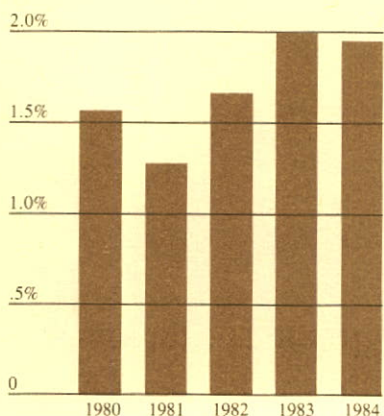
Shareholders' Equity
\$ per Common Share



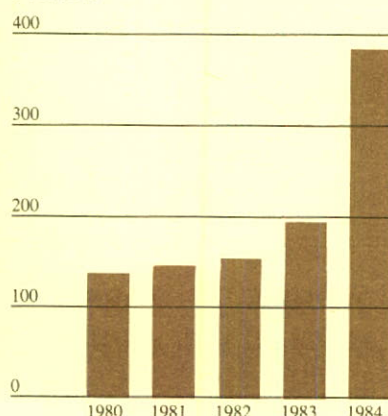
Return on Shareholders' Equity



Interest Rate Differential



Capital, Surplus and Retained Earnings
\$ Millions



Consolidated Statement of Income

year ended October 31, 1984

(in thousands of dollars with comparative figures for the year ended October 31, 1983)

	1984	1983
REVENUE		
Investment income		
Cash and short term investments	\$ 44,859	\$ 24,764
Bonds and debentures	45,418	40,768
Stocks	20,618	17,031
Mortgages	471,845	397,184
Commercial loans	14,365	7,277
Consumer loans	16,003	7,910
Collateral loans	3,047	2,570
	<u>616,155</u>	<u>497,504</u>
Fees and commissions		
Pension trust and retirement plans	3,414	1,185
Bond trusteeships and stock transfer agencies	1,943	55
Estates, other trusts and agencies	6,684	2,260
Other (Note 11)	11,379	8,510
	<u>23,420</u>	<u>12,010</u>
Total Revenue	<u>639,575</u>	<u>509,514</u>
EXPENSE		
Interest		
Savings and chequing deposits	69,521	43,548
Guaranteed term deposits	26,158	20,500
Guaranteed investment certificates and debentures	417,485	346,543
	<u>513,164</u>	<u>410,591</u>
Operating		
Salaries, pensions and other staff benefits	40,449	27,538
Property	8,492	6,108
Advertising	1,261	956
Capital taxes	1,182	886
Computer, furniture and equipment	6,645	4,491
Communications	3,139	2,434
Stationery	1,737	1,253
Provision for losses on loans	5,262	4,097
Other	12,491	9,225
	<u>80,658</u>	<u>56,988</u>
Total Expenses	<u>593,822</u>	<u>467,579</u>
Operating income before taxes	<u>45,753</u>	<u>41,935</u>
Income taxes (Note 6)	<u>12,384</u>	<u>13,544</u>
Net operating income	<u>33,369</u>	<u>28,391</u>
Net gain on sale of securities after applicable income taxes of \$2,536 (1983 - \$3,016)	<u>6,917</u>	<u>8,232</u>
Income before extraordinary item	<u>40,286</u>	<u>36,623</u>
Gain on sale of Transohio Financial Corporation (Note 5)	<u>5,109</u>	
Net income	<u>\$ 45,395</u>	<u>\$ 36,623</u>
Weighted Average Number of Outstanding Shares	<u>22,949,000</u>	<u>20,503,000</u>
Earnings per common share		
Net operating income	\$1.46	\$1.39
Net gain on sale of securities	0.30	0.40
Gain on sale of Transohio Financial Corporation	0.22	
Net income	<u>\$1.98</u>	<u>\$1.79</u>

(See accompanying notes to consolidated financial statements)

ASSETS	1984	1983
Investments		
Cash and short term investments	\$1,174,135	\$ 333,964
Securities (Note 3)		
Bonds and debentures	595,963	374,772
Stocks	497,794	232,990
	1,093,757	607,762
Loans (Note 4)		
Mortgages	5,190,740	3,302,018
Commercial	243,290	58,653
Consumer	320,518	62,643
Collateral	37,282	25,500
	5,791,830	3,448,814
Real estate held for sale	35,698	7,962
Investment in associated company (Note 5)		3,041
Total investments	8,095,420	4,401,543
Premises, equipment and leasehold improvements (Note 8)	46,733	29,088
Income taxes recoverable	19,976	
Goodwill (Note 1)	42,388	5,659
Other assets	19,045	3,904
	\$8,223,562	\$4,440,194

On behalf of the Board:

[Signature], Director

W. Somerville, Director

LIABILITIES	1984	1983
Guaranteed deposits (Note 7)		
Savings and chequing deposits	\$1,923,357	\$ 783,558
Guaranteed term deposits	489,968	245,176
Guaranteed investment certificates and debentures	5,374,482	3,154,551
	<u>7,787,807</u>	<u>4,183,285</u>
Other		
Other liabilities	21,837	16,867
Subordinated notes payable (Note 9)	13,570	15,310
Income taxes payable		12,149
	<u>35,407</u>	<u>44,326</u>
Deferred income taxes (Note 6)	<u>15,956</u>	<u>15,027</u>
 SHAREHOLDERS' EQUITY (Note 10)		
Capital stock	194,168	41,053
Contributed surplus	40,114	40,114
Appraisal surplus	3,154	3,154
Retained earnings	146,956	113,235
	<u>384,392</u>	<u>197,556</u>
	<u>\$8,223,562</u>	<u>\$4,440,194</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
The National Victoria and Grey Trustco Limited
(formerly Victoria and Grey Trustco Limited):

We have examined the consolidated balance sheet of The National Victoria and Grey Trustco Limited as at October 31, 1984 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at October 31, 1984 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.

Stratford, Canada
December 5, 1984

Clarkson Gordon
Chartered Accountants

Gaviller & Company
Chartered Accountants

Consolidated Statement of Retained Earnings year ended October 31, 1984

(in thousands of dollars with comparative figures for the year ended October 31, 1983)

	1984	1983
Balance at beginning of year	\$ 113,235	\$ 86,023
Net income for year	45,395	36,623
	158,630	122,646
Deduct dividends	11,674	9,411
Balance at end of year	<u>\$ 146,956</u>	<u>\$ 113,235</u>

Consolidated Statement of Changes in Financial Position year ended October 31, 1984

(in thousands of dollars with comparative figures for the year ended October 31, 1983)

	1984	1983
Funds at beginning of year		
Cash and short term investments	\$ 333,964	\$ 263,265
Source of Funds		
Funds resulting from the acquisition of National (net of acquisition costs)	827,266	
Net income adjusted for non-fund items of \$33,574 (1983 - \$40,144)	78,969	76,767
Net decrease in securities	18,011	
Increase in deposits net of redemptions and withdrawals		
- Guaranteed investment certificates and debentures	274,601	260,088
- Savings and chequing deposits	12,471	109,125
Issue of common shares	5,111	4,616
Other		6,259
	<u>1,216,429</u>	<u>456,855</u>
Application of Funds		
Decrease in deposits net of redemptions and withdrawals		
- Guaranteed term deposits	20,309	135
Mortgage advances net of repayments	262,709	335,025
Increase in real estate held for sale	16,341	5,066
Increase in commercial, consumer and collateral loans net of repayments	56,768	21,655
Net increase in securities		3,243
Acquisition of The Premier Trust Company (net of funds acquired)		2,659
Acquisition of premises and equipment	396	8,710
Dividends paid	11,674	9,411
Decrease in subordinated notes	1,664	252
Other	6,397	
	<u>376,258</u>	<u>386,156</u>
Net increase in funds for the year	840,171	70,699
Funds at end of year		
Cash and short term investments	<u>\$1,174,135</u>	<u>\$ 333,964</u>

Increases in assets, other than cash and short term investments, and liabilities resulting from the merger with National are not included above (Note 1).

(See accompanying notes to consolidated financial statements)

Notes to the Consolidated Financial Statements October 31, 1984

1. The Company

As a result of an amalgamation agreement entered into in July, 1984, the Company's principal subsidiary, Victoria and Grey Trust Company ("Victoria and Grey"), amalgamated with National Trust Company, Limited ("National") to form The National Victoria and Grey Trust Company ("National Victoria") effective August 31, 1984. Under the terms of the agreement, the Company received 61.8% of National Victoria in exchange for its share interest in Victoria and Grey and National, and through an exchange offer acquired 37.7% from former shareholders of National. In addition, the Company, which is incorporated under the Ontario Business Corporations Act, changed its name to The National Victoria and Grey Trustco Limited.

The acquisition of the shares of National Victoria from former shareholders of National has been deemed, for accounting purposes, to be an acquisition by the Company of the net assets and business of National at August 31, 1984 as follows:

	(thousands of dollars)
Value assigned to net tangible assets of National —	
Cash and short term investments	\$ 827,913
Securities	516,037
Loans	2,019,189
Real estate held for sale	15,565
Premises, equipment and leasehold improvements	21,908
Income taxes recoverable	23,279
Other assets	39,802
	<u>3,463,693</u>
Less —	
Guaranteed deposits	3,299,130
Other liabilities	34,544
Deferred income taxes	4,504
	<u>3,338,178</u>
Total net tangible assets acquired at August 31, 1984	125,515
Less net assets attributable to minority shareholders	1,046
	<u>124,469</u>
Excess of purchase price over value assigned to net tangible assets acquired (Goodwill)	37,027
Cost (includes costs incurred in connection with the amalgamation and exchange offer of \$646,000)	<u>\$ 161,496</u>
Cost satisfied by the issuance of 12,333,641 common shares to former common shareholders of National other than the Company valued at \$12 per share which approximates the quoted market price of the Company's common shares immediately prior to the announcement of the above transactions together with cash costs of \$646,000 referred to above and \$900 cash for the acquisition of fractional shares	\$ 148,651
Cost of shares of National acquired previously	12,845
	<u>\$ 161,496</u>

On the basis of the accounting described above, the consolidated statements of income, retained earnings and changes in financial position for the year ended October 31, 1984, include the results of operations of Victoria and Grey for the twelve months ended October 31, 1984, and those of National for the two months ended October 31, 1984. The minority interest in net earnings is not material.

The excess of purchase price over value assigned to National's net tangible assets acquired is being amortized over a 40-year period on a straight-line basis.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles, and except for certain changes resulting from the acquisition of National, none of which are material, have been consistently applied. A precise determination of many assets and liabilities is dependent upon future events, and therefore, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries:

	% Owned
The National Victoria and Grey Trust Company . . .	99.5
The Premier Trust Company	100.0

(b) Securities

Bonds and debentures are stated at amortized cost plus accrued interest. Common and preference stocks are stated at cost except for retractable preference stocks which are stated at amortized cost. Interest and dividends are accrued where applicable and included with the carrying value of the securities. Security gains and losses are reflected in net income as realized.

(c) *Loans*

Mortgage, commercial, consumer and collateral loans are stated at amounts advanced plus interest, accrued or capitalized, less repayments and accumulated provisions for losses.

Provisions are made annually for possible losses on mortgages and other loans based upon a number of factors including past experience, current economic conditions and specific problem situations. Actual losses are charged against the accumulated provisions as realized.

(d) *Real estate held for sale*

Real estate held for sale represents primarily real estate acquired in settlement of mortgages and other loans and is stated at the lower of cost and estimated realizable value.

(e) *Premises and equipment*

Premises (land and buildings) acquired prior to January 1, 1977 are carried at appraised value as of that date with subsequent additions at cost.

Depreciation and amortization are based on the estimated useful lives of the assets and calculated as follows on the straight line basis:

	Annual Rate
Buildings	2½%
Major building alterations	5 %
Equipment	20 %
Automobiles	24 %
Computer equipment	20% - 33⅓%
Leasehold improvements	over term of related lease

(f) *Fees and commissions*

Fees and commissions are generally recorded as income when earned, except for certain capital fees from estates and trusts which are included in income only upon final approval, usually by the courts.

(g) *Systems development costs*

Systems development costs are expensed in the period incurred.

(h) *Goodwill*

Goodwill representing the excess of the cost of each subsidiary over the fair value of tangible net assets acquired is being amortized on a straight-line basis over a 40-year period.

3. **Securities**

Securities consist of the following:

	1984		1983	
	Carrying Value	Market	Carrying Value	Market
	(thousands of dollars)			
Bonds and debentures –				
Fixed Rate				
Government and government guaranteed	\$ 169,467	\$ 167,043	\$ 101,783	\$ 101,438
Corporate	120,411	120,199	35,028	34,660
Floating Rate				
Government guaranteed	105,184	105,075	66,906	66,906
Financial institution	104,072	104,072	99,883	99,883
Corporate	96,829	96,829	71,172	71,172
	<u>595,963</u>	<u>593,218</u>	<u>374,772</u>	<u>374,059</u>
Stocks –				
Common	86,230	90,966	75,727	89,524
Preference	411,564	415,878	157,263	158,833
	<u>497,794</u>	<u>506,844</u>	<u>232,990</u>	<u>248,357</u>
	<u>\$1,093,757</u>	<u>\$1,100,062</u>	<u>\$ 607,762</u>	<u>\$ 622,416</u>

4. **Accumulated provisions for losses on loans (deducted from applicable loans)**

Changes in the accumulated provisions for losses on loans were as follows:

	1984	1983
	(thousands of dollars)	
Balance at beginning of year	\$ 9,047	\$ 7,529
Allowance of National upon acquisition	44,976	
Provision for losses during year	5,262	4,097
	<u>59,285</u>	<u>11,626</u>
Loans written off during year	3,117	2,579
Balance at end of year	<u>\$ 56,168</u>	<u>\$ 9,047</u>

5. Transohio Financial Corporation (Transohio)

During the year, the Company completed the sale of its 24.7% interest in Transohio, a United States Savings and Loan holding company. This investment had been written down to estimated realizable value at October 31, 1982.

6. Income taxes

Income taxes have been provided on operating income at statutory federal and provincial rates after giving recognition to certain tax exempt income and certain non-deductible expenses.

	1984		1983	
	Amount	Rate	Amount	Rate
	(thousands of dollars)			
Operating income before income taxes	<u>\$45,753</u>		<u>\$41,935</u>	
Income taxes provided on operating income:				
– at statutory rates	23,238	50.8%	21,471	51.2%
– non taxable dividends from taxable Canadian companies	(10,827)	(23.6)	(8,170)	(19.5)
– other items (net)	(27)	(0.1)	243	0.6
	<u>\$12,384</u>	<u>27.1%</u>	<u>\$13,544</u>	<u>32.3%</u>
Consisting of:				
Current income taxes	\$17,040		\$15,639	
Deferred income taxes	(4,656)		(2,095)	
	<u>\$12,384</u>		<u>\$13,544</u>	

The company follows the tax allocation basis of accounting for income taxes. Under this method, income taxes are provided on transactions when they are reported in the financial statements rather than when they are included for income tax purposes. The cumulative tax effect of such differences in timing (deferred income taxes) is analysed as follows:

	October 31	
	1984	1983
	(thousands of dollars)	
Excess of provision for losses claimed over amount charged against operations	\$20,207	\$17,721
Excess of revenue included over amount reported	(935)	(1,076)
Other items (net)	(3,316)	(1,618)
	<u>\$15,956</u>	<u>\$15,027</u>

7. Assets held for guaranteed deposits

Assets held in trust, earmarked and segregated with respect to monies received for guaranteed deposits are as follows:

	1984	1983
	(thousands of dollars)	
Cash and short term investments	\$1,128,594	\$ 307,088
Securities	870,501	431,964
Mortgages	5,187,734	3,297,044
Other loans	600,978	147,189
	<u>\$7,787,807</u>	<u>\$4,183,285</u>

8. Premises, equipment and leasehold improvements

Premises, equipment and leasehold improvements consist of the following:

	1984	1983
	(thousands of dollars)	
Land	\$ 3,380	\$ 2,758
Buildings and leasehold improvements	33,694	23,799
Equipment (including automobiles and computers)	49,644	18,550
	86,718	45,107
Accumulated depreciation and amortization	39,985	16,019
	<u>\$46,733</u>	<u>\$29,088</u>

Depreciation and amortization included in property and computer, furniture and equipment expenses totalled \$4.659 million in 1984 (1983 – \$2.443 million).

9. Subordinated notes

Subordinated notes bearing interest at rates ranging between 9.75% and 14.00% mature as follows:

	1984	1983
	(thousands of dollars)	
1984.....		\$ 1,664
1985.....	\$ 1,580	1,580
1986.....	5,496	5,496
1988.....	6,000	6,000
Accrued interest	494	570
	<u>\$13,570</u>	<u>\$15,310</u>

10. Capital stock and contributed surplus

Details with respect to authorized and issued capital stock and contributed surplus are as follows:

	Number	Amount	Contributed Surplus
	(figures in thousands)		
Authorized (Note (a))			
Preference shares			
Common shares			
Issued			
Beginning of year.....	20,688	\$ 41,053	\$ 40,114
Issued to shareholders of National in exchange for shares of National Victoria (Note 1)	12,334	148,004	
Issued to shareholders of Victoria and Grey in exchange for shares of National Victoria (Note (b))	9	96	
Issued under the dividend reinvestment plan and stock dividend plan (Notes (c) and (d))	386	5,018	
Other (Note (e))		(3)	
End of year.....	<u>33,417</u>	<u>\$194,168</u>	<u>\$ 40,114</u>

- During the year, the authorized capital was increased from 30,000,000 common shares to an unlimited number of common shares. In addition, the articles of the Company were amended to create a new class of preference shares without par value which the Company is authorized to issue in one or more series.
- During the year, the Company acquired additional common shares of Victoria and Grey Trust Company by means of a share exchange.
- The Company has a dividend reinvestment plan whereby holders of its common shares may assign cash dividends payable on their shares to a Trustee who will use the funds assigned to subscribe for common shares to be issued by the Company.
- The Company has a stock dividend plan whereby holders of its common shares may receive a stock dividend in lieu of a cash dividend.
- During the year, the company purchased for cancellation 201 shares for \$2,782.
- The ascribed capital of the company is \$21,961,000 less than the stated capital.

11. Other revenue

Other revenue includes revenue from mortgage and savings services, mortgage banking and sundry other income.

12. Segmented information

The principal segments of the Company's operations for the current year are as follows:

(a) Financial intermediary

Investing shareholders' funds and those of depositors in securities and loans.

(b) Fiduciary

Providing management and administrative services for estates, personal and pension trusts, investment, bond trusteeship and stock transfer clients. Prior to the acquisition of National, the company's fiduciary activities were not significant.

Segmented results shown are on a pre-tax, non-tax equivalent basis which obscures the significant effect on the contribution to earnings from the financial intermediary segment of increasingly large amounts of tax-exempt income in the form of dividends from other Canadian corporations.

	<u>Income</u>	<u>Contributions to earnings</u>
	(thousands of dollars)	
Financial intermediary	\$622,657	\$ 41,928
Fiduciary	16,918	3,825
	<u>\$639,575</u>	<u>45,753</u>
Other net gains (losses) after related taxes		12,026
Income taxes (note 6)		<u>(12,384)</u>
Net income for the year		<u>\$ 45,395</u>

Due to common use of computer and other facilities, segmented information related to capital expenditures and assets has not been presented.

Comparative figures for 1983 have not been included since substantially all of the Company's operations for that year were related to financial intermediary activities.

13. Commitments (in thousands of dollars)

(a) Outstanding commitments at October 31, 1984, for future advances are as follows:

Mortgages	\$255,275	October 31, 1983	\$144,706
Commercial loans	50,235	October 31, 1983	38,960

(b) At October 31, 1984, the Company had contractual obligations extending through 1999 in respect of leased premises and equipment at minimum annual rentals totalling \$4,696.

14. Pension plan

The most recent actuarial valuations showed that the Company's pension plans were fully funded.

15. Related party transactions

From time to time, certain directors and senior management enter into transactions with the Company in the normal course of business. None of these transactions arising during the current year was significant.

16. Comparative figures

Certain figures for 1983 have been reclassified to conform with the financial presentation adopted in the current year.

Interest Rate Differential

(in thousands)

	1984	1983
Investment income	\$ 616,155	\$ 497,504
Taxable equivalent adjustment on dividends	21,342	16,742
	<u>637,497</u>	<u>514,246</u>
Average investment	5,114,379	4,020,429
Average investment yield	12.46%	12.79%
Interest on deposits and subordinated notes	\$ 513,164	\$ 410,591
Average deposits and subordinated notes	4,887,218	3,829,660
Average interest cost	10.50%	10.72%
Interest rate differential	<u>1.96%</u>	<u>2.07%</u>

Maturities Analysis

(in thousands)

	Cash and Term Investments	Bonds	Mortgages	Other Loans and Investments	October 31, 1984		October 31, 1983	
Investments	Investments			Investments	Total	%	Total	%
Due								
On demand or within								
one year	\$1,156,328	\$ 217,657	\$2,129,496	\$ 440,621	\$3,944,102	48.7	\$1,838,762	41.8
1-2 years		88,794	1,045,222	56,107	1,190,123	14.7	721,319	16.4
2-3 years		90,855	554,178	48,665	693,698	8.6	681,386	15.5
3-4 years		10,696	824,058	25,144	859,898	10.7	211,066	4.8
4-5 years		40,526	552,795	24,558	617,879	7.6	571,703	13.0
After 5 years		131,868	37,710	1,054	170,632	2.1	91,186	2.1
Stocks				495,580	495,580	6.1	232,990	5.3
Real estate held for sale.				35,698	35,698	.4	7,962	.1
Investment in Transohio .							3,041	.1
Accrued interest								
and dividends	17,807	15,567	47,281	7,155	87,810	1.1	42,128	.9
	<u>\$1,174,135</u>	<u>\$ 595,963</u>	<u>\$5,190,740</u>	<u>\$1,134,582</u>	<u>\$8,095,420</u>	<u>100.0</u>	<u>\$4,401,543</u>	<u>100.0</u>
		Savings and Chequing Deposits	Term Deposits	Guaranteed Investment Certificates & Debentures	October 31, 1984		October 31, 1983	
Deposits					Total	%	Total	%
Payable								
On demand or within one year	\$1,920,295	\$ 484,710	\$1,750,933	\$4,155,938	53.4	\$2,177,407	52.0	
1-2 years			1,090,545	1,090,545	14.0	543,668	13.0	
2-3 years			674,190	674,190	8.7	573,624	13.7	
3-4 years			863,606	863,606	11.1	165,347	4.0	
4-5 years			715,881	715,881	9.2	534,179	12.8	
After 5 years			34,660	34,660	.4	22,811	.5	
Accrued interest	3,062	5,258	244,667	252,987	3.2	166,249	4.0	
	<u>\$1,923,357</u>	<u>\$ 489,968</u>	<u>\$5,374,482</u>	<u>\$7,787,807</u>	<u>100.0</u>	<u>\$4,183,285</u>	<u>100.0</u>	

Interest Rate Sensitivity

(\$000 omitted)

A financial intermediary such as a trust company, derives net investment income by earning interest and dividends on investments in excess of interest paid on deposits and borrowed funds. Rapidly changing interest rates can cause dramatic fluctuations in net investment income if investments sensitive to interest rate changes are not matched with deposits and borrowings sensitive to interest rate changes.

National Victoria and Grey Trustco's current objective is to match interest sensitive deposits and borrowings with interest sensitive investments.

	October 31, 1984			
	Floating rate	Fixed Rate		Total
		Under 1 Yr.	Over 1 Yr.	
Investments				
Cash and short term investments	\$1,156,328			\$1,156,328
Securities	507,647	\$ 231,518	\$ 336,811	1,075,976
Loans and advances	433,602	2,172,146	3,169,558	5,775,306
Accrued interest	29,637	58,173		87,810
	<u>\$2,127,214</u>	<u>\$2,461,837</u>	<u>\$3,506,369</u>	<u>\$8,095,420</u>
Deposits and Borrowings				
Savings and chequing deposits	\$1,815,153	\$ 105,142		\$1,920,295
Term deposits, guaranteed investment certificates and debentures	484,710	1,750,933	\$3,378,882	5,614,525
Accrued interest	8,320	244,667		252,987
	<u>\$2,308,183</u>	<u>\$2,100,742</u>	<u>\$3,378,882</u>	<u>\$7,787,807</u>
Surplus (deficiency) rate sensitive investments	(180,969)	361,095		
Net mismatch		<u>\$ 180,126</u>		

	October 31, 1983			
	Floating rate	Fixed Rate		Total
		Under 1 Yr.	Over 1 Yr.	
Investments				
Cash and short term investments	\$ 330,376			\$ 330,376
Securities	309,404	\$ 57,928	\$ 234,182	601,514
Loans and advances	147,856	1,290,105	1,989,564	3,427,525
Accrued interest	7,322	34,806		42,128
	<u>\$ 794,958</u>	<u>\$1,382,839</u>	<u>\$2,223,746</u>	<u>\$4,401,543</u>
Deposits and Borrowings				
Savings and chequing deposits	\$ 680,566	\$ 102,933		\$ 783,499
Term deposits, guaranteed investment certificates and debentures	243,311	1,150,597	\$1,839,629	3,233,537
Accrued interest	1,911	164,338		166,249
	<u>\$ 925,788</u>	<u>\$1,417,868</u>	<u>\$1,839,629</u>	<u>\$4,183,285</u>
Surplus (deficiency) rate sensitive investments	<u>\$ (130,830)</u>	<u>\$ (35,029)</u>		
Net mismatch		<u>\$ (165,859)</u>		

Five Year Financial Review

(in even thousands)

	1984	1983	1982	1981	1980
YEAR END POSITION					
Mortgages	\$ 5,190,740	\$3,302,018	\$2,852,331	\$2,945,475	\$2,912,375
Savings and Term Deposits	2,413,325	1,028,734	903,540	871,425	711,258
Guaranteed Investment Certificates and Debentures	5,374,482	3,154,551	2,749,343	2,692,702	2,578,823
Shareholders' Equity	384,392	197,556	165,728	152,027	139,087
Total Assets — Company and Guaranteed Funds	8,223,562	4,440,194	3,868,237	3,763,506	3,479,522
Assets held for Estates, Trusts and Agencies	18,890,000	1,409,000	1,231,000	1,196,000	1,123,000

RESULTS FOR THE YEAR

Revenue	639,575	509,514	503,902	435,993	368,808
Expenses					
Interest	513,164	410,591	429,942	382,590	310,467
Salary and Staff Benefits	40,449	27,538	25,467	23,340	20,832
Property and Other Expenses	40,209	29,450	30,150	14,317	18,080
	593,822	467,579	485,559	420,247	349,379
Operating Income Before Income Taxes	45,753	41,935	18,343	15,746	19,429
Income Taxes	12,384	13,544	1,008	(36)	4,727
Operating Income	33,369	28,391	17,335	15,782	14,702
Equity in Earnings (Losses) of Associated Company				(888)	952
Net Operating Income	33,369	28,391	17,335	14,894	15,654
Security and Premises Gains	6,917	8,232	5,602	7,156	1,397
Gain on sale of Transohio	5,109				
Reduction in Carrying Value of Associated Company			(4,785)	(4,880)	
Net Income	\$ 45,395	\$ 36,623	\$ 18,152	\$ 17,170	\$ 17,051
Return on Average Total Assets	.88%	.90%	.48%	.47%	.51%
Return on Average Shareholders' Equity	18.73%	20.2%	11.4%	11.9%	13.1%
Interest Rate Differential	1.96%	2.07%	1.66%	1.27%	1.56%

OTHER STATISTICS AS AT OCTOBER 31

Common Shares Outstanding (000's)	33,417	20,688	20,294	19,535	18,969
Number of Branches	140	90	85	88	86
Number of Full Time Equivalent Employees	3,547	1,504	1,434	1,476	1,425

STATISTICS PER COMMON SHARE

Net Operating Income	\$ 1.46	\$1.39	\$.87	\$.77	\$.84
Net Income	1.98	1.79	.91	.89	.91
Dividends	.56	.46	.44	.44	.39
Shareholders' Equity	\$11.50	\$9.55	\$8.17	\$7.78	\$7.33

Quarterly Analysis

(in thousands of dollars except per share amounts)

	Revenue	Operating Expenses	Net Operating Income	Per Share	Net Income	Per Share
1st.....	\$ 90,105	\$ 9,024	\$ 3,852	\$.21	\$ 4,386	\$.24
2nd.....	89,970	9,739	3,164	.17	3,835	.20
3rd.....	93,073	9,485	3,722	.20	3,667	.20
4th.....	95,660	10,664	4,916	.26	5,163	.27
1980.....	<u>368,808</u>	<u>38,912</u>	<u>15,654</u>	<u>.84</u>	<u>17,051</u>	<u>.91</u>
1st.....	101,236	10,373	4,430	.24	4,486	.24
2nd.....	102,645	10,966	2,645	.13	4,701	.24
3rd.....	112,081	5,640	4,598	.24	1,077	.06
4th.....	120,031	10,678	3,221	.16	6,906	.35
1981.....	<u>435,993</u>	<u>37,657</u>	<u>14,894</u>	<u>.77</u>	<u>17,170</u>	<u>.89</u>
1st.....	120,967	12,197	4,172	.21	5,560	.28
2nd.....	121,357	14,553	3,622	.19	3,993	.21
3rd.....	130,952	17,098	3,067	.14	1,424	.06
4th.....	130,626	11,769	6,474	.33	7,175	.36
1982.....	<u>503,902</u>	<u>55,617</u>	<u>17,335</u>	<u>.87</u>	<u>18,152</u>	<u>.91</u>
1st.....	128,281	12,546	8,151	.40	9,110	.45
2nd.....	122,141	13,680	6,600	.32	7,368	.36
3rd.....	125,925	13,692	7,263	.35	12,224	.59
4th.....	133,167	17,070	6,377	.32	7,921	.39
1983.....	<u>509,514</u>	<u>56,988</u>	<u>28,391</u>	<u>1.39</u>	<u>36,623</u>	<u>1.79</u>
1st.....	135,020	16,714	7,620	.37	10,801	.52
2nd.....	133,608	14,855	7,489	.36	17,352	.83
3rd.....	145,254	17,711	6,877	.33	5,959	.29
4th.....	225,693	31,378	11,383	.40	11,283	.40
1984.....	<u>\$639,575</u>	<u>\$ 80,658</u>	<u>\$ 33,369</u>	<u>\$1.46</u>	<u>\$ 45,395</u>	<u>\$1.98*</u>

* The sum of quarterly net income per common share does not equal the annual net income per common share because quarterly changes in the weighted average number of common shares outstanding are not proportional to changes in net gains on sale of securities and the gain on the sale of Transohio.

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President and Chief Executive Officer

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Vice-Chairman of the Board

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Vice-Chairman of the Board

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314 Harwood Ave. S.	Mrs. J.E. Black	F.J. Wilson	R.A. Stuart	350 Eglinton Ave. W.
S. Young	GODERICH	MISSISSAUGA	SARNIA	G.N. Keep
ALLISTON	100 Kingston St.	1250 S. Service Rd.	250 Christina St. N.	852 Eglinton Ave. W.
13 Victoria St. W.	G.B. Kelly	R. Zenga	G.J. Pyle	T.D. Dolson
P.J. O'Brien	GUELPH	1515 Matheson Blvd.	Northgate Plaza	Golden Mile Plaza
AYLMER	118 Wyndham St. N.	G.P. Doherty	Ms. E.D. Webb	1882 Eglinton Ave. E.
42 Talbot St. E.	R.N. Morphew	MOUNT FOREST	Zellers Plaza	H. Robinson
M.S. Payne	HAMILTON	202 Main St. S.	P. Hobson	1948 Eglinton Ave. W.
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35 Dunlop St. E.	M. Kronstal	NEWMARKET	150 West St.	Eastown Shopping Centre
R.D. Dadswell	Fennell Square, Upper	198 Main St.	R.C. Neubauer	2646 Eglinton Ave. E.
BELLEVILLE	Gage and Fennell	D.G. Ash	SMITHS FALLS	D.C. Smith
175 Front St.	R.A. Grace	NORTH BAY	14 Beckwith St. S.	Cliffcrest Plaza
A.J. Loader	999 King St. W.	175 Main St. E.	D.S. Love	3041 Kingston Rd.
305 North Front St.	C. West	R. St. Louis	STRATFORD	W.L. Smith
H.B. Kay	11 Main St. E.	ORANGEVILLE	1 Ontario St.	2860 Lakeshore Blvd. W.
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68 King St. E.	R.G. Smith, Vice-Pres.	Mrs. L. Preston	171 C.H. Meier Blvd.	W. Fish
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51 King St. W.	Cataraqui Mall	PETERBOROUGH	K.W. Rudzewski	D.J. Cooper
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527 Brant Street	19 King St. E.	PORT CREDIT	50 Bloor St. W.	P. Gawne
H. Myles	D.A. Armstrong	36 Lakeshore Rd. E.	J. Colangelo	Sherway Gardens
CANNINGTON	LEAMINGTON	J.W. Bland	2274 Bloor St. W.	25 The West Mall
11 Cameron St. W.	2 Talbot St. E.	PORT ELGIN	C.F. Iliohan	W. Walker
M.D. Webb	A.J. Brown	560 Goderich St.	2360 Bloor St. W.	Bridlewood Mall
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40 King St. W.	LONDON	J.F. McCarthy	635 College St.	Sheridan Mall
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