

VGM
TRUSTCO
LIMITED

VICTORIA GREY
METRO TRUST
COMPANY

ANNUAL REPORT 1979

HOWARD ROSS LIBRARY
OF MANAGEMENT

JAN 8 1980

McGILL UNIVERSITY

Board of Directors

The Directors, Executive Committee and Audit Committees are identical for both companies

LOUIS G. ALLEN President, Manufacturers National Bank of Detroit, Detroit	*C. G. FLEMING Chairman of the Board, Victoria Grey Metro Trust Company, Toronto	*W. A. MACDONALD, Q.C. Partner, McMillan, Binch, Toronto	D. J. SMITH President and Chief Executive Officer, Ellis-Don Limited, London
*JOHN R. ANDERSON, Q.C. Partner, Anderson, Neilson, Bell, Dilks, Skinner, Anderson & Rogerson, Stratford	*RUDOLF V. FRASTACKY Vice Chairman of the Board, Victoria Grey Metro Trust Company, Toronto	JAMES H. McLAUGHLIN, Q.C. Partner, McLaughlin, Soward, Morden and Bales, Toronto	RALPH W. SMITH President, R. W. Smith Properties (Orillia) Limited, Orillia
*J. CHRISTOPHER BARRON President, Cassels, Blaikie & Co. Limited, Toronto	DR. HELMUT FROST General Partner, Simonbank AG, West Germany	*R. N. McLAUGHLIN, Q.C. Partner, McLaughlin, Soward, Morden and Bales, Toronto	*W. H. SOMERVILLE, FTCI President and Chief Executive Officer, Victoria Grey Metro Trust Company, Toronto
SONJA I. BATA Director, Bata Limited, Don Mills	JOHN W. GRAHAM, Q.C. Partner, Cassels, Brock, Toronto	H. MYLES MORTON Publisher, The Intelligencer, Belleville	*R. H. SOWARD, Q.C. Partner, McLaughlin, Soward, Morden and Bales, Toronto
*C. E. BENNETT, Q.C. Barrister and Solicitor, Toronto	A. G. S. GRIFFIN Deputy Chairman of the Board, Home Oil Company Limited, Toronto	WILLIAM G. MUNRO President, The Imperial Life Assurance Company of Canada, Toronto	THE HON. RICHARD J. STANBURY, P.C., Q.C. Partner, Cassels, Brock, Toronto
*PETER J. M. BLOEMEN President, Trucena Investments Limited, Toronto	WILLIAM C. HAMILTON Partner, Kearns, McKinnon, Guelph	DANIEL J. MURPHY, Q.C. Partner, Donnelly and Murphy, Goderich	W. P. TELFORD, Q.C. Gentleman, Owen Sound
†JOHN D. BRADLEY President, Bradley Farms Limited and President, First Chatham Corporation, Chatham	W. J. M. HENNING, Q.C. Partner, Parlee, Irving, Henning, Mustard & Rodney, Edmonton	*J. JACQUES PIGOTT Executive Vice President, Pigott Construction Company Limited, Etobicoke	*G. GRAHAM THOMSON President, Graham Thomson Real Estate Limited, Kingston
JACK K. BROWN President, Seaway Forwarding Agencies Ltd., Sarnia	*H. N. R. JACKMAN Chairman of the Board, Empire Life Insurance Company, Toronto	JOHN F. REESOR, Q.C. Partner, Mewburn, Marshall & Reesor, Hamilton	NIKOLAUS VON NIESSEN Manager, Credit Suisse (Canada) Limited, Montreal
JOSEPH A. N. CHIAPPETTA, Q.C. Partner, Gambin, Bratty, Chiappetta, Morassutti & Caruso, Downsview	†J. ALEX LANGFORD, Q.C. Partner, Miller, Thomson, Sedgewick, Lewis & Healy, Toronto	NORMA E. SERVICE Gentlewoman, Lindsay	DR. H. H. R. VON SRBIK General Partner, Bankhaus H. Aufhauser, West Germany
DONALD F. COWLING President, Cowling & Kearns Insurance Agency Limited, Meaford	*W. B. LEMON Gentleman, Owen Sound	W. J. SHIELDS Owner, Shields Home Hardware, Coboconk	GEORGE E. WALLACE, Q.C. Partner, Wallace and Carr, North Bay
†J. S. FLAVELLE Gentleman, Pembroke	BERT A. LOGAN Farmer, Sarnia	*†B. J. SIBOLD President, Perth Motors (1955) Ltd., Stratford	†DR. DOUGLAS R. WARREN Partner—Physician, Industrial Medical Consultants Limited, Toronto
		J. R. SINCLAIR Chairman, J. R. Sinclair Insurance Limited, Peterborough	JENNINGS D. YOUNG Gentleman, Toronto

*Member of Executive Committee (15) †Member of Audit Committee (5)

VGM TRUSTCO LIMITED

Officers

THE RIGHT HONOURABLE ROLAND MICHENER, P.C., Q.C.	Honorary Chairman of the Board	W. H. SOMERVILLE, FTCI President and Chief Executive Officer
H. N. R. JACKMAN	Chairman of the Board	R. R. MERIFIELD, Q.C. Secretary
P. J. M. BLOEMEN	Vice Chairman	L. B. WILL Treasurer
C. G. FLEMING	Vice Chairman	

The Officers of the Board and the Advisory Committees of Victoria Grey Metro Trust Company are listed on page 17. The Executive Officers and Senior Management on page 18 and the Branch Offices on pages 19 and 20.

Financial Highlights

RESULTS FOR YEAR (\$000 omitted)	1979	1978	% Increase
Revenue	\$ 318,729	\$ 212,413	50.1
Operating Income before Income Taxes	15,597	24,228	(35.6)
Net Operating Income	10,743	13,259	(19.0)
Net Operating Income per Common Share	\$0.62	\$1.06	(41.5)
Net Income	12,940	13,538	(4.4)
Net Income per Common Share	\$0.75	\$1.09	(31.2)
Dividends Paid per Common Share	\$0.38	\$0.343	10.8
YEAR END POSITION			
Mortgages	2,784,534	1,970,899	41.3
Savings and Term Deposits	646,304	322,666	100.3
Guaranteed Investment Certificates	2,417,508	1,756,867	37.6
Shareholders' Equity	123,362	74,714	65.1
Assets — Company and Guaranteed Funds	3,236,039	2,181,022	48.4
Estates, Trusts and Agencies	1,073,000	302,857	254.3

VGM TRUSTCO LIMITED

VICTORIA GREY METRO TRUST COMPANY

Executive Office353 Bay Street,
Toronto, Ontario**Head Office**1 Ontario Street,
Stratford, Ontario

To our Shareholders



W. H. SOMERVILLE, FTCI
President and Chief Executive Officer

This is the first Annual Report published by VGM Trustco Limited and its subsidiary, Victoria Grey Metro Trust Company.

The amalgamation on October 31, 1979 of Victoria and Grey Trust Company and The Metropolitan Trust Company, to form Victoria Grey Metro Trust Company, created a trust company with assets exceeding \$3 billion—fourth largest by a wide margin amongst Canadian trust companies. VGM Trustco Limited as the parent company is now the 13th largest financial institution in Canada.

The creation of VGM Trustco Limited and its operating subsidiary, Victoria Grey Metro Trust Company, was a monumental task in concept and execution which, in summary, was as follows:

In January, 1979, two major institutional shareholders of Victoria and Grey Trust Company and The Metropolitan Trust Company conveyed their holdings to a newly organized company, VGM Trustco Limited. VGM Trustco then offered to acquire all common shares of the two companies on the basis of 2 common shares of VGM Trustco for each common share of Victoria and Grey, and 4 common shares of VGM Trustco for each share of Metropolitan Trust. The response to this share exchange offer was overwhelming in that over 99.5% of the shares of the Trust Companies were exchanged for VGM Trustco shares. VGM Trustco now has nearly 4,000 shareholders.

The idea of creating a holding company to work with a subsidiary trust company is not new. Several Canadian companies have recently adopted this pattern. The obvious advantage is that shareholders can participate in a more flexible organization equipped to compete in a wider range of financial activities than would be possible under the restrictions of a trust charter.

The next step was accelerated by changes in the economic conditions, particularly rising interest rates, commencing in the spring of 1979 that created severe pressures for the trust industry. It became increasingly obvious that formal amalgamation of the two trust companies was in the best interests of the shareholders. Amalgamation would combine the metropolitan strength of "Metro" Trust with the traditional rural

impact of Victoria and Grey and create the stronger, more efficient entity required to meet current economic conditions. An amalgamation agreement between the two trust companies was duly approved by the directors and shareholders of each company, and the ensuing Order-in-Council and Letters Patent were issued by the Government of Ontario to bring the amalgamated company, Victoria Grey Metro Trust Company, into being, effective October 31, 1979.

Although Victoria Grey Metro Trust appears as a new entity, it is actually a continuation of a history and tradition that goes back to 1844. Companies that form the roots of Victoria Grey Metro include:

- The Victoria Trust and Savings Company
- The Grey and Bruce Trust and Savings Company
- Victoria and Grey Trust Company
- The Lambton Loan and Investment Company
- The Lambton Trust Company
- British Mortgage and Trust Company
- The Metropolitan Trust Company
- York Trust and Savings Corporation
- Kent Trust Company

The financial results of Victoria Grey Metro are consolidated in the statements of VGM Trustco that appear elsewhere in this report.

The comparative financial statements for the previous years are those of Victoria and Grey Trust Company. For accounting purposes the accounts of the amalgamated company are recorded as though the larger company acquired the smaller. Furthermore, since VGM Trustco is a holding company with negligible operating costs, its consolidated earnings are almost identical to those of its 99.5% owned subsidiary trust company.

VGM Trustco's net operating income per share was \$0.62 in 1979, compared to \$1.06 in 1978. In addition there was a gain of \$0.13 per share on sales of securities and premises, compared to \$0.03 in 1978. Net income per share was therefore \$0.75 in 1979 in comparison with \$1.09 for 1978.

I shall comment on the 1979 results of the two predecessor companies separately. The following is a schedule showing the results of Victoria and Grey Trust and The Metropolitan Trust:

	Victoria and Grey	Metro
Operating income (loss) before income taxes excluding the undernoted items	\$22,738,000	\$ (289,000)
Provision for losses on loans	(1,426,000)	(6,654,000)
Equity in earnings of Transohio Financial Corporation.		1,872,000
Operating income (loss) before income taxes	21,312,000	(5,071,000)
Income taxes (recoverable)...	8,803,000	(3,950,000)
Net operating income (loss) ..	<u>\$12,509,000</u>	<u>\$(1,121,000)</u>

Victoria and Grey has always made a great effort to match its borrowed funds with similar term investments, and as a result was less affected by the rise in interest rates. Because of the volatility of interest rates, VG had also reduced its mortgage commitments substantially and thus was not caught when interest rates rose.

Metro Trust has always obtained a large percentage of its funds from deposits rather than from 5-year Guaranteed Investment Certificates. As a result, its cost of borrowing funds rose sharply during the year and it was unable to pass along the increased costs because a large percentage of these funds were invested at fixed rates. Metro also had a large volume of fixed rate mortgage commitments which had to be funded with expensive money.

Our objective is to improve the Metro mismatching, to reduce costs and to obtain the same return on Metro assets that Victoria and Grey has been accustomed to achieving, so that we can increase the overall return to VGM shareholders.

Losses from mortgage and other loans increased substantially over previous years. A number of factors, including current economic conditions and certain specific loan situations necessitated a sharp increase in provisions for possible losses which are included in our total loss expense for the year.

During the year VGM Trustco adopted a Dividend Reinvestment Plan and a Stock Dividend Plan, thus giving shareholders the option of receiving dividends in cash or taking the amount of the dividend in additional shares. Holders of more than 52% of the shares have elected to use dividends to increase their investment in the Company. This retention of cash will further strengthen the financial base of the Company and assist its future progress.

Victoria and Grey continued to open additional offices and modernize existing offices to meet the demands of new business. New offices were opened at Edson, Alberta, and Aylmer, Brampton, Brockville and Stratford East, Ontario. To reduce costs the Edmonton Branch of Metro, which was close to the VG Branch, was closed and merged with the Victoria and Grey Branch. In 1980 the Peterborough and Cobourg Branches will be extensively renovated and new full service offices are planned for Lloydminster, Saskatchewan and Huntsville, Ontario.

In anticipation of the amalgamation, a program was adopted to simplify Metro Trust's financial holdings in subsidiary and associated companies.



Top. Head Office for VGM Trustco Limited and for Victoria Grey Metro Trust is located in this handsome building in Stratford.

Middle and Bottom. The opening of our first 'drive-in' Branch, located on busy Ontario Street, Stratford.

Canreit Advisory Corporation and its holdings in Canadian Realty Investors were sold; Metmar Financial Services was sold; Metco, a mortgage creation vehicle was wound up; CDI, an interim lending company, was absorbed into the parent; our 51% interest in McLean, Budden, the investment counselling firm, was sold; Canadian First Mortgage and International Savings and Mortgage have been de-activated, and we plan to merge them with the Trust Company. The after tax losses from these sales and reorganizations amounted to approximately \$284,924.

Mr. T. S. Ripley resigned as an officer and director of VGM Trustco Limited and its associated companies. Mr. W. H. Somerville was appointed President and Chief Executive Officer of VGM Trustco Limited and of Victoria Grey Metro Trust Company.

Ralph W. Smith, a Director of Victoria and Grey since 1976, will not stand for re-election, having reached the statutory age of retirement as a Trust Company Director. Mr. Smith has given freely of his knowledge, experience and advice, and has been highly valued. We are pleased that Mr. Smith will continue as Chairman of the Orillia-Barrie Advisory Committee.

Mrs. Sonja Bata, a Director of The Metropolitan Trust since March 1976, has decided not to stand for re-election. We thank Mrs. Bata sincerely for her valuable service to the Company.

The sudden passing of two former Directors, Mr. Ivor Wagner of Holland Centre, and Mr. K. B. Clysdale of St. Marys, is deeply regretted. We also extend our sympathy to the wife and family of the late Roy Walker. Mr. Walker, who served with distinction as Supervisor of Estates, Trusts and Agencies for many years, will be sadly missed.

Advisory Boards were set up in Tillsonburg and Orangeville. We welcome the following persons as new members—Frank Benner and Robert P. Richardson to the Tillsonburg-Simcoe Board, and Mr. H. A. Greene and Mr. E. J. Madill to the Orangeville Board. In addition, Mr. Harold Van Wyck has been appointed to the Owen Sound Board to replace the late Ivor Wagner. A new Advisory Board will be set up in Chatham, with our Director, John Bradley, as Chairman.

1979 has been a year of trial and challenge for VGM Trustco and its subsidiary, Victoria Grey Metro Trust Company. An enormous volume of work has been required to create and organize this great new financial institution. Your Directors are confident that it will continue to grow and prosper, using to full advantage the talents and resources that have been combined to form this enterprise.

The corporate amalgamation of the two trust companies has been accompanied by fusion of the Directors, Officers and Staff. The new Executive team for the amalgamated company is listed in the back of this report. Our continuing growth provided many Senior Management opportunities. I will mention only the appointment of Mr. B. V. Mehlenbacher as Vice-President and General Manager, and Mr. Ray Brown, whom we recently engaged to set up our Commercial Lending Department.

The amalgamated company now has 86 offices, located in four Provinces, and is represented in all Provinces except Newfoundland.



Top. Our new office facing historic Court House Square, Brockville.

Middle. Expanding business in Brampton is now served by this recently established office in Bram Rose Square.

Bottom. A new office in downtown Aylmer, a leading Ontario farm community.

In order to administer efficiently this large and widely located enterprise, the Regional administration system was divided into 7 regions. A number of senior Regional appointments were made to provide supervisory services.

The amalgamation has already begun to produce savings and improvements in efficiency. The Executive Offices of Victoria and Grey were moved to The Metropolitan Trust building at 353 Bay Street. The former Victoria and Grey office at 197 Bay Street is being sold and the facilities transferred to 353 Bay Street. Most of Metro's computer facilities have been sold and its work will be handled on the Victoria and Grey Univac 90/40. The marketing and advertising programs are being unified, and the combined resources will enable the existing staff to service a larger volume of business.

The Company continues to be on the alert for new service opportunities. Consumer loans have increased encouragingly, and a Commercial Lending Department is being established. The Company is also optimistic about the opportunities available to its Mortgage Banking staff. Estates, Trusts and Agencies continue to grow steadily, and total fees earned annually are now over the \$2 million mark. Costs have been reduced by consolidation of administrative services. The Property Management Department is managing 6,000 units, and this should become an expanding part of our business.

Our on-line savings system, which was started in 1978, is now in operation in St. Marys, Listowel, Stratford, Stratford East, Owen Sound and Lindsay. We plan to add the larger former Metro Branches to this system in the near future.

Your Directors express sincere appreciation to the Officers and Staff for their dedicated efforts during a difficult year.

One year ago I stated that we foresaw another year of inflation, high unemployment, slow economic growth, and limited building activity. The conditions foreseen in last year's message are still with us. Nevertheless, I am confident that, given a downturn in interest rates, 1980 will be a successful year.

December 12, 1979

W. H. Somerville

W. H. SOMERVILLE
President and Chief Executive Officer



Top. Victoria Grey Metro Trust are located on the ground floor of this modern office building in downtown Sarnia, a new neighbour for century old St. Andrew's Church.

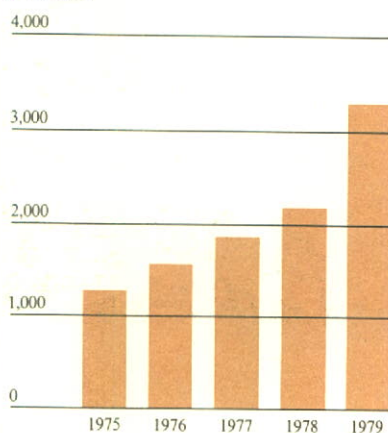
Middle. A new office to serve Edison, Alberta, in the heart of the energy industry.

Bottom. Expanded premises were required to serve growing bilingual business at Côte St. Luc Shopping Centre, Montreal.

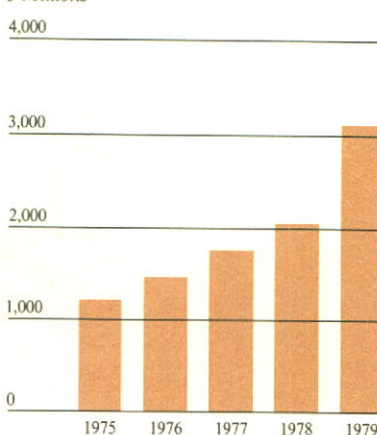
Five year record

VICTORIA GREY METRO TRUST COMPANY

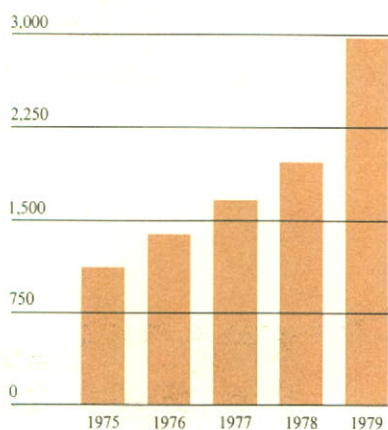
**Total Assets
Company and Guaranteed Funds**
\$ Millions



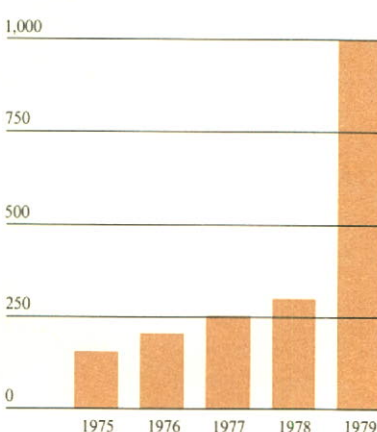
**Guaranteed Investment Certificates,
Debentures and Deposits**
\$ Millions



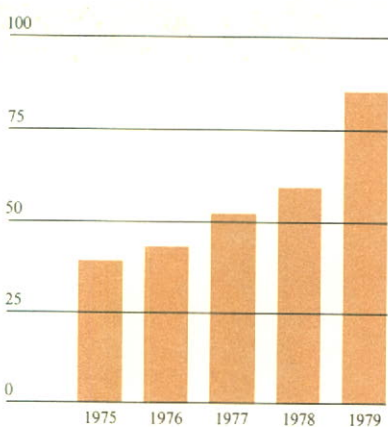
Mortgages
\$ Millions



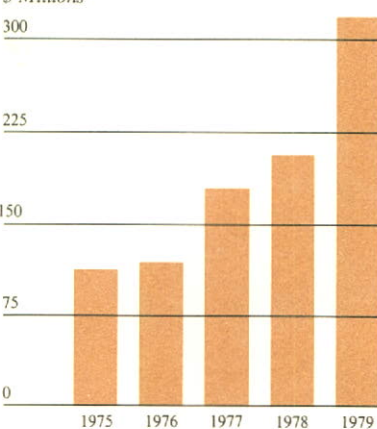
Estates, Trusts and Agencies
\$ Millions



Number of Branch Offices

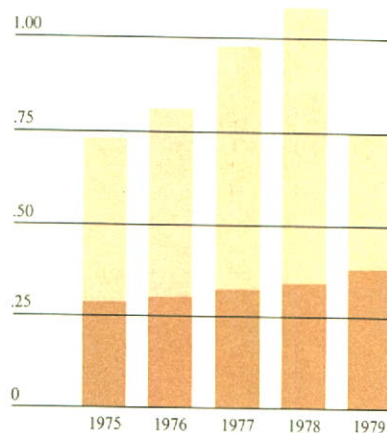


Revenue
\$ Millions

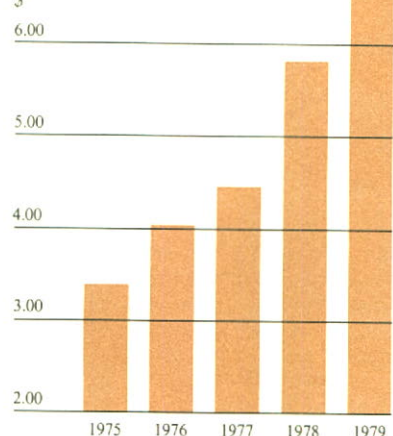


VGM TRUSTCO LIMITED

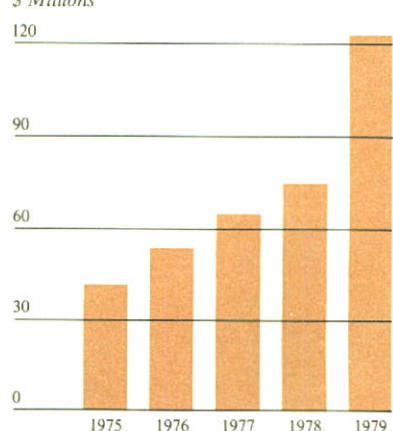
Net Income – Dividends
\$ Per Common Share



**Shareholders' Equity
Per Common Share**
\$



Capital, Surplus and Retained Earnings
\$ Millions



In these charts the financial statements of VGM Trustco and Victoria Grey Metro Trust Company are consolidated. Statements cover Victoria and Grey Trust Company for the four years 1975-78. Since Victoria and Grey Trust is deemed to have absorbed the assets and liabilities of the Metropolitan Trust Company upon amalgamation of the two companies, the 1979 column contains the totals for both companies.

See note opposite under 7 Year financial review

Seven Year Financial Review*

	1979	1978	1977	1976	1975	1974	1973
	(\$000 omitted)						
YEAR END POSITION							
Mortgages	\$2,784,534	\$1,970,899	\$1,662,629	\$1,382,962	\$1,136,978	\$ 925,999	\$ 768,745
Savings and Term Deposits	646,304	322,666	286,988	239,773	212,686	178,586	164,059
Guaranteed Investment Certificates and Debentures	2,417,508	1,756,867	1,481,305	1,241,504	1,021,970	843,578	685,945
Shareholders' Equity	123,362	74,714	65,198	54,073	42,337	37,510	34,322
Total Assets – Company and Guaranteed Funds	3,236,039	2,181,022	1,861,789	1,556,752	1,295,556	1,072,799	891,409
Assets held for Estates, Trusts and Agencies	1,073,000	302,857	252,358	205,575	162,214	134,851	114,966
RESULTS FOR THE YEAR							
Revenue	318,729	212,413	180,314	145,207	115,208	92,324	73,070
Expenses							
Interest	257,979	165,970	141,233	113,920	89,327	71,213	52,257
Salary and Staff Benefits	19,063	10,616	8,772	7,020	5,614	4,823	3,935
Property and Other Expenses	26,090	11,599	8,365	6,364	4,637	4,234	4,514
	303,132	188,185	158,370	127,304	99,578	80,270	60,706
Operating income before income taxes	15,597	24,228	21,944	17,903	15,630	12,054	12,364
Income taxes	4,854	10,969	9,735	8,041	7,298	5,828	5,880
Net Operating Income	10,743	13,259	12,209	9,862	8,332	6,226	6,484
Security and Premises Gains	2,197	279	44	17	33	292	418
Net Income	\$ 12,940	\$ 13,538	\$ 12,253	\$ 9,879	\$ 8,365	\$ 6,518	\$ 6,902

NUMBER OF SHARES OUTSTANDING ON OCTOBER 31

Common	18,418,000	12,298,000	12,242,000	12,242,000	11,128,000	11,128,000	11,128,000
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STATISTICS PER COMMON SHARE

Net Operating Income	\$.62	\$ 1.06	\$.98	\$.81	\$.73	\$.54	\$.56
Net Income	.75	1.09	.98	.81	.73	.56	.60
Dividends	.38	.343	.324	.30	.285	.27	.235
Shareholder's Equity	6.69	5.73	4.98	4.06	3.40	2.96	2.67

*Figures for 1978 and previous are for Victoria and Grey Trust Company. Figures have been revised to reflect the 2 for 1 split of Victoria and Grey Common Shares October 31, 1978 and the exchange of two VGM Trustco shares for each Common Share of Victoria and Grey in 1979.

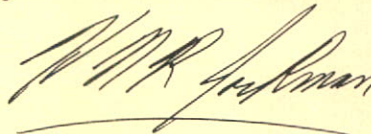
Consolidated Balance Sheet as at October 31, 1979

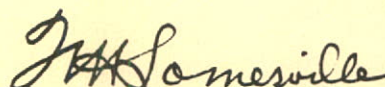
(with comparative figures as at October 31, 1978)(Note 1)

ASSETS	1979	1978
Cash and term deposits.....	\$ 89,002,000	\$ 37,548,000
Securities (Note 3)		
Bonds.....	139,764,000	88,475,000
Stocks.....	103,479,000	33,731,000
	<u>243,243,000</u>	<u>122,206,000</u>
Loans and advances (Note 4)		
Mortgage.....	2,784,534,000	1,970,899,000
Consumer	41,622,000	18,015,000
Collateral.....	23,946,000	18,244,000
Advances to estates and trusts.....	1,240,000	40,000
	<u>2,851,342,000</u>	<u>2,007,198,000</u>
Investment in affiliated company, Transohio Financial Corporation (Note 5) .	17,714,000	
Investment properties	8,146,000	
Premises, equipment and leasehold improvements	18,499,000	13,395,000
Other assets.....	1,608,000	675,000
Goodwill (Note 1)	6,485,000	
	<u>\$3,236,039,000</u>	<u>\$2,181,022,000</u>

(See accompanying notes to consolidated financial statements)

Signed on behalf of the Board:

 , Director

 , Director

LIABILITIES

	1979	1978
Guaranteed deposits (Note 6)		
Savings and chequing deposits	\$ 518,958,000	\$ 307,992,000
Term deposits	127,346,000	14,674,000
Guaranteed investment certificates and debentures (Note 7)	2,417,508,000	1,756,867,000
	<u>3,063,812,000</u>	<u>2,079,533,000</u>
Other		
Accounts payable	3,079,000	57,000
Subordinated notes payable (Note 8)	14,480,000	9,039,000
Income taxes payable	6,074,000	
Deferred revenue	2,871,000	2,629,000
Mortgages payable on investment properties	671,000	
Minority interest	4,925,000	
	<u>32,100,000</u>	<u>11,725,000</u>
Deferred income taxes	<u>16,765,000</u>	<u>15,050,000</u>
SHAREHOLDERS' EQUITY (Notes 1 and 9)		
Capital stock	33,292,000	19,326,000
Contributed surplus	30,589,000	
Appraisal surplus	3,154,000	3,154,000
Retained earnings	56,327,000	52,234,000
	<u>123,362,000</u>	<u>74,714,000</u>
	<u>\$3,236,039,000</u>	<u>\$2,181,022,000</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of VGM Trustco Limited:

We have examined the consolidated balance sheet of VGM Trustco Limited as at October 31, 1979 and the consolidated statements of revenue and expense, 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, 1979 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, 1979.

Clarkson, Gordon & Co.
Chartered Accountants

Gaviller & Company
Chartered Accountants

Consolidated Statement of Revenue and Expense for the year ended October 31, 1979

(with comparative figures for the year ended October 31, 1978)(Note 1)

REVENUE	1979	1978
Mortgage interest.....	\$ 275,403,000	\$ 193,995,000
Loan interest.....	7,242,000	3,743,000
Interest and dividends on securities.....	25,677,000	11,784,000
Equity in earnings of affiliated company (Note 5).....	1,876,000	
Commissions and fees from estates, trusts and agencies.....	2,059,000	1,372,000
Other (Note 10).....	6,472,000	1,519,000
	<u>318,729,000</u>	<u>212,413,000</u>
EXPENSE		
Interest.....	257,979,000	165,970,000
Salaries, pensions and other staff benefits.....	19,063,000	10,616,000
Property expenses.....	4,060,000	2,568,000
Other expenses.....	13,950,000	8,222,000
Provision for losses on loans (Note 4).....	8,080,000	809,000
	<u>303,132,000</u>	<u>188,185,000</u>
OPERATING INCOME BEFORE INCOME TAXES.....	<u>15,597,000</u>	<u>24,228,000</u>
INCOME TAXES		
Current.....	5,314,000	9,010,000
Deferred.....	(460,000)	1,959,000
	<u>4,854,000</u>	<u>10,969,000</u>
NET OPERATING INCOME.....	10,743,000	13,259,000
NET GAINS ON SALE OF SECURITIES, EQUIPMENT AND PREMISES AFTER APPLICABLE INCOME TAXES OF \$313,000 (1978—\$(56,000))	2,197,000	279,000
NET INCOME FOR THE YEAR.....	\$ 12,940,000	\$ 13,538,000
WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES (Note 11).....	17,221,000	12,248,000
NET OPERATING INCOME PER COMMON SHARE.....	\$0.62	\$1.06
NET INCOME PER COMMON SHARE.....	\$0.75	\$1.09

(See accompanying notes to consolidated statements)

Consolidated Statement of Retained Earnings for the year ended October 31, 1979

(with comparative figures for the year ended October 31, 1978) (Note 1)

	1979	1978
BALANCE AT BEGINNING OF YEAR.....	\$ 52,234,000	\$ 48,221,000
NET INCOME FOR THE YEAR	12,940,000	13,538,000
	<u>65,174,000</u>	<u>61,759,000</u>
Deduct		
DIVIDENDS		
Preference		227,000
Common (including dividend of \$145,000 referred to in Note 1)	8,847,000	4,198,000
RETAINED EARNINGS CAPITALIZED AND TRANSFERRED TO COMMON SHARES		5,100,000
	<u>8,847,000</u>	<u>9,525,000</u>
BALANCE AT END OF YEAR.....	<u>\$ 56,327,000</u>	<u>\$ 52,234,000</u>

Consolidated Statement of Changes in Financial Position for the year ended October 31, 1979

(with comparative figures for the year ended October 31, 1978) (Note 1)

	1979	1978
FUNDS AT BEGINNING OF YEAR		
Cash and term deposits.....	\$ 33,275,000	\$ 35,913,000
Secured call loans and short term investments.....	4,273,000	12,368,000
	<u>37,548,000</u>	<u>48,281,000</u>
SOURCE OF FUNDS		
Funds resulting from the acquisition of Metro Trust.....	60,184,000	
Net income adjusted for non-fund items of \$41,357,000 (1978—\$20,954,000) ..	54,297,000	34,492,000
Increase in deposits net of redemptions and withdrawals		
— Guaranteed investment certificates and debentures	278,905,000	251,908,000
— Term deposits	28,450,000	7,544,000
— Savings.....	36,844,000	27,938,000
Issue of common shares under dividend reinvestment plan.....	2,575,000	420,000
Increase in subordinated notes net of repayments.....	1,016,000	916,000
Sale of investment in Canadian Realty Investors.....	6,135,000	
Increase in estate and trust advances net of repayments.....	1,995,000	
	<u>470,401,000</u>	<u>323,218,000</u>
APPLICATION OF FUNDS		
Mortgage advances net of repayments.....	317,480,000	307,755,000
Increase in consumer and collateral loans net of repayments	15,782,000	12,320,000
Net increase in investment securities	49,128,000	6,203,000
Acquisition of premises and equipment.....	579,000	3,095,000
Dividends paid — preference		227,000
— common	8,847,000	4,249,000
Redemption of preference shares of subsidiary	48,000	53,000
Repayment of Metro Trust demand bank loans.....	17,974,000	
Acquisition of investment properties	6,724,000	
Repayment of mortgages payable on investment properties	1,569,000	
Other	816,000	49,000
	<u>418,947,000</u>	<u>333,951,000</u>
NET INCREASE (DECREASE) IN FUNDS FOR THE YEAR	<u>51,454,000</u>	<u>(10,733,000)</u>
FUNDS AT END OF YEAR		
Cash and term deposits	<u>\$ 89,002,000</u>	<u>\$ 37,548,000</u>

(See accompanying notes to consolidated statements)

Notes to Consolidated Financial Statements

1. The Company

The Company was incorporated by Letters Patent under the laws of Ontario in 1959 under a different name and for different purposes. In recent years its only business has been the investment of cash and deposit receipts (at October 31, 1978 its total assets approximated \$150,000). In January 1979 the Company's articles were amended to change its name to VGM Trustco Limited, to broaden its objects and to increase its authorized capital to 30,000,000 common shares (Note 9).

Under an offer made in January 1979 the Company acquired, through a share exchange, 99.5% of the common shares of Victoria and Grey Trust Company ("Victoria and Grey") and the Metropolitan Trust Company ("Metro Trust"). Effective October 31, 1979 these companies were amalgamated to form Victoria Grey Metro Trust Company.

Since the former shareholders of Victoria and Grey as a group, hold a majority of the common shares of the Company and represent a continuity of interest, this acquisition of Victoria and Grey has been accounted for as a pooling of interest whereby the net assets and business of Victoria and Grey have been recorded at their book values at October 31, 1978. The purchase of Metro Trust shares has, for accounting purposes, been treated as an acquisition by Victoria and Grey of the net assets and business of Metro Trust at December 31, 1978 and has been accounted for using the purchase method.

The comparative information disclosed in these financial statements and notes thereto is that of Victoria and Grey. On the basis of accounting described above, the consolidated statement of revenue and expense for the year ended October 31, 1979 includes the earnings of Victoria and Grey for the twelve months ended October 31, 1979 and the earnings of Metro Trust for the ten months ended October 31, 1979. The minority interest in income and dividends of Metro Trust for the ten months ended October 31, 1979 has not been disclosed separately since the amounts are not material. The net assets of the Company immediately prior to the reorganization described above were distributed by way of a dividend in the amount of approximately \$145,000.

The following is a summary of the acquisitions described above:

(a) Victoria and Grey—	
Net assets at book value of Victoria and Grey at October 31, 1978	\$ 74,714,000
Deduct minority interest of preference shareholders	4,217,000
Net assets	70,497,000
Net assets attributable to minority common shareholders	370,000
Net assets attributable to VGM Trustco Limited	<u>\$ 70,127,000</u>
Represented by:	
Share capital—	
Par value of shares issued in exchange for common shares (12,233,732 shares)	\$ 36,701,000
Less amount by which par value exceeds the value at which the exchanged shares are carried in the accounts of Victoria and Grey	21,962,000
	14,739,000
Appraisal surplus	3,154,000
Retained earnings	52,234,000
	<u>\$ 70,127,000</u>
(b) Metro Trust—	
Fair value of assets acquired being book value	\$677,234,000
Fair value of liabilities acquired being book value	636,946,000
Net assets of Metro Trust at December 31, 1978	40,288,000
Net assets attributable to minority shareholders	307,000
Net assets attributable to VGM Trustco Limited	39,981,000
Excess of purchase price of shares over fair value of net assets acquired (goodwill)	6,585,000
Total purchase consideration	<u>\$ 46,566,000</u>
The total consideration was allocated as follows:	
Conversion of shares of Metro Trust for 5,820,800 common shares of the Company	\$ 17,462,000
Contributed surplus	29,104,000
	<u>\$ 46,566,000</u>

The purchase consideration represents the approximate fair value of the Company's shares issued in exchange for the shares of Metro Trust, determined by reference to the average quoted market value of the common shares A and B of Victoria and Grey during 1978. The excess of purchase price of Metro Trust shares over fair value of net assets acquired is being amortized over a 40-year period on a straight-line basis.

The shares issued as consideration were as follows:

- 12,233,732 shares of the Company in exchange for 6,116,866 common shares A and B of Victoria and Grey.
- 5,820,800 shares of the Company in exchange for 1,455,200 shares of Metro Trust.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles 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 the consolidated accounts of its subsidiary, Victoria Grey Metro Trust Company (Note 1).
- (b) At the present time substantially all of the Company's business activities relate to the investment of Company and borrowed funds in loans and advances, bonds, stocks and other securities; accordingly, these financial statements do not set out separately the results of operations of, or assets utilized in, other business activities.
- (c) *Equity-accounted investment* –
The investment in Transohio Financial Corporation is accounted for on the equity basis whereby this investment was initially recorded at cost, subsequently increased by net earnings since acquisition and decreased by dividends received (see Note 5).
- (d) *Foreign exchange translation* –
The accounts of a United States subsidiary of Victoria Grey Metro Trust Company and of Transohio Financial Corporation have been translated into Canadian dollars on the following basis: assets and liabilities, substantially at period-end rates of exchange; income and expenses, at average rates for the period. Gains or losses relating to the translation of assets and liabilities having a fixed life (i.e. mortgage loans and savings certificates) have been deferred and are being amortized into income over the life of the asset or liability. Other translation gains or losses have been included directly in income.
- (e) *Securities* –
Bonds are stated at amortized cost plus accrued interest. Stocks are stated at cost. Security gains and losses are reflected in net income as realized.
- (f) *Loans* –
Advances to estates and trusts, consumer, collateral, and mortgage loans are stated at amounts advanced plus interest accrued or capitalized, less repayments and provisions for losses. Non-refundable holding fees and mortgage interest penalties are deferred and amortized over the term of the mortgage.
- (g) *Premises and equipment* –
Premises (land and buildings) acquired prior to January 1, 1977, are carried at appraised value as determined by Egerton Associates Limited as of that date with subsequent additions at cost. The increase in value resulting from the appraisal is recorded as appraisal surplus.

Depreciation is computed on the diminishing balance method, at the following annual rates:

Buildings	5%
Equipment	20%
Automobiles and computer	30%

Amortization of leasehold improvements is computed on the straight-line method over the terms of the leases. Accumulated depreciation and amortization at October 31, 1979, including \$2,067,000 attributable to assets acquired from Metro Trust, amounted to \$9,507,000 (1978—\$6,360,000) after the current year's charge of \$1,424,000 (1978—\$1,049,000).

- (h) *Income taxes* –
The Company follows the tax allocation basis of accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred taxes.

Operating income before taxes includes non-taxable dividend income; accordingly, the apparent effective tax rate is less than the general corporate rate.
- (i) *Fees and commissions* –
Fees and commissions are recorded as income when received.
- (j) *Provisions for losses on loans* –
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 provisions as realized.

3. Securities

	1979		1978	
	Cost	Market	Cost	Market
Bonds —				
Government and Provinces of Canada	\$124,927,000	\$113,027,000	\$ 84,258,000	\$ 78,243,000
Corporate	14,837,000	13,486,000	4,217,000	3,822,000
	<u>139,764,000</u>	<u>126,513,000</u>	<u>88,475,000</u>	<u>82,065,000</u>
Stocks —				
Preferred	67,825,000	66,897,000	6,676,000	6,745,000
Common	35,654,000	50,735,000	27,055,000	37,742,000
	<u>103,479,000</u>	<u>117,632,000</u>	<u>33,731,000</u>	<u>44,487,000</u>
Total securities	<u>\$243,243,000</u>	<u>\$244,145,000</u>	<u>\$122,206,000</u>	<u>\$126,552,000</u>

4. Allowance for losses on loans

	1979	1978
Balance at beginning of year	\$ 526,000	\$ 113,000
Allowance of Metro Trust upon acquisition	678,000	
Provision for losses during the year	<u>8,080,000</u>	<u>809,000</u>
	<u>9,284,000</u>	<u>922,000</u>
Loans written off during the year	<u>(1,497,000)</u>	<u>(396,000)</u>
Balance at end of year	<u>\$7,787,000</u>	<u>\$ 526,000</u>

5. Transohio Financial Corporation (Transohio)

(i) The investment in Transohio, a United States savings and loan holding company, represents approximately a 23.5% interest and is accounted for by the equity method. In reflecting the Company's equity in the earnings of Transohio to September 30, 1979, adjustments are made to the reported earnings of Transohio to provide for:

- Deferred income taxes required to be provided under Canadian generally accepted accounting principles in respect of statutory bad debt deductions for which no provision is required in the United States.
- Other adjustments arising from amortization of differences between book values and estimated fair values of net tangible assets at acquisition, and amortization (over 40 years) of the excess of the cost of the investment over the estimated fair values of the net tangible assets acquired.

(ii) The continuity of the carrying value of the investment is set out below:

Cost of shares		\$12,428,000
Equity in earnings since acquisition (September 16, 1977)	5,999,000	
Less dividends received	<u>(713,000)</u>	<u>5,286,000</u>
Carrying value at October 31, 1979		<u>\$17,714,000</u>

The year-end market value of the investment was \$12,757,000, being the quoted selling price on the New York Stock Exchange at October 31, 1979 (expressed in Canadian dollars). This value would not necessarily be indicative of the price at which such a large holding could be sold.

(iii) A comparative summary of significant financial data for Transohio Financial Corporation for the nine months ended September 30, 1979 (unaudited) and the year ended December 31, 1978 (audited), extracted from their financial statements follows:

	September 30, 1979	December 31, 1978
	(U.S. \$)	(U.S. \$)
Assets	\$1,732,339,000	\$1,625,134,000
Liabilities	<u>1,633,112,000</u>	<u>1,534,054,000</u>
Shareholders' equity	<u>\$ 99,227,000</u>	<u>\$ 91,080,000</u>
Net earnings for the nine months to September 30, 1979 (1978—year ended December 31, 1978)	<u>\$ 9,195,000</u>	<u>\$ 15,015,000</u>

The above summarized financial data was determined in accordance with generally accepted accounting principles in the United States which differ in some material respects from Canadian practice as referred to above.

6. **Assets held for guaranteed deposits**

	1979	1978
Cash	\$ 59,158,000	\$ 7,999,000
Securities	153,312,000	64,376,000
Mortgages	2,784,534,000	1,970,899,000
Other loans	66,808,000	36,259,000
	<u>\$3,063,812,000</u>	<u>\$2,079,533,000</u>

7. **Guaranteed investment certificates and debentures**

Included in guaranteed investment certificates and debentures are debentures in the amount of \$140,796,000 issued by one of the predecessor companies of Victoria Grey Metro Trust Company, The Lambton Loan and Investment Company and debentures of subsidiary loan corporations in the amount of \$73,846,000.

8. **Subordinated notes**

Subordinated notes bearing interest at varying rates between 9.75% and 10.75% mature as follows:

	1979	1978
1981	\$10,503,000	\$6,000,000
1984	832,000	916,000
1985	1,916,000	2,000,000
1986	1,000,000	
Accrued interest	229,000	123,000
	<u>\$14,480,000</u>	<u>\$9,039,000</u>

9. **Capital stock and contributed surplus**

During the year the Company's capital was reorganized as follows:

	5% non-cumulative preference shares		Par value \$3 each (1978—\$1 each) common shares		Contributed surplus
	Number	\$	Number	\$	\$
Authorized —					
Beginning of year	300		10,000		
Cancelled during the year	(300)				
Increase during the year			29,990,000		
End of year	<u>Nil</u>		<u>30,000,000</u>		
Issued —					
Beginning of year	20	\$2,000	203	\$ 203	
Purchased for cancellation	(20)	(2,000)			
Issued in exchange for					
—Victoria and Grey shares (Note 1)			12,233,732	14,739,770	
—Metro Trust shares (Note 1)			5,820,800	17,462,400	\$29,104,000
Issued under dividend reinvestment plan			363,329	1,089,627	1,485,000
End of year	<u>Nil</u>	<u>Nil</u>	<u>18,418,064</u>	<u>\$33,292,000</u>	<u>\$30,589,000</u>

During the year the Company adopted the dividend reinvestment plan of Victoria and Grey 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.

10. **Other revenue**

Other revenue includes revenue from mortgage and savings services, property management, mortgage banking, real estate operations and sundry other income.

11. **Earnings per share**

Earnings per share have been computed on the basis of a weighted average of 17,221,000 common shares (1978—12,248,000, as restated to reflect the exchange of two VGM Trustco shares for each Common Share of Victoria and Grey in 1979).

12. **Commitments**

- (a) Outstanding commitments at October 31, 1979 for future advances to be secured by mortgages are \$94,009,000 (1978—\$139,100,000).
- (b) At October 31, 1979 the Company had contractual obligations extending through 1989 in respect of leased premises and equipment at minimum annual rentals totalling \$1,216,000.

13. **Comparative figures**

Certain 1978 comparative figures have been reclassified to conform to the presentation adopted in 1979.

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K. GARNER
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Eastern

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BOWMANVILLE 68 King St. E. L1C 3X2 416-623-2504 W. L. Datema	*DOWNSVIEW 628 Sheppard Ave. W. M3H 2S1 416-638-1955 Mrs. D. Donaghy	LEAMINGTON 14 Erie St. S. N8H 3X4 519-326-2624 D. E. Gonsalves	ORILLIA 12 West St. N. L3V 6K9 705-325-2267 K. D. Bowes
BRAMPTON (Main) 11 Main St. S. L6V 2K7 416-451-7330 B. J. Anderson	*DOWNSVIEW 1603 Wilson Ave. M3L 1A5 416-244-1101 T. Barbusci	LINDSAY 165 Kent St. W. K9V 4S2 705-324-2123 D. A. Armstrong, MTCI	OTTAWA 1850 Carling Ave. K2A 1T4 613-725-3759 R. Wigmore
BRAMPTON Bram Rose Square 295 Queen St. E. L6W 3R1 416-453-1421 S. Mullarkey	EXETER 425 Main St. N0M 1S0 519-235-0530 Mrs. J. E. Black	LISTOWEL Main St. E. N4W 3H2 519-291-1450 D. N. Lefebvre	OWEN SOUND 857 Second Ave. E. N4K 5P5 519-376-8480 J. R. Plaskett
	GODERICH 100 Kingston St. N7A 3Y5 519-524-7381 J. W. Holmes	LONDON 440 Central Ave. N6A 4V8 519-672-2210 A. J. Brown	PETERBOROUGH 437 George St. N. K9J 6Y6 705-742-3471 W. R. Curry, MTCI

Branch Offices (continued)

PORT CREDIT
36 Lakeshore Rd. E.
L5G 4L5
416-278-3358
B. M. Malcolm

PORT ELGIN
560 Goderich St.
N0H 2C0
519-832-6921
M. W. Taylor

RENFREW
215 Raglan St. S.
K7V 4A4
613-432-5818
W. E. Hyland

RICHMOND HILL
10355 Yonge St.
L4C 4X9
416-884-1107
T. M. Morgan

SARNIA (Main)
250 Christina St. N.
N7T 7L9
519-344-7491
G. J. Pyle

Northgate Plaza
N7T 5P5
519-337-3203
Ms. E. D. Webb

*1249 London Road
N7S 4T3
519-332-1911
N. Blair

ST. CATHARINES
40 King St.
L2R 6Y3
416-688-2492
M. M. Gollert

ST. MARYS
131 Queen St. E.
N0M 2V0
519-284-3840
J. T. Neilson

SIMCOE
31 Norfolk St. N.
N3Y 4T2
519-426-9300
F. K. Douglas

***SMITHS FALLS**
275 Brockville St.
K7A 4Z6
613-283-2641
D. Webb

STRATFORD (Main)
1 Ontario St.
N5A 6S9
519-271-2050
C. I. Stief, MTCI

STRATFORD (East End)
171 C. H. Meier Blvd.
N5A 6V6
519-271-5011
J. D. Brethour

TILLSONBURG
81 Broadway St.
N4G 4J1
519-842-4209
R. N. Morphew

TORONTO
197 Bay St.
M5J 1L3
416-869-1661
K. W. Rudzewski

*353 Bay St.
M5H 2T8
416-869-3494-97
K. MacStephen
2262 Bloor St. W.
M6S 1N9
416-763-4677
Mrs. I. Prime

*2326 Bloor St. W.
M6S 1P2
416-763-5551
Mrs. F. Nielsen

*3038 Bloor St. W.
M8X 1C4
416-236-1107
Mrs. L. Preston

635 College St.
M6G 1B5
416-535-3133
Mrs. P. Saltarelli

*665 Danforth Ave.
M4J 1L2
416-461-0221
D. G. Ash

1520 Danforth Ave.
M4J 1N4
416-465-3565
Mrs. J. Moncada

*43 Eglinton Ave. E.
M4P 1A2
416-485-1173
J. McCarthy

*852 Eglinton Ave. W.
M6C 2B6
416-789-2149
R. Reeves

1887 Eglinton Ave. W.
M6E 2J5
416-789-2171
D. Curtis

*45 Overlea Blvd.
M4H 1C3
416-421-3900
J. Williams

*1171 St. Clair Ave. W.
M6E 1B5
416-654-8906
Mrs. L. Ruffolo

TRENTON
Trenton Town Centre
Dundas St. E.
K8V 5W6
613-392-3561
F. F. Tabbert

WALLACEBURG
541 James St.
N8A 4L6
519-627-2268
J. G. Brown

WHITBY
308 Dundas St. W.
L1N 5S4
416-668-9324
L. K. Lawes, MTCI

***WILLOWDALE**
6432 Yonge St.
M3M 3X4
416-223-6420
M. Walker

WINDSOR
2511 Dougall Ave.
N9C 3Z1
519-969-6642
J. R. O'Hearn

*500 Ouellette Ave.
N9A 1B3
519-252-7712
T. W. Alexander

Quebec

MONTREAL
*7059 Cote St., Luc Rd.
H4V 1J2
514-486-7393
F. Becker

*2324 Lucerne Rd.
H3R 2J8
514-735-1155
J. Marcoux

*4861 Van Horne Ave.
H3W 1J2
514-731-6883
P. Nicell

British Columbia

VANCOUVER
*544 Howe St.
V6C 2C9
604-688-0251
A. Hoegg

Alberta

CALGARY
327-17th Ave. S.W.
T2S 0A7
403-237-6320
M. R. Carson

CAMROSE
Duggan Village Mall
6601-48th Ave.
T4V 3G8
403-672-8881
T. R. Love

EDMONTON
10525 Jasper Ave.
T5J 1Z4
403-423-1566
D. J. Smith

EDSON
5025-1st Ave. W.
T0E 0P0
403-723-6631
P. C. Riopel

LETHBRIDGE
309-6th St. S.
T1J 2C7
403-329-1811
F. J. Wilson

RED DEER
5233-49th Ave.
T4N 6G5
403-343-8980
J. D. Cross

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