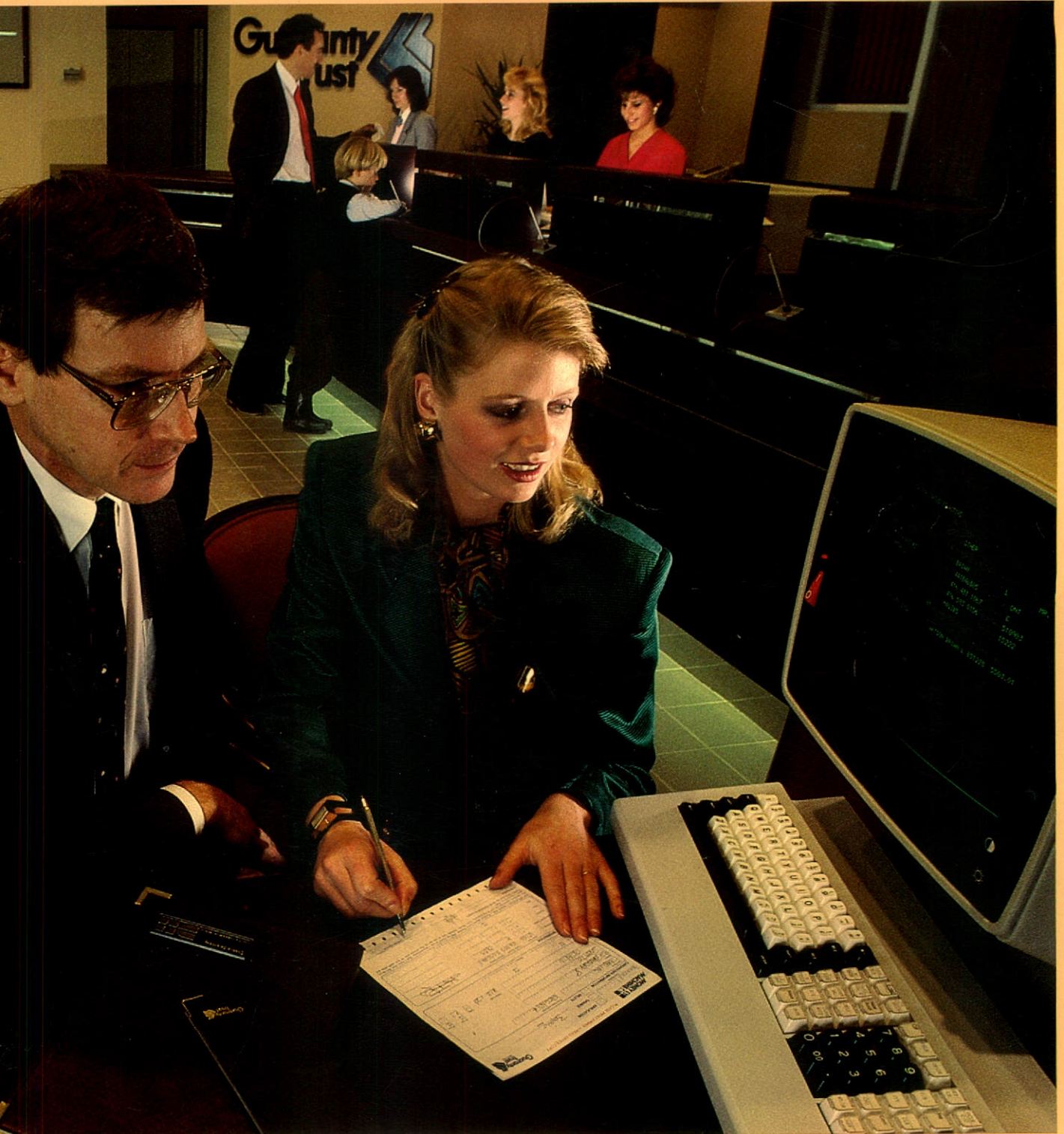


We are committed to
excellence through personal service
supported by technology.



Guaranty Trustco Limited
CORPORATE STRUCTURE

Guaranty Trustco Limited

is a holding company with major interests in trust, real estate and personal finance loan businesses.

Guaranty Trust Company of Canada,

Canada's 4th largest trust company, provides a full range of consumer and corporate financial services. Guaranty Trust celebrates its 60th Anniversary in 1986.

Guaranty Properties Limited

is a real estate company engaged in the development of land and income producing properties.

Guaranty Realty Investments Limited

offers investors participation in institutional quality real estate through various investment funds.

Guaranty Trust Company of Canada (U.K.) Limited

provides stock brokerage, stock transfer and underwriting services in the European market.

Trans Canada Credit Financial Inc.

invests in the new and renewal personal finance loan business previously written by Trans Canada Credit Corporation for Traders Group Limited.

Trans Canada Credit Realty Limited

provides loans secured by real estate mortgages.



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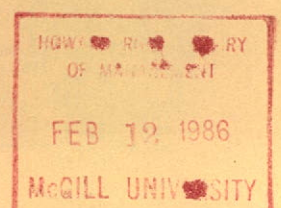
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Guaranty Trustco Limited
CONSOLIDATED HIGHLIGHTS
(\$ thousands)

| | 8 months ended December 31, 1985 ¹ | Year ended December 31 ¹ | |
|--|--|-------------------------------------|--------------------|
| | | 1985 | 1984 |
| Gross revenue | \$ 334,760 | \$ 468,975 | \$ 405,630 |
| Revenue from operations | 91,112 | 123,145 | 92,483 |
| Interest spread | 71,557 | 96,414 | 65,523 |
| Fiduciary fees | 17,669 | 26,092 | 25,841 |
| Real estate operations | 5,710 | 6,321 | 4,218 |
| Loan losses | 3,725 | 5,814 | 4,401 |
| Operating expenses | 68,004 | 96,091 | 75,582 |
| Net income | 13,959 | 17,011 | 10,615 |
| Earnings per common share | 1.25 | 1.59 | |
| Return on average common equity² | 15.2% | 12.5% | |
| Net income by line of business | | | |
| Trust | 10,501 | 13,767 | 9,475 |
| Real estate | 1,629 | 1,415 | 1,140 |
| Personal finance | 1,829 | 1,829 | - |
| Assets under administration | | \$8,141,594 | \$7,006,081 |
| Consolidated | | 3,814,338 | 3,174,458 |
| Fiduciary | | 4,327,256 | 3,831,623 |

¹See Note 2A on page 30

²Fully diluted



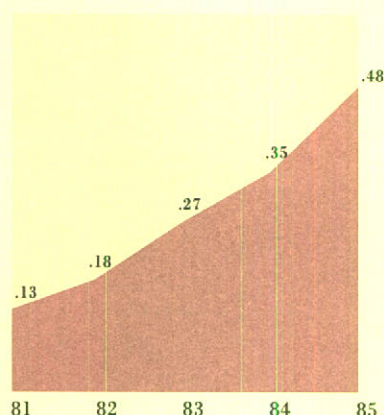
Return on Assets

Return on assets provides a measure of net income in relation to the assets employed to earn that income.

Guaranty Trust has progressed from a level of .13% in 1981 to .48% in 1985—a 270% increase. In 1985, Guaranty Trust achieved an increase of more than 35% over the 1984 level. The latest year's results compared reasonably well with returns for major North American banks. This improvement reflects improved spread management, and tighter operating expense control.

Return on Assets

Percent



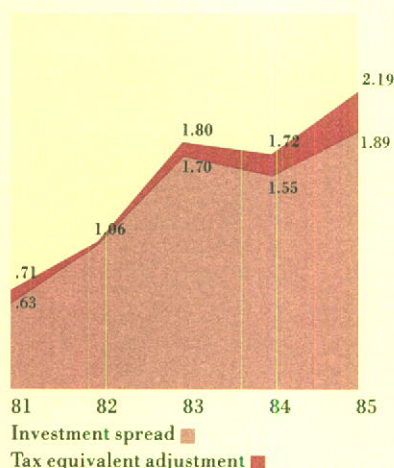
Interest Rate Spread

Interest rate spread is the difference between the average rate earned on the Company's assets and the average rate paid to depositors. Because the income from certain assets is not taxable, the graph opposite has been prepared to show both the unadjusted investment spread and its taxable equivalent.

Guaranty Trust's average spread rate nearly trebled between 1981 and 1983 as the company improved its term mismatch position. Growth was continued in 1985, as our spread rate for the full year 1985 reached 2.19%, an increase of 27% over the 1984 level. This significant improvement reflects improved spread management, increased holdings of preference shares and a continuing modest reduction in our long-term, low yield asset position.

Interest Rate Spread

Percent



Fiduciary Fees

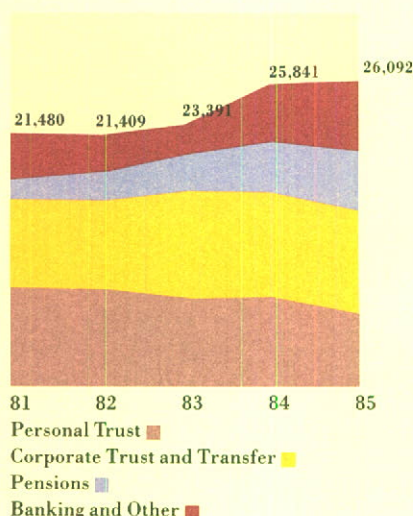
Guaranty Trust provides a variety of personal and corporate fiduciary services for fees in the pension, trust and transfer areas. In addition, fees are earned from banking services.

During the five-year period shown in the graph, fee revenue has grown by 21% from \$21.5 million to \$26.1 million. Personal Trust and Corporate Trust and Transfer services are the most significant revenue producers, together generating an average 66% of total fees during the period.

However, fees from pension services are becoming increasingly important, having grown at an average compound rate of 30% since 1981.

Fiduciary Fees

Millions of dollars



Loan Loss Expense

This expense represents the combined total of loans actually written off, together with provisions for potential loan losses, net of recoveries.

This graph shows loan loss expense as a percentage of our total outstanding loans, and provides a good indication of the high quality of the loan portfolios during a period which included the worst recession in the past 50 years.

Loan loss expense in 1985 was \$3.1 million, some \$1.3 million below 1984 and represented .12% of total loans outstanding at year-end, compared to a .19% relationship in 1984. This performance reflects effective credit management as well as the improved economic environment.

Operating Expenses

The relationship between operating expense and assets is a measure of operating efficiency with lower ratios generally indicating more efficient performance. The graph compares operating expenses to average consolidated company, guaranteed funds and real estate assets.

Guaranty Trust operating expenses grew from 2.08% in 1981 to 2.59% in 1983. Expenses grew at a much faster rate than consolidated assets during this period due to double-digit inflation and the recession which limited lending opportunities. Guaranty Trust also significantly increased its expenditures on systems improvements and marketing.

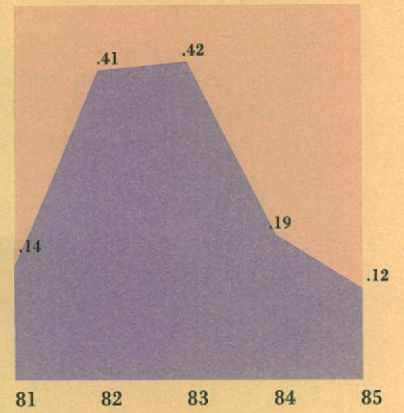
Operating expenses in 1985 were 2.62% of consolidated assets, virtually unchanged from the 1983 level, despite the additional expenses incurred as a result of significant branch growth and the adoption of a policy to accelerate the write-off of development costs.

Net Income

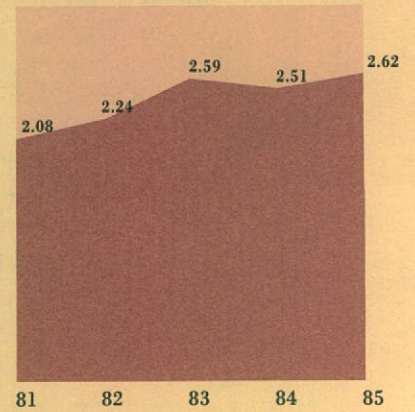
Net operating income retention provides an overall measure of operating and financial management.

Guaranty Trust has achieved significant and steady progress since 1981 when income retention was only 1%. By 1983, retention had improved to 2.1%, primarily reflecting the dramatic growth in interest spread. In 1984, this performance was maintained and enhanced, despite a slight erosion in spread rates. 1985 produced an increase of 50% over 1984 resulting in income retention of 3.9%.

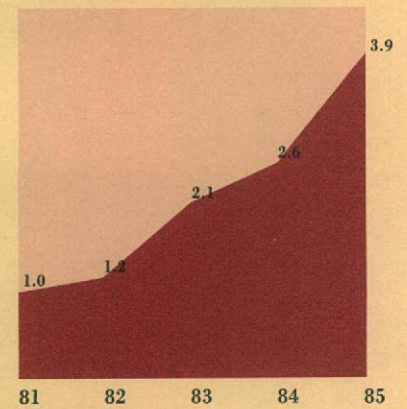
Loan Loss Expense
Percentage of outstanding loans



Operating Expense
Percentage of total assets



Net Income
Percentage of gross income



Intermediary Asset Growth

Guaranty Trust acts as an intermediary between depositors and borrowers.

Apart from 1982, when the recession severely limited our lending opportunities, Guaranty Trust has achieved a steady intermediary asset growth.

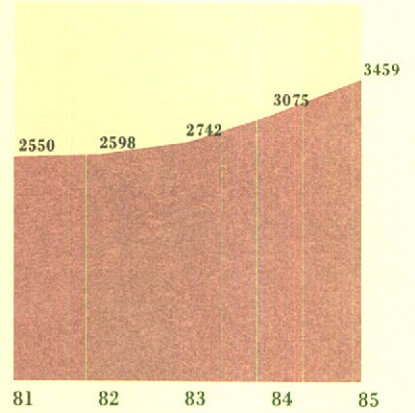
Intermediary assets totalled nearly \$3.5 billion at December 31, 1985, as a result of a 13% growth in deposits over 1984. This growth was achieved in a year when chartered bank deposits grew 8.9%.¹

Fiduciary Asset Growth

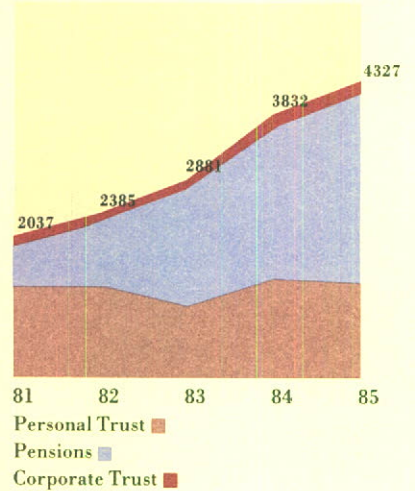
Guaranty Trust administers trust and pension funds as fiduciary for consumer and corporate clients. In addition, the Company offers a full range of corporate trust and transfer services. The level of funds administered is an indication of the Company's growing importance in the financial services industry.

Our fiduciary assets have grown dramatically since 1981 and at year-end 1985 stood at \$4.3 billion—some 112% greater than 1981. The majority of asset growth during this period has been achieved in pension funds which have increased over 300%. During 1985, fiduciary assets grew by almost \$500 million or 13%, entirely due to pension fund increases.

Intermediary Asset Growth
Millions of dollars



Fiduciary Asset Growth
Millions of dollars



¹Source: Bank of Canada Financial Statistics.

This first Annual Report of Guaranty Trustco Limited covers its initial eight months of operation. Established in May, 1985, Guaranty Trustco holds as its investments Guaranty Trust Company of Canada and its subsidiaries, a British financial services company and two new personal finance loan companies.

For the eight-month fiscal period ended December 31, 1985, Guaranty Trustco achieved a consolidated net income of \$13,959,000.

- Guaranty Trustco's strength reflects the performance of the following operations:
- Guaranty Trust Company of Canada, which ranks fourth in size in the Canadian trust industry, provides a broad range of consumer and corporate services. This company celebrates its 60th anniversary in 1986;
 - *Guaranty Properties Limited* is a real estate company engaged in the development of land and income producing properties;
 - *Guaranty Realty Investments Limited* offers investors participation in institutional quality real estate through various investment funds;
 - Guaranty Trust Company of Canada (U.K.) Limited provides stock brokerage, stock transfer and underwriting services in the European market;
 - Trans Canada Credit Financial Inc. invests in the new and renewal personal finance loan business written by Trans Canada Credit Corporation for Traders Group Limited.

Guaranty Trust

Guaranty Trust registered its fourth consecutive year of substantial profit growth to establish a new earnings record in 1985. Unconsolidated net operating income totalled \$14.7 million, compared with \$10.1 million in 1984, a 46% increase. Consolidated net income was \$16.2 million, a 52% increase, or \$1.26 per common share, compared with \$10.6 million or \$.80 per common share in 1984.

The financial intermediary business once again performed well, with assets totalling nearly \$3.5 billion at year-end—a 13% growth over 1984. Personal loans increased substantially, though the demand for corporate loans remained soft. Interest spreads continued to improve, while loan losses and non-performing loans declined significantly.

The fiduciary business generated stable revenue, with more than \$4.3 billion of assets under administration, a 13% increase over the previous year. Significantly, two areas of emphasis—pension fund and mutual

fund assets—registered notable growth, reflecting continued investor confidence in the quality of our professional investment management services. Guaranty Trust retained its position as a leading stock transfer agent for Canadian companies.

In a year when investor confidence was shaken by the failure or difficulties of several smaller banks and trust companies, Guaranty Trust remained one of the strongest financial institutions in Canada.

- Our portfolio of consumer and corporate loans is in excellent condition, supported by high liquidity in treasury bills and government bonds. Non-performing loans, net of specific reserves, represent less than 4/10 of 1% of the total portfolio and are below financial industry levels.
- Our operations are well diversified with present investments concentrated in central Canada and the major cities of western Canada. We have no international loans.
- Demand, time and term deposits rose by over 13% to total \$3.1 billion. Most of these deposits were raised at the retail level through our branch network and exceeded the personal deposit industry growth rate of less than 10%, indicating the confidence Canadian individuals and business enterprises have in Guaranty Trust.
- Our assets and liabilities are well matched and our capital and reserve positions are among the most conservative in the financial industry, ensuring a solid base for future growth.

Guaranty Trust has made significant progress toward its goal of improved customer service since its reorganization in 1984 into two divisions—Consumer Services and Corporate Services. Major investments in branch expansion, automated teller machines, enhanced computer technology, marketing strategies and staff training and development programs are detailed in other sections of this Annual Report. They confirm our commitment to excellence in all areas of operations through attention to personal service and the application of beneficial computer systems.

Other Subsidiaries

Guaranty Properties Limited had a net income of \$1.2 million, compared with \$1.1 million in 1984. The company produced revenues of close to \$40 million from its land development operations and its involvement in joint venture land and housing developments, which reduced land inventory. New

commercial projects were added to the portfolio in 1985, consistent with the long-term goal of generating most future revenues from income-producing properties.

Guaranty Realty Investments Limited acquired real estate assets in excess of \$80 million on behalf of investors. This new company is off to a positive start; it contributed \$167 thousand to our 1985 results and should make further profit gains in 1986.

Guaranty Trust Company of Canada (U.K.) Limited reported a small loss in 1985, but expects improved revenue growth next year.

Trans Canada Credit Financial Inc. began operations in July, 1985, assuming the new and renewal personal finance loan business previously carried on through Traders Group. It was a major contributor to Guaranty Trustco's income and is expected to attain higher profits in 1986.

Industry Perspective

For several years, we have been in the forefront of those calling for changes in the framework that regulates the trust, bank, investment brokerage and insurance industries.

In 1985, recommendations were issued by the federal government, a committee studying the Canada Deposit Insurance Corporation, the House of Commons Standing Committee on Finance, Trade and Economic Affairs, and an Ontario Task Force on Financial Institutions.

Unfortunately, these recommendations were made during a period marked by the failure of certain Canadian chartered banks and publicity about difficulties in others. As a result, federal legislative action on reform of financial institutions focused on regulatory enhancements rather than the expansion of powers.

The Canadian-owned trust industry has been waiting since 1976 for legislation that will enable it to respond to the current financial environment.

We urgently need expanded powers to permit us to service our consumer and corporate clients more effectively. Specifically, we require the flexibility to diversify our investment activities to compete more equitably with the banks.

Guaranty Trust and other established trust companies have long adhered to prudent management practices that confirm our stability, adaptability and responsibility as both trustees and financial intermediaries. We continue to suffer under outmoded

restrictions that are not appropriate to the interests of Canadian consumers and business enterprises in the competitive conditions that prevail today.

In late December, the Ontario government introduced its revised Loan and Trust Corporations Act, which provides welcome expansion of trust company powers in commercial lending and leasing. Its 20% limitation on consumer lending, although generous compared with the existing 7% level, still seems restrictive given the excellent loan loss performance of the industry in the past decade. However, we strongly support Ontario's initiative in providing trust companies with much greater competitive flexibility and hope that forthcoming federal legislation will follow the Ontario example.

Outlook

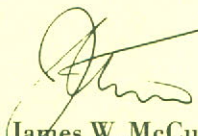
Guaranty Trust began to expand its branch network again in 1985 and plans to open six new retail branches in 1986, as well as offering greater access to automated teller machine (ATM) facilities in Canada and the United States.

We are stressing the quality of our customer service by devoting more resources to staff training and development in order to meet consumer needs. Virtually all of the staff in our retail banking operations participated in the past year in formal training programs to improve client service.

Guaranty Trustco has made an auspicious beginning as a new public company. The corporate structure and excellent operating results should make it possible for the company to establish a strong market for its own shares and undertake its own independent financing. In 1985, we made a start in this direction by issuing preference shares, medium term debt and commercial paper. These issues were well received by the financial markets.

We expect the Canadian economy to remain healthy in 1986 with continued profit growth in our operations.

We thank the Directors for their support and advice during a year of important change and we appreciate the contribution of all employees to the success of Guaranty Trustco as a new company.



James W. McCutcheon
Chairman



Alan R. Marchment
President and Chief
Executive Officer

James W. McCutcheon and
Alan R. Marchment

Guaranty Trustco Limited has made
an auspicious beginning and
we appreciate the contribution of all
employees to its success.



Money Machine card-
holders will be able to
access over 10,000 Cirrus
Network ATMs in the
USA in 1986.

Customer service means being
able to obtain cash
quickly and easily while away on
vacation or business.



Guaranty Trust offers a full range of consumer services, including chequing and deposit products, residential mortgages, personal loans, VISA credit cards, investment funds and other fiduciary services.

Our strategy focuses on service excellence rather than volume growth. Specific market segments, classified by lifestyle and income, are identified so that our services can be developed to meet the needs of these customers. Our network of retail branches, supported by enhanced technology, provides a level of personalized service which larger competitors cannot easily match.

This commitment to superior service, coupled with a conservative lending policy to protect customer investments, contributed to an outstanding performance in consumer services in 1985. During a period of difficulty for several Canadian financial institutions, Guaranty Trust gained even greater confidence and respect among its customers, as evidenced by strong term deposit growth of 20% last year.

Customer Convenience

We continue to improve customer convenience by expanding and upgrading our retail branch network and by introducing new electronic services.

During the past 14 months, five new branches were opened in Toronto, Brampton and Woodbridge, Ontario, and Victoria and Coquitlam, British Columbia. Six branches are scheduled to open in 1986, expanding our retail network to 64 branches. We also relocated or upgraded eight branches in 1985. The markets for new or relocated branches are carefully researched to demonstrate strong potential for current and future growth. New branches are designed, and older branches redesigned, to improve both service and appearance.

Our customers clearly want convenient 24-hour access to banking facilities. Guaranty Trust has responded by creating its own automated teller machine (ATM) system and by joining shared networks.

Our full-service Money Machine ATM system enables customers to access their accounts to make deposits, withdrawals, utility bill payments and account transfers. There are no charges for these services. At year-end, ten Money Machines were on-line in the Toronto market.

In 1984, we were the first trust company to participate in a shared ATM network through Access ATM Network Inc.-Magicbanc. Our Money Machine cards can operate the 19 Magicbanc ATMs in the Toronto area. These ATMs are located in retail stores and other high traffic sites.



Last year, arrangements were completed to join the Bank of Montreal's Circuit Network, which will provide our customers with access to a further 600 ATMs across Canada. This will also enable Guaranty Trust to join the Cirrus network in the United States, which will place over 10,000 ATMs at the disposal of our customers.

Our VISA credit card services were broadened in 1985. Customers can use their card for identification in interbranch banking transactions and for our new "Cash Line" facility. In 1986 they will be able to use their card to access their accounts through our ATM network. The Cash Line service is a pre-authorized line of credit which provides immediate cash advances at competitive interest rates. This new service has been exceptionally popular.

Guaranty Trust offers a "no fee" VISA card which continues to attract new customers. In 1985, our client base increased by 34% to almost 55,000 VISA accounts. The new VISA services should lead to even greater demand for the Guaranty Trust VISA card.

Our customers have expressed the need for an immediate response to questions concerning their loan accounts and mortgages. As a result, Guaranty Trust is introducing an on-line decentralized lending system that will assist branch staff in providing such information.

Deposits and Investments

Guaranty Trust's emphasis on personal service and convenience showed dramatic results in 1985. Total deposits grew by 13%, including a 20% growth in term deposits—growth rates in excess of the financial industry generally. Aggressive marketing produced a 27% increase in our Canada Savings Bond sales, compared with a total industry increase of 18%.

A combined tiered chequing and savings account was introduced in October, 1985 to meet growing customer demand. These accounts pay competitive rates of interest on different levels of outstanding balances and are especially beneficial to large depositors.

Guaranty Trust offers an excellent choice of mutual funds with income, equity and mortgage components. Our superior investment performance and the increased market demand for equity investments produced a 62% increase in the value of these funds, while the number of investors grew by almost 40%. These personal financial services are a promising growth area and our strong performance in recent years positions Guaranty Trust as an industry leader.



The elegant butler at the opening of our Victoria, B.C. branch symbolizes the attention we pay to personal service.

We continue to improve customer convenience by expanding our branch network.



The Guaranty Trust "no fee" VISA card continues to gain popularity and attract new customers.

Visa is the world's most widely accepted credit card.



We are already a leader in offering government guaranteed stripped bonds. Guaranty Trust's success with "Cougar" stripped bonds has encouraged us to launch our own stripped bond product, Guaranteed Earnings to Maturity or "GEMS". The product responds to strong investor preference for this type of investment vehicle by offering a guaranteed return at a fixed future maturity date.

Lending Services

Our personal loan business grew by 14% in 1985, bringing the total loan portfolio to \$463 million. We provide customers with a service tailored to individual needs including a variety of attractive and competitive features.

After several years of strong growth, Guaranty Trust pursued only moderate expansion of its mortgage portfolio in 1985. Preference in mortgage lending was given to customers who use Guaranty Trust's other consumer services as a way of encouraging a broader relationship with our clients. Overall delinquency in Consumer Services loan portfolios was less than 1%, the lowest level in many years.

Future Directions

Guaranty Trust will continue to stress better use of its expertise and technology to enhance customer service. The traditional fiduciary business provides an excellent example. Although the Company already provides a high quality of professional management, we have made a significant commitment to finding new ways in which our people and technology can respond effectively to changing customer needs.

Our people are our most important asset. Branch and support staff, for example, play an integral role in providing ideas for new products and services, a process we encourage to enlarge our customer appeal. Our staff enroll in extensive training programs to improve sales skills and product knowledge and we will be devoting even more resources to these activities.

Future marketing strategy will focus increasingly on direct marketing techniques to facilitate personalized communications with existing and potential customers and to provide tailored products and services. We believe strong and stable growth is best achieved by satisfying our existing customers and offering them, and prospective customers, a high level of service.



Pension Services staff
learn microcomputer
product applications.

One of the key reasons for
Guaranty Trust's success
has been our commitment to
staff training.



Guaranty Trust provides corporations, governments and institutions with a flexible selection of customized financial and fiduciary services.

We have established a reputation for innovative leadership in stock transfer, corporate trust, pension management and corporate lending services by stressing technical and client service skills and by utilizing advanced computer resources. As a result, our already diversified client base continues to expand in a competitive environment where clients are price-sensitive and seek quality and value.

Pension Services

Guaranty Trust's pooled pension investment services have been rated in the top one percent of all pooled pension fund managers in Canada over the past ten year period, in terms of the rate of return achieved.

In the past five years, pension fund assets under our management have grown by a 42% annual compounded rate including 50% growth in 1985. Pension fund assets under administration increased to \$2.9 billion at year end, of which \$1.3 billion were managed funds.

This leadership position has been achieved with a prudent non-speculative investment management policy. Our objective is to produce investment returns that assure the designated benefits of retirement plans. Consequently, asset mix changes are made cautiously by concentrating on the selection of undervalued securities within the various asset classes.

Our asset managers and account representatives are specialists assigned exclusively to the responsible investment and administration of pension fund portfolios. Their knowledge and experience ensures optimal results through constant review of liquidity requirements, risk analysis, and consistency with long term investment objectives. Clients are kept informed of account activity through regular performance reports.

Master Trust conveniently pools each sponsor's trust assets, multiple managers and multiple plans under one trustee. As Master Trustee, Guaranty Trust provides uniform administration of assets and full custodial services, as well as reports on each money manager account and separate plan.

Master Trust service incorporates advanced trust account technology and procedures to ensure accurate settlement date information in a wide range of formats on a consolidated or single account basis. The system can create customized statements and specialized reports for individual clients.

Pension fund sponsors are increasingly requesting improved record keeping services for defined contribution plans. In response, Guaranty Trust is



developing an advanced automated record keeping system. Scheduled for introduction in 1986, the system will provide on-line real-time participant record keeping.

Over the next few years, we anticipate that pension fund sponsors will move from the defined benefit pension plan to the defined contribution plan. Our automated system will be designed to handle the expanded accounting demands of both employers and employees efficiently and promptly. Plan sponsors and pensioners will have fingertip access to complete pension records and pension history to confirm or change information and to reassure retirees that their payment files are correct. Inquiries can be dealt with by a phone call and customized reports produced quickly and accurately.

Corporate Trust and Transfer Services

Guaranty Trust offers the most comprehensive securities transfer and corporate trust services available. We are one of Canada's largest stock and bond transfer agents, representing more than 800 publicly traded corporations.

Our on-line stock and bond services expanded last year to the London offices of Guaranty Trust Company of Canada (U.K.) Limited. Unique in North America, this service allows Canadian companies with British or European shareholders prompt and efficient transfer facilities directly in Great Britain. European money markets are of growing importance to Canadian companies. Our new system greatly enhances our ability to serve both the client company and the investor shareholder. The new service was introduced in 1985 to a British company with a major Canadian subsidiary. It undertook a corporate reorganization and reissuance of shares simultaneously to its Canadian shareholders through Guaranty Trust's stock transfer services.

An additional service, introduced last year, assists the Canadian securities and financial industry in processing Canada Savings Bond purchases. A leading brokerage firm selected Guaranty Trust to process its 1985 CSB sales. The service uses our Fully Automated Securities Transfer (F.A.S.T.) system, which assures reliability, efficiency and security in handling stock and bond records.

Guaranty Trust continued to be the first choice of provincial governments and Crown corporations seeking a trust company to handle new debt issues. In 1985, we were appointed trustee for bond issues by the Province of Saskatchewan, Saskatchewan Power Corporation and the Saskatchewan Oil and Gas Company Limited. Among other appointments, we were selected trustee for bond issues by the Municipal Finance Authority of British Columbia and the Province of British Columbia.



With the landmark CN
tower in the background,
Corporate Service
account executives board
a plane to visit clients.

With corporate clients, we stress
the importance of
personal calls by our account
executives.



Corporate Lending

During a difficult year for some corporate lenders, our corporate lending portfolios remained of high quality. Delinquency in all portfolios was at the lowest level in many years.

Our lending strategy is conservative. Loan quality is emphasized by selecting clients carefully, training account officers thoroughly, and monitoring repayment activities closely to ensure the safety of depositors' funds.

Guaranty Trust specializes in fixed asset financing on a secured basis for small, medium and large corporations. Our loan exposure to any one client is restricted by the Board of Directors to ensure portfolio security, diversity and stability.

Commercial lending is grouped into the following portfolios:

Commercial Mortgages, which constitute the largest portion of our loan portfolios, normally range from \$100 thousand to \$10 million, with terms of up to 5 years and amortizations up to 35 years.

Commercial mortgage investments totalled \$533 million with a total balance of accounts in arrears of \$8.8 million, or 1.6%. The average mortgage outstanding was \$514 thousand, with 65% of the portfolio in Ontario.

We will continue our policy of conservative mortgage lending with growth targeted at office buildings, shopping centres, multi-tenant malls, industrial properties and apartment buildings in major Canadian cities.

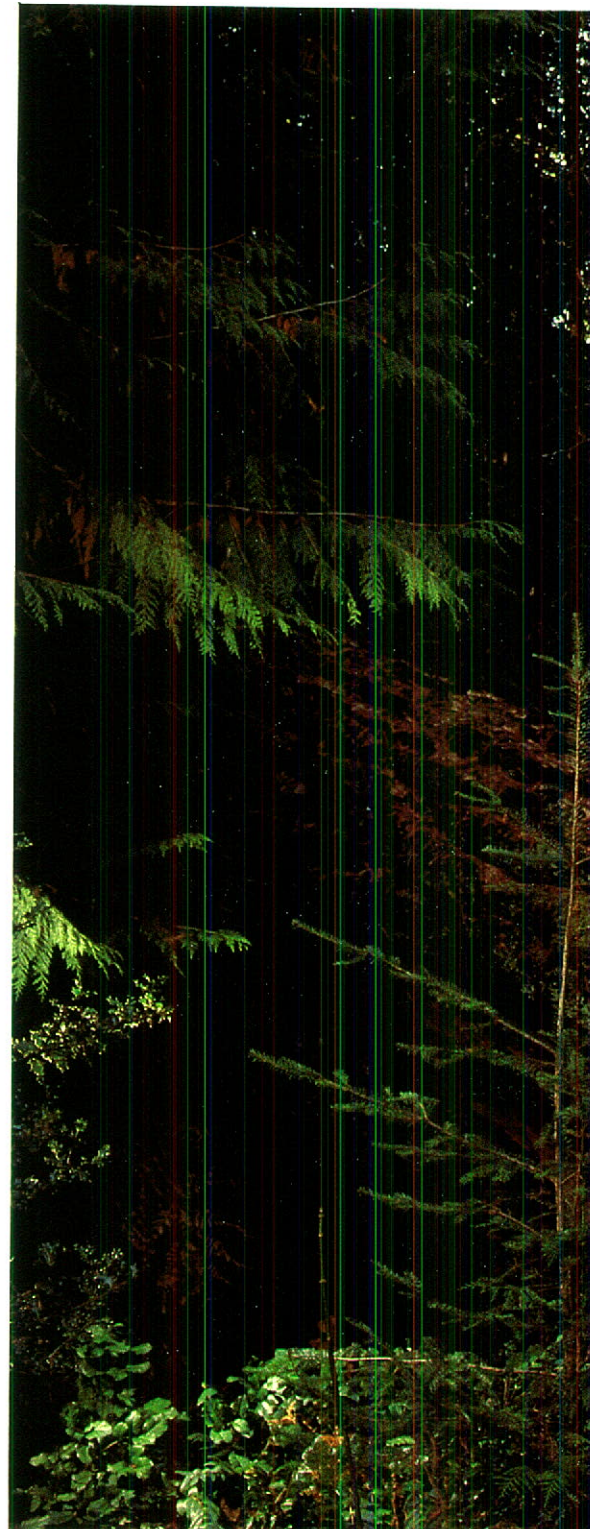
Equipment Financing showed strong growth last year to total \$190 million, a 31% increase. Accounts in arrears were \$2.1 million or 1.1%.

We are the only trust company in Canada to offer single asset financing of revenue-producing equipment and machinery. This portfolio facilitates the sale or lease of a unit between vendor and buyer, and represents one of the original activities of Traders Group Limited.

Further growth in our equipment financing portfolio is projected in 1986, primarily for office automation equipment.

Dealer Services include wholesale financing, leasing and capital loans to automobile dealers. This portfolio has grown rapidly in recent years and total investments at the end of 1985 were \$283 million. We have given special attention to automobile wholesale financing and Guaranty Trust now provides wholesale financing for one in every eight new cars sold in markets where the service is offered.

Corporate Term Loans have remained relatively stable, totalling \$131 million in 1985, with accounts in arrears of only \$1.8 million, or 1.4%. We expect business demand for term financing to improve in 1986.



Learning the basics of the forest products industry.

Serving the needs of our corporate clients often requires an on site visit to their operations.



Guaranty Trust has two subsidiary companies that perform distinct roles in Canadian real estate operations.

Guaranty Realty Investments Limited
Guaranty Realty Investments is a portfolio management company formed in 1984 to acquire and manage commercial real estate properties for Guaranty Trust, its clients and other investors. Fee income is earned from acquisition and portfolio and property management services.

Currently, Guaranty Realty Investments offers three investment funds: an open-end pooled fund for corporate pension funds, a closed-end pooled fund for pension plans, and a newly approved real estate mutual fund for individual investors in Canada and, subject to regulatory approval, in Europe. These funds invest in mature commercial properties in major Canadian cities.

Guaranty Realty Investments also acts in an agency capacity as the lead investor and as manager in acquiring properties on behalf of pension fund investors. In 1985, four office buildings were purchased in Montreal and Toronto on this basis. Individual investors hold share interests ranging from 20% to 100% in these properties, which are managed by Guaranty Realty Investments.

During 1985, Guaranty Realty Investments acquired in excess of \$80 million worth of commercial properties for investors.

Current projects include the redevelopment of an older building in downtown Toronto, which will be leased to a major bank, office and retail tenants, and a sports and health club.

Guaranty Properties Limited
Guaranty Properties Limited is committed to the long-term development and management of a diversified income-producing property portfolio. The company owns well-located land holdings, which are designated for development or sale.

A significant portion of our land bank is being sold for residential development. The company is involved in several joint venture housing operations in the Metropolitan Toronto area, Ottawa, and Orlando, Florida. Last year, Guaranty Properties participated in the sale of almost 1,000 homes.

A major project is the joint venture development with Hammerson Canada Inc., of 2,000 acres in Mississauga, Ontario. The residential component of this project was initiated in 1985, with close to 270 homes committed for sale in a joint venture with Lakeview Estates. We intend to sustain a vigorous housing program, as well as selling individual lots to local builders. In addition, 70 serviced acres were sold for industrial development last year.

While housing activities are an important revenue source, we are also emphasizing the development of income-producing commercial and industrial properties. In 1985, we acquired a 35% interest in the development of a 75,000 square foot medical office building, and a 50% interest in a 50,000 square foot retail commercial project. Both of these developments are in Metropolitan Toronto.

Among our future activities will be the renovation of a 10-storey office tower in downtown Toronto for occupancy in early 1987 as the new corporate headquarters of Guaranty Trust. In addition, a proposed 120,000 square foot administration centre will be constructed in Toronto for occupancy in 1988 as part of the five million square foot Massey Redevelopment Project.

Guaranty Properties is involved in the development of additional retail and commercial space on its joint venture lands in Mississauga, as well as an expansion to the Deer Run Plaza. We are also examining commercial projects in the Orlando and Tampa areas of Florida.

Guaranty Trust formed a Treasury Department two years ago to improve the management of all funds raised from deposits and other income sources for reinvestment in mortgages, consumer and commercial loans and other assets. This department became fully operational in 1985 and has direct responsibility for management of liquidity, cash flow and interest rate spreads.

Liquidity Management

Treasury ensures that sufficient liquid assets are available to meet the estimated withdrawal of demand deposits, maturing time and term deposits, net of roll-overs, and to satisfy cash flows for on-going operations. The amount of liquidity required depends on the degree of mismatch between asset and liability cash flows by term, as well as the stability of the economic environment.

At the beginning of the year, we anticipated some instability in the financial markets. Consequently, we increased our liquidity portfolios above our traditional substantial levels.

Guaranty Trust is required by statute to maintain liquid assets at a minimum level of 20% of its demand deposits and deposits due within 100 days, which amounted to \$1.3 billion at year-end. Hence required statutory liquidity was \$ 262 million. Actual liquidity totalled \$518 million or 40%, exceeding statutory obligations but in line with management objectives.

Our liquidity position is further strengthened by the fact that most Guaranty Trust deposits are retail rather than wholesale. These liabilities are also predominantly term rather than demand deposits. As a result, our deposits provide a stability not available to wholesale money market intermediaries, such as the commercial financial institutions which faced difficulties last year.

Cash Flow Management

Cash flow management is an internal function designed to minimize the amount of uninvested cash in our banking system. The objective is to accelerate the conversion of cash into productive investments, to control the timing of the company's own payments, and thus to maximize the returns on all available cash within the system.

Cash flow management also involves estimating future cash flows in order to determine the appropriate investment

term, based on the estimated payout of the funds, the risk/reward analysis of yields for various time periods, and projected interest rate trends.

Asset and Liability Management

A primary goal is to ensure that deposits are matched by investments of similar maturity and interest type. Since market interest rates change regularly, all liabilities and assets are continually being repriced, usually in response to some contractual obligation to the depositor or borrower to reset the rate from time to time or at the maturity of the instrument.

As a rule, loans that are sensitive to interest rate changes are funded by equally sensitive deposits. However, some mismatching of assets and liabilities is inevitable as deposits received from customers do not always match the terms of mortgage and other loans required by clients. In recent years, customers have tended to prefer short term deposits, while borrowers have sought longer term loans.

Treasury is responsible for asset and liability management under the policy guidance and review of the Company's Asset and Liability Management Committee. Treasury ensures that cash flow imbalances and associated liquidity are prudent and appropriate, that mismatches do not expose the Company to undue interest rate risk, and that timely action is taken to protect interest spreads from sudden rate changes.

Forecasts are prepared to show the likely effect of current policies on loan and deposit trends and on the asset/liability mismatch. Prudent operational mismatch levels are estimated in the context of interest rate trends, volatility and financial market stability.

Our Treasury Department is a market leader among financial institutions in such sophisticated management techniques as financial futures, options and interest rate swaps. These relatively new actions protect and can enhance interest rate spreads.

Guaranty Trust's improved operational results were achieved despite the build-up in statutory liquidity, which sacrificed some potential yield in favour of financial strength and flexibility.

Guaranty Trustco

PERSONAL FINANCE LOAN SERVICES

For more than 40 years, Trans Canada Credit Corporation Limited, a subsidiary of Traders Group Limited, has generated and managed an extensive and profitable portfolio of personal finance loans. This company operates 140 branch offices throughout Canada, employs close to 700 people and serves 188,000 customers.

With the formation of Guaranty Trustco early in 1985, new and renewal business written by Trans Canada Credit Corporation for Traders Group was to be transferred to a new subsidiary of Guaranty Trustco. This process began in July, 1985, with the creation of Trans Canada Credit Financial Inc. as a direct subsidiary of Guaranty Trustco. By year-end, the Trans Canada Credit Financial Inc. loan portfolio totalled \$204 million.

Unlike Guaranty Trust, whose deposits are mainly from retail customers, funds for investment in these loans are acquired from the wholesale market by Guaranty Trustco and then loaned to Trans Canada Credit Financial Inc. Careful attention is paid to asset and liability management to ensure that the new company is not subject to undue interest rate and cash flow mismatch risk.

The loans invested in by Trans Canada Credit Financial Inc. include personal loans, residential mortgages and sales finance contracts. Personal loans, which constitute the largest part of the portfolio, are for debt consolidation, the purchase of durable goods, vacations, unexpected emergencies, and other approved purposes.

These loans, administered by the experienced staff at Trans Canada Credit Corporation, are made primarily to longstanding customers, thereby ensuring the portfolio is of high quality.

In its first eight months of operations, Trans Canada Credit Financial Inc. contributed a \$1.8 million profit to Guaranty Trustco. Further profit growth is expected in 1986.

By the end of 1986, most of the personal finance loans business formerly administered by Trans Canada Credit Corporation for Traders Group should be part of the assets of Trans Canada Credit Financial Inc.

Guaranty Trustco Limited

Following the successful completion of the share exchange offer during the second quarter of 1985, Guaranty Trustco Limited commenced its own borrowing activities in the wholesale market. The purpose was to invest, through its subsidiary Trans Canada Credit Financial Inc., in personal finance loans.

These financing activities were well received by the market and \$175 million was raised by year-end. These investment operations by Guaranty Trustco and Trans Canada Credit Financial contributed \$1.8 million to group earnings in the eight-month fiscal period ended December 31, 1985. Increased profitability is anticipated in 1986.

Guaranty Trust

As a market needs driven company, one of Guaranty Trust's strategic goals is to provide the best possible customer service by using technology to assist our staff in identifying, developing and delivering products and services for which there is a demonstrable market need. Major expenditures were undertaken in 1985 on branch expansion, technology, training and development, and marketing. A second strategic goal is to ensure a strong, creditworthy balance sheet through prudent lending, liquidity and asset/liability management.

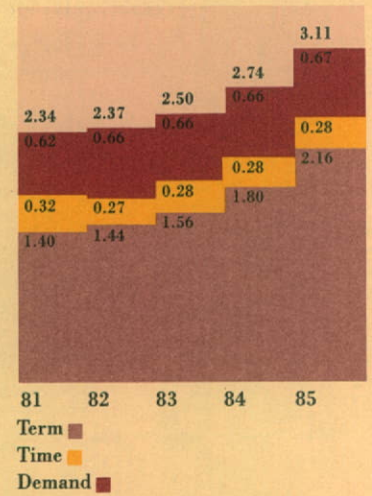
Financial Overview

Net operating income increased by 46% in 1985 to \$14.7 million, representing the fourth year in a row of substantial improvement. This performance reflected greatly increased spreads on intermediary business, growth in personal deposit market share, and lower loan losses. Total deposits rose by 13% to \$3.1 billion, including a 20% increase in term deposits, to \$2.2 billion.

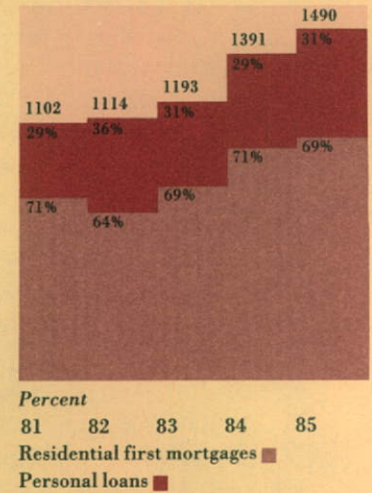
Intermediary Performance

Major asset growth occurred in government bonds and treasury bills, consistent with our emphasis on investment quality. Total cash, short term deposits and government securities increased by nearly 40% to \$530 million, or nearly 15% of total assets. Consumer personal loans grew by 14% to \$463 million, while the fastest expanding corporate lending segment was equipment financing which increased by 31% to \$190 million. High quality preferred stocks also showed strong growth, rising from \$86 million to \$133 million.

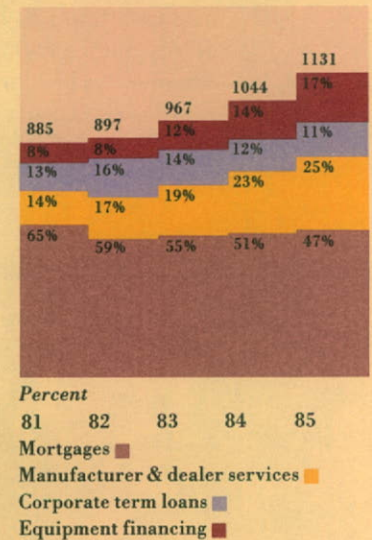
**Deposit Mix—
Term, Time and Demand**
Billions of dollars



Consumer Loan Portfolio
Millions of dollars



Corporate Loan Portfolio
Millions of dollars



NET INTEREST INCOME AND SPREAD

Thousands of dollars

| | 1985 | 1984 | 1983 | 1982 | 1981 |
|-------------------------------|---------|---------|---------|---------|---------|
| Interest income | 374,733 | 336,014 | 311,899 | 346,555 | 304,989 |
| Interest expense | 291,724 | 270,491 | 249,324 | 300,279 | 275,800 |
| Net interest income | 83,009 | 65,523 | 62,575 | 46,276 | 29,189 |
| Taxable equivalent adjustment | 9,435 | 4,782 | 2,602 | — | 1,775 |
| Net interest income (TE) | 92,444 | 70,305 | 65,177 | 46,276 | 30,964 |
| Interest rate spread (TE) | 2.19% | 1.72% | 1.80% | 1.06% | 0.71% |

LOAN LOSSES AND ALLOWANCES

Thousands of dollars

| | 1985 | 1984 | 1983 | 1982 | 1981 |
|----------------------------------|--------|---------|--------|--------|-------|
| Loan loss expense: | | | | | |
| Net losses | 2,873 | 9,094 | 4,556 | 2,854 | 1,621 |
| Change in allowance | 232 | (4,693) | 4,177 | 5,530 | 1,210 |
| | 3,105 | 4,401 | 8,733 | 8,384 | 2,831 |
| Allowance for loan losses | 10,896 | 10,459 | 14,956 | 10,237 | 5,133 |

Investment spread widened dramatically from 1.72% to 2.19% on a tax equivalent basis—a 27% improvement. Our Treasury Department contributed to this performance, as did the increase in preferred stock investments, which effectively lowered the tax rate from 35% to 28%.

Loan losses were once again reduced substantially, from \$4.4 million in 1984 to \$3.1 million in 1985. We expect further reductions in 1986 since delinquency in all our lending portfolios was at the lowest levels in many years.

Non-performing loans, net of specific reserves, declined 42% to \$10.2 million, with one account, a shared commercial mortgage in Alberta, representing \$2.5 million. The property is now generating a positive cash flow, which is being paid to the lenders under a refinancing agreement.

Properties acquired in settlement of loans, net of specific reserves, totalled \$14.2 million, virtually unchanged from one year ago. These residential and commercial assets have the potential for recovery in value and, in the meantime, are being rented.

The \$3.4 million residential component of investment properties stabilized last year. Properties held off the market previously when prices collapsed are being sold at

values above those recorded on our books. As Alberta markets recover further, sales should increase. The \$10.8 million commercial component, comprised of 10 properties, is in various stages of leasing and is providing a positive cash flow.

Fiduciary Performance

Fiduciary, or primary fee-for-service, businesses produced revenues equivalent to last year. Two negative factors were the decline in stock exchange trading volumes, among the many companies we represent as transfer agent, and the continued movement of individually managed retirement savings plans to brokers. These revenue declines were offset by a strong 50% growth in pension fund assets under our management and a 62% increase in mutual fund assets. Both areas of investment management should continue to be important revenue sources.

General Expenses

General and administrative costs increased faster than the rate of inflation due to higher expenditures on computer systems development, the adoption of a policy to accelerate the write-off of development costs and new branch openings. System development and related costs rose by approximately 15%, while salaries and benefits, including new branch staff, increased by less than 10%.

In 1985, we converted the last of our deposit-based systems, retirement savings plans, to an on-line real-time process, and upgraded our consumer lending system. The mortgage system will be integrated into the new consumer lending system as the latest step in our strategy of enhancing customer service at the branch level. Investment in technology will continue to account for a rising share of total expenditure.

Increased marketing activities, including both research and advertising, combined with the investment in staff training and development, accounted for most of the balance of the higher general and administrative expenses in 1985.

Asset/Liability Management

The expanded Treasury Department assisted in improving our income in 1985. Board policy permits management to mismatch assets and liabilities up to 5% of assets. This mismatch resulted in some improvement in spread, while the effective use of hedges, options and interest rate swaps provided protection against adverse interest rate movements. By year-end, we were basically matched as to interest rate sensitivity, as well as to term assets versus term liabilities.

In the 1960s, management invested in long-term, low-yield NHA mortgage and government bond portfolios. In December, 1985, \$26 million of these mortgages were sold and the proceeds reinvested in govern-

ment bonds of similar maturity. The net result will be a modest improvement in income. Long term portfolios were reduced to less than \$163 million by year-end. We estimate that the low yield on these assets reduced 1985 after tax net earnings by \$4 million.

Liquidity and Capital Adequacy

We increased our liquid assets quite dramatically in 1985—to almost twice the amount required by government—for a surplus of over \$250 million. Our capital position was also healthy with the ratio of borrowing to capital remaining below 20:1, although we are permitted to go as high as 25:1. Our ratio remains considerably more conservative than that of most chartered banks.

Subsidiaries

Guaranty Properties Limited

In 1985 Guaranty Properties reported a net profit of \$1.2 million, compared with \$1.1 million in 1984. Increased involvement in joint ventures resulted in a significant portion of its land bank being sold for residential development. While housing activities continue to be an important source of revenue, Guaranty Properties increased its development of income producing commercial and industrial properties with the acquisition of interests in two commercial developments in Metropolitan Toronto.

Guaranty Realty Investments

In its first year of operation Guaranty Realty Investments acquired over \$80 million of quality real estate assets on behalf of investors and reported a profit of \$167 thousand.

**Management's Report
to the Shareholders
of Guaranty Trustco Limited**

Management is responsible for the preparation, presentation and consistency of financial information contained in this Annual Report. The financial statements and accompanying notes, prepared in accordance with generally accepted accounting principles, are considered by management to present fairly the Company's consolidated financial position and results of operations.

Management maintains the necessary system of internal controls to provide assurance that transactions are authorized, assets safeguarded and proper records maintained. The controls are monitored by the Company's internal auditors.

Management maintains the necessary system of internal controls to provide assurance that transactions are authorized, assets safeguarded and proper records maintained. The controls are monitored by the Company's internal auditors.

The Board of Directors appoints an Audit Committee of directors to review with management financial information intended for publication, and the adequacy thereof, before such information is submitted to the Board for approval. It also reviews accounting policies and control procedures in effect throughout the Company. The Executive Committee of the Board approves credit authorization policies.

**Auditors' Report
to the Shareholders
of Guaranty Trustco Limited**

We have examined the consolidated balance sheet of Guaranty Trustco Limited as at December 31, 1985 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the eight months then ended. We have also examined the consolidated statements of income and changes in financial position for the year ended December 31, 1985. 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.

The Department of Insurance conducts an annual examination and enquiry into the affairs of Guaranty Trust Company of Canada as it feels appropriate and necessary to satisfy the provisions of the federal Trust Companies Act, under which the Company is licensed. These examinations ensure that these provisions are duly observed and that the Company is in sound financial condition.

Independent auditors appointed by the shareholders of the Company examine our financial statements in accordance with generally accepted auditing standards and their report appears below. The shareholders' auditors have free and independent access to the Audit Committee and meet with the Committee and with management to consider matters relating to financial statement presentation, internal controls and audit procedures.

Alan R. Marchment
President and Chief Executive Officer

Edwin W. Austin
Senior Vice President
Finance and Administration

Toronto, February 3, 1986

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

Price Waterhouse
Chartered Accountants

Toronto, February 3, 1986

Guaranty Trustco Limited
CONSOLIDATED STATEMENT OF INCOME
(\$ thousands)

| | 8 Months Ended December 31 | | Year ended December 31 | |
|--|-------------------------------|---------------------|------------------------|-----------------------------|
| | 1985 (Note 2Ai) | 1985 (Note 2Aii) | 1984 (Note 2Aiii) | % Increase (Decrease) |
| Revenue | | | | |
| Consumer loan income | | | | |
| Mortgages | \$ 83,369 | \$ 125,484 | \$106,282 | 18 |
| Personal | 61,951 | 82,219 | 47,090 | 75 |
| | 145,320 | 207,703 | 153,372 | 35 |
| Corporate loan income | | | | |
| Mortgages | 40,266 | 60,395 | 58,282 | 4 |
| Corporate term | 10,173 | 15,695 | 19,138 | (18) |
| Equipment financing | 14,294 | 20,675 | 16,528 | 25 |
| Manufacturer and dealer services | 19,983 | 30,287 | 29,352 | 3 |
| | 84,716 | 127,052 | 123,300 | 3 |
| Securities income | | | | |
| Bonds and money market instruments | 36,915 | 50,563 | 54,461 | (7) |
| Stocks | 6,994 | 9,654 | 4,881 | 98 |
| | 273,945 | 394,972 | 336,014 | 18 |
| Interest expense | (202,388) | (298,558) | (270,491) | 10 |
| Interest spread | 71,557 | 96,414 | 65,523 | 47 |
| Provision for loan losses | (3,725) | (5,814) | (4,401) | 32 |
| Interest spread after provision for loan losses | 67,832 | 90,600 | 61,122 | 48 |
| Fiduciary fees | 17,669 | 26,092 | 25,841 | 1 |
| Real estate operations | | | | |
| Property sales and other income | 43,245 | 47,779 | 38,026 | 26 |
| Cost of sales and write-downs | (33,396) | (35,127) | (27,748) | 27 |
| Interest expense | (4,139) | (6,331) | (6,060) | 4 |
| | 5,710 | 6,321 | 4,218 | 50 |
| Net real estate brokerage | - | - | 1,939 | - |
| Other | (99) | 132 | (637) | - |
| Revenue from operations | 91,112 | 123,145 | 92,483 | 33 |
| Expense | | | | |
| Salaries and staff benefits | 32,590 | 46,099 | 38,754 | 19 |
| Premises | 7,870 | 11,440 | 9,454 | 21 |
| Information processing, marketing and other | 27,544 | 38,552 | 27,374 | 41 |
| | 68,004 | 96,091 | 75,582 | 27 |
| Income before income taxes and minority interest | 23,108 | 27,054 | 16,901 | 60 |
| Income taxes (Note 9) | | | | |
| -current | 1,831 | 1,851 | 157 | - |
| -deferred | 6,653 | 7,196 | 6,129 | 17 |
| | 8,484 | 9,047 | 6,286 | 44 |
| | 14,624 | 18,007 | 10,615 | 70 |
| Minority interest | 665 | 996 | - | - |
| Net income for the period | \$ 13,959 | \$ 17,011 | \$ 10,615 | 60 |
| Available for | | | | |
| Preference shares | \$ 2,964 | \$ 2,964 | | |
| Common shares | 10,995 | 14,047 | | |
| | \$ 13,959 | \$ 17,011 | | |
| Earnings per common share (Note 3) | | | | |
| -basic | \$ 1.25 | \$ 1.59 | | |
| -fully diluted | \$ 1.15 | \$ 1.40 | | |
| Return on average common share equity | | | | |
| -fully diluted | 15.2% | 12.5% | | |

Guaranty Trustco Limited
CONSOLIDATED BALANCE SHEET
(\$ thousands)

December 31

| | 1985 (Note 2A) | 1984 (Note 2A) | % Increase (Decrease) |
|---|--------------------|--------------------|-----------------------------|
| Assets | | | |
| Cash and securities | | | |
| Cash and money market instruments | \$ 447,503 | \$ 333,941 | 34 |
| Securities (Note 5) | 227,305 | 145,137 | 57 |
| | <u>674,808</u> | <u>479,078</u> | <u>41</u> |
| Loans | | | |
| Consumer | | | |
| Mortgages | 1,039,192 | 980,620 | 6 |
| Personal | 644,810 | 400,433 | 61 |
| Non-performing | 5,180 | 10,324 | (50) |
| | <u>1,689,182</u> | <u>1,391,377</u> | <u>21</u> |
| Corporate | | | |
| Mortgages | 527,928 | 528,676 | - |
| Corporate term | 129,450 | 124,815 | 4 |
| Equipment financing | 187,671 | 142,432 | 32 |
| Manufacturer and dealer services | 281,045 | 240,855 | 17 |
| Non-performing | 4,986 | 7,317 | (32) |
| | <u>1,131,080</u> | <u>1,044,095</u> | <u>8</u> |
| | <u>2,820,262</u> | <u>2,435,472</u> | <u>16</u> |
| Real Estate | | | |
| Mortgages on sale of properties | 37,889 | 35,477 | 7 |
| Land under development | 33,687 | 31,557 | 7 |
| Land held for development | 103,515 | 93,234 | 11 |
| Income producing properties | 52,067 | 21,375 | - |
| | <u>227,158</u> | <u>181,643</u> | <u>25</u> |
| Other assets | | | |
| Securities and loan income due and accrued | 31,665 | 33,246 | (5) |
| Properties acquired in settlement of loans | 14,224 | 14,090 | 1 |
| Premises and equipment | 10,717 | 7,259 | 48 |
| Miscellaneous | 35,504 | 23,670 | 50 |
| | <u>\$3,814,338</u> | <u>\$3,174,458</u> | <u>20</u> |
| Liabilities and shareholders' equity | | | |
| Deposits | | | |
| Savings and chequing accounts | \$ 672,240 | \$ 656,410 | 2 |
| Time deposits | 277,267 | 278,767 | (1) |
| Guaranteed investment certificates | 2,159,123 | 1,804,750 | 20 |
| | <u>3,108,630</u> | <u>2,739,927</u> | <u>13</u> |
| Short and medium term debt | | | |
| Bank and other loans secured by mortgages | 174,811 | - | - |
| | 99,809 | 66,199 | 51 |
| Other liabilities | | | |
| Interest accrued | 104,207 | 91,398 | 14 |
| Accounts payable | 80,467 | 86,090 | (7) |
| Unearned finance charges | 53,876 | 18,686 | - |
| Minority interest | 12,176 | - | - |
| Deferred income taxes (Note 9) | 37,309 | 30,443 | 23 |
| Shareholder's equity (Notes 1 and 4) | | | |
| Capital stock | 124,494 | 36,389 | - |
| Contributed surplus | 7,996 | 48,867 | (84) |
| Retained earnings | 10,563 | 56,459 | (81) |
| | <u>143,053</u> | <u>141,715</u> | <u>1</u> |
| | <u>\$3,814,338</u> | <u>\$3,174,458</u> | <u>20</u> |

James W. McCutcheon, Q.C.
Chairman of the Board

Alan R. Marchment, F.C.A.
President

Guaranty Trustco Limited
CONSOLIDATED STATEMENT OF
RETAINED EARNINGS
(\$ thousands)

8 months ended
December 31
1985
(Notes 2A)

| | |
|---|------------------|
| Balance at beginning of period | \$ - |
| Net income for the period | 13,959 |
| Discount on minority interest preference shares purchased for cancellation | 6 |
| | <u>13,965</u> |
| Less—reorganization expenses, net of income taxes | 438 |
| —preference share dividends | 2,964 |
| Balance at end of period | <u>\$ 10,563</u> |

CONSOLIDATED STATEMENT OF
CONTRIBUTED SURPLUS
(\$ thousands)

8 months ended
December 31
1985
(Notes 2A)

| | |
|--|-----------------|
| Balance at beginning of period | \$ - |
| Consideration in excess of par value of common shares issued (Note 1) | 7,996 |
| Balance at end of period | <u>\$ 7,996</u> |

CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
(\$ thousands)

8 months ended
December 31
1985
(Notes 2Ai)

Year ended December 31
1985
(Notes 2Aii) 1984
(Notes 2Aiii)

| | | 8 months ended December 31 1985 (Notes 2Ai) | 1985 (Notes 2Aii) | 1984 (Notes 2Aiii) |
|---|---|--|----------------------|-----------------------|
| Cash and money market instruments derived from | | | | |
| | Operations | | | |
| | Net income | \$ 13,959 | \$ 17,011 | \$ 10,615 |
| | Charges (credits) not affecting cash | 10,994 | 12,908 | 8,156 |
| | (Increase) decrease in security and loan income due and accrued | (5,450) | 1,581 | 10,529 |
| | Increase (decrease) in accrued interest and accounts payable | 39,918 | 7,273 | (61,721) |
| | | <u>59,421</u> | <u>38,773</u> | <u>(32,421)</u> |
| | Intermediary deposits | | | |
| | Increase (decrease) in | | | |
| | Savings and chequing accounts | 14,049 | 15,830 | (5,679) |
| | Time deposits | (6,677) | (1,500) | 6,224 |
| | Guaranteed investment certificates | 210,484 | 354,373 | 242,730 |
| | Short and medium term debt | 174,811 | 174,811 | - |
| | Bank and other loans secured by mortgages | 27,980 | 33,610 | 4,932 |
| | Unearned finance charges | 34,372 | 35,190 | 15,162 |
| | Issue of preference shares for the acquisition of subsidiary companies | 653 | - | - |
| | | <u>455,672</u> | <u>612,314</u> | <u>263,369</u> |
| | | <u>515,093</u> | <u>651,087</u> | <u>230,948</u> |
| Cash was used for | | | | |
| | Investments | | | |
| | Increase (decrease) in | | | |
| | Securities | 78,305 | 82,168 | 74,595 |
| | Loans | 217,108 | 384,790 | 274,988 |
| | Real estate | 76,236 | 45,961 | 7,877 |
| | Other | 17,632 | 21,352 | (93,084) |
| | Purchase for cancellation of preference shares, Guaranty Trust | 230 | 290 | 387 |
| | | <u>389,511</u> | <u>534,561</u> | <u>264,763</u> |
| | Dividends | | | |
| | —common shares | - | - | 1,936 |
| | —preference shares | 2,964 | 2,964 | 993 |
| | | <u>2,964</u> | <u>2,964</u> | <u>2,929</u> |
| | | <u>392,475</u> | <u>537,525</u> | <u>267,692</u> |
| | Increase (decrease) in cash and money market instruments | <u>\$122,618</u> | <u>\$113,562</u> | <u>\$ (36,744)</u> |

1. Corporate Reorganization

Guaranty Trustco Limited (Trustco) was activated in 1985 as part of the reorganization of Guaranty Trust Company of Canada (Guaranty Trust). This reorganization was carried out in order to allow Trustco to continue the intermediary, fiduciary and real estate businesses of Guaranty Trust and to participate in the personal finance loan business as carried out by its parent corporation, Traders Group Limited (Traders).

The reorganization also provided the Class A and Class B shareholders of Traders the opportunity to convert their existing investment in the combined insurance, trust and finance businesses into a preferred investment in the trust and finance businesses to be carried on by Trustco. Accordingly, Trustco made a share exchange offer enabling holders of Class A and Class B shares of Traders to exchange their shares on the basis of one preference share of Trustco for one Class A or Class B share of Traders. The exchange offer closed on April 30, 1985 resulting in the deposit of a total of 2,084,211 Class A shares and 90,131 Class B shares under the offer and the issuance of 2,174,342 preference shares for an aggregate value of \$39,954,000.

On May 1, 1985 the ownership of 12,071,096 common shares of Guaranty Trust was transferred at book value from Traders to Trustco in exchange for 8,809,583 common shares of Trustco. Of the \$91,882,000 value assigned to the common shares, an amount of \$83,886,000 was added to the common shares outstanding and \$7,996,000 was added to the contributed surplus. Trustco also surrendered all Class A shares and Class B shares of Traders acquired under the exchange offer to Traders for cancellation without repayment of capital.

Immediately after the above the consolidated financial position of Trustco was as follows:

| | | As at May 1, 1985 |
|---------------|--|----------------------|
| | | (\$ thousands) |
| Assets | | |
| | Cash and securities | \$ 500,100 |
| | Loans | 2,603,154 |
| | Real estate | 150,922 |
| | Other assets | 47,874 |
| | Liabilities | 3,302,050 |
| | Deposits | 2,890,774 |
| | Bank and other loans secured by mortgages | 71,829 |
| | Other liabilities | 164,298 |
| | Deferred income taxes | 30,930 |
| | | <u>3,157,831</u> |
| | | 144,219 |
| | Minority interest | 12,383 |
| | Net assets | <u>\$ 131,836</u> |
| | 8,809,583 Common shares | \$ 83,886 |
| | 2,174,342 Preference shares | 39,954 |
| | Contributed surplus | 7,996 |
| | Shareholders' equity | <u>\$ 131,836</u> |

Following the reorganization on May 1, 1985 Trustco issued 22,000 Preference Shares valued at \$403,000 to Canadian General Securities, Limited, the parent of Traders, for the acquisition of all the issued capital stock of Trans Canada Credit Financial Inc. which is engaged in investing in personal finance loans.

On September 25, 1985, Trustco purchased for two pounds sterling from Traders all the issued shares of Guaranty Trust Company of Canada (U.K.) Limited. This company is based in London, England and provides stock brokerage, stock transfer and underwriting services in the European market.

At the close of business on December 31, 1985, Trustco issued 11,125 Preference Shares valued at \$250,000 to Traders for the acquisition of all the issued capital stock of Trans Canada Credit Realty Limited. This corporation provides loans secured by realty mortgages.

2. Summary of Significant Accounting Policies

A) Consolidation

The consolidated financial statements include the accounts of Trustco and its subsidiary companies, Guaranty Trust Company of Canada (and its wholly owned subsidiaries; Guaranty Properties Limited and Guaranty Realty Investments Limited), Guaranty Trust Company of Canada (U.K.) Limited, Trans Canada Credit Financial Inc. and Trans Canada Credit Realty Limited. Prior to the reorganization, Trustco was inactive with no material assets. In order to provide a meaningful base for comparison and to illustrate the scope and direction of operating results of a reorganized Trustco, the statements of income and changes in financial position have been presented on the following basis:

i) Consolidated operating results and changes in financial position of Trustco subsequent to reorganization for the 8 months ended December 31, 1985;

ii) Consolidated operating results and changes in financial position of Trustco subsequent to reorganization for the 8 months ended December 31, 1985 and consolidated operating results and changes in financial position of Guaranty Trust Company of Canada for the 4 months prior to reorganization;

iii) Consolidated operating results and changes in financial position of Guaranty Trust Company of Canada for the year ended December 31, 1984.

The consolidated balance sheets are those of Trustco for December 31, 1985 and Guaranty Trust Company of Canada for December 31, 1984.

B) Securities

Bonds and debentures are stated at amortized cost. Premiums or discounts on the purchase of bonds are amortized on a yield to maturity basis. Common and preferred stocks are stated at cost. Realized gains or losses are included in the statement of income.

Where security or loan investments are exchanged under concurrent purchase and sale contracts to improve investment portfolios, the cost of the investment sold is deemed to be the cost of the investment acquired.

C) Loans

Loans are stated at cost or cost plus unearned finance charges less a provision for losses. Unearned income on installment contracts is computed by the sum of the digits method. Income from interest bearing loans is recorded on an accrual basis. Generally no accruals of interest are made on loans after 90 days delinquency.

D) Non-Performing Loans

Non-performing loans are stated at the lower of cost and estimated net realizable value.

E) Properties Acquired in Settlement of Loans

These are properties title to which has been acquired by Trustco and at the time of transfer to this category are either generating a positive cash flow or have the potential for profit on resale or future rental. These properties are stated at the lower of cost and estimated realizable value.

F) Fiduciary Fees

Fees and commissions are recorded as income when earned.

G) Depreciation

The declining balance basis is used to compute depreciation on buildings at 5%. Computer equipment and related software is depreciated or amortized on the straight-line basis at the rate of 20%.

H) Interest Spread Hedging

Gains and losses on interest spread protection devices such as interest rate futures contracts are amortized over the term of the protected assets or liabilities.

I) Real Estate Operations

The proportionate share of the assets, liabilities, income and expenses of all joint ventures and partnerships are included in the consolidated financial statements.

Sales of real estate are recorded after all material conditions have been fulfilled and a minimum of 15% of the sale price has been received as cash.

Land under or held for development is carried at the lower of cost, including direct carrying charges (primarily interest and realty taxes) and development costs, and estimated net realizable value at the time of sale. Income producing properties, including those under construction or redevelopment, are held at cost less accumulated depreciation on operating properties.

3. Earnings Per Common Share

Basic earnings per common share have been calculated by dividing net income available for common shares for the eight months ended and the year ended December 31, 1985 by 8,809,583 common shares issued on reorganization.

Fully diluted earnings per common share have been calculated by dividing net income for the same periods by the fully diluted weighted aver-

age common shares outstanding of 12,120,784 calculated as follows:

| | |
|---|-------------------|
| Common shares issued on reorganization | 8,809,583 |
| Assuming conversion of 2,207,467 preference shares convertible to 1.5 common shares each | 3,311,201 |
| | <u>12,120,784</u> |

4. Capital Stock

| | Authorized | Issued and outstanding | |
|-------------------|------------|------------------------|--------------------------|
| | | Shares | Amount (\$ thousands) |
| Preference shares | Unlimited | 2,207,467 | \$ 40,608 |
| Common shares | Unlimited | 8,809,583 | 83,886 |
| | | | <u>\$124,494</u> |

During the year Trustco filed articles of amendment to change its capitalization to allow it to issue an unlimited number of common shares and an unlimited number of \$1.60 cumulative, redeemable, convertible, retractable special preference shares.

Preference shares are entitled to a cumulative preferential cash dividend of \$1.60 per annum. The shares are convertible into 1.5 common shares until December 31, 1989 and thereafter into 1.25 common shares until December 31, 1994 or the date such preference shares are

called for redemption. The preference shares are redeemable after December 31, 1989 by Trustco at a price of \$22.00 plus accrued and unpaid dividends and are retractable at the option of the holder on December 31, 1989 at a price of \$22.00 plus accrued and unpaid dividends.

Common shares are entitled to vote at meetings of the shareholders, to receive dividends declared and, subject to the rights of prior classes of shares, to receive any remaining property of Trustco on liquidation.

5. Securities

| | | December 31 | | | |
|--|-----------|------------------|------------------|------------------|------------------|
| | | 1985 | | 1984 | |
| | | Book value | Market value | Book value | Market value |
| (\$ thousands) | | | | | |
| Bonds and debentures | | | | | |
| Government of Canada and Provinces of Canada | | | | | |
| Short & medium term | | \$ 49,900 | \$ 48,790 | \$ 25,102 | \$ 23,866 |
| Long term | | 37,007 | 30,776 | 22,398 | 16,931 |
| Corporate and other | | 2,941 | 2,363 | 4,329 | 3,691 |
| | | <u>89,848</u> | <u>81,929</u> | <u>51,829</u> | <u>44,488</u> |
| Stocks | | | | | |
| | Preferred | 132,775 | 136,432 | 86,072 | 85,470 |
| | Common | 4,682 | 5,194 | 7,236 | 7,896 |
| | | <u>137,457</u> | <u>141,626</u> | <u>93,308</u> | <u>93,366</u> |
| | | <u>\$227,305</u> | <u>\$223,555</u> | <u>\$145,137</u> | <u>\$137,854</u> |

6. Segmented Information

The major business segments are as follows:

- i) Intermediary—investment of depositor and shareholder funds in mortgages, securities, and personal and corporate loans.
- ii) Fiduciary—acting as executor, trustee, custodian, agent or manager through the provision of personal, pension and corporate trust services, as well as stock and bond transfer services.
- iii) Real estate operations—land development and investment in income producing properties and property management. Provides to investors an opportunity to participate in institutional quality real estate through various investment funds of

which Guaranty Trust is trustee.

iv) Personal finance—investment of funds obtained from institutions and corporations in personal finance loan portfolios through wholly-owned subsidiaries.

v) Real estate brokerage—retail real estate brokerage and relocation services were discontinued in 1984.

General and administrative expenses common to all segments have been allocated based on cost analysis with reference to such factors as time, headcount, average funds in use and other relationships.

| | Gross revenue | | | Contributed earnings | | |
|------------------------|----------------------------------|------------------------|------------------|----------------------------------|------------------------|-----------------|
| | 8 months ended December 31 | Year ended December 31 | | 8 months ended December 31 | Year ended December 31 | |
| | 1985 | 1985 | 1984 | 1985 | 1985 | 1984 |
| (\$ thousands) | | | | | | |
| Intermediary | \$253,524 | \$374,782 | \$335,625 | \$13,013 | \$15,885 | \$10,461 |
| Fiduciary | 17,669 | 26,092 | 25,796 | 3,159 | 4,677 | 4,925 |
| Real estate operations | 43,245 | 47,779 | 37,823 | 3,322 | 2,878 | 1,677 |
| Personal finance | 20,322 | 20,322 | - | 3,614 | 3,614 | - |
| Real estate brokerage | - | - | 6,386 | - | - | (162) |
| | <u>\$334,760</u> | <u>\$468,975</u> | <u>\$405,630</u> | <u>23,108</u> | <u>27,054</u> | <u>16,901</u> |
| Minority interest | | | | (665) | (996) | - |
| Income taxes | | | | (8,484) | (9,047) | (6,286) |
| Net income | | | | <u>\$13,959</u> | <u>\$17,011</u> | <u>\$10,615</u> |

7. Related Party Transactions

During the year Trustco and its subsidiaries paid to (recovered from) the parent corporation a proportionate share of Head Office personnel, facilities and other costs incurred in the ordinary course of business. The amounts paid (recovered), based on actual costs determined by reference to direct expenditures or through an allocation based on time, average funds in use or headcount, were as follows:

| | (\$ thousands) |
|--|----------------|
| 8 mos. ended December 31, 1985 | \$5,257 |
| Year ended December 31, 1985 | 4,277 |
| Year ended December 31, 1984 | (6,394) |
| In addition, subsidiaries of Trustco purchased from the parent corporation at fair market value certain consumer finance loans in the following amounts net of unearned finance charges: | |
| | (\$ thousands) |
| 8 mos. ended December 31, 1985 | \$230,635 |
| Year ended December 31, 1985 | 246,200 |
| Year ended December 31, 1984 | 51,640 |

8. Pension Plans

Pension plans are provided for substantially all employees. The most recent independent actuar-

ial valuations of the plans were made January 1, 1984 showing no unfunded liability and a surplus to offset current and future pension costs.

FINANCIAL ANALYSIS
Guaranty Trust Company of Canada
CONSOLIDATED FIVE YEAR REVIEW
(\$ thousands)

Year ended December 31

| | 1985 | 1984 ¹ | 1983 ¹ | 1982 ¹ | 1981 ¹ |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Gross Revenue | \$ 449,187 | \$ 406,267 | \$ 371,615 | \$ 403,394 | \$ 355,765 |
| Revenue | | | | | |
| Consumer loan income | \$ 187,579 | \$ 153,372 | \$ 151,808 | \$ 159,139 | } \$ 245,365 |
| Corporate loan income | 127,052 | 123,300 | 107,512 | 119,870 | |
| Securities income | 60,102 | 59,342 | 52,579 | 67,546 | |
| | 374,733 | 336,014 | 311,899 | 346,555 | 304,989 |
| Interest expense | (291,724) | (270,491) | (249,324) | (300,279) | (275,800) |
| Interest spread | 83,009 | 65,523 | 62,575 | 46,276 | 29,189 |
| Provision for loan losses | (3,105) | (4,401) | (8,733) | (8,384) | (2,831) |
| Interest spread after provision for loan losses | 79,904 | 61,122 | 53,842 | 37,892 | 26,358 |
| Fiduciary fees | 26,092 | 25,841 | 23,391 | 21,409 | 21,480 |
| Real estate operations | 6,321 | 4,218 | 6,778 | 6,830 | 5,206 |
| Net real estate brokerage | - | 1,939 | 2,435 | 1,937 | 2,303 |
| Revenue from operations | 112,317 | 93,120 | 86,446 | 68,068 | 55,347 |
| Expense | | | | | |
| Salaries and staff benefits | 42,931 | 38,754 | 36,737 | 32,096 | 29,111 |
| Premises | 10,915 | 9,454 | 8,754 | 8,080 | 7,607 |
| Information processing, marketing and other | 35,080 | 27,374 | 26,266 | 20,017 | 15,575 |
| Income before income taxes | \$ 23,391 | \$ 17,538 | \$ 14,689 | \$ 7,875 | \$ 3,054 |
| Net income for the year | \$ 16,170 | \$ 10,615 | \$ 9,079 | \$ 4,796 | \$ 3,390 |
| Per common share | | | | | |
| Net income for the year ² | \$ 1.26 | \$ 0.80 | \$ 0.69 | \$ 0.33 | \$ 0.23 |
| Dividends | 0.20 | 0.16 | 0.16 | 0.16 | 0.16 |
| Shareholders' equity ³ | 11.76 | 10.71 | 10.06 | 9.38 | 9.20 |
| Weighted average number of common shares outstanding | 12,099,399 | 12,099,399 | 11,629,514 | 11,350,455 | 10,035,387 |
| Assets | | | | | |
| Cash and securities | 672,009 | 479,078 | 441,227 | 456,688 | 500,990 |
| Mortgages—consumer | 1,025,842 | 980,620 | 824,470 | 715,265 | 779,130 |
| —corporate | 527,928 | 528,676 | 530,950 | 527,235 | 596,701 |
| Other loans—consumer | 464,184 | 410,757 | 368,680 | 398,866 | 322,534 |
| —corporate | 603,152 | 515,419 | 436,384 | 370,089 | 287,836 |
| Real estate | 227,158 | 181,643 | 173,766 | 163,454 | 142,484 |
| Other assets | 82,912 | 78,265 | 60,843 | 65,316 | 56,476 |
| | \$3,603,185 | \$3,174,458 | \$2,836,320 | \$2,696,913 | \$2,686,151 |
| Liabilities and shareholders' equity | | | | | |
| Savings and chequing accounts | \$ 672,240 | \$ 656,410 | \$ 662,089 | \$ 657,847 | \$ 623,000 |
| Time deposits | 277,267 | 278,767 | 272,543 | 275,151 | 316,610 |
| Guaranteed investment certificates | 2,159,123 | 1,804,750 | 1,562,020 | 1,435,161 | 1,401,094 |
| Total deposits | 3,108,630 | 2,739,927 | 2,496,652 | 2,368,159 | 2,340,704 |
| Other liabilities | 340,344 | 292,816 | 205,252 | 209,062 | 227,424 |
| Shareholders' equity | 154,211 | 141,715 | 134,416 | 119,692 | 118,023 |
| Total of company, guaranteed funds and real estate assets | \$3,603,185 | \$3,174,458 | \$2,836,320 | \$2,696,913 | \$2,686,151 |
| Total fiduciary assets | \$4,327,256 | \$3,831,623 | \$2,881,340 | \$2,385,385 | \$2,037,081 |
| Total assets under administration | \$7,930,441 | \$7,006,081 | \$5,717,660 | \$5,082,298 | \$4,723,232 |

¹ Reclassified to reflect the account classification adopted in 1985.

² Based on weighted average number of common shares outstanding.

³ Based on shares outstanding at year end.

SUMMARIZED FINANCIAL INFORMATION
Guaranty Trust Company of Canada¹
STATEMENT OF INCOME (unconsolidated)
(\$ thousands)

| | 8 months ended December 31 1985 | Year ended December 31 | | |
|---|--|------------------------|------------|-----------------------------|
| | | 1985 | 1984 | % Increase (Decrease) |
| Revenue | | | | |
| Loan and securities income | \$ 253,706 | \$ 374,733 | \$ 336,014 | 12 |
| Interest expense | (195,554) | (291,724) | (270,491) | 8 |
| Interest spread | 58,152 | 83,009 | 65,523 | 27 |
| Provision for loan losses | (1,016) | (3,105) | (4,401) | (29) |
| Interest spread after provision for loan losses | 57,136 | 79,904 | 61,122 | 31 |
| Fiduciary fees | 17,669 | 26,092 | 25,841 | 1 |
| Net real estate brokerage | - | - | 1,939 | - |
| Revenue from operations | 74,805 | 105,996 | 88,902 | 19 |
| Expense | 58,451 | 85,483 | 73,244 | 17 |
| Income before income taxes | 16,354 | 20,513 | 15,658 | 31 |
| Income taxes-deferred | 5,006 | 5,799 | 5,546 | 5 |
| Net operating income | 11,348 | 14,714 | 10,112 | 46 |
| Other | (182) | 41 | (637) | - |
| Equity share of net income of <i>Guaranty Properties Limited</i> | 1,504 | 1,248 | 1,140 | 9 |
| <i>Guaranty Realty Investments Limited</i> | 125 | 167 | - | - |
| Net income before minority interest | 12,795 | 16,170 | 10,615 | 52 |
| Minority interest | 665 | 996 | - | - |
| Net income for the period | \$ 12,130 | \$ 15,174 | \$ 10,615 | 43 |
| | | | | |
| Contribution to Trustco | \$ 12,130 | \$ 12,130 | \$ - | - |
| Traders | - | 3,044 | 10,615 | (71) |
| | \$ 12,130 | \$ 15,174 | \$ 10,615 | 43 |

BALANCE SHEET (unconsolidated)
(\$ thousands)

| | December 31 | | |
|---|-------------|-------------|-----------------------------|
| | 1985 | 1984 | % Increase (Decrease) |
| Assets | | | |
| Cash and securities | \$ 670,122 | \$ 477,946 | 40 |
| Consumer loans | 1,490,026 | 1,391,377 | 7 |
| Corporate loans | 1,131,080 | 1,044,095 | 8 |
| Investment in and advances to <i>Guaranty Properties Limited</i> | 92,714 | 86,768 | 7 |
| <i>Guaranty Realty Investments Limited</i> | 264 | - | - |
| Miscellaneous | 75,301 | 74,545 | 1 |
| | \$3,459,507 | \$3,074,731 | 13 |
| Liabilities | | | |
| Deposits | \$3,108,630 | \$2,739,927 | 13 |
| Other liabilities | 183,336 | 184,550 | (1) |
| Deferred income taxes | 13,330 | 8,059 | 65 |
| Minority interest (primarily preference shares) | 12,176 | 13,003 | (6) |
| Traders investment, at equity value | - | 129,192 | - |
| Guaranty Trustco investment, at equity value | 142,035 | - | - |
| | \$3,459,507 | \$3,074,731 | 13 |

¹Acquired by Trustco May 1, 1985

Guaranty Properties Limited¹
STATEMENT OF INCOME

(\$ thousands)

| | 8 months ended December 31 1985 | Year ended December 31 | | |
|---|--|------------------------|-----------------|-----------------------------|
| | | 1985 | 1984 | % Increase (Decrease) |
| Revenue | | | | |
| Property sales | \$ 37,488 | \$ 39,416 | \$ 31,586 | 25 |
| Mortgage interest and other | 4,801 | 7,134 | 6,440 | 11 |
| | 42,289 | 46,550 | 38,026 | 22 |
| Cost of sales and write-downs | (33,396) | (35,127) | (27,748) | 27 |
| Interest expense | (4,139) | (6,331) | (6,060) | 4 |
| | 4,754 | 5,092 | 4,218 | 21 |
| Expense | 1,557 | 2,381 | 2,338 | 2 |
| Income before income taxes | 3,197 | 2,711 | 1,880 | 44 |
| Income taxes—current and deferred | 1,693 | 1,463 | 740 | 98 |
| Net contribution to Guaranty Trust | \$ 1,504 | \$ 1,248 | \$ 1,140 | 9 |

BALANCE SHEET

(\$ thousands)

| | 1985 | 1984 | December 31 | |
|--|------------------|------------------|-------------|-----------------------------|
| | | | | % Increase (Decrease) |
| Assets | | | | |
| Cash and securities | \$ 1,913 | \$ 1,132 | | 69 |
| Real estate | | | | |
| Mortgages on sale of properties | 37,889 | 35,477 | | 7 |
| Land under development | 33,687 | 31,557 | | 7 |
| Land held for development | 103,515 | 93,234 | | 11 |
| Income producing properties | 52,067 | 21,375 | | — |
| | 227,158 | 181,643 | | 25 |
| Miscellaneous | 7,453 | 3,720 | | — |
| | <u>\$236,524</u> | <u>\$186,495</u> | | 27 |
| Liabilities | | | | |
| Bank and other loans secured by mortgages | \$ 99,809 | \$ 66,199 | | 51 |
| Deferred income taxes | 23,931 | 22,384 | | 7 |
| Miscellaneous | 20,070 | 11,144 | | 80 |
| Guaranty Trust equity investment and advances | 92,714 | 86,768 | | 7 |
| | <u>\$236,524</u> | <u>\$186,495</u> | | <u>27</u> |

¹Acquired by Guaranty Trustco May 1, 1985.

Guaranty Realty Investments Limited¹
STATEMENT OF INCOME

(\$ thousands)

| | 8 months ended December 31 1985 | Year ended December 31 1985 |
|---|--|--------------------------------------|
| | Revenue | \$956 |
| Expense | 831 | 1,062 |
| Net contribution to Guaranty Trust | \$125 | \$167 |

BALANCE SHEET

(\$ thousands)

| | December 31 1985 |
|---|---------------------|
| Assets | \$382 |
| Liabilities | \$118 |
| Guaranty Trust equity investment and advances | 264 |
| | <u>\$382</u> |

¹Acquired by Guaranty Trustco May 1, 1985. Comparative figures for the preceding year are not presented because operations commenced in the fourth quarter of 1984.

Personal Finance Group¹
STATEMENT OF INCOME
(\$ thousands)

8 months
ended
December 31
1985

| | | |
|----------------------------------|---|------------------|
| Revenue | | \$ 20,322 |
| | Interest expense | (6,834) |
| | Interest spread | 13,488 |
| | Provision for loan losses | (2,709) |
| | Interest spread after provision for loan losses | 10,779 |
| Expense | | 7,165 |
| | Income before income taxes | 3,614 |
| | Income taxes—current | 1,785 |
| | Net operating income | 1,829 |
| | Equity share of net income of Guaranty Trust Company of Canada | 12,130 |
| Net income for the period | | \$ 13,959 |

BALANCE SHEET
(\$ thousands)

December 31
1985

| | | |
|-----------------------------|---|------------------|
| Assets | | |
| | Cash and securities | \$ 2,799 |
| | Personal loans | 199,156 |
| | Investment in subsidiary <i>Guaranty Trust Company of Canada</i> | 142,035 |
| | Miscellaneous | 8,388 |
| | | \$352,378 |
| Liabilities | | |
| | Short and medium term debt | \$174,811 |
| | Unearned finance charges | 30,040 |
| | Other liabilities | 4,426 |
| | Deferred income taxes | 48 |
| Shareholders' equity | | 143,053 |
| | | \$352,378 |

¹Includes Guaranty Trustco and the operating results of its following consolidated subsidiary companies since acquisition:
Trans Canada Credit Financial Inc.
Trans Canada Credit Realty Limited
Guaranty Trust Company of Canada (U.K.) Limited

Portfolio Policies

To ensure the Company's assets are of the highest quality, lending activities are subject to comprehensive policy and procedural guidelines. The more significant of these are summarized below.

Lending Policies

Loan applications are subject to prudent credit policies. Maximum credit limits for levels of management are recommended by the Credit Committee and ratified by the Executive Committee of the Board of Directors.

Specific credit granting and approval authorities are assigned to specific employees in each division according to the employee's experience, credit record, portfolio knowledge and overall credit assessment capability.

All loans of \$5 million and over are approved by the Executive Committee, with the exception of the corporate term loan portfolio where loans of \$4 million and over require such approval.

All loans of \$1 million and above are reported to the Executive Committee.

Delinquencies

Account delinquency is determined on a contractual basis. An account is contractually delinquent when an instalment remains unpaid for more than one month.

Accrual of Interest

Interest is normally accrued for all loans receivable. Generally, no accruals are made on loans after 90 days delinquency.

Non-Performing Loans

In addition to its regular weekly review of loan applications, the Credit Committee meets monthly to review the status of non-performing loans and the adequacy of the provision for loan losses. The Credit Department, which reports directly to the Chief Financial Officer, provides independent review of arrears and non-performing loans and ensures that the provision for loan losses is maintained at an adequate level. There is also periodic review of this provision by our internal and external auditors as well as by the Department of Insurance in their routine annual review.

Provision for Loan Losses

A provision for loan losses is established as a result of regular detailed analyses of individual delinquent accounts. In addition to specific provisions, a general provision is provided based upon a percentage of outstanding loans. This percentage is determined with reference to characteristics of the particular class of loans, write-off experience and other related considerations. The Credit Committee approves these provisions, which are subsequently reviewed by the Company's auditors.

Loan Write-Offs

Losses are written off against the provision for loan losses either upon realization of the related security or when approved by the authorized management level.

LOAN LOSS AND ALLOWANCE STATISTICS
Thousands of dollars

| | Loan loss expense | | | | | | Allowance for loan losses | |
|----------------------------------|-------------------|---------------------|---------|----------------|---------------------|---------|---------------------------|-----------------------|
| | | | 1985 | | 1984 | | 1985 | 1984 |
| | Net write-offs | Change in allowance | Total | Net write-offs | Change in allowance | Total | 1985 | 1984 |
| Consumer loans | | | | | | | | |
| Mortgages | \$ 315 | \$(167) | \$ 148 | \$ 126 | \$ 877 | \$1,003 | \$ 1,539 | \$ 1,706 |
| Personal loans | 2,065 | (298) | 1,767 | 1,655 | (43) | 1,612 | 3,268 | 3,361 |
| | 2,380 | (465) | 1,915 | 1,781 | 834 | 2,615 | 4,807 | 5,067 |
| Corporate loans | | | | | | | | |
| Mortgages | 196 | 365 | 561 | 546 | (81) | 465 | 1,265 | 900 |
| Corporate term loans | (73) | (256) | (329) | 5,756 | (5,665) | 91 | 802 | 1,058 |
| Equipment financing | 181 | (130) | 51 | 909 | 24 | 885 | 1,741 | 1,871 |
| Manufacturer and dealer services | 189 | 718 | 907 | 102 | 243 | 345 | 2,281 | 1,563 |
| | 493 | 697 | 1,190 | 7,313 | (5,527) | 1,786 | 6,089 | 5,392 |
| | \$2,873 | \$ 232 | \$3,105 | \$9,094 | \$(4,693) | \$4,401 | \$10,896 ¹ | \$10,459 ¹ |

¹Includes allowances of \$562,000 (1984-\$574,000) from bulk purchase

LOAN LOSSES AND ALLOWANCES
Percentage of loans

| | Loans outstanding (gross) ¹ Dec. 31 | | Loan loss expense as a % of average loans outstanding | | Allowance as a % of loans outstanding Dec. 31 | |
|----------------------------------|---|-------------|---|------|--|------|
| | 1985 | 1984 | 1985 | 1984 | 1985 | 1984 |
| | Consumer loans | | | | | |
| Mortgages | \$1,031,620 | \$ 990,941 | .01 | 0.11 | .15 | 0.17 |
| Personal loans | 463,213 | 405,503 | .41 | 0.41 | .71 | 0.83 |
| | \$1,494,833 | \$1,396,444 | .13 | 0.20 | .32 | 0.36 |
| Corporate loans | | | | | | |
| Mortgages | \$ 533,247 | \$ 534,744 | .11 | 0.09 | .24 | 0.17 |
| Corporate term loans | 130,981 | 126,565 | (.26) | 0.07 | .61 | 0.84 |
| Equipment financing | 190,212 | 145,557 | .03 | 0.75 | .92 | 1.29 |
| Manufacturer and dealer services | 283,629 | 242,621 | .34 | 0.15 | .80 | 0.64 |
| | \$1,137,369 | \$1,049,487 | .11 | 0.18 | .54 | 0.51 |
| | \$2,632,002 | \$2,445,931 | .12 | 0.19 | .41 | 0.43 |

¹Includes non-performing loans

NON-PERFORMING LOANS
Thousands of dollars

| | 1985 | | | | | | 1984 | |
|------------------------|---------------------------|-----------------------|---------------------|---------------------------|-----------------------|---------|---------------------|---------------------|
| | Loans outstanding (gross) | | | Loans outstanding (gross) | | | Unrecorded interest | Unrecorded interest |
| | | As a % of total loans | Unrecorded interest | | As a % of total loans | | | |
| Consumer loans | | | | | | | | |
| Allowance | \$ 6,632 | .44 | \$1,269 | \$11,833 | .85 | \$1,337 | | |
| Net | 1,452 | .10 | | 1,509 | .11 | | | |
| | 5,180 | .34 | 1,269 | 10,324 | .74 | 1,337 | | |
| Corporate loans | | | | | | | | |
| Allowance | 8,445 | .74 | 594 | 8,741 | .83 | 1,061 | | |
| Net | 3,459 | .30 | | 1,424 | .13 | | | |
| | 4,986 | .44 | 594 | 7,317 | .70 | 1,061 | | |
| Total (Net) | \$10,167 | .39 | \$1,863 | \$17,641 | .72 | \$2,398 | | |

Guaranty Trust
ASSET AND LIABILITY MANAGEMENT

Asset & Liability Maturity and Mix

The Company operates under a "liability driven" philosophy. Under this approach it aims to ensure that its liabilities (that is deposits) are matched by investments of similar maturity and interest type. This objective has two purposes. Firstly, to minimize capital cash flow imbalances in order to maintain balance sheet strength and stability—a particularly important criterion in times of financial market instability. Secondly, as a primary method of achieving satisfactory and stable net interest income levels while minimizing exposure to interest rate fluctuations.

The Company's Asset and Liability Management Committee meets regularly to review and

monitor results to ensure that financial intermediary policies and practices are consistent with the Company's aim of operating its financial intermediary business within prudent mismatch limits. On a day-to-day basis Treasury Department is charged with the management of cash flow maturities and interest rate risk.

Further progress was made during 1985 in reducing the long-term low yield mortgage and bond portfolio. At December 31, 1984, it stood at \$181.2 million but by December 31, 1985 was \$163 million, of which \$55 million matures within 5 years. In addition to this area, and as can be seen in the table below, the Company was highly successful in 1985 in ensuring that current

ASSET AND LIABILITY MATURITY AND MIX

Millions of dollars

| | Up to 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | After 5 years & other | Dec. 31, 1985 | | Dec. 31, 1984 | |
|-----------------------------------|-----------------|--------------|--------------|--------------|--------------|-----------------------------|----------------|------------|----------------|------------|
| | | | | | | | Total | % | Total | % |
| Assets | | | | | | | | | | |
| Cash and money market instruments | \$ 443 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 443 | 13 | \$ 333 | 11 |
| Securities and other investments | 50 | 75 | 13 | 30 | 51 | 75 | 294 | 8 | 207 | 7 |
| Consumer portfolio | 789 | 227 | 212 | 128 | 130 | 4 | 1,490 | 43 | 1,392 | 45 |
| Corporate portfolio | 478 | 167 | 174 | 122 | 120 | 70 | 1,131 | 33 | 1,044 | 34 |
| Other assets | 46 | - | - | - | - | 56 | 102 | 3 | 99 | 3 |
| | <u>\$1,806</u> | <u>\$469</u> | <u>\$399</u> | <u>\$280</u> | <u>\$301</u> | <u>\$205</u> | <u>\$3,460</u> | <u>100</u> | <u>\$3,075</u> | <u>100</u> |
| Liabilities and equity | | | | | | | | | | |
| Demand | \$ 672 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 672 | 20 | \$ 656 | 21 |
| Time | 277 | - | - | - | - | - | 277 | 8 | 279 | 9 |
| Term | 1,017 | 340 | 344 | 197 | 261 | - | 2,159 | 62 | 1,805 | 59 |
| Other liabilities and equity | 117 | 8 | 3 | - | - | 224 | 352 | 10 | 335 | 11 |
| | <u>\$2,083</u> | <u>\$348</u> | <u>\$347</u> | <u>\$197</u> | <u>\$261</u> | <u>\$224</u> | <u>\$3,460</u> | <u>100</u> | <u>\$3,075</u> | <u>100</u> |
| Asset surplus (deficiency) | | | | | | | | | | |
| at December 31, 1985 | \$ (277) | \$121 | \$ 52 | \$ 83 | \$ 40 | \$ (19) | | | | |
| at December 31, 1984 | \$ (286) | \$ 95 | \$ 88 | \$ 66 | \$ 67 | \$ (30) | | | | |

INTEREST RATE SENSITIVITY

Millions of dollars

| | 1985 | | | | | | 1984 | | | |
|---|---------------|--------------|--------------|--------------|----------------|----------------|---------------|----------------|----------------|----------------|
| | Floating rate | Fixed rate | | | | | Floating rate | Fixed rate | | |
| | | 1-3 months | 3-6 months | 6-12 months | Over 1 year | Total | | Under 1 year | Over 1 year | Total |
| Assets | | | | | | | | | | |
| Cash and money market instruments | \$106 | \$236 | \$ 73 | \$ 28 | \$ - | \$ 443 | \$ 70 | \$ 263 | \$ - | \$ 333 |
| Securities and other investments | - | (36) | 4 | 12 | 314 | 294 | - | 71 | 136 | 207 |
| Consumer portfolio | 158 | 287 | 186 | 287 | 572 | 1,490 | 134 | 694 | 564 | 1,392 |
| Corporate portfolio | 475 | 42 | 50 | 104 | 460 | 1,131 | 437 | 234 | 373 | 1,044 |
| Other assets | 46 | - | - | - | 56 | 102 | 47 | - | 52 | 99 |
| Total | <u>\$785</u> | <u>\$529</u> | <u>\$313</u> | <u>\$431</u> | <u>\$1,402</u> | <u>\$3,460</u> | <u>\$688</u> | <u>\$1,262</u> | <u>\$1,125</u> | <u>\$3,075</u> |
| Liabilities and equity | | | | | | | | | | |
| Demand | 672 | - | - | - | - | 672 | 656 | - | - | 656 |
| Time | - | 258 | 18 | 1 | - | 277 | - | 279 | - | 279 |
| Term | 7 | 301 | 216 | 493 | 1,142 | 2,159 | 7 | 918 | 880 | 1,805 |
| Other liabilities and equity | 104 | 4 | 4 | 6 | 234 | 352 | 92 | 6 | 237 | 335 |
| Total | <u>\$783</u> | <u>\$563</u> | <u>\$238</u> | <u>\$500</u> | <u>\$1,376</u> | <u>\$3,460</u> | <u>\$755</u> | <u>\$1,203</u> | <u>\$1,117</u> | <u>\$3,075</u> |
| Net asset (liability) rate sensitivity | | | | | | | | | | |
| | \$2 | \$(34) | \$75 | \$(69) | \$26 | | \$(67) | \$59 | \$8 | |
| Rate mismatch—% of assets | | | | | | | | | | |
| | N/A | (1%) | 2% | (2%) | 1% | | (2%) | 2% | - | |

operational mismatches were kept within very modest limits. Guaranty Trust enters 1986 structurally sound—well matched in terms of asset and liability maturities and with minimal interest rate sensitivity exposure.

Interest Rate Sensitivity

The degree of sensitivity of deposits and investments to interest rate fluctuations varies directly with their degree of responsiveness to such market changes. A short term to maturity or repricing an option produces greater rate sensitivity than does a longer term without repricing.

Interest rate risk arises when the degree of interest rate sensitivity pertaining to deposits and investments differs since the repricing of deposits and investments is not concurrent. Such a condition, termed a mismatch, gives rise to favourable or unfavourable effects on the Company's interest rate differential, depending upon the relative sensitivities of deposits and investments and whether interest rates are moving up or down.

Accelerated use was made of interest rate futures, options and interest rate swaps throughout the year with beneficial results in terms of improved overall interest spreads. In the fourth quarter the Company found itself in the unusual position of having surplus deposits of five year term due to much stronger than anticipated growth. Hedging operations to preserve asset yields were effected to protect the Company from possible interest rate declines during the matching rebalancing process. As a result of this and earlier hedging and interest swap operations, and as can be seen from the table opposite, Guaranty Trust was, at year end, relatively immune to interest rate risk.

Liquidity Management

The Company is required by statute to maintain liquid assets at a minimum level of 20% of its demand deposits and deposits due within 100 days. In addition, management must determine the appropriate level of liquidity to meet anticipated cash flows from ongoing operations and intermediary activities.

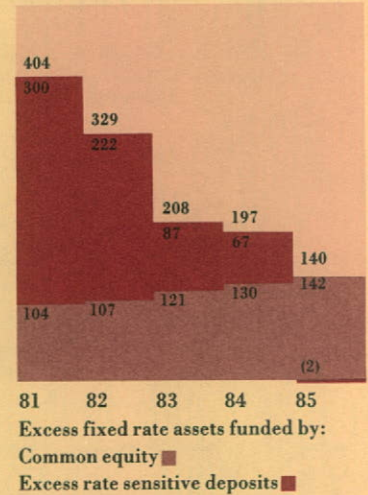
The graph illustrates the trend over the past five years in the level of statutory and surplus liquidity and indicates that, during 1985, the Company more than doubled its excess liquidity to \$256 million. These funds are available to meet its statutory obligations and management objectives.

Borrowing Capacity

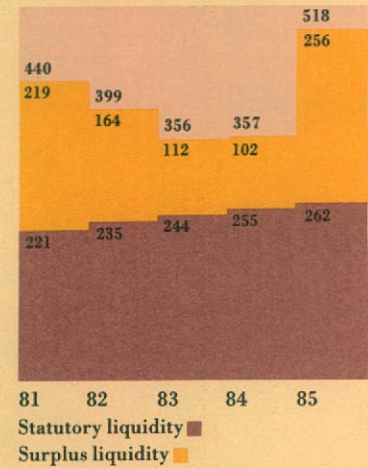
Borrowing capacity represents the Company's ability to support deposit and investment activity. At the present time the Company is permitted by statute to maintain a level of deposits twenty-five times in excess of shareholder equity as defined by statute.

The Company's utilization of this borrowing capacity, since 1981, is shown in the graph which indicates a history of significant surplus capacity. At year-end 1985, the Company had a deposit multiple of 19.2. This is equivalent to a borrowing capacity surplus of \$975,000,000 available to support additional deposits.

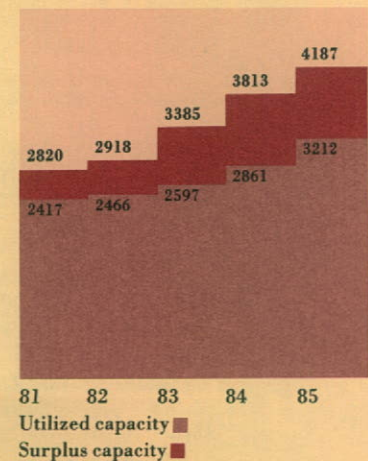
Interest Rate Sensitivity
Millions of dollars



Liquidity Management
Millions of dollars



Borrowing Capacity
Millions of dollars



Guaranty Trust
SELECTED FINANCIAL DATA AND RATIOS¹
Thousands of dollars

| | 1985 | 1984 | 1983 | 1982 | 1981 |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| Earnings | | | | | |
| Revenue from operations | 112,317 | 93,120 | 86,446 | 68,068 | 55,347 |
| Net operating income | 16,129 | 11,252 | 7,804 | 4,752 | 1,678 |
| Net income | 16,170 | 10,615 | 7,579 | 4,796 | 3,390 |
| Per common share data | | | | | |
| Net income | 1.26 | 0.80 | 0.56 | 0.33 | 0.23 |
| Cash dividend paid | 0.20 | 0.16 | 0.16 | 0.16 | 0.16 |
| Financial position | | | | | |
| Total company assets | 3,603,185 | 3,174,458 | 2,836,320 | 2,696,913 | 2,686,151 |
| Deposits | 3,108,630 | 2,739,927 | 2,496,652 | 2,368,159 | 2,340,704 |
| Shareholders' equity | 154,211 | 141,715 | 134,416 | 119,692 | 118,023 |
| Financial ratios | | | | | |
| Return on average total assets | 0.48% | 0.35% | 0.27% | 0.18% | 0.13% |
| Deposit multiple | 19.2:1 | 18.8:1 | 19.2:1 | 21.1:1 | 21.4:1 |
| Return on average common equity | 11.18% | 7.66% | 5.73% | 3.54% | 2.37% |
| Common dividend payout | 15.93% | 20.12% | 28.66% | 48.66% | 59.85% |

¹All items exclude any extraordinary gains or losses.

QUARTERLY ANALYSIS

Of rate spread and net income (loss)
 by line of business¹
 (\$ thousands, where applicable)

| Quarter | Trustco | | Net income (loss) ³ | | | | Basic earnings per share ⁴ | |
|---------|---------|----------------------------|--------------------------------|-------------|------------------|----------|---------------------------------------|--------|
| | Trust | Personal finance and trust | Trust | Real estate | Personal finance | Total | | |
| 1981 | Q1 | 1.12% | 1.12% | \$ 743 | \$ 887 | \$ - | \$ 1,630 | |
| | Q2 | 0.85 | 0.85 | 148 | 393 | - | 541 | |
| | Q3 | 0.29 | 0.29 | (3,838) | (32) | - | (3,870) | |
| | Q4 | 0.62 | 0.62 | 4,705 | 384 | - | 5,089 | |
| | | 0.71 | 0.71 | 1,758 | 1,632 | - | 3,390 | |
| 1982 | Q1 | 0.77 | 0.77 | 273 | 732 | - | 1,005 | |
| | Q2 | 0.96 | 0.96 | 10 | 1,161 | - | 1,171 | |
| | Q3 | 1.09 | 1.09 | 1,115 | 107 | - | 1,222 | |
| | Q4 | 1.39 | 1.39 | 2,396 | (998) | - | 1,398 | |
| | | 1.06 | 1.06 | 3,794 | 1,002 | - | 4,796 | |
| 1983 | Q1 | 1.68 | 1.68 | 1,318 | (701) | - | 617 | |
| | Q2 | 1.74 | 1.74 | 1,516 | 1,923 | - | 3,439 | |
| | Q3 | 1.93 | 1.93 | 1,704 | (163) | - | 1,541 | |
| | Q4 | 1.82 | 1.82 | 1,969 | 13 | - | 1,982 | |
| | | 1.80 | 1.80 | 6,507 | 1,072 | - | 7,579 | |
| 1984 | Q1 | 1.80 | 1.80 | 1,903 | 1,031 | - | 2,934 | |
| | Q2 | 1.72 | 1.72 | 2,282 | (144) | - | 2,138 | |
| | Q3 | 1.66 | 1.66 | 2,411 | (103) | - | 2,308 | |
| | Q4 | 1.72 | 1.72 | 2,879 | 356 | - | 3,235 | |
| | | 1.72 | 1.72 | 9,475 | 1,140 | - | 10,615 | |
| 1985 | Q1 | 2.00 | 2.00 | 2,384 | (260) | - | 2,124 | |
| | Q2 | 2.16 | 2.16 | 3,166 | 636 | (22) | 3,780 | \$0.19 |
| | Q3 | 2.23 | 2.85 | 3,538 | 530 | 1,263 | 5,331 | 0.50 |
| | Q4 | 2.35 | 3.20 | 4,679 | 509 | 588 | 5,776 | 0.56 |
| | | 2.19% | 2.57% | \$13,767 | \$ 1,415 | \$ 1,829 | \$17,011 | \$1.25 |

¹Figures prior to 1985 include the consolidated results of Guaranty Trust Company of Canada only. Figures for 1985 have been presented in a manner consistent with the consolidated statement of income for the year ended December 31, 1985.

²Average rate earned on loans and securities (excluding fee income) less average rate paid on deposits and debt. Taxable equivalent basis for all

periods except for the last three quarters of 1981, and all quarters of 1982 wherein income tax credits were not available.

³Excludes extraordinary items.

⁴The earnings per share are based on the weighted average outstanding common shares of Trustco. Figures shown include only those subsequent to the May 1, 1985 reorganization.

BOARD OF DIRECTORS

- ^{1,2,4} **John P. Bassel, Q.C.**
Partner
Bassel, Sullivan & Leake
Toronto, Ontario
- ^{1,2,4} **W. John A. Bulman**
President
The Bulman Group
Limited
Winnipeg, Manitoba
- E. Wallace Flanagan**
Vice Chairman of the
Board
Guaranty Trust
Company of Canada
Calgary, Alberta
- Brig. Gen.**
J. Guy Gauvreau
Vice Chairman
Concordia Estates Group
Limited
Montreal, Quebec
- ^{1,2,4} **Irving R. Gerstein**
Chairman of the Audit
Committee
President
Peoples Jewellers
Limited
Toronto, Ontario
- ^{1,4} **Robert G. Graham**
President and Chief
Executive Officer
Inter-City Gas
Corporation
Winnipeg, Manitoba
- ^{1,4} **William A. Heaslip**
Chairman, President
and Chief Executive
Officer
Grafton Group Limited
Toronto, Ontario
- ^{1,3,4} **Alan R. Marchment, F.C.A.**
President and Chief
Executive Officer
Guaranty Trust
Company of Canada
Toronto, Ontario
- ^{1,4} **Frederic Y. McCutcheon**
President
Arachnae Management
Limited
Toronto, Ontario
- ^{1,2,3,4} **James W. McCutcheon, Q.C.**
Chairman of the
Executive Committee
Chairman of the Board
Guaranty Trust
Company of Canada
Partner
Shibley, Righton &
McCutcheon
Toronto, Ontario
- Leslie R. Peterson, Q.C.**
Senior Partner
Boughton & Company
Vancouver, British
Columbia
- D. Max Ritchie**
President
Medway Investments
Corporation Ltd.
Edmonton, Alberta
- Archibald F. Sheppard, Q.C.**
Partner
Martin, Sheppard
Niagara Falls, Ontario
- E. Llewellyn G. Smith**
Chairman and Chief
Executive Officer
E.D. Smith & Sons,
Limited
Winona, Ontario
- Donald I. Webb, F.C.A.**
Financial Consultant
Toronto, Ontario
- David B. Weldon**
Chairman
Midland Doherty
Financial Corporation
Toronto, Ontario
- Directors Emeriti**
R.R. Belanger
Montreal, Quebec
- J.G. Bennett**
Vancouver, British
Columbia
- C.A. Cadieux**
Toronto, Ontario
- H.E. Dynes**
Toronto, Ontario
- D.B. Mansur**
Toronto, Ontario
- G.H. Nelms**
Ottawa, Ontario
- H.J. O'Connell**
Montreal, Quebec
- W.F. Spry**
Toronto, Ontario
- R.F. Wilson, Q.C.**
Toronto, Ontario

¹ Member of the Executive
Committee, Guaranty
Trust Company of
Canada

² Member of the Audit
Committee

³ Officer

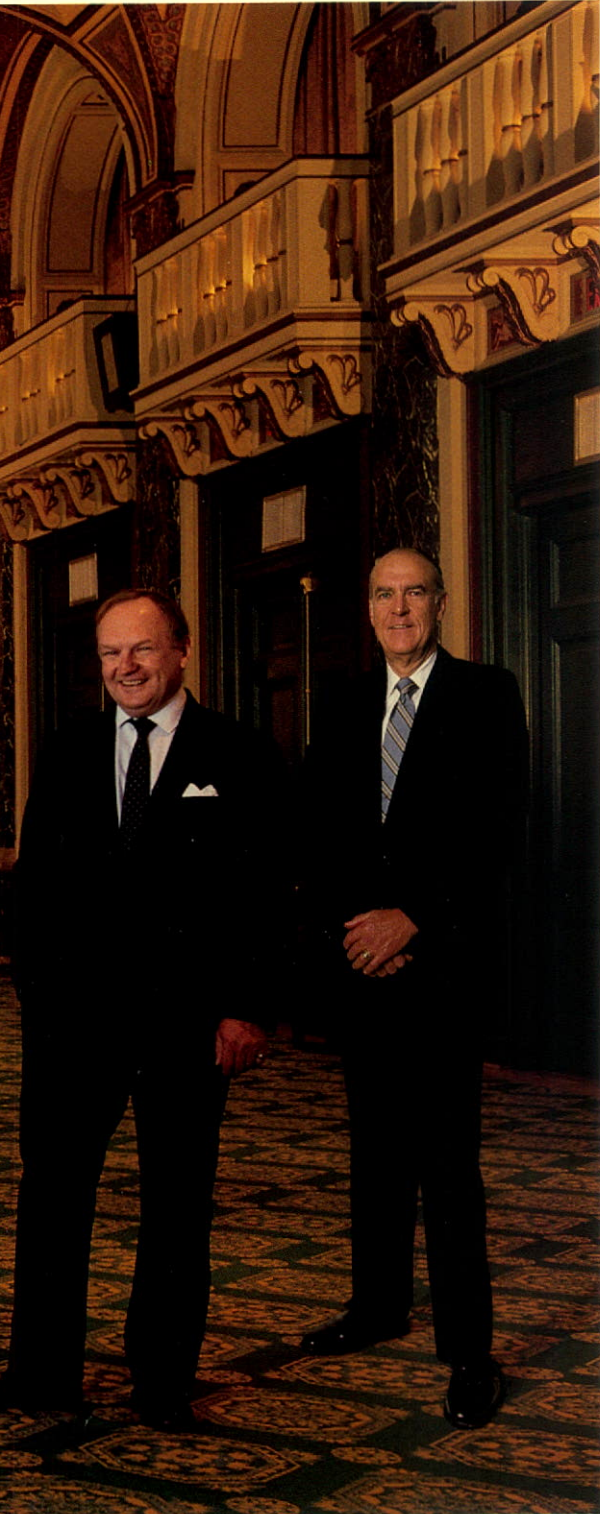
⁴ Guaranty Trustco Board
of Directors

The Guaranty Trust and Traders Group senior management team prepare to meet guests.

Guaranty Trust hosts a reception for its many clients and customers at the Royal York Hotel, Toronto, every New Year.



Left to right:
W.L. Cochrane,
Senior Vice President,
Corporate Services;
R.W. Crecelius,
Senior Vice President,
Consumer Services;
E.W. Austin,
Senior Vice President,
Finance and Administration,
and Chief Financial Officer;
M.A. Hasley,
Executive Vice President;
G.H. Greenfield,
President,
Trans Canada Credit Financial Inc.;
J.M. Ringstrom,
President,
Guaranty Realty Investments Limited;
E. Bodnar,
President and Chief Executive Officer,
Guaranty Properties Limited;
E.W. Flanagan,
Vice Chairman of the Board.



| | | | |
|--|---|--|---|
| Guaranty Trustco Limited | H. C. Dickson Information Services | R. S. Campbell Dealer Services | Guaranty Realty Investments Limited |
| James W. McCutcheon, Q.C. Chairman of the Board | T. A. W. Duncan Personal Financial Services | J. A. Clement Computer Services | Alan R. Marchment, F.C.A. Chairman of the Board |
| Alan R. Marchment, F.C.A. President | J. F. Ellis Secretary | D. B. Denholm Consumer Services | J. Morley Ringstrom President |
| E. W. Austin, C.A. Vice President, Finance | P. H. Hebb Corporate Services | G. H. Desrosiers Corporate Services | Vice Presidents M. J. Mitchell Administration |
| Guaranty Trust Company of Canada | T. R. Hixson Corporate Credit | K. Drabble Personal Financial Services | M. H. Peters Western Area |
| James W. McCutcheon, Q.C. Chairman of the Board | R. C. Hodges Central Area Consumer Services | P. E. Evenden Client & Custodial Services | A. N. Corriveau Eastern Area |
| Alan R. Marchment, F.C.A. President and Chief Executive Officer | J. G. Hunter Marketing and Public Relations | W. J. Ferguson Corporate Lending | Trans Canada Credit Financial Inc. |
| E. Wallace Flanagan Vice Chairman of the Board | J. F. Johnston North East Area Consumer Services | D. Foster, C.A. Corporate Accounting | Trans Canada Credit Realty Limited |
| Michael A. Hasley Executive Vice President | T. R. Merrick Human Relations | A. D. Heginbottom Investments | Alan R. Marchment, F.C.A. Chairman of the Board |
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| R. W. Crecelius Consumer Services | D. A. Ogilvie, C.A. Controller | D. S. Morris Business Systems | Vice Presidents A. M. Cline Western Division |
| W. L. Cochrane Corporate Services | J. S. Ridout Corporate Lending | A. J. Mulveny Investments | J. Dunberry Quebec Atlantic Division |
| Vice Presidents S. D. Arnott Investor Mortgages | D. J. Skene Personnel | G. H. J. Pluim Consumer Services | J. E. Van Leeuwen Central Division |
| D. K. Bogert Western Area Consumer Services | B. J. Then Treasurer | W. J. Rhind Consumer Services | Assistant Vice Presidents C. K. Ashton Ontario Zone |
| M. J. Broadbent Toronto, Main Consumer Services | D. E. Wannamaker Pension Services | C. J. Riggall Consumer Marketing | R. A. Wilson Eastern Zone |
| W. E. Brolly Corporate Trust and Transfer Services | G. E. Whitley, Q.C. Assistant Vice Presidents | D. J. Sutton Personal Financial Services | Guaranty Trust Company of Canada (U.K.) Limited |
| D. R. Brown, Q.C. Counsel | R. F. Adams, C.M.A. Management Accounting | P. D. Thomas Master Trust & Customer Services | Alan R. Marchment, F.C.A. Chairman of the Board |
| T. R. Carnegie Consumer Services Lending | G. Ah-Yoong, C.A. Internal Audit | Guaranty Properties Limited | B. M. Benitz Managing Director London, England |
| L. L. Clinesmith Corporate Services | R. S. B. Barlow VISA | Alan R. Marchment, F.C.A. Chairman of the Board | |
| P. M. de Auer Investments | | Ernest Bodnar President and Chief Executive Officer | |
| | | Vice Presidents J. L. Armstrong Eastern Region | |
| | | S. M. Schaffran, C.A. Finance | |
| | | C. J. Small, C.A. Western Region | |

CONSUMER SERVICES BRANCHES

Quebec

Hull

100, Promenade du
Portage
J. Marc Desrochers

Montreal

2000, rue Mansfield
L. Roy

Ontario

Belleville

Century Place
199 Front Street
R. E. Lee

Brampton

Kennedy Park Plaza
233 Queen Street E.
W. Schmutzer

Collingwood

158 Hurontario Street
D. J. Amo

Cornwall

250 Pitt Street
M. R. Lavoie

Hamilton

82 King Street East
T. Olver

Hanover

261 - 10th Street
D. C. Irvine

Leamington

25 Talbot Street East
J. C. Barrett

London

146 Dundas Street
J. A. Plant

Mississauga

Rockwood Mall
4141 Dixie Road
R. W. Sills

Niagara Falls

5799 Main Street
K. H. Lindsay

4424 Queen Street

D. R. Cook

North Bay

101 Main Street East
C. W. McKenzie

Oshawa

32 King Street East
E. D. MacKay

Ottawa

109 Bank Street
G. H. J. Pluim

Billings Bridge Plaza
2269 Riverside Drive
D. G. Tait

Pinecrest Shopping Mall
2685 Iris Street
R. J. W. Ford

St. Laurent Shopping
Centre
1182 St. Laurent Blvd.
G. Leroux

Pembroke

131 Pembroke Street W.
L. Loevenmark

Peterborough

419 George Street North
W. J. Chapman

Richmond Hill

10132 Yonge Street
W. N. Girard

Sault Ste. Marie

498 Queen Street East
B. G. Hildebrandt

Simcoe

2 Norfolk Street South
W. M. Campbell

St. Catharines

110 King Street
T. M. Roberts

Stouffville

81 Main Street West
J. B. Gribbon

Sudbury

105 Durham Street S.
J. L. Becvar

Toronto (Metro Area)

Main Branch
366 Bay Street
R. M. Panchuck

121 Bloor Street East
E. Brewda

1719 Avenue Road
D. A. Fava

2425 Bloor Street West
R. Salisbury

Don Mills Shopping
Centre
939 Lawrence Avenue E.
N. Richards

875 Eglinton Avenue W.
R. Glass

656 Eglinton Avenue E.
T. M. Walton

2555 Victoria Park Ave.
G. Dow

2376 Yonge Street
R. C. Hildenbrand

3204 Yonge Street
K. Armes

4841 Yonge Street
D. A. DiTosto

Morningside Mall
255 Morningside Avenue
D. G. Jones

Waterloo
Waterloo Town Square
75 King Street South
B. K. Hanna

Welland
144 East Main Street
K. J. P. Moser

Windsor
305 Victoria Avenue
R. A. Thompson

Woodbridge
Market Lane
124 Woodbridge Avenue
F. Gaudio

Manitoba

Winnipeg
430 Portage Avenue
W. M. Simms

Kildonan Place
43-1555 Regent Avenue
West
U. Bell

Saskatchewan

Moose Jaw
330 Main Street North
R. A. Waruk

Regina
2020 - 11th Avenue
A. O'Leary

Saskatoon

212 - 22nd Street East
D. G. Vensel

Alberta

Calgary
Gulf Canada Square
401 - 9th Avenue S.W.
W. Rhind

Edmonton
10030 Jasper Avenue
D. Denholm

British Columbia

Coquitlam
2929 Barnett Way
Coquitlam Centre
D. R. Saint

North Vancouver
1452 Lonsdale Avenue
G. Crichton

Vancouver
800 West Pender Street
J. W. Howell

2634 Granville Street
R. D. White

West Vancouver
1645 Marine Drive
G. Seymour

Victoria
107 - 2187 Oak Bay Avenue
J. Bowron

CORPORATE SERVICES OFFICES

Nova Scotia

Halifax

Barrington Street Tower
Scotia Square
R. J. Duffey

New Brunswick

Fredericton

500 Beaverbrook Court
G. McBride

Quebec

Montreal

4150, rue Ste-Catherine
ouest
G.H. Desrosiers

2000, rue Mansfield

P. Chaput,
Transfer Services

Quebec City

880, Chemin Ste-Foy
J. Savard

Ontario

Hamilton

200 James Street South
P. D. Winer

Ottawa

225 Metcalfe Street
D. J. Davison

Sault Ste. Marie

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