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FINANCIAL

STATEMENTS



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**GUARANTY TRUST COMPANY OF CANADA
CONSOLIDATED FINANCIAL STATEMENTS**

CONSOLIDATED STATEMENT OF INCOME
(\$ thousands)

	Year ended December 31		
	1985	1984	% Increase (Decrease)
Revenue			
<i>Consumer loan income</i>			
Mortgages	\$ 125,484	\$ 106,282	18
Personal	62,095	47,090	32
	<u>187,579</u>	<u>153,372</u>	<u>22</u>
<i>Corporate loan income</i>			
Mortgages	60,395	58,282	4
Corporate term	15,695	19,138	(18)
Equipment financing	20,675	16,528	25
Manufacturer and dealer services	30,287	29,352	3
	<u>127,052</u>	<u>123,300</u>	<u>3</u>
<i>Securities income</i>			
Bonds and money market instruments	50,448	54,461	(7)
Stocks	9,654	4,881	98
	<u>374,733</u>	<u>336,014</u>	<u>12</u>
Interest expense	(291,724)	(270,491)	8
Interest spread	83,009	65,523	27
Provision for loan losses	(3,105)	(4,401)	(29)
Interest spread after provision for loan losses	<u>79,904</u>	<u>61,122</u>	<u>31</u>
<i>Fiduciary fees</i>	26,092	25,841	1
<i>Real estate operations</i>			
Property sales and other income	47,779	38,026	26
Cost of sales and write-downs	(35,127)	(27,748)	27
Interest expense	(6,331)	(6,060)	4
	<u>6,321</u>	<u>4,218</u>	<u>50</u>
Net real estate brokerage	-	1,939	-
Revenue from operations	<u>112,317</u>	<u>93,120</u>	<u>21</u>
Expense			
<i>Salaries and staff benefits</i>	42,931	38,754	11
<i>Premises</i>	10,915	9,454	15
<i>Information processing, marketing and other</i>	35,080	27,374	28
	<u>88,926</u>	<u>75,582</u>	<u>18</u>
Income before income taxes	23,391	17,538	33
<i>Income taxes</i> (Note 7)			
- current	66	157	(58)
- deferred	7,196	6,129	17
	<u>7,262</u>	<u>6,286</u>	<u>16</u>
Net operating income	16,129	11,252	43
Other	41	(637)	-
Net income for the year	<u>\$ 16,170</u>	<u>\$ 10,615</u>	<u>52</u>
Available for			
Preference shares	\$ 964	\$ 993	(3)
Common Shares	15,206	9,622	58
	<u>\$ 16,170</u>	<u>\$ 10,615</u>	<u>52</u>
Earnings per common share			
Net operating income	\$ 1.25	\$ 0.85	47
Net income	\$ 1.26	\$ 0.80	58
Weighted average number of common shares outstanding	12,099,399	12,099,399	
Return on average			
Assets	0.48 %	0.35 %	
Common share equity	11.18 %	7.66 %	

CONSOLIDATED BALANCE SHEET

(\$ thousands)

	December 31		
	1985	1984	% Increase (Decrease)
Assets			
<i>Cash and securities</i>			
Cash and money market instruments	\$ 444,805	\$ 333,941	33
Securities (Note 3)	227,204	145,137	57
	<u>672,009</u>	<u>479,078</u>	<u>40</u>
<i>Loans</i>			
<i>Consumer</i>			
Mortgages	1,025,842	980,620	5
Personal	459,004	400,433	15
Non-performing	5,180	10,324	(50)
	<u>1,490,026</u>	<u>1,391,377</u>	<u>7</u>
<i>Corporate</i>			
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>
<i>Real Estate</i>			
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>
<i>Other assets</i>			
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	10,629	7,259	46
Miscellaneous	26,394	23,670	12
	<u>\$ 3,603,185</u>	<u>\$ 3,174,458</u>	<u>14</u>
Liabilities and Shareholders' Equity			
<i>Deposits</i>			
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>
<i>Bank and other loans secured by mortgages</i>	99,809	66,199	51
<i>Other Liabilities</i>			
Interest accrued	104,207	91,398	14
Accounts payable	75,231	86,090	(13)
Unearned finance charges	23,836	18,686	28
Deferred income taxes (Note 7)	37,261	30,443	22
<i>Shareholders' Equity</i>			
Capital stock (Note 2)	36,091	36,389	(1)
Contributed surplus	48,867	48,867	-
Retained earnings	69,253	56,459	23
	<u>154,211</u>	<u>141,715</u>	<u>9</u>
	<u>\$ 3,603,185</u>	<u>\$ 3,174,458</u>	<u>14</u>

We hereby certify that to the best of our knowledge and belief the consolidated balance sheet as at December 31, 1985 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended are correct and show truly and clearly the consolidated financial condition of the Company's affairs and the results of its operations.

JAMES W. McCUTCHEON, Q.C., Chairman of the Board
 ALAN R. MARCHMENT, F.C.A., President and Chief Executive Officer
 IRVING R. GERSTEIN, Director and Chairman of the Audit Committee

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(\$ thousands)

	Year Ended December 31	
	1985	1984
Balance at beginning of year		
Net income for the year	\$ 56,459	\$ 48,708
Discount on preference shares purchased for cancellation (Note 2)	16,170	10,615
	8	65
	<u>72,637</u>	<u>59,388</u>
Less dividends - preference shares	964	993
- common shares (1985 - \$0.20 per share; 1984 - \$0.16 per share)	2,420	1,936
	<u>69,253</u>	<u>56,459</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(\$ thousands)

	Year Ended December 31	
	1985	1984
Balance at beginning and end of year	<u>\$ 48,867</u>	<u>\$ 48,867</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(\$ thousands)

	Year Ended December 31	
	1985	1984
Cash and money market instruments derived from		
Operations		
Net income	\$ 16,170	\$ 10,615
Charges (credits) not affecting cash	11,874	8,156
(Increase) decrease in security & loan income due and accrued	1,581	10,529
(Decrease) increase in accrued interest and accounts payable	1,950	(61,721)
	<u>31,575</u>	<u>(32,421)</u>
Intermediary deposits		
Increase (decrease) in		
Savings and chequing accounts	15,830	(5,679)
Time deposits	(1,500)	6,224
Guaranteed investment certificates	354,373	242,730
Bank and other loans secured by mortgages	33,610	4,932
Unearned finance charges	5,150	15,162
	<u>407,463</u>	<u>263,369</u>
	<u>439,038</u>	<u>230,948</u>
Cash was used for		
Investments		
Increase (decrease) in		
Securities	82,067	74,595
Loans	185,634	274,988
Real estate	45,515	7,877
Other	11,284	(93,084)
Purchase for cancellation of preference shares	290	387
	<u>324,790</u>	<u>264,763</u>
Dividends		
Common shares	2,420	1,936
Preference shares	964	993
	<u>328,174</u>	<u>267,692</u>
Increase (decrease) in cash and money market instruments	<u>\$ 110,864</u>	<u>\$ (36,744)</u>

GUARANTY TRUST COMPANY OF CANADA LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1985

Note 1 - Summary of Significant Accounting Policies

A) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies, Guaranty Properties Limited and Guaranty Realty Investments Limited.

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 and at the time of transfer to the 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 to income 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.

J) Comparative Figures

Certain comparative figures for 1984 have been reclassified to conform with the financial statement presentation adopted in 1985.

Note 2 - Capital Stock

	<u>1985</u>	<u>1984</u>
	(\$ thousands)	
Authorized —		
1,094,625 Preference shares of \$20.00 par value issuable in series (1984 — 1,109,475)		
25,000,000 Common shares of \$2.00 par value		
Issued and outstanding —		
594,625 8% Cumulative redeemable preference shares, Series A (1984 — 609,475)	\$ 11,892	\$ 12,190
12,099,399 Common shares (1984 — 12,099,399)	<u>24,199</u>	<u>24,199</u>
	<u>\$ 36,091</u>	<u>\$ 36,389</u>

During the year 14,850 preference shares for a total consideration of \$290,000 were purchased at various market rates and cancelled, thus meeting the Company's purchase obligation.

Preference shares are redeemable at the Company's option at \$20.40 per share in 1986, reducing by \$0.20 per share per year until December 31, 1987 and are redeemable at \$20.00 per share thereafter.

Note 3 - 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 and medium term	\$ 49,900	\$ 48,790	\$ 25,102	\$ 23,866
- long term	37,007	30,776	22,398	16,931
Corporate and other	2,840	2,262	4,329	3,691
	<u>89,747</u>	<u>81,828</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>\$ 227,204</u>	<u>\$ 223,454</u>	<u>\$ 145,137</u>	<u>\$ 137,854</u>

Note 4 - 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) 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.

	Year ended December 31			
	Gross Revenue		Contributed Earnings	
	1985	1984	1985	1984
	(\$ thousands)			
Intermediary	\$ 374,733	\$ 336,014	\$ 15,836	\$ 10,850
Fiduciary	26,092	25,841	4,677	4,970
Real estate operations	47,779	38,026	2,878	1,880
Real estate brokerage	-	6,386	-	(162)
	<u>\$ 448,604</u>	<u>\$ 406,267</u>	<u>23,391</u>	<u>17,538</u>
Other			41	(637)
Income taxes			(7,262)	(6,286)
Net income			<u>\$ 16,170</u>	<u>\$ 10,615</u>

Note 5 - Related Party Transactions

During the year the Company

- (i) had net acquisitions of \$33,335,000 (1984 — \$51,640,000) of consumer personal finance loans, net of unearned finance charges of \$15,439,000 (1984 — \$17,625,000), from Traders Group Limited and its direct and indirect subsidiaries at fair market value;
- (ii) had net recoveries of \$2,256,000 (1984 — \$6,394,000) from Traders Group Limited and its direct and indirect subsidiaries for the portions of shared head office personnel, facilities and other costs allocated to them based on actual costs determined by reference to direct expenditures or through an allocation based on time, average funds in use or headcount.

Note 6 - Pension Plans

Pension plans are provided for substantially all employees. The most recent independent actuarial valuations of the plans were made January 1, 1984 showing no unfunded liability and a surplus to offset current and future pension costs.

Note 7 - Income Taxes

A) Income Taxes Provided in the Statement of Income

	Year Ended December 31			
	1985			1984
	(\$ thousands)			
Income before income taxes	\$ 23,391			\$ 17,538
Provision based on combined statutory rates	\$ 11,957	51 %		\$ 8,963
Increase (decrease) resulting from:				
Tax exempt dividend and debenture income	(4,811)	(21)		(2,439)
Other items	116	1		(238)
Income tax provision	\$ 7,262	31 %		\$ 6,286
Comprised of:				
Current Taxes	\$ 66			\$ 157
Deferred Taxes				
Carrying costs of real estate adjusted on filing	(1,658)			(602)
Excess mortgage reserves claimed for filing purposes	813			2,250
Application of prior years filing losses	3,547			4,082
Mortgage discount claimed for filing purposes	2,383			-
Computer development costs claimed for filing purposes	1,600			-
Other	511			399
	7,196			6,129
Income tax provision	\$ 7,262			\$ 6,286

B) Deferred Taxes Provided in the Balance Sheet

Carrying costs of real estate claimed for filing purposes	\$ 30,380	\$ 32,038
Excess mortgage reserves claimed for filing purposes	10,793	9,980
Filing losses available	(7,692)	(11,239)
Mortgage discount claimed for filing purposes	2,383	-
Computer development costs claimed for filing purposes	1,600	-
Other items - net	(203)	(336)
	\$ 37,261	\$ 30,443

The future tax benefits of losses carried forward on a filing basis have been recognized in the financial statements due to the virtual certainty of their application in reducing future amounts of taxable income.

Note 8 - Commitments And Contingencies

Guaranty Trust leases premises for various periods up to 15 years. The aggregate amount of rentals incurred in the year ended December 31, 1985 was \$4,600,537 (1984 - \$3,973,000) and the aggregate minimum rental expense under these leases for the five years subsequent to December 31, 1985 is approximately \$17,614,000 (1984 - \$14,646,000).

Outstanding loan and mortgage commitments for future advances total \$175,924,000 as at December 31, 1985 (1984 - \$181,089,000).

Guaranty Properties is contingently liable in the amount of \$32,316,000 at December 31, 1985 (1984 - \$33,531,000) for the liabilities of co-owners in unincorporated joint ventures. These contingent liabilities, if materialized, would be offset by a claim on the joint venture assets of the co-owners. The total value of these assets exceeds the contingent liability.

In 1981 legal proceedings against Guaranty Trust, the Bank of Montreal, Thorne Riddell Inc., and others, were commenced in British Columbia and in Alberta, alleging, among other things, that Guaranty Trust as trustee under a trust indenture acted improperly in appointing a receiver and manager of the assets of Abacus Cities Ltd., now in bankruptcy. Damages claimed against all defendants in Alberta total approximately \$300,000,000, while the action in British Columbia is now for an unspecified amount.

In British Columbia, Thorne Riddell & Company, Vernon C. Morrison and the Bank of Montreal, co-defendants, have brought a third party action against their co-defendants, including Guaranty Trust, for indemnity in respect of the claims of the plaintiffs.

Upon the application of Guaranty Trust and other defendants, the Alberta and British Columbia actions have been ordered dismissed by the courts. These orders are presently under appeal.

In the event that these appeals are successful and these actions be maintained, Guaranty Trust will continue to defend these actions, including the third party actions, and, based upon the opinion of its legal counsel, Guaranty Trust has a good defence to all actions.

Auditors' Report

*To the Shareholders of
Guaranty Trust Company of Canada:*

We have examined the consolidated balance sheet of Guaranty Trust Company of Canada as at December 31, 1985 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us as shown by the books of the Company, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE
Chartered Accountants

Toronto, February 3, 1986



GUARANTY TRUST
COMPANY OF CANADA
HEAD OFFICE:

366 Bay Street
Toronto, Ontario
M5H 2W5

