

Guaranty
Trust



Annual Report
1981



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Head Office

366 Bay Street, Toronto, Ontario M5H 2W5
Telephone: (416) 863-5000

Stock Exchange Listing

Toronto Stock Exchange

Annual General Meeting

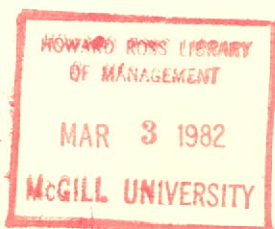
The Annual General Meeting of Shareholders will be held at 10.30 a.m., on Friday, February 26th, 1982, in Salon 'A', Convention Floor of the Royal York Hotel, 100 Front Street West, Toronto, Ontario.

Assemblée générale annuelle

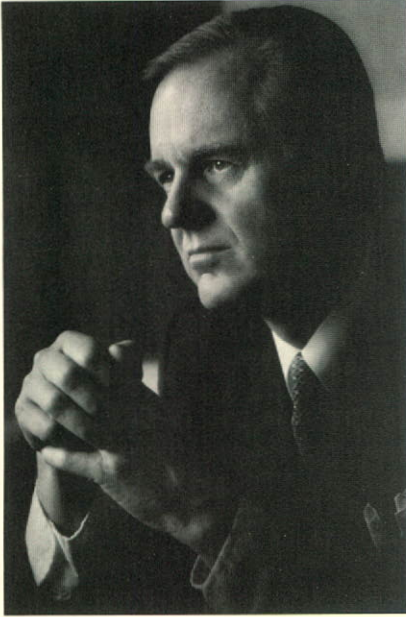
L'assemblée générale annuelle des actionnaires aura lieu à 10 h 30, le vendredi 26 février 1982, au salon 'A', Convention Floor, de l'Hôtel Royal York, 100 ouest, rue Front, Toronto, Ontario.

Comptes de l'exercice

Si vous desirez recevoir un exemplaire en français des comptes de l'exercice de Guaranty Trust, veuillez vous adresser au services des finances, Compagnie Guaranty Trust du Canada, 366, rue Bay, Toronto, Ontario M5H 2W5.



	1981	1980	% Increase (Decrease)
Investment income	\$ 304,989,000	\$ 227,734,000	34
Land sales and other income	20,628,000	17,494,000	18
Fees and commissions	30,148,000	22,270,000	35
Gross income	\$ 355,765,000	\$ 267,498,000	33
Net operating income	\$ 1,678,000	\$ 8,211,000	(80)
Net income for the year	\$ 3,390,000	\$ 8,343,000	(59)
Earnings per common share	\$ 0.23	\$ 0.76	(70)
Dividends per common share	\$ 0.16	\$ 0.16	—
Assets under administration:			
Company, guaranteed funds and real estate	\$2,686,151,000	\$2,350,597,000	14
Estate, trust and agency assets	2,037,081,000	1,721,397,000	18
Total assets under administration	\$4,723,232,000	\$4,071,994,000	16



The overall financial condition of your Company remained strong in 1981 in spite of the adverse conditions imposed by unacceptably high inflation and interest rates which were unprecedented in their volatility and high average level. These factors unfavourably affected the profitability of your Company and as a result, only a modest operating profit was achieved in 1981. Net income from sales of investments, together with the net income earned by the Company's real estate subsidiary, Guaranty Properties Limited, resulted in a final net profit of \$3,390,000 or 23 cents per share compared with \$8,343,000 or 76 cents per share for the preceding year. Common dividends of 16 cents per share were paid in 1981.

Total assets under administration rose to \$4,723,232,000 at December 31, 1981, an increase of \$651,238,000 or 16 percent during the year. Of this increase, \$335,554,000 was attributable to growth in the Company's assets and \$315,684,000 to estate, trust and agency assets administered by the Company.

To provide for this magnitude of growth, the Company's authorized common share capital was increased by 15 million shares to 25 million shares in December, 1981.

Total shareholders' equity increased \$15,613,000 or 15 percent to \$118,023,000 at year-end. In 1981, the Company issued

3,433,855 common shares for \$27,471,000 to its parent, of which \$15,000,000 was for cash consideration and the balance was for the purchase of Guaranty Properties Limited. These transactions have provided the Company with sufficient equity to meet normal growth requirements and further asset transfers from Traders Group Limited in 1982.

The Company acquired Guaranty Properties Limited, a fully integrated real estate company, from Traders Group Limited, on December 31, 1981 at book value for common shares. For accounting purposes, the transaction is treated as a pooling of interests. Accordingly, Guaranty Properties' earnings, assets and liabilities have been added to those of the Company for 1981, and 1980 figures have been restated to reflect their inclusion.

In 1981, the Company purchased \$46,241,000 of residential mortgages and other loans from Traders Group Limited at market value.

As reported to you last year, VISA was successfully introduced in 1981. At year-end there were approximately 26,000 cards issued with outstandings of \$9,700,000.

Nineteen eighty-one also saw the automation of the last major Trust Company system, the mortgage system. This will provide better information for our customers and our management, and will also result in further operating efficiencies.

During 1981, the Company pursued its policy of upgrading the skills of its employees. Particular emphasis was placed on managerial training through courses sponsored by the Trust Companies Institute.

Mr. E. Wallace Flanagan, Vice Chairman of the Company, was relocated in September to our Western Headquarters in Calgary, Alberta. Continued growth in Western Canada is an important priority of the Company and Mr. Flanagan will play the major role in expanding our western presence.

New trust company legislation was not introduced in 1981 as anticipated in last year's annual report. It is of concern to us that the government continues to postpone the introduction of this legislation because it adversely affects the competitive position of the whole trust and loan industry. It is of particular concern to our Company because it delays the transfer of additional assets to Guaranty Trust from Traders Group and denies our shareholders the improved earnings which would follow this action.

As a major lender of mortgage funds to the Canadian housing industry over a long period of time, we were deeply concerned by two government initiatives which could eliminate any financial return on mortgage investments. The first was the pressure exerted by the federal government on financial institutions to reduce mortgage

interest rates, which could have the effect of narrowing or eliminating the interest rate spread between loan interest earned and interest paid to depositors. Secondly, the actions of the Saskatchewan government with respect to postponing mortgage defaults and limiting renewal rates may likewise severely impact the profitability of mortgage investments.

It is somewhat ironic that we have the opposite problem of holding long term NHA mortgages with low yields which mortgagors do not wish to give up despite the offer of bonuses, discounts and other options.

In looking ahead to 1982, it is virtually impossible to forecast the Canadian economy with any degree of certainty. Your Company is expected to operate profitably in 1982 providing the average cost of funds reflects the average rate of interest in effect at the beginning of the year.

We shall continue to transfer further consumer and commercial loans from Traders Group Limited to Guaranty Trust as the Trust Act and time permits.

The relationship between Traders and Guaranty Trust provides a unique mechanism whereby Traders can continue to provide capital to Guaranty Trust to support its growth and Guaranty Trust can buy business from Traders so as to maintain its trust indenture ratios and provide lower cost funds.

We were saddened by the death of J. J. Rankin and Brigadier General W. P. Gilbride. Their wisdom and contribution as Directors Emeriti will be missed.

I thank the Board of Directors for their continued counsel and support as well as all the management and staff for their dedication, skills and hard work during 1981.



Alan R. Marchment
Chairman of the Board,
President and Chief Executive Officer

SELECTED FINANCIAL DATA
AND RATIOS

	1981	1980	Increase/(Decrease)	
			Amount	%
Earnings				
Net interest and other operating income	\$ 59,337,000	\$ 53,367,000	\$ 5,970,000	11
Net operating income	\$ 46,000	\$ 4,604,000	\$ (4,558,000)	(99)
Net income	\$ 3,390,000	\$ 8,343,000	\$ (4,953,000)	(59)
Per share data				
Net operating income	\$0.06	\$0.75	\$(0.69)	(92)
Net income	\$0.23	\$0.76	\$(0.53)	(70)
Cash dividends paid	\$0.16	\$0.16	—	—
Financial position				
Total assets of Company	\$2,549,983,000	\$2,240,427,000	\$309,556,000	14
Deposits	\$2,340,704,000	\$2,065,919,000	\$274,785,000	13
Shareholders' equity	\$ 118,023,000	\$ 102,410,000	\$ 15,613,000	15
Financial ratios				
Net interest income	1.29%	1.80%	(.51)	(28)
Return on total assets	.10%	.34%	(.24)	(71)
Total assets to equity	24.41	25.34	(.93)	(4)
Return on common equity	2.37%	8.33%	(5.96)	(72)
Common dividend payout	59.85%	17.56%	42.29	241

NET INTEREST INCOME

	1981	1980	Increase/(Decrease)	
			Amount	%
Interest income	\$ 304,989,000	\$ 227,734,000	\$77,255,000	34
Interest expense	275,800,000	196,637,000	79,163,000	40
Net interest income	29,189,000	31,097,000	(1,908,000)	(6)
Taxable equivalent adjustment	1,775,000	6,675,000	(4,900,000)	(73)
Net interest income (TE)	30,964,000	37,772,000	(6,808,000)	(18)
Interest rate spread (TE)	.71%	1.26%	(.55%)	(44)

NET INTEREST INCOME

Net interest income decreased by 6 percent in 1981 compared with a 27 percent increase in 1980.

The reduction in the taxable equivalent adjustment in 1981 arises from losses for tax purposes exceeding the deferred income tax balance.

The 1981 decline in net interest income was the result of high deposit rates exceeding volume gains. The net interest margin of 0.71 percent was down 55 basis points from 1980. The decline was attributable primarily to higher cost of money in relation to the approximately \$286,000,000 of long term mortgages and bonds acquired in the 1960s and earning 7.47 percent on average. Total Company assets were up 14 percent. The table below shows how much of the increase in net interest income was due to increased assets and how much was due to fluctuations in interest rates.

CHANGE IN NET INTEREST INCOME	1981 vs 1980
Due to increase in earning assets	\$ 9,561,000
Due to fluctuating interest rates	(11,469,000)
	\$ (1,908,000)

FEES AND COMMISSIONS

In keeping with the continuing objective to promote growth in this area, fee and commission income amounted to \$30,148,000 in 1981, up \$7,878,000 or 35 percent from the year earlier level. This follows a \$5,030,000 or 29 percent increase reported for 1980.

The Pension results were most gratifying. The introduction of the Master Trust pension administration and investment performance measurement program in 1981 has resulted in some major Canadian corporations becoming new clients. High stock market volumes and an active takeover environment earlier in 1981 resulted in excellent Transfer Service fee growth. While real estate volumes in the first half of 1981 reached historic high levels in central and western Canada, the slow market in the second half moderated the profitability of this operation for the full year. Continuing growth in self-administered RSP plans and in the number of trustee RSP plans were the prime factors producing the 30 percent increase in this source of revenue. The introduction of investment dealer RSP plans for individuals in Canada in late 1981 will undoubtedly reduce the number of self-administered plans administered by trust companies. Guaranty Trust is trustee of the plans of four major investment dealers. The profit contribution of Personal Trust operations continues to improve. Higher fees from the successful Canada Savings Bond campaign was the major factor contributing to the 75 percent improvement in "Other fees and commissions".

PROVISION FOR CREDIT LOSSES

The credit loss expense incurred during the year is a function of the current level of net credit losses plus management's assessment of

FEE AND COMMISSION INCOME	1981	1980	Increase	
			Amount	%
Personal trust	\$ 3,836,000	\$ 3,134,000	\$ 702,000	22
Investment fund services	5,654,000	4,337,000	1,317,000	30
Pension	1,806,000	1,400,000	406,000	29
Stock transfer and bond trusteeship	7,258,000	4,813,000	2,445,000	51
Other	2,926,000	1,673,000	1,253,000	75
	21,480,000	15,357,000	6,123,000	40
Real estate	8,668,000	6,913,000	1,755,000	25
	\$30,148,000	\$22,270,000	\$ 7,878,000	35

CREDIT LOSSES	1981		1980	
	Net write-off	Change in allowance	Net write-off	Change in allowance
Consumer loans	\$ 668,000	\$ 535,000	\$488,000	\$ 153,000
Corporate loans	129,000	554,000	51,000	113,000
Sales finance	266,000	56,000	217,000	(32,000)
Mortgages — residential	86,000	65,000	7,000	65,000
— commercial	472,000	—	187,000	42,000
	\$1,621,000	\$1,210,000	\$950,000	\$ 341,000

OTHER EXPENSE	1981	1980	Increase/(Decrease)	
			Amount	%
Salaries and benefits	\$28,193,000	\$23,852,000	\$ 4,341,000	18
Real estate commissions paid	6,365,000	5,028,000	1,337,000	27
Premises	7,408,000	5,990,000	1,418,000	24
Marketing	2,642,000	2,432,000	210,000	9
Data processing	5,669,000	3,934,000	1,735,000	44
Communications	3,154,000	2,874,000	280,000	10
All other	3,606,000	5,433,000	(1,827,000)	(34)
	\$57,037,000	\$49,543,000	\$ 7,494,000	15

the appropriate level of the reserve for future losses. In making that assessment, consideration is given to the risks and uncertainties inherent in each loan portfolio including the value of underlying security as well as the economic outlook.

OTHER EXPENSE

Other operating expense in 1981 exhibited a 15 percent increase compared to the prior year. Between 1979 and 1980, the increase had been 27 percent.

Total staff expense increased \$4,341,000. This reflects merit

and promotion increases as well as personnel moves associated with the transfer of receivables from the Finance Group to Guaranty Trust.

One new Savings branch in Winnipeg was opened in 1981 and two unprofitable branches in Grimsby and Stratford were closed in the year. As well, three branches underwent major renovations. Four real estate branches were closed in 1981.

Data processing costs, including operating costs and amortized sys-

Management Analysis of Financial Operations

tems development costs, continue to rise sharply. This is attributable to the development and implementation of new applications as well as to price increases on existing operating systems. Nineteen eighty-one saw the automation of the last of the Company's systems, including its 27,000 mortgages, and its personal loan and corporate lending portfolios. It is believed the future payback from these expenditures will be in improved employee productivity and in more effective marketing programs.

Management continues to be very concerned with the effects of inflation on operating expenses. In 1981, the productivity measurement program was expanded in the Company. Profitability measures were implemented and a number of specific cost reduction programs are underway to further improve business unit profitability.

INCOME TAXES

At December 31, 1981, income tax recoveries on the Company's tax loss of \$3,100,000, comprised of profit for the year less tax-exempt income, have not been recorded in the accounts due to uncertainty of future earnings. As a result of this and claiming timing differences, the Company has a tax filing loss carry forward position of \$16,900,000.

The Company is subject to significant tax burdens at the provincial and municipal levels. In 1981, provincial capital and place of business taxes together with municipal business and property taxes will approximate \$1,800,000 compared with \$1,600,000 for 1980.

LOAN PORTFOLIO MANAGEMENT

The objectives of loan portfolio management are to ensure that

CONTRACTUAL DELINQUENCIES, 60 DAYS OR MORE	1981		1980	
	Amount	% of O/S	Amount	% of O/S
Consumer	\$3,594,000	1.16	\$3,702,000	1.44
Corporate	1,641,000	0.89	1,130,000	1.63
Sales finance	234,000	0.42	468,000	1.10
Mortgage	3,871,000	0.29	1,489,000	0.11
	\$9,340,000	0.47	\$6,789,000	0.37

ALLOWANCE FOR CREDIT LOSSES	1981		1980	
	Amount	% of O/S	Amount	% of O/S
Consumer	\$2,010,000	0.62	\$1,400,000	0.52
Corporate	1,922,000	0.98	1,246,000	1.28
Sales finance	980,000	0.86	924,000	1.05
Mortgage	221,000	0.01	156,000	0.01
	\$5,133,000	0.26	\$3,726,000	0.20

loans are granted on a sound basis and that funds are properly invested for the protection of the depositor and the benefit of the shareholder.

Significant management activities include planning portfolio volume and mix including diversification of risk, measuring portfolio performance, setting credit policies and training lending personnel.

Loans contractually past due 60 days or more as to interest or prin-

cipal, along with the percentage relationship to the respective loan amounts outstanding, were as shown in the table above. The temporary increase in mortgage delinquencies arises from processing difficulties relating to the conversion to the automated mortgage system.

The allowance for credit losses in the major portfolios which management deems necessary to provide for known and possible future losses also can be seen above.

ASSET AND LIABILITY MIX (\$000's omitted)	1981		1980		Change	
	Amount	%	Amount	%	Amount	%
Cash and securities	\$ 524,970	21	\$ 392,940	18	\$132,030	34
Consumer loans	322,534	13	266,945	12	55,589	21
Mortgages—residential	1,157,653	45	1,170,170	52	(12,517)	(1)
—commercial	197,827	8	194,028	9	3,799	2
Corporate loans	194,964	8	96,388	4	98,576	102
Sales finance loans	113,223	4	86,683	4	26,540	31
Other	38,812	1	33,273	1	5,539	17
	\$2,549,983	100	\$2,240,427	100	\$309,556	14
Demand deposits	623,000	24	570,553	26	52,447	9
Time deposits	316,610	12	186,589	8	130,021	70
Term deposits	1,401,094	55	1,308,777	58	92,317	7
Other liabilities	91,256	4	72,098	3	19,158	27
Equity	118,023	5	102,410	5	15,613	15
	\$2,549,983	100	\$2,240,427	100	\$309,556	14

MATURITIES (\$Millions)	On demand and within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Other	Total
Assets								
Cash and bank deposit receipts	\$ 351	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 34	\$ 385
Securities	26	20	2	2	—	37	25	112
Mortgages	435	239	289	138	18	237	—	1,356
Other loans	402	116	88	28	2	—	—	636
Other assets	—	—	—	—	—	—	61	61
	\$1,214	\$375	\$379	\$168	\$ 20	\$274	\$120	\$2,550
Liabilities and equity								
Savings and chequing accounts	\$ 623	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 623
Time deposits	317	—	—	—	—	—	—	317
Guaranteed investment certificates	674	322	236	128	41	—	—	1,401
Other liabilities and equity	—	—	—	—	—	—	209	209
	\$1,614	\$322	\$236	\$128	\$ 41	\$ —	\$209	\$2,550
Difference at December 31, 1981	\$ (400)	\$ 53	\$143	\$ 40	\$ (21)	\$274	\$ (89)	\$ —
Difference at December 31, 1980	\$ (446)	\$ 66	\$ 6	\$ 96	\$ 57	\$298	\$ (77)	\$ —

ASSET AND LIABILITY MIX

Some significant changes occurred in the Company's asset and liability mix in 1981, partly from the impact of volatile, high interest on customer savings patterns and partly from management's continuing policy of diversifying the Company's asset portfolios.

During the second and third quarters, depositors moved dramatically to 30 to 90 day deposits away from the more traditional five year term deposits. Seventy-five percent of new term deposit funds were of one year maturity compared with the historical performance where 50 percent of new term deposits were for a five year term. As a result, the Company no longer offered five year mortgages, and most new lending (other than consumer loans) was done on a one year maturity or less basis, or at floating rates.

INTEREST RATE SENSITIVITY MANAGEMENT

The objective of interest sensitivity management is to maintain a reasonably stable growth of net interest income with an appropriate balance between stability of income and the risks associated with maximizing income through interest sensitivity imbalances. In 1981, the average term of the asset portfolios was shortened so that at December 31, 1981, 48 percent of the portfolios were on an interest-sensitive basis or will mature in one year, compared with 35 percent a year earlier.

The long term mortgage and bond portfolio was reduced by \$24,000,000 in 1981 to \$274,000,000 at year-end.

These long term assets will be reduced by approximately \$40,000,000 in 1982 as a result of maturities and amortization payments.

LIQUIDITY MANAGEMENT

The Company is required to provide liquid assets in the amount of 20 percent of its demand deposits and term deposits due within 100 days. The actual liquid assets maintained at December 31, 1981 were 35 percent. It is the Company's policy to operate its money market operations on a back-to-back basis; that is, the money market assets equate to the time deposit liabilities in amount and maturities.

HIGHLIGHTS

Guaranty Properties Limited is an integrated real estate company comprising land development, income properties, real estate sales and property management operations. For accounting and reporting purposes only, the financial results of the last two operations continue to be reflected in the financial statements of Guaranty Trust Company.

Although the land development operations started the year at a vigorous level of activity, high interest rates clearly slowed the pace of land sales in the second half of 1981 and caused significant write-downs of inventory values in certain properties to achieve required rates of return.

ANALYSIS AND COMMENTS

A brief analysis of the Company's operations appears in the "Review" chart, top right.

Land sales in 1981 of \$17,977,000 were \$2,416,000 or 16 percent ahead of 1980 levels. Sales in the Company's Britannia Industrial Park in Mississauga, Ontario and residential sales in Edmonton, Alberta accounted for a majority of the volume.

REVIEW OF OPERATIONS	1981	1980	Increase/(Decrease)	
			Amount	%
Land sales	\$17,977,000	\$15,561,000	\$ 2,416,000	16
Cost of sales	12,943,000	6,824,000	6,119,000	90
Interest expense	2,479,000	1,796,000	683,000	38
Other income	2,651,000	1,933,000	718,000	37
Operating expenses	1,621,000	1,476,000	145,000	10
Income taxes	1,953,000	3,791,000	(1,838,000)	(48)
Net income	\$ 1,632,000	\$ 3,607,000	\$ (1,975,000)	(55)

The Company's policy generally is to develop its properties when municipal approvals are in place, to market them when market conditions warrant and to earn a minimum return of 10 percent on its investments. In calculating future cash flows on certain properties using average 1981 interest rates, it became apparent that at these interest rate levels, the Company would not achieve its required rate of return. Accordingly, it wrote down its investment in certain properties by \$1,475,000 in 1981.

During 1981, the Company acquired 1,958 acres of land in Orlando, Florida. This land will be developed over a period of years into a residential community for permanent residents. As well, the Company

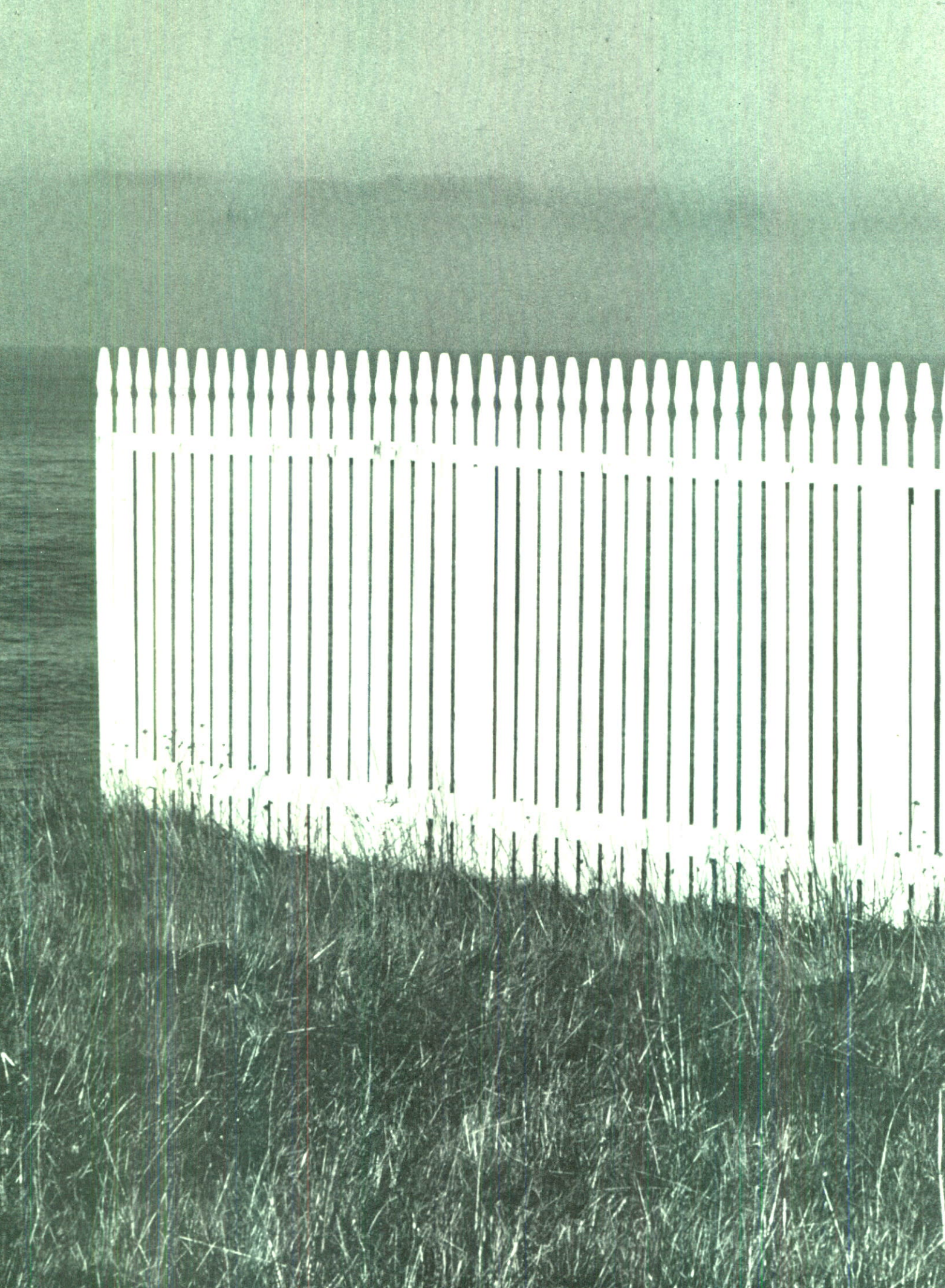
acquired through joint ventures, 109 acres of land in Pickering, Ontario, and 88 acres of land in Ottawa, Ontario.

At December 31, 1981, the Company's land holdings were as listed in the table below.

The Company's condominium project at 360 Bloor Street East in Toronto will be successfully completed in the first half of 1982. The sale of the Victoria Trail shopping centre in Edmonton, Alberta will close in the first quarter of 1982. The Mississauga project is proceeding satisfactorily.

The Company purchased the property on Charles Street behind its Toronto Head Office in 1981 for future development.

LAND HOLDINGS	# Acres	Book Value
Metro Toronto area, Ontario	2,157	\$ 80,047,000
Edmonton, Alberta	1,028	26,213,000
Orlando, Florida	1,958	6,801,000
Other (Ontario & Quebec)	142	613,000
	5,285	\$113,674,000



Year ended December 31

	1981	1980
Gross Income		
Interest from mortgages and other loans	\$246,603,000	\$190,304,000
Interest and dividends from securities and bank deposit receipts	58,386,000	37,430,000
Land sales and other income	20,628,000	17,494,000
Real estate fees and commissions	8,668,000	6,913,000
Other fees and commissions	21,480,000	15,357,000
	355,765,000	267,498,000
Expenses		
Interest—on deposits	275,800,000	196,637,000
—other	2,479,000	1,796,000
Cost of land sales	12,943,000	6,824,000
Credit losses	2,831,000	1,291,000
Salaries and staff benefits	29,111,000	24,677,000
Premises including depreciation and amortization of \$649,000 (1980—\$471,000)	7,607,000	6,209,000
Real estate commissions paid	6,365,000	5,028,000
Other expenses	15,575,000	15,105,000
	352,711,000	257,567,000
Income before income taxes	3,054,000	9,931,000
Income taxes—current	1,804,000	1,347,000
—deferred (Note 7)	(428,000)	373,000
	1,376,000	1,720,000
Net operating income	1,678,000	8,211,000
Net gain on investments and other assets, less applicable income taxes	1,712,000	132,000
Net income for the year	\$ 3,390,000	\$ 8,343,000
Available for		
Preference shares	\$ 1,106,000	\$ 1,127,000
Common shares	2,284,000	7,216,000
	\$ 3,390,000	\$ 8,343,000
Earnings per common share		
Net operating income	\$ 0.06	\$ 0.75
Net gain on investments and other assets	\$ 0.17	\$ 0.01
Net income for the year	\$ 0.23	\$ 0.76
Weighted average number of common shares outstanding	10,035,387	9,475,455

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, 1981 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 and as shown by the books of the Company, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 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.

Toronto, January 28, 1982

PRICE WATERHOUSE
Chartered Accountants

Assets	1981	1980
Cash and securities:		
Cash and bank deposit receipts	\$ 388,130,000	\$ 241,743,000
Securities and loan income due and accrued	27,198,000	22,210,000
Securities (Note 3)	112,860,000	129,862,000
	528,188,000	393,815,000
Loans:		
Consumer	322,534,000	266,945,000
Mortgages, residential	1,157,653,000	1,170,170,000
Mortgages, commercial	218,178,000	216,016,000
Corporate	194,964,000	96,388,000
Sales finance	113,223,000	86,683,000
	2,006,552,000	1,836,202,000
Real estate	122,133,000	94,833,000
Other:		
Fixed assets	6,879,000	5,913,000
Miscellaneous	22,399,000	19,834,000
	\$2,686,151,000	\$2,350,597,000
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Savings and chequing accounts	\$ 623,000,000	\$ 570,553,000
Time deposits	316,610,000	186,589,000
Guaranteed investment certificates	1,401,094,000	1,308,777,000
	2,340,704,000	2,065,919,000
Other liabilities:		
Bank loans and mortgages payable	102,421,000	74,676,000
Interest accrued	52,097,000	36,246,000
Accounts payable	39,081,000	33,921,000
Completion costs of real estate under development	10,003,000	15,760,000
Unearned finance charges	7,401,000	5,244,000
Advances from parent and associated companies	6,525,000	5,730,000
	217,528,000	171,577,000
Deferred income taxes	9,896,000	10,691,000
Shareholders' Equity (Note 5)		
Capital stock	36,265,000	32,955,000
Contributed surplus	41,378,000	30,128,000
Retained earnings	40,380,000	39,327,000
	118,023,000	102,410,000
	\$2,686,151,000	\$2,350,597,000

We hereby certify that to the best of our knowledge and belief the consolidated balance sheet as at December 31, 1981 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 the consolidated financial condition of the Company's affairs and the results of its operations.

A. R. MARCHMENT, Chairman of the Board, President & Chief Executive Officer

I. R. GERSTEIN, Director & Chairman of the Audit Committee

J. P. BASSEL, Director

Consolidated Financial Statements

Consolidated Statement of Retained Earnings

Year ended December 31	1981	1980
Balance at beginning of the year	\$ 39,327,000	\$ 26,075,000
Add: Guaranty Properties Limited	—	9,097,000
Adjusted beginning balance	39,327,000	35,172,000
Net income for the year	3,390,000	8,343,000
Discount on preference shares purchased for cancellation (Note 5)	136,000	76,000
	42,853,000	43,591,000
Less dividends—preference shares	1,106,000	1,127,000
—common shares (1981 and 1980—\$0.16 per share)	1,367,000	1,267,000
—Guaranty Properties Limited to Traders Group Limited	—	1,870,000
Balance at end of the year	\$ 40,380,000	\$ 39,327,000

Consolidated Statement of Contributed Surplus

Year ended December 31	1981	1980
Balance at beginning of the year	\$ 30,128,000	\$ 33,241,000
Consideration in excess of par value of common shares issued (Note 5)	11,250,000	—
Adjustment for Guaranty Properties Limited acquisition (Note 5)	—	(3,113,000)
Balance at end of the year	\$ 41,378,000	\$ 30,128,000

Consolidated Statement of Changes in Financial Position

Year ended December 31	1981	1980
Funds provided by		
Operations:		
Net income	\$ 3,390,000	\$ 8,343,000
Add non cash items:		
Depreciation and amortization	649,000	471,000
Deferred income taxes	(428,000)	373,000
	3,611,000	9,187,000
Net increase (decrease) in:		
Savings and chequing accounts	52,447,000	97,338,000
Time deposits	130,021,000	48,908,000
Guaranteed investment certificates	92,317,000	123,691,000
Bank loans and mortgages payable	27,745,000	16,440,000
Accrued interest and accounts payable	20,644,000	12,435,000
Completion costs of real estate under development	(5,757,000)	3,834,000
Unearned finance charges	2,157,000	52,000
Advances from parent and associated companies	795,000	2,022,000
Sale of fixed assets	606,000	6,136,000
Proceeds from issue of common shares (Note 5)	15,000,000	—
	\$339,586,000	\$320,043,000
Funds applied to		
Net increase (decrease) in:		
Cash and bank deposit receipts	\$146,387,000	\$ 41,506,000
Securities	(17,002,000)	(3,556,000)
Consumer loans (Note 6)	55,589,000	104,090,000
Mortgages, residential	(12,517,000)	85,106,000
Mortgages, commercial	2,162,000	15,289,000
Corporate loans (Note 6)	98,576,000	36,906,000
Sales finance	26,540,000	695,000
Real estate	27,300,000	24,050,000
Other	9,774,000	11,295,000
Dividends (1980 including Guaranty Properties Limited)	2,473,000	4,264,000
Purchase for cancellation of preference shares, Series A	304,000	398,000
	\$339,586,000	\$320,043,000

Statement of
Income

Year ended December 31

	1981	1980
Gross income		
Interest from mortgage and other loans	\$ 246,603,000	\$ 190,304,000
Interest and dividends from securities and bank deposit receipts	58,386,000	37,430,000
Real estate fees and commissions	8,668,000	6,913,000
Other fees and commissions	21,480,000	15,357,000
	335,137,000	250,004,000
Expenses		
Interest on deposits	275,800,000	196,637,000
Credit losses	2,831,000	1,291,000
Salaries and staff benefits	28,193,000	23,852,000
Real estate commissions paid	6,365,000	5,028,000
Premises including depreciation and amortization	7,408,000	5,990,000
Other expenses	15,071,000	14,673,000
	335,668,000	247,471,000
Income (loss) before income taxes	(531,000)	2,533,000
Income taxes deferred	(577,000)	(2,071,000)
Net operating income	46,000	4,604,000
Net gain on investments and other assets, less applicable income taxes	1,712,000	132,000
Equity share of net income of Guaranty Properties Limited	1,632,000	3,607,000
Net income for the year	\$ 3,390,000	\$ 8,343,000

Summary
Balance Sheet

December 31

	1981	1980
Assets		
Cash and securities		
Cash and bank deposit receipts	\$ 384,912,000	\$ 240,868,000
Securities and loan income due and accrued	27,198,000	22,210,000
Securities	112,860,000	129,862,000
	524,970,000	392,940,000
Loans		
Consumer	322,534,000	266,945,000
Mortgages, residential	1,157,653,000	1,170,170,000
Mortgages, commercial	197,827,000	194,028,000
Corporate	194,964,000	96,388,000
Sales finance	113,223,000	86,683,000
	1,986,201,000	1,814,214,000
Other		
Investment in subsidiary, Guaranty Properties Limited	12,471,000	10,839,000
Fixed assets	6,573,000	5,823,000
Miscellaneous assets	19,768,000	16,611,000
	\$2,549,983,000	\$2,240,427,000
Liabilities		
Deposits		
Savings and chequing accounts	\$ 623,000,000	\$ 570,553,000
Time deposits	316,610,000	186,589,000
Guaranteed investment certificates	1,401,094,000	1,308,777,000
	2,340,704,000	2,065,919,000
Other		
Interest accrued	52,097,000	36,246,000
Accounts payable	31,758,000	30,031,000
Unearned finance charges	7,401,000	5,244,000
Deferred income taxes	—	577,000
	118,023,000	102,410,000
Shareholders' equity	\$2,549,983,000	\$2,240,427,000

Guaranty Properties*

Summarized Financial Information

Statement of Income

Year ended December 31

	1981	1980
Gross income		
Sales	\$ 17,977,000	\$ 15,561,000
Other	2,651,000	1,933,000
	20,628,000	17,494,000
Expenses		
Cost of sales	11,468,000	6,824,000
Write-down of land inventory	1,475,000	—
Interest expense	2,479,000	1,796,000
Salaries and staff benefits	918,000	825,000
Premises including depreciation	199,000	219,000
Other expenses	504,000	432,000
	17,043,000	10,096,000
Income before income taxes	3,585,000	7,398,000
Income taxes—current	1,804,000	1,347,000
—deferred	149,000	2,444,000
	1,953,000	3,791,000
Net contribution to Guaranty Trust	\$ 1,632,000	\$ 3,607,000

Summary Balance Sheet

December 31

	1981	1980
Assets		
Cash	\$ 3,218,000	\$ 875,000
Mortgages receivable and other secured receivables	20,351,000	21,988,000
Real estate		
Land inventory	113,674,000	90,411,000
Residential buildings under construction	6,932,000	2,884,000
Income producing property	1,527,000	1,538,000
	122,133,000	94,833,000
Other		
Fixed assets	306,000	90,000
Miscellaneous assets	2,631,000	3,223,000
	\$148,639,000	\$121,009,000
Liabilities		
Debt**		
Bank loans	\$ 94,613,000	\$ 70,246,000
Mortgages payable	7,808,000	4,430,000
	102,421,000	74,676,000
Other		
Accounts payable and accrued expenses	17,326,000	19,650,000
Advances from associated companies	6,525,000	5,730,000
Deferred income taxes	9,896,000	10,114,000
Guaranty Trust investment, at equity value	12,471,000	10,839,000
	\$148,639,000	\$121,009,000

*Consists of Guaranty Properties Limited and the following subsidiaries and joint ventures:

Guaranty Properties (U.S.) Inc.

Guaranty Properties (Florida) Inc.

Albion Road Estates Limited

Traders Associates

Verity Investments Limited

Apple Creek Business Park

360 Bloor Street East

**Bears interest rates from 9% to prime plus ¾% and matures from 1982 to 1987.

Guaranty Trust Company of Canada

1. Summary of Accounting Policies:

These consolidated financial statements comply with all disclosure requirements of the Trust Companies Act (Canada). The summary of accounting policies presented on page F8 is an integral part of the financial statements.

2. Guaranteed Trust Account:

Included in the consolidated balance sheet are assets and liabilities of the guaranteed trust account of \$2,428,289,000 (1980—\$2,137,599,000).

	<u>1981</u>	<u>1980</u>
3. Securities:		
Government of Canada and Provinces of Canada	\$ 54,709,000	\$ 45,294,000
Other securities:		
Municipal	1,079,000	1,667,000
Corporation bonds and debentures	5,811,000	6,545,000
Stocks	51,261,000	76,356,000
(Market value 1981—\$50,415,000; 1980—\$79,485,000)	58,151,000	84,568,000
	<u>\$112,860,000</u>	<u>\$129,862,000</u>

4. Guaranty Properties Limited:

On December 31, 1981 the Company acquired all the issued capital stock of Guaranty Properties Limited (GPL), a company engaged in real estate development, from Traders Group Limited (TGL) for a consideration consisting of common shares of the Company valued at \$12,471,000 (Note 5). Since TGL is the parent company of GPL and the Company, the combination has been accounted for as a pooling of interests. The consolidated financial statements include the assets and liabilities of both companies as at December 31, 1981 and the results of their operations for the year then ended. Comparative figures have been restated to reflect this business combination.

The net assets acquired and the results of operations of both the Company and GPL are included in the summarized financial information (page F4 and F5) which is an integral part of the consolidated financial statements.

5. Capital Stock:

	<u>1981</u>	<u>1980</u>
Authorized—		
1,178,150 Preference shares of \$20.00 par value issuable in series (1980—1,200,175)		
25,000,000 Common shares of \$2.00 par value (1980—10,000,000)		
Issued and outstanding—		
678,150 8% Cumulative redeemable preference shares, Series A (1980—700,175)	\$ 13,564,000	\$ 14,004,000
11,350,455 Common shares (1980—9,475,455)	22,701,000	18,951,000
	<u>\$ 36,265,000</u>	<u>\$ 32,955,000</u>

On December 21, 1981 the Company increased its authorized share capital by 15,000,000 common shares. On August 6 and December 1 the Company issued 1,250,000 and 625,000 common shares respectively to the parent company, Traders Group Limited, for the total cash consideration of \$15,000,000, of which \$3,750,000 was added to common shares outstanding and the balance of \$11,250,000 was added to contributed surplus.

On December 31, 1981 the Company issued 1,558,855 common shares valued at \$12,471,000 to the parent company, Traders Group Limited, for the acquisition of all the issued capital stock of Guaranty Properties Limited (Note 4). Of the \$12,471,000 consideration, \$3,118,000 was added in both years to common shares outstanding under the pooling of interests method. The excess of \$9,353,000 was offset against the acquired retained earnings of Guaranty Properties Limited of \$12,466,000 less \$3,113,000 which was charged against opening contributed surplus. The \$3,113,000 represents the difference between the \$3,118,000 of capital stock issued by the Company and the \$5,000 of capital stock acquired.

During the year 22,025 preference shares for a total consideration of \$304,000 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 \$21.00 per share in 1983, reducing by \$0.20 per share per year until December 31, 1987 and at \$20.00 per share thereafter.

Notes to
Consolidated
Financial Statements
December 31, 1981

6. Related Party Transactions:

During the year the Company conducted the following transactions with the parent company, Traders Group Limited:

- (i) the Company acquired \$28,966,000 of consumer mortgages, \$7,417,000 of equipment finance and \$9,858,000 of corporate term loans at fair market value.
- (ii) the Company recovered certain general and administrative expenses at cost relating to personnel and services provided on behalf of the parent and its subsidiaries.
- (iii) the Company acquired Guaranty Properties Limited as indicated in Note 4.
- (iv) the Company issued common shares as indicated in Note 5.

7. Income Taxes:

The Company receives tax-exempt dividend and debenture income. Also certain items of income and expense are recognized in time periods different for financial reporting than for income tax purposes. These amounts may be used to offset taxable income, if any, in the five subsequent tax years. As long as it is virtually certain that the benefit will be used, accounting recognition is given to these amounts.

The summarized amounts of income taxes are as follows:

- (i) Guaranty Trust
At December 31, 1981 income tax recoveries on the Company's 1981 tax loss of \$3,100,000 comprised of profit for the year less tax-exempt income have not been recorded in the accounts due to uncertainty of future taxable earnings. As a result of this and by claiming timing differences as explained above, the Company has a tax filing loss carry forward position of \$16,900,000.
- (ii) Guaranty Properties
Deferred income tax liabilities, arising principally from carrying costs of real estate claimed for tax purposes, have been reflected in the financial statements in the amount of \$18,700,000. Losses carried forward on a filing basis and recognized in the financial statements amount to \$8,800,000 of which \$3,300,000 expire in 1984 and \$5,500,000 in 1986.

8. Pension Plans:

The Company has two pension plans which cover substantially all employees. The most recent independent actuarial valuations of the plans were made at December 31, 1980 and showed a surplus which is available to offset future pension costs.

9. Commitments and Contingencies:

The Company leases premises for various periods up to 15 years. The aggregate amount of rentals incurred in the year ended December 31, 1981 was \$3,153,000 (1980—\$3,227,000) and the aggregate minimum rental expense under these leases for the five years subsequent to December 31, 1981 is approximately \$16,612,000 (1980—\$15,967,000).

Legal proceedings against Guaranty Trust, together with the Bank of Montreal, Thorne Riddell Inc., and others, have been commenced in British Columbia and in Alberta, alleging, amongst 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 total approximately \$1,700,000,000. Guaranty Trust is defending these actions and, in the opinion of its legal counsel, Guaranty Trust has a good defence.

The Company follows accounting policies common to trust companies. The significant policies are as follows:

A) Consolidation:

The consolidated financial statements include the assets and liabilities of the Company and its wholly owned subsidiary Guaranty Properties Limited as at December 31, 1981 and the combined results of operations for the year then ended (Note 4).

B) Investments:

Securities are stated at amortized cost except for corporate notes and stocks which are stated at cost. Loans are stated at cost less any provision for losses which management considers necessary in the circumstances.

Income is recorded on an accrual basis. Discounts or premiums on the purchase of government bonds are amortized on a yield to maturity basis. Discounts or premiums on other bonds and loans are amortized on a straight-line basis over the term to maturity.

Unearned income on instalment contracts is computed by the sum of the digits method.

Realized gains or losses on investments are included in the statement of income.

C) Fees and Commissions Income:

The Company follows accrual accounting for all corporate services it provides including the stock transfer agency business. Accrual accounting is also followed for most fees arising from the estate, trust and agency business.

D) Depreciation and Amortization:

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

E) Guaranty Properties Accounting:

Income on land sales is recorded after all material conditions have been fulfilled and at least 15% of the sale price has been received in cash.

Land is carried at the lower of cost including direct carrying charges (primarily interest and realty taxes) and development costs to date, and estimated realizable value.

The proportionate share of the individual assets, liabilities, income and expenses of real estate associated companies and joint ventures is included in the consolidated financial statements.

December 31	1981	1980	1979	1978	1977
Gross Income					
Interest from mortgages and other loans	\$ 246,603,000	\$ 190,304,000	\$ 141,626,000	\$ 112,362,000	\$ 98,182,000
Interest and dividends from securities and bank deposit receipts	58,386,000	37,430,000	35,652,000	28,628,000	20,266,000
Land sales and other income	20,628,000	17,494,000	21,997,000	19,309,000	13,039,000
Real estate fees and commissions	8,668,000	6,913,000	5,456,000	4,770,000	4,147,000
Other fees and commissions	21,480,000	15,357,000	11,784,000	9,368,000	8,319,000
	\$ 355,765,000	\$ 267,498,000	\$ 216,515,000	\$ 174,437,000	\$ 143,953,000
Expenses					
Interest—on deposits	\$ 275,800,000	\$ 196,637,000	\$ 152,838,000	\$ 115,673,000	\$ 96,531,000
—other	2,479,000	1,796,000	888,000	787,000	283,000
Cost of land sales	12,943,000	6,824,000	13,199,000	12,020,000	6,311,000
Credit losses	2,831,000	1,291,000	833,000	1,001,000	688,000
Salaries and staff benefits	29,111,000	24,677,000	19,183,000	15,891,000	13,880,000
Premises	7,607,000	6,209,000	4,848,000	3,749,000	3,169,000
Real estate commissions paid	6,365,000	5,028,000	3,921,000	3,416,000	3,022,000
Other expenses	15,575,000	15,105,000	12,308,000	10,297,000	8,047,000
	\$ 352,711,000	\$ 257,567,000	\$ 208,018,000	\$ 162,834,000	\$ 131,931,000
Net income for the year	\$ 3,390,000	\$ 8,343,000	\$ 7,269,000	\$ 8,633,000	\$ 7,139,000
Per Common Share					
Net income for the year*	\$0.23	\$0.76	\$0.73	\$0.92	\$0.87
Dividends (Guaranty Trust only)	\$0.16	\$0.16	\$0.16	\$0.16	\$0.16
Shareholders' equity**	\$9.20	\$9.33	\$8.95	\$8.89	\$8.36
Weighted average number of common shares outstanding	10,035,387	9,475,455	8,329,855	8,225,455	8,225,455
Assets					
Cash and securities	\$ 528,188,000	\$ 393,815,000	\$ 354,278,000	\$ 415,457,000	\$ 347,483,000
Consumer	322,534,000	266,945,000	162,855,000	122,708,000	98,893,000
Mortgages, residential	1,157,653,000	1,170,170,000	1,085,064,000	956,245,000	865,079,000
Mortgages, commercial	218,178,000	216,016,000	200,727,000	120,479,000	66,136,000
Corporate	194,964,000	96,388,000	59,482,000	44,115,000	30,799,000
Sales finance	113,223,000	86,683,000	85,988,000	—	—
Real estate	122,133,000	94,833,000	70,783,000	28,461,000	19,325,000
Other	29,278,000	25,747,000	22,646,000	18,337,000	16,568,000
	\$2,686,151,000	\$2,350,597,000	\$2,041,823,000	\$1,705,802,000	\$1,444,283,000
Liabilities and Shareholders' Equity					
Savings and chequing accounts	\$ 623,000,000	\$ 570,553,000	\$ 473,215,000	\$ 435,127,000	\$ 412,159,000
Time deposits	316,610,000	186,589,000	137,681,000	78,276,000	65,756,000
Guaranteed investment certificates	1,401,094,000	1,308,777,000	1,185,086,000	1,024,204,000	831,385,000
Total deposits	2,340,704,000	2,065,919,000	1,795,982,000	1,537,607,000	1,309,300,000
Other liabilities	227,424,000	182,268,000	146,585,000	80,110,000	66,203,000
Shareholders' equity	118,023,000	102,410,000	99,256,000	88,085,000	68,780,000
Total of Company, guaranteed funds and real estate	\$2,686,151,000	\$2,350,597,000	\$2,041,823,000	\$1,705,802,000	\$1,444,283,000
Total estate, trust and agency assets	\$2,037,081,000	\$1,721,397,000	\$1,392,847,000	\$1,092,350,000	\$ 920,898,000
Total assets under administration	\$4,723,232,000	\$4,071,994,000	\$3,434,670,000	\$2,798,152,000	\$2,365,181,000

*Based on weighted average number of common shares outstanding

**Based on shares outstanding at year-end



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Chief Executive Officer

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Secretary and General Counsel

FRANK M. SMALLEY

President, Guaranty Properties Limited

GLENN D. WALLACE

‡ Member of the Executive Committee

† Member of the Audit Committee

* Officer

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Mortgage Investments

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Deposit Services

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Deposit Services

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W. J. Abra, C.A.
Assistant Vice-President

D. J. Davison
Assistant Vice-President

**Ontario Central
and West**

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