

C
1988

FINANCIAL

STATEMENTS

TRADERS 
GROUP LIMITED

HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 25 1989
MCGILL UNIVERSITY

Auditors' Report

To the Shareholders of Traders Group Limited:

We have examined the consolidated balance sheet of Traders Group Limited as at December 31, 1988 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 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 28, 1989

TRADERS GROUP LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

(\$ thousands)

	Year ended December 31	
	<u>1988</u>	<u>1987</u>
Revenue		
Canadian General Insurance Group		
Net earned premiums	\$ 154,235	\$ 170,240
Investment and other income	<u>25,151</u>	<u>23,417</u>
	179,386	193,657
Gain on sale of securities	<u>5,504</u>	<u>3,063</u>
	184,890	196,720
Traders Corporate		
Loan and other income	<u>2,216</u>	<u>6,057</u>
	<u>187,106</u>	<u>202,777</u>
Expense		
Canadian General Insurance Group		
Claims incurred	124,905	156,022
Commissions and premium taxes	26,126	29,450
Other	<u>24,215</u>	<u>23,617</u>
	175,246	209,089
Traders Corporate		
Interest expense and provision for loan losses	5,000	3,567
Other	<u>(188)</u>	<u>5,372</u>
	4,812	8,939
	<u>180,058</u>	<u>218,028</u>
Operating income (loss) before income taxes	7,048	(15,251)
Income taxes (recovery) (Note 6)	<u>1,937</u>	<u>(550)</u>
Operating income (loss)	5,111	(14,701)
Equity share of income before extraordinary items of Central Guaranty Trustco	<u>28,348</u>	<u>27,001</u>
Operating and equity income	33,459	12,300
Minority interest	<u>(201)</u>	<u>79</u>
Income before extraordinary items	33,258	12,379
Extraordinary items (Note 8)	<u>28,115</u>	<u>-</u>
Net income	<u>\$ 61,373</u>	<u>\$ 12,379</u>
Available for		
Preferred shares	\$ 2,177	\$ 2,215
Common shares	<u>59,196</u>	<u>10,164</u>
	<u>\$ 61,373</u>	<u>\$ 12,379</u>
Earnings per Class A share and Class B common share		
Before extraordinary items	\$ 6.85	\$ 2.24
After extraordinary items	\$ 13.04	\$ 2.24
Weighted average number of Class A shares and Class B common shares outstanding	4,538	4,536

TRADERS GROUP LIMITED

CONSOLIDATED BALANCE SHEET

(\$ thousands)

	December 31	
	1988	1987
Assets		
Canadian General Insurance Group		
Cash and money market instruments	\$ 70,040	\$ 53,640
Securities	177,418	208,034
Premiums receivable and deferred acquisition costs	41,334	44,860
Other assets	11,944	20,651
	<u>300,736</u>	<u>327,185</u>
Traders Corporate		
Cash and money market instruments	6,143	12,528
Loans	5,551	6,826
Investment in Central Guaranty Trustco (Note 3)	232,793	189,017
Other assets	19,542	19,771
	<u>264,029</u>	<u>228,142</u>
	<u>\$ 564,765</u>	<u>\$ 555,327</u>
Liabilities		
Canadian General Insurance Group		
Provision for outstanding losses	\$ 160,682	\$ 202,820
Unearned insurance premiums	64,727	75,324
Other liabilities	3,999	30,316
	<u>229,408</u>	<u>308,460</u>
Traders Corporate		
Debt (Note 4)	66,353	29,351
Unearned finance charges	277	569
Deferred income taxes	2,838	3,080
Other liabilities	5,140	7,195
	<u>74,608</u>	<u>40,195</u>
Minority interest	537	277
Shareholders' Equity (Note 5)		
Preferred shares	28,448	29,118
Class A shares and Class B common shares	41,950	41,950
	<u>70,398</u>	<u>71,068</u>
Retained Earnings	189,814	135,327
	<u>260,212</u>	<u>206,395</u>
	<u>\$ 564,765</u>	<u>\$ 555,327</u>

Approved by the Board of Directors:



C.W. Cole
Chairman of the Board



W. T. Hodgson
President and Chief Executive Officer

TRADERS GROUP LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(\$ thousands)

	Year ended December 31	
	1988	1987
Balance at beginning of year	\$ 135,327	\$ 127,491
Equity share of expenses and effect of changes in accounting policies charged directly to retained earnings of Central Guaranty Trustco	(2,978)	(803)
Amortization of cost of issuing preferred shares net of gain on redemption	84	286
Discount on preference shares purchased for cancellation	-	4
	<u>132,433</u>	<u>126,978</u>
Net income	61,373	12,379
Less dividends on preferred shares		
4 1/2%	135	135
5%	58	58
5%, Series A	33	36
\$2.16 Series B	340	348
10 1/4%	620	624
7.5%	991	1,014
	<u>2,177</u>	<u>2,215</u>
Earnings available for Class A shares and Class B common shares	59,196	10,164
Less dividends on Class A shares and Class B common shares (1988 and 1987 - \$0.40 per share)	1,815	1,815
Earnings retained for the year	<u>57,381</u>	<u>8,349</u>
Balance at end of year	\$ 189,814	\$ 135,327

TRADERS GROUP LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION**

(\$ thousands)

	Year ended December 31	
	1988	1987
Cash and money market instruments derived from		
Operations		
Net income before extraordinary items	\$ 33,258	\$ 12,379
Charges (credits) not affecting cash		
Equity share of net income of Central Guaranty Trustco	(28,348)	(27,001)
Deferred income tax (recovery)	2,356	(1,016)
Other	2,978	2,053
	<u>10,244</u>	<u>(13,585)</u>
Proceeds from sale of subsidiary	35,000	-
Decrease in loans	1,275	5,708
Increase in provision for outstanding insurance losses	28,624	32,434
Dividends from Central Guaranty Trustco	10,153	9,231
Dividend reinvestment	-	366
Increase (decrease) in unearned insurance premiums	(10,597)	7,345
Increase (decrease) in other liabilities	(14,430)	3,346
	<u>60,269</u>	<u>44,845</u>
Cash was used for		
Purchase common shares of Central Guaranty Trustco	25,521	-
Increase in securities	58,018	44,721
Discharge (increase) of debt	(37,002)	13,559
Reduction in unearned finance charges	292	543
Increase (decrease) in premiums receivable	(973)	2,437
Dividends to shareholders	3,992	4,030
Redemption of preference shares	670	375
Increase (decrease) in other assets	(264)	1,082
	<u>50,254</u>	<u>66,747</u>
Increase (decrease) in cash and money market instruments	<u>\$ 10,015</u>	<u>\$ (21,902)</u>

TRADERS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Business Disposals

- a) Canadian General Insurance Company sold its 100% interest in Canadian General Life Insurance Company effective September 30, 1988 for proceeds of \$35,000,000 and realized a gain on the sale of \$11,600,000, net of taxes of \$5,073,000. Results of operations up to September 30, 1988 are included in the consolidated statement of income and amount to \$1,693,000 net of taxes of \$760,000.
- b) DWI Alternatives Inc., a subsidiary of Canadian General Insurance Company, was wound-up effective October 31, 1988 at a loss of \$704,000, net of tax recoveries of \$546,000.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Corporation and the following major subsidiary corporations:

	<u>Effective % Held by Traders</u>
Canadian General Insurance Group	
Canadian General Insurance Company	99.5%
Toronto General Insurance Company	99.1%
Traders General Insurance Company	99.6%
Traders Corporate	
Traders Finance S.A.	100.0%

Traders Finance Corporation (1976) Limited, formerly a wholly-owned subsidiary, was voluntarily dissolved during 1988 and all of its property, assets and business were transferred to Traders.

Traders Corporate

The investment in Central Guaranty Trustco Limited (Note 3) is accounted for using the equity method.

A portion of the gain on sale in 1986 of the Corporation's head office premises, representing the present value of rental payments under the two-year operating leaseback, has been deferred and amortized over the term of the lease.

Loans are stated at cost plus unearned finance charges less a provision for losses. Unearned finance charges on direct financing lease contracts is computed on an actuarial yield basis.

Insurance

Net written premiums are included in income evenly over the term of the policies. Deferred acquisition expenses, comprised of net commissions and premium taxes, are amortized to income over the periods in which the premiums are earned. The method used limits the amount deferred to the amount recoverable after taking into consideration a portion of investment income.

The Companies follow the policy of underwriting and reinsuring contracts of insurance which limit the liability of the Companies to a maximum amount on any one loss in the event of a claim. Reinsurance ceded does not, however, relieve the companies of their ultimate liability to their insureds in the event that any reinsurer is unable to meet its obligations under the reinsurance contracts.

Premium income is recorded net of amounts ceded to reinsurers and commissions and losses are recorded net of reinsurance recoveries.

The provision for outstanding losses includes an actuarially determined provision for all costs of investigation and settlement of claims incurred prior to the balance sheet date. This estimated provision is recorded net of anticipated salvage and subrogation recoveries.

Bonds and mortgages are carried at amortized cost. Stocks are carried at cost. Gains and losses on disposal are recognized in income when realized.

3. Investment in Central Guaranty Trustco

At December 31, 1988, Traders has a 43.6% ownership interest in Central Guaranty Trustco Limited (1987 - 45%). Summarized consolidated financial information for Central Guaranty Trustco is presented below:

CENTRAL GUARANTY TRUSTCO Consolidated Statement of Income

	Year ended December 31	
	1988	1987 (Restated)
	(\$ thousands)	
Revenues		
Loan and securities income	\$ 1,276,121	\$ 943,638
Interest expense	(968,592)	(695,287)
Interest spread	307,529	248,351
Fiduciary fees	48,407	46,363
Other	36,665	21,742
	<u>392,601</u>	<u>316,456</u>
Expenses	<u>311,132</u>	<u>254,217</u>
Income before income taxes and minority interest	81,469	62,239
Income taxes - current and deferred	2,876	1,527
Operating income before minority interest	78,593	60,712
Minority interest	8,431	5,791
Income before extraordinary items	70,162	54,921
Extraordinary items	4,875	-
Net income	<u>\$ 75,037</u>	<u>\$ 54,921</u>

Consolidated Balance Sheet

	December 31	
	1988	1987 (Restated)
	(\$ thousands)	
Assets		
Cash and securities	\$ 2,335,723	\$ 1,726,745
Consumer loans	1,590,275	1,286,751
Commercial loans	1,566,655	1,017,130
Mortgages	7,474,136	5,467,378
Other assets	591,953	431,339
	<u>\$ 13,558,742</u>	<u>\$ 9,929,343</u>
Liabilities		
Deposits	\$ 11,517,587	\$ 8,430,731
Short and medium term debt	657,994	419,458
Other liabilities	744,073	599,745
Minority interest	96,829	103,902
	<u>13,016,483</u>	<u>9,553,836</u>
Shareholders' Equity	<u>542,259</u>	<u>375,507</u>
	<u>\$ 13,558,742</u>	<u>\$ 9,929,343</u>

4. Debt

Details of outstanding debt are as follows:

	December 31			1987
	1988		Total	
	Due within one year	Due beyond one year		
			Total	Total
			(\$ thousands)	
Secured Debt	\$ 1,123	\$ 1,241	\$ 2,364	\$ 3,381
Unsecured Debentures	907	19,132	20,039	25,970
Unsecured Notes	-	43,950	43,950	-
	<u>\$ 2,030</u>	<u>\$ 64,323</u>	<u>\$ 66,353</u>	<u>\$ 29,351</u>

Secured Debt

The Corporation has an obligation of \$2,364,000 secured on leased property, bearing interest of 10.25% and payable through to 1990.

Debentures

<u>Series</u>	<u>Maturity date</u>	<u>Annual sinking fund or maximum annual purchase fund</u>	<u>Outstanding</u>
		(\$ thousands)	
9 1/2%	June 15, 1991	\$106	\$ 2,660
8 3/4%	October 15, 1992	51	1,868
8 3/4%	May 1, 1993	375	7,460
9%	October 15, 1993	375	8,051
		<u>\$907</u>	<u>\$20,039</u>

Unsecured Notes

The unsecured notes are held by the Corporation's parent company, Central Capital Corporation, and mature on March 1, 1993. Interest is payable semi-annually calculated at 10.5% on \$20,000,000 of the notes and at the prime rate of Central Guaranty Trust Company on the remaining \$23,950,000. Interest paid on the notes in 1988 amounted to \$2,593,000.

5. Share Capital

Cumulative redeemable preferred shares	Authorized Shares	Issued and Outstanding	
		Shares	Amount
			(\$ thousands)
4 1/2% preferred shares	35,000	29,978	\$ 2,998
5% preferred shares	29,149	29,099	1,164
\$30 preferred shares, issuable in series	351,917		
5%, Series A		22,849	685
Less purchases during 1988		<u>4,900</u>	<u>147</u>
		17,949	538
\$2.16, Series B		160,196	4,806
Less purchases during 1988		<u>5,700</u>	<u>171</u>
		154,496	4,635
\$10 preferred shares, issuable in series	5,000,000		
10 1/4% preferred shares		607,231	6,072
Less purchases during 1988		<u>4,000</u>	<u>40</u>
		603,231	6,032
7.5% preferred shares	331,100	267,852	13,393
Less purchases during 1988		<u>6,241</u>	<u>312</u>
		261,611	13,081
			<u>\$ 28,448</u>

Preferred shares issued in a series include provisions by which the Corporation is to provide (subject to certain conditions) an annual fund for the purchase of these shares in the aggregate amount of \$1,372,000.

Class A shares and Class B common shares

	Authorized Shares	Issued and Outstanding			
		1988		1987	
		Shares	Amount	Shares	Amount
			(\$ thousands)		(\$ thousands)
Class A shares					
Balance at beginning of year	Unlimited	4,150,771	\$ 41,692	4,143,444	\$ 41,326
Dividend reinvestment		-	-	7,327	366
Balance at end of year	Unlimited	<u>4,150,771</u>	<u>41,692</u>	<u>4,150,771</u>	<u>41,692</u>
Class B common shares	720,000	<u>387,259</u>	<u>258</u>	<u>387,259</u>	<u>258</u>
Total balance at end of year		<u>4,538,030</u>	<u>\$ 41,950</u>	<u>4,538,030</u>	<u>\$ 41,950</u>

The Dividend Reinvestment Plan for Class A non-voting shares was terminated on August 31, 1987.

6. Income Taxes

The Corporation's consolidated income tax expense (recovery), compared to combined statutory rates, is summarized as follows:

	Year ended December 31	
	1988	1987
	(\$ thousands)	
Operating income (loss) before income taxes	<u>\$ 7,048</u>	<u>\$ (15,251)</u>
Income tax expense (recovery) based on combined statutory rates	\$ 3,385	\$ (7,190)
Increase (decrease) resulting from		
Income tax benefits not recognized	258	8,570
Non-taxable portion of gains	(1,831)	(1,900)
Other	<u>125</u>	<u>(30)</u>
Income tax expense (recovery)	<u>\$ 1,937</u>	<u>\$ (550)</u>

The future tax benefit of losses carried forward on a filing basis are recognized in the financial statements where there is virtual certainty of their application in reducing future amounts of taxable income. A subsidiary company has potential future income tax benefits amounting to \$14,905,000 (1987 - \$21,760,000), of which \$5,274,000 (1987 - \$5,274,000) has been recognized in the consolidated financial statements.

7. Related Party Transactions

During the year the Corporation paid \$800,000 (1987 - \$2,878,000) of general and administrative expenses relating to personnel and services provided by a subsidiary of Central Guaranty Trustco.

8. Extraordinary Items

	Year ended December 31, 1988
	(\$ thousands)
(a) Gain on sale of Canadian General Life Insurance Company (Note 1 (a))	\$ 11,600
(b) Gain on sale of Canadian General Insurance Company head-office building, net of income taxes of \$2,023	8,237
(c) Loss on wind-up of operations of a subsidiary of Canadian General Insurance (Note 1(b))	(704)
(d) Recovery of previously unrecorded tax losses of Canadian General Insurance Company	6,855
(e) Equity share of extraordinary items of Central Guaranty Trustco	<u>2,127</u>
	<u>\$ 28,115</u>

9. Pension Costs and Obligations

The Corporation, its subsidiaries and Central Guaranty Trustco jointly maintain defined benefit pension plans which provide retirement benefits for substantially all employees, based on length of service and remuneration. Pension obligations are funded with independent trustees in accordance with legal requirements.

As at December 31, 1988, the actuarial present value of accrued pension benefits is estimated to be \$91,544,000. Pension plan assets with an actuarial value of \$141,133,000 are available to meet these obligations, providing a pension plan surplus of \$49,589,000.

10. Contingencies

On October 31, 1986, Famous Players Development Corporation Limited and Bedford House Corporation, Toronto based real estate developers, commenced an action in the Supreme Court of Ontario against Central Capital Corporation and certain of its subsidiaries, including Central Trust Company, a subsidiary of Central Guaranty Trustco, for damages in excess of \$50,000,000. The plaintiffs allege breach of contract and breach of fiduciary duties arising out of a proposed financing that did not proceed. Central Trust denies the allegations and based upon the advice of counsel, Central Trust believes that the claim is not meritorious. The action is currently at the Examination for Discovery stage.

At December 31, 1988, the Property and Casualty Companies were contingently liable in respect of letters of credit issued in the ordinary course of business aggregating \$11,221,000 (1987 - \$12,320,000) and had pledged an equivalent amount in short-term deposits as security.

11. Comparatives

Certain of the comparative figures for 1987 have been reclassified to conform with the financial statement presentation adopted for the current year.



TRADERS 
GROUP LIMITED

TRADERS GROUP
LIMITED
HEAD OFFICE:

1 First Canadian Place
38th Floor, Toronto, Ontario
M5X 1G4

