

1987

FINANCIAL

STATEMENTS

TRADERS 
GROUP LIMITED

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 23 1988
M. GILL 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, 1987 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, 1987 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, after giving retroactive effect to the change in the method of accounting for the investment in Guaranty Trustco Limited and the change in the method of accounting for the provision for discontinued operations of the Canadian General Insurance Group as explained in Notes 1 and 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants

Toronto, February 19, 1988

TRADERS GROUP LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
(\$ thousands)

	Year ended December 31	
	1987	1986 (restated)
Revenue		
Canadian General Insurance Group		
Net earned premiums	\$ 163,241	\$ 149,813
Investment and other income	20,124	19,769
	<u>183,365</u>	<u>169,582</u>
Gain on sale of securities	3,063	5,222
	<u>186,428</u>	<u>174,804</u>
Traders Corporate		
Loan and other income	6,057	18,988
	<u>192,485</u>	<u>193,792</u>
Expense		
Canadian General Insurance Group		
Claims incurred	134,839	117,456
Commissions and premium taxes	29,450	26,210
Other	22,747	20,786
	<u>187,036</u>	<u>164,452</u>
Traders Corporate		
Interest expense and provision for loan losses	3,567	17,225
Other	5,372	8,018
	<u>8,939</u>	<u>25,243</u>
	<u>195,975</u>	<u>189,695</u>
Operating income (loss) before income taxes	(3,490)	4,097
Income taxes (Note 7)	(550)	1,536
	<u>(2,940)</u>	<u>2,561</u>
Net operating income (loss)	(2,940)	2,561
Equity share of net income of Guaranty Trustco	27,001	23,253
Net operating and equity income	24,061	25,814
Provision for discontinued insurance operations (Note 9)	(11,761)	(11,195)
Non recurring debt discharge costs	-	(2,002)
Minority interest	79	12
	<u>(11,682)</u>	<u>(13,185)</u>
Net income before extraordinary items	12,379	12,629
Extraordinary items (Note 10)	-	28,972
Net income	\$ 12,379	\$ 41,601
Available for		
Preferred shares	\$ 2,215	\$ 2,236
Common shares	10,164	39,365
	<u>\$ 12,379</u>	<u>\$ 41,601</u>
Earnings per Class A share and Class B common share		
Before extraordinary items	\$ 2.24	\$ 2.30
After extraordinary items	\$ 2.24	\$ 8.69
Weighted average number of Class A shares and Class B common shares outstanding	4,536	4,528

TRADERS GROUP LIMITED
CONSOLIDATED BALANCE SHEET
(\$ thousands)

	December 31	
	<u>1987</u>	1986 (restated)
Assets		
Canadian General Insurance Group		
Cash and money market instruments	\$ 53,640	\$ 75,295
Securities	208,034	163,313
Premiums receivable and deferred acquisition costs	44,860	42,423
Other assets	20,651	18,974
	<u>327,185</u>	<u>300,005</u>
Traders Corporate		
Cash and money market instruments	12,528	12,775
Loans	6,826	12,534
Investment in Guaranty Trustco (Note 4)	189,017	173,400
Other assets	19,771	20,861
	<u>228,142</u>	<u>219,570</u>
	<u>\$ 555,327</u>	<u>\$ 519,575</u>
Liabilities		
Canadian General Insurance Group		
Provision for outstanding losses	\$ 202,820	\$ 170,386
Unearned insurance premiums	75,324	67,979
Other liabilities	30,316	29,375
	<u>308,460</u>	<u>267,740</u>
Traders Corporate		
Debt (Note 5)	29,351	42,910
Unearned finance charges	569	1,112
Deferred income taxes	3,080	4,731
Other liabilities	7,195	4,155
	<u>40,195</u>	<u>52,908</u>
Minority interest	277	359
Shareholders' Equity (Note 6)		
Preferred shares	29,118	29,493
Class A shares and Class B common shares	41,950	41,584
	<u>71,068</u>	<u>71,077</u>
Retained Earnings	135,327	127,491
	<u>206,395</u>	<u>198,568</u>
	<u>\$ 555,327</u>	<u>\$ 519,575</u>

Approved by the Board of Directors:

C.W. Cole
Chairman of the Board

A.R. Marchment
President and Chief Executive Officer

TRADERS GROUP LIMITED
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(\$ thousands)

	Year ended December 31	
	<u>1987</u>	<u>1986</u>
Balance at beginning of year, as restated (Note 3)	\$ 127,491	\$ 89,902
Amortization of cost of issuing preferred shares net of gain on redemption	286	35
Expense of issue of common shares by Guaranty Trustco, net of income taxes	(199)	-
Expense of issue of preference shares by Guaranty Trust, net of income taxes	(604)	-
Discount on preference shares purchased for cancellation	4	-
	<u>126,978</u>	<u>89,937</u>
 Net income	 12,379	 41,601
Less dividends on preferred shares		
4 1/2%	135	135
5%	58	58
5%, Series A	36	43
\$2.16 Series B	348	352
10 1/4%	624	624
7.5%	1,014	1,024
	<u>2,215</u>	<u>2,236</u>
Earnings available for Class A shares and Class B common shares	10,164	39,365
Less dividends on Class A shares and Class B common shares (1987 and 1986 - \$0.40 per share)	1,815	1,811
Earnings retained for the year	<u>8,349</u>	<u>37,554</u>
 Balance at end of year	 \$ 135,327	 \$ 127,491

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

	Year ended December 31	
	<u>1987</u>	<u>1986</u> (restated)
Cash and money market instruments derived from		
Operations		
Net income before extraordinary items	\$ 12,379	\$ 12,629
Charges (credits) not affecting cash		
Equity share of net income of Guaranty Trustco	(27,001)	(23,253)
Deferred income tax recovery	(1,016)	(10,895)
Other	2,053	1,765
	<u>(13,585)</u>	<u>(19,754)</u>
Decrease in loans	5,708	177,217
Increase in provision for outstanding insurance losses	32,434	31,307
Net proceeds on sale of the Corporation's head office premises	-	11,000
Dividends from Guaranty Trustco	9,231	5,885
Dividend reinvestment	366	458
Increase in unearned insurance premiums	7,345	6,594
Decrease (increase) in other liabilities	3,346	(7,122)
	<u>44,845</u>	<u>205,585</u>
Cash was used for		
Increase in securities	44,721	36,621
Discharge of debt	13,559	133,805
Reduction in unearned finance charges	543	28,133
Increase in premiums receivable	2,437	7,044
Dividends to shareholders	4,030	4,047
Redemption of preference shares	375	228
Increase in other assets	1,082	13,295
	<u>66,747</u>	<u>223,173</u>
Decrease in cash and money market instruments	<u>\$ (21,902)</u>	<u>\$ (17,588)</u>

TRADERS GROUP LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1987

1. Corporate Reorganization

On November 4, 1987 Traders participated in a corporate reorganization with its parent company, Central Capital Corporation. Under the plan of reorganization, Guaranty Trustco Limited, then a subsidiary of the Corporation, acquired from Central Capital and others 98.6% of the outstanding common shares of Central Trust Company, an associated company, in exchange for common shares of Guaranty Trustco. The reorganization followed Central Capital's acquisition on June 15, 1987 of a controlling interest in Traders.

This share exchange reduced Traders' ownership interest in Guaranty Trustco from 77% to 45% and, as a result, the consolidation method of accounting ceased to be appropriate. Accordingly, the Corporation has adopted the equity method to account for this investment and given retroactive effect to this change by restating the prior year's financial statements. This change in accounting has no effect on reported net income or retained earnings for the current or prior year.

The reorganization has been accounted for in the financial statements of Guaranty Trustco in a manner similar to the pooling of interests method since it resulted in no significant change in ownership and control and, accordingly, no adjustment was made to the carrying value of Traders' investment in Guaranty Trustco at the time of the reorganization.

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	99.4%
Toronto General Insurance Company	98.9%
Traders General Insurance Company	99.5%
Canadian General Life Insurance Company	98.1%
Traders Corporate	
Traders Finance Corporation (1976) Limited	100.0%
Traders Finance S.A.	100.0%

Traders Corporate

The investment in Guaranty Trustco (Note 4) 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, is being deferred and amortized over the term of the lease.

Loans are stated at cost plus unearned finance charges less a provision for losses. Unearned income 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. Change in Accounting Policy

During the year Canadian General Insurance retroactively changed its method of accounting for provisions in respect of discontinued operations. The change resulted in an increase in the provision for discontinued operations in 1986 of \$7,800,000 and \$9,337,000 in 1987.

4. Investment in Guaranty Trustco

As described in Note 1, Traders had a 45% ownership interest in Guaranty Trustco at December 31, 1987. Summarized consolidated financial information for Guaranty Trustco is presented below:

GUARANTY TRUSTCO

Consolidated Statement of Income

	Year ended December 31	
	1987	1986
	(\$ thousands)	
Revenues		
Loan and securities income	\$ 942,640	\$ 835,132
Interest expense	695,287	622,628
Interest spread	247,353	212,504
Fiduciary fees	46,363	41,795
Real estate operations	8,554	12,603
Other	17,324	2,797
	319,594	269,699
Expenses	255,406	208,291
Net income before income taxes and minority interest	64,188	61,408
Income taxes - current and deferred	2,575	16,976
Net operating income before minority interest	61,613	44,432
Minority interest	5,791	3,943
Net income	\$ 55,822	\$ 40,489

Consolidated Balance Sheet

	December 31	
	1987	1986
	(\$ thousands)	
Assets		
Cash and securities	\$1,737,168	\$1,556,684
Consumer loans	4,658,712	3,615,674
Corporate loans	3,112,547	2,495,858
Real Estate	206,092	229,606
Other assets	224,444	155,275
	\$9,938,963	\$8,053,097
Liabilities		
Deposits	\$8,430,731	\$6,906,000
Short and medium term debt	439,458	232,919
Bank and other loans secured by mortgages	71,109	94,724
Unearned finance charges	88,935	100,677
Other liabilities	423,261	360,863
Minority interest	103,902	47,649
Shareholders' equity		
Capital stock	245,233	224,311
Contributed surplus	53,622	38,965
Retained earnings	82,712	46,989
	\$9,938,963	\$8,053,097

5. Debt

Details of outstanding debt are as follows:

	December 31			1986
	1987		Total	
	<u>Due within one year</u>	<u>Due beyond one year</u> (\$ thousands)		
Secured Debt	\$ 1,016	\$ 2,365	\$ 3,381	\$ 5,810
Unsecured Debentures	<u>1,280</u>	<u>24,690</u>	<u>25,970</u>	<u>37,100</u>
	<u>\$ 2,296</u>	<u>\$27,055</u>	<u>\$29,351</u>	<u>\$42,910</u>

Secured Debt

The Corporation has an obligation of \$3,381,000 secured on leased property, bearing interest of 10.25% and payable through to 1990.

<u>Debentures Series</u>	<u>Maturity date</u>	<u>Annual sinking fund or maximum annual purchase fund</u> (\$ thousands)	<u>Outstanding</u>
11 1/2%	November 1, 1990	\$ 238	\$ 3,070
9 1/2%	June 15, 1991	106	2,669
8 3/4%	October 15, 1992	51	1,908
8 3/4%	May 1, 1993	375	7,835
9%	October 15, 1993	375	8,159
13%	April 15, 1993	<u>135</u>	<u>2,329</u>
		<u>\$1,280</u>	<u>\$25,970</u>

6. Share Capital

Cumulative redeemable preferred shares	Authorized Shares	Issued and Outstanding Shares	Amount
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 5%, Series A	351,917	25,549	766
Less purchases during 1987		<u>2,700</u>	<u>81</u>
		22,849	685
\$2.16, Series B		162,496	4,875
Less purchases during 1987		<u>2,300</u>	<u>69</u>
		160,196	4,806
\$10 preferred shares, issuable in series 10 1/4% preferred shares	5,000,000	608,731	6,087
Less purchases during 1987		<u>1,500</u>	<u>15</u>
		607,231	6,072
7.5% preferred shares	331,100	272,052	13,603
Less purchases during 1987		<u>4,200</u>	<u>210</u>
		267,852	13,393
			<u>\$29,118</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 \$1,378,000.

Class A shares and Class B common shares

	Authorized Shares	Issued and Outstanding			
		1987		1986	
		Shares	Amount (\$ thousands)	Shares	Amount (\$ thousands)
Class A shares					
Balance at beginning of year	Unlimited	4,143,444	\$41,326	4,129,110	\$40,868
Dividend reinvestment		<u>7,327</u>	<u>366</u>	<u>14,334</u>	<u>458</u>
Balance at end of year	Unlimited	<u>4,150,771</u>	<u>\$41,692</u>	<u>4,143,444</u>	<u>\$41,326</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>4,530,703</u>	<u>\$41,584</u>

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

7. Income Taxes

The Corporation's consolidated recovery of income taxes, compared to combined statutory rates, is summarized as follows:

	Year ended December 31	
	<u>1987</u>	<u>1986</u>
Operating income (loss) before income taxes	<u>\$(3,490)</u>	<u>\$4,097</u>
Income tax expense (recovery) based on combined statutory rates	\$(1,544)	\$1,910
Increase (decrease) resulting from:		
Income tax benefits not recognized	2,924	-
Non-taxable portion of gains	(1,900)	(1,750)
Other	<u>(30)</u>	<u>1,376</u>
Income tax expense (recovery)	<u>\$ (550)</u>	<u>\$ 1,536</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 \$21,760,000 (1986 - \$13,349,000), of which \$5,274,000 (1986 - \$5,274,000) has been recognized in the financial statements.

8. Related Party Transactions

During the year the Corporation entered into transactions with Guaranty Trustco and its subsidiaries at fair market values as follows:

- (a) Sold \$46,502,000 (1986 - \$289,440,000) of loans, net of unearned finance charges.
- (b) Paid \$2,878,000 of general and administrative expenses relating to personnel and services at cost plus an administrative fee.
- (c) Sold leasehold improvements and equipment in the amount of \$644,000.
- (d) Sold the name, trademark and other assets associated with the personal finance loan business carried on by Trans Canada Credit Corporation Limited for \$2,360,000.

9. Discontinued Insurance Operations

During 1986, the Canadian General Insurance Group's last reinsurance assumed treaties outside of Canada expired and during 1987 the last Canadian treaties expired.

During 1987 there was a significant deterioration in the experience of this business which required strengthening of reserves for future claims liabilities.

The following is an analysis of the provision for discontinued operations:

	<u>1987</u>	<u>1986</u>
	(\$Thousands)	
Revenue		
Net earned premiums	\$ 6,999	\$ 9,549
Investment income	<u>3,293</u>	<u>3,277</u>
	<u>10,292</u>	<u>12,826</u>
Expense		
Claims incurred	21,183	23,817
Other expenses	<u>870</u>	<u>2,510</u>
	<u>22,053</u>	<u>26,327</u>
	11,761	13,501
Less: Applicable income taxes	<u>-</u>	<u>2,306</u>
Provision for discontinued operations	<u>\$11,761</u>	<u>\$11,195</u>

As a result of Canadian General Insurance's management's extensive review of the reserves for discontinued operations, they believe the current provisions to be appropriate to satisfy all obligations.

10. Extraordinary Items

	(\$ thousands)
The 1986 extraordinary items consist of:	
Gain resulting from the issue to the public of common shares by Guaranty Trustco, for net proceeds per share in excess of book value	\$24,254
Gain on sale of the Corporation's head office premises (net of income taxes of \$1,855,000)	<u>4,718</u>
	<u>\$28,972</u>

11. Pension Costs and Obligations

The Corporation, its subsidiaries and 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, 1987 the actuarial present value of accrued pension benefits is estimated to be \$81,128,000. Pension plan assets, with an actuarial value of \$131,056,000 are available to meet these obligations, providing a pension plan surplus of \$49,928,000. On January 15, 1988 Guaranty Trustco offered a voluntary early retirement program to certain employees. The maximum estimated impact of the program would be a reduction in the pension plan surplus of \$11,600,000.

12. Contingencies

Famous Players Development Corporation Limited and Bedford House Corporation, Toronto based real estate developers, have included Central Trust Company, a 98.6% owned subsidiary of Guaranty Trustco, in an action commenced in the Supreme Court of Ontario on October 31, 1986 against Central Capital Corporation and certain of its subsidiaries for damages in excess of \$50,000,000 which they allege they have incurred in connection with a proposed financing. Based upon the advice of counsel, Central Trust believes such claim is not meritorious and is defending the claim vigorously.

At December 31, 1987, the Property and Casualty Companies were contingently liable in respect of letters of credit issued in the ordinary course of business aggregating \$12,320,000 (1986 - \$11,564,000) and had pledged short-term deposits of an equivalent amount as security therefor.

13. Subsequent event

Subsequent to the year end the controlling shareholder of the Corporation has committed to inject capital in Canadian General Insurance Group, towards meeting the solvency requirements under the Canadian and British Insurance Companies Act. In this respect, Canadian General Insurance Group has received notification from the Office of the Superintendent of Financial Institutions that their annual operating licences will be renewed for 1988.

TRADERS GROUP
LIMITED
HEAD OFFICE:

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