

A major accomplishment for Traders Group Limited in 1985 was the formation of Guaranty Trustco Limited, which manages our controlling equity interest in Guaranty Trust Company of Canada.



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
SEP 30 1986  
MCGILL UNIVERSITY

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Traders Group Limited (the “Corporation”) is a holding company which, through its subsidiaries, offers extensive financial services.

For management and operational purposes the Corporation is organized into 3 main groups.

**Trustco Group**

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

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

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

**Guaranty Realty Investments Limited** offers investors participation in institutional quality real estate through various investment funds.

**Guaranty Trust Company of Canada (U.K.) Limited** provides stock brokerage, stock transfer and underwriting services in the European market.

**Trans Canada Credit Financial Inc.** invests in the new and renewal personal finance loan business written by Trans Canada Credit Corporation Limited, a subsidiary of Traders Group Limited

**Trans Canada Credit Realty Limited** provides loans secured by real estate mortgages.

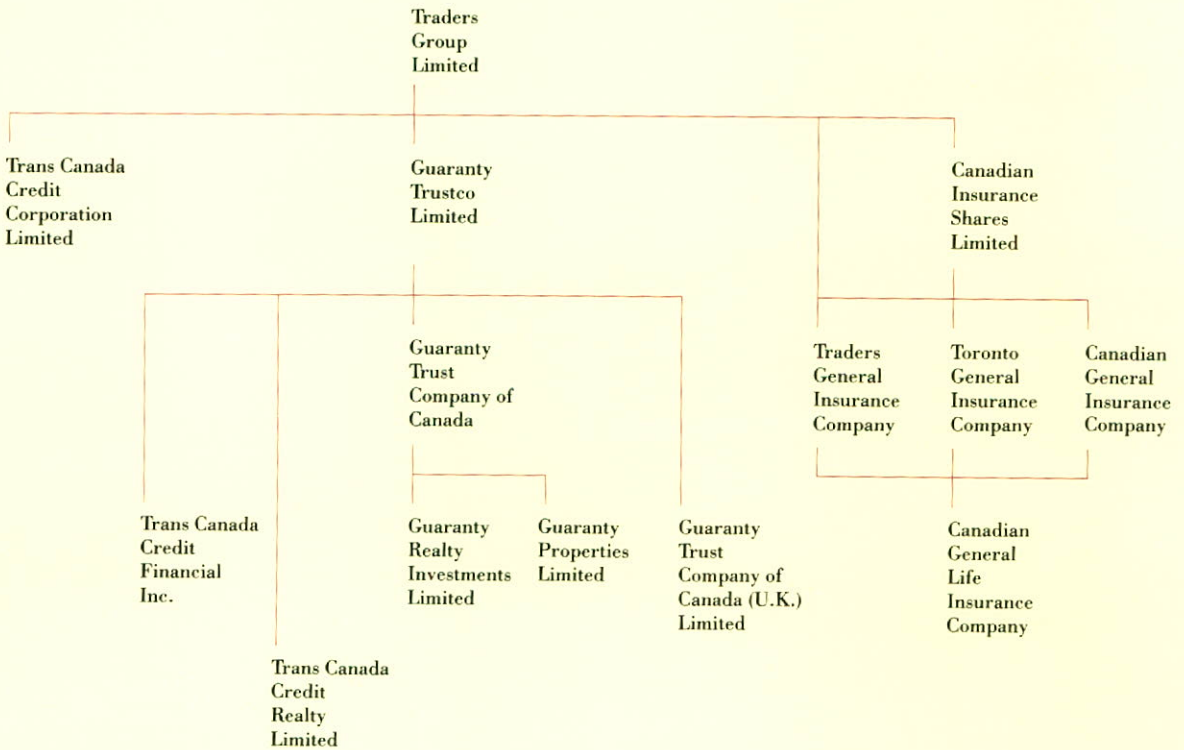
**Finance Group**

**Traders Group Limited** and its subsidiary, **Trans Canada Credit Corporation Limited**, manage a portfolio of consumer and commercial assets.

**Insurance Group**

**Canadian General Insurance Company**, **Toronto General Insurance Company** and **Traders General Insurance Company** provide automobile, property and casualty insurance.

**Canadian General Life Insurance Company** issues life, accident and sickness insurance. It specializes in individual life insurance and in group insurance for business and professional associations.



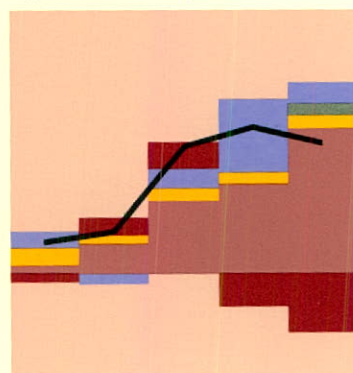
**Traders Group Limited**  
**CONSOLIDATED HIGHLIGHTS**

(\$ thousands)

	1985	1984
Consolidated gross income	\$ 713,644	\$ 660,898
Consolidated net income	12,615	14,124
Earnings per share	\$ 2.20	\$ 2.33
Dividends declared per Class A share and Class B common share	0.40	0.40
Return on average Class A share and Class B common share equity	7.93%	8.99%
Assets under administration		
<i>Consolidated</i>	\$4,284,278	\$3,864,022
<i>Fiduciary</i>	4,327,256	3,831,623
Total assets under administration	8,611,534	7,695,645
Consolidated shareholders' equity	160,738	166,785
Weighted average number of Class A shares and Class B common shares outstanding	4,707	5,094
<b>Contribution (loss) by line of business</b>		
Trustco Group <sup>1</sup>		
<i>Trust</i>	\$ 20,554	\$ 15,021
<i>Real Estate</i>	2,878	1,880
<i>Personal Finance</i>	3,614	-
<i>Finance Group</i>	5,924	12,379
<i>Insurance Group</i>	(6,010)	(6,005)
	26,960	23,275
Income taxes and other	14,345	9,151
<b>Net Income</b>	<b>\$ 12,615</b>	<b>\$ 14,124</b>

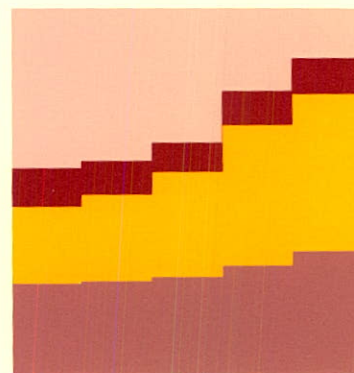
<sup>1</sup> Includes for 1985 consolidated operating results of Guaranty Trustco Limited subsequent to reorganization for the 8 months ended December 31, 1985 and consolidated operating results of Guaranty Trust Company of Canada for the 4 months prior to reorganization.

**Net Income**  
 Millions of dollars  
 (before extraordinary items)



	81	82	83	84	85
Trust ■	757	2718	6950	8463	13,759
Real Estate ■	1632	1002	1072	1140	1415
Personal Finance ■	-	-	-	-	992
Traders Finance Group ■	1560	(905)	1978	6850	2068
Insurance Group ■	(758)	1428	2432	(2329)	(5619)
Net income ■	3191	4244	12,432	14,124	12,615

**Assets Under Administration**  
 Millions of dollars



	81	82	83	84	85
Other ■	1026	873	817	877	917
Real Estate ■	146	155	165	173	219
Personal Finance ■	-	-	-	-	211
Finance Group ■	687	514	423	462	227
Insurance Group ■	193	204	229	242	260
<b>Trust</b>					
Fiduciary ■	2037	2385	2881	3832	4327
Intermediary ■	2543	2527	2655	2987	3367
<b>Total</b>	<b>5606</b>	<b>5785</b>	<b>6353</b>	<b>7696</b>	<b>8611</b>

Traders Group Limited continued to generate strong earnings, although the 1985 profit was lower than that of the previous year. Our trust company and personal finance loan operations reported excellent results and the property company continued to be profitable. Unfortunately, our consolidated income was negatively affected by the insurance group which, along with the entire Canadian insurance industry, suffered one of the worst underwriting years on record.

Consolidated gross income was \$714 million, compared with \$661 million in 1984. Consolidated net income was \$12.6 million, or \$2.20 per share, compared with \$14.1 million, or \$2.33 per share, in 1984. After preferred dividends, consolidated net income available for common shareholders was \$10.4 million, compared with \$11.9 million, a year earlier.

Total assets under administration increased nearly 12% to \$8.6 billion.

#### **Guaranty Trustco Limited**

A major accomplishment was the formation in May, 1985, of Guaranty Trustco Limited, which manages our controlling equity interest in Guaranty Trust Company of Canada.

In the first four months of 1985, Guaranty Trust contributed \$3 million to our net income. In the remaining eight months of the year, Guaranty Trustco contributed \$13.1 million.

Guaranty Trustco income includes the results of the following companies:

- Guaranty Trust Company of Canada, which ranks fourth in size in the Canadian trust industry, provides a broad range of consumer and corporate services. The company achieved record earnings in 1985, its fourth year of substantial profit growth, and celebrates its 60th anniversary in 1986;
- Guaranty Properties Limited, a real estate company engaged in the development of land and income producing properties, reported a modest increase in profit in 1985;
- Guaranty Realty Investments Limited, which acquires and manages quality real estate assets on behalf of investors, produced a profit in 1985, its first full year of operation;
- Guaranty Trust Company of Canada (U.K.) Limited, which provides stockbrokerage, stock transfer, and underwriting services in

the European market, reported a small loss in 1985, its start up year;

- Trans Canada Credit Financial Inc., which in July, 1985 began assuming the new and renewal personal finance loan business previously written by Trans Canada Credit Corporation Limited for Traders Group, reported a substantial profit.

#### **Guaranty Trust Company of Canada**

Guaranty Trust registered its fourth consecutive year of substantial profit growth to establish a new earnings record in 1985.

Unconsolidated net operating income totalled \$14.7 million, compared with \$10.1 million in 1984, a 46% increase. Consolidated net income was \$16.2 million, a 52% increase or \$1.26 per common share, compared with \$10.6 million or \$.80 per common share in 1984.

The financial intermediary business performed exceptionally well, contributing substantially to gross income. Assets totalled nearly \$3.5 billion at year-end—a 13% increase over 1984. Consumer personal loans increased by 14%, while the general demand for corporate loans remained soft. However, some segments of our corporate lending portfolio, such as equipment financing, showed excellent growth.

Interest spreads widened, while loan losses and non-performing loans declined substantially. Non-performing loans continued to decrease and represent a minor portion of our loan portfolio.

Guaranty Trust is placing special emphasis on the quality and convenience of consumer services. In the past 14 months, five new branches were opened and six are scheduled for 1986, bringing the Guaranty Trust network to 64 retail outlets. Further service conveniences are being provided by access to shared automated teller machines (ATMs). Guaranty Trust has completed arrangements to join the Bank of Montreal's Circuit Network and the Cirrus network in the United States, which will place over 10,000 ATMs at the disposal of its customers in 1986.

The fiduciary businesses produced revenues equivalent to last year. Guaranty Trust concluded 1985 with \$4.3 billion of fiduciary assets under administration. Pension assets under management increased by 50% and mutual fund assets by 62%. Guaranty Trust continues to be one of the leading stock transfer agents for Canadian companies. However, transfer agent fees declined, reflecting the reduced stock exchange trading volumes among client companies. In addition, the continued trend to transfer individually managed retirement savings plans to brokers had a negative effect.

Guaranty Trust is one of the strongest financial institutions in Canada, with a high quality portfolio of domestic consumer and corporate loans supported by liquidity in treasury bills and government bonds. Demand, time and term deposits rose by 13% to total \$3.1 billion. Most of these deposits were raised at the retail level through the branch network and exceeded the personal deposit industry growth rate, which was less than 10%. The company's operations are well diversified and assets and liabilities are well matched. Guaranty Trust's capital and reserve positions are among the most conservative in the financial industry, ensuring a solid base for future growth.

#### **Guaranty Properties Limited**

Guaranty Properties Limited contributed net income of \$1.2 million, about the same as in the previous year. The company produced revenues of approximately \$40 million from land development operations and its involvement in land and housing joint venture developments, which reduced land inventory. New commercial projects were brought on-stream as a part of the long-term goal of concentration on income-producing properties.

Guaranty Properties Limited has major housing projects underway in Mississauga, Ontario, and Orlando, Florida, as well as several commercial projects in Ontario and Florida.

#### **Finance Group**

Trans Canada Credit provides personal finance loans, residential mortgages and financing of retail sales contracts through its 140 branches throughout Canada. The bulk of the company's business is personal finance loans, which grew by \$24 million in 1985. The quality of the loan portfolios is extremely good, with low delinquency levels.

The Finance Group is going through a period of planned restructuring. In July, 1985 Trans Canada Credit Financial Inc., a subsidiary of Guaranty Trustco Limited, began assuming the new and renewal personal finance loan business previously written by Trans Canada Credit Corporation for Traders Group. After taking into account the transfer of loans to Trans Canada Credit Financial Inc. and deducting corporate expenses, including certain finance related costs, the Finance Group reported a net income of \$2.1 million. However, when the operating incomes of the Trans Canada Credit companies are combined, the result is a contribution to companies within the Traders Group of \$9.7 million, a 36% increase over the previous year.

#### **Canadian General Insurance Group**

The insurance group endured an extremely difficult year and reported a loss of \$5.6 million. While the group's life insurance company was profitable, the three general insurance companies suffered from the adverse conditions plaguing all automobile, property and casualty insurers.

The insurance industry's losses in 1985 exceeded investment income, resulting in reduced underwriting capacity. Property and casualty liability settlements and judgments were unexpectedly high while premium levels for automobile insurance in Ontario were unacceptably low. The outlook for the general insurance industry is not encouraging and substantial rate increases are required before profitability can be restored.

#### **Corporate Overview**

The Canadian economy expanded at a favorable pace last year. Lower interest rates and unemployment, combined with reduced inflation and general price stability, encouraged consumers to increase spending. The personal loan businesses of Guaranty Trust and Trans Canada Credit benefitted from the economic improvement.

Business investors, however, were more cautious and did not increase debt to undertake capital investments. The aggregate economic recovery was not evenly spread among business sectors and several industries, notably resources, have yet to regain growth momentum.

Our Trust company and personal finance  
loan operations reported excellent  
results and the property company continued  
to be profitable.



Developments on the political front affecting the competitiveness of financial institutions were not as positive as we had hoped. The federal government, a committee studying the Canada Deposit Insurance Corporation, the House of Commons Standing Committee on Finance, Trade and Economic Affairs, and an Ontario Task Force on Financial Institutions all produced papers proposing changes in the framework that regulates the trust, bank, investment brokerage and insurance industries.

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

The trust industry has been waiting since 1976 for legislation that will enable it to respond to the current financial environment. Expanded powers are urgently needed to permit us to service our consumer and corporate clients more effectively. Specifically, we require the flexibility to diversify our investment activities to compete more equitably with banks.

Guaranty Trust and other established trust companies have long adhered to prudent management practices that confirm our stability, adaptability and responsibility as both trustees and financial intermediaries. Yet we continue to be penalized by outmoded restrictions that are not appropriate to the interests of Canadian consumers and business enterprises in the competitive conditions that prevail today.

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

## Corporate Structure

Last year, we simplified our corporate structure by eliminating inter-company share holdings in compliance with the Canada Business Corporations Act. Traders sold its entire holding of Class A and Class B shares in Canadian General Securities, Limited back to that company. Traders then acquired an equivalent value of its own outstanding Class A and Class B common shares from Canadian General Securities. The net effect is that the percentage equity interests of public shareholders and Canadian General Securities shareholders in Traders remains effectively the same as before the transaction.

## Outlook

We fully expect Traders Group to maintain its strong earnings record in 1986. Canada should enjoy another year of moderate economic growth. There is room for modest decreases in interest rates with inflation expected to remain at the current lower levels. The outlook for consumer spending is positive and business investment should start to improve.

Guaranty Trustco and its subsidiaries are well organized to perform in their target markets and produce increasing profits. The personal finance loan business is expected to sustain its superior performance, while the property group should be able to enhance profitability. The insurance group remains a concern since regaining an acceptable profit position will be a slow and difficult process unless large and immediate price increases occur in the general insurance industry.

We thank our customers, employees, shareholders and directors for their support during 1985 and look forward with confidence to further improvements in the quality of services and the performance of the Group's diversified business interests.



James W. McCutcheon  
Chairman



Alan R. Marchment  
President and Chief  
Executive Officer



For the eight-month fiscal period ended December 31, 1985, Guaranty Trustco Limited achieved a consolidated net income of nearly \$14 million.

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

**Guaranty Trust Company of Canada**

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

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

Investment spread widened dramatically from 1.72% to 2.19% on a tax equivalent basis—a 27% improvement. Increased preferred stock investments effectively lowered the tax rate from 35% to 28%.

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

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

Interest Rate Spread  
Percent



	81	82	83	84	85
Investment spread ■	.63	1.06	1.70	1.55	1.89
Tax equivalent adjustment ■	.08	-	.10	.17	.30
<b>Total</b>	<b>.71</b>	<b>1.06</b>	<b>1.80</b>	<b>1.72</b>	<b>2.19</b>

**NET INTEREST INCOME AND SPREAD***Thousands of dollars*

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

**LOAN LOSSES AND ALLOWANCES***Thousands of dollars*

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

Properties acquired in settlement of loans, net of specific reserves, totalled \$14.2 million, virtually unchanged from a year ago. These residential and commercial assets have the potential for recovery in value and, in the meantime, are being rented. The \$3.4 million residential component of investment properties stabilized last year. Properties held off the market when prices collapsed are being sold at values above those recorded on the books. As Alberta markets recover further, sales should increase. The \$10.8 million commercial component, comprised of 10 properties, is in various stages of leasing and is providing a positive cash flow.

In the 1960s, management invested in long-term, low-yield NHA mortgage and government bond portfolios. In December, 1985, \$26 million of these mortgages were sold and the proceeds reinvested in government bonds of similar maturity. The net result will be a modest improvement in income. These long-term portfolios were reduced to less than \$163 million by year-end. We estimate that the low yield on these assets reduced 1985 after-tax net earnings by \$4 million.

Fiduciary, or primary fee-for-service, businesses produced revenues equivalent to last year. Two negative factors were the decline in stock exchange trading volumes among the many companies we represent as transfer agent, and the continued movement of individually managed retirement savings

plans to brokers. These revenue declines were offset by a strong 50% growth in pension assets under management and a 62% increase in mutual fund assets. Both areas of investment management should continue to be important revenue sources.

General and administrative expenses increased at a rate faster than inflation as a result of new branch openings, increased emphasis on computer systems improvements and adoption of a policy to accelerate the write-off of system development costs.

**Organization and Goals**

Guaranty Trust has made significant progress toward its goal of improved customer service since its 1984 reorganization into two divisions, Consumer Services and Corporate Services. As a market-needs driven company, one of Guaranty Trust's strategic goals is to provide the best possible customer service by using technology to assist our staff in identifying, developing and delivering products and services for which there is a demonstrable market need. Major expenditures were undertaken in 1985 on branch expansion, technology, training and development, and marketing. A second strategic goal is to ensure a strong, creditworthy balance sheet through prudent lending, liquidity and asset/liability management.

### Consumer Services

A full range of consumer services are offered, including chequing and deposit products, residential mortgages, personal loans, VISA credit cards, investment funds and other fiduciary services.

In the past 14 months, Guaranty Trust opened five new branches in Ontario and British Columbia, and will open six branches in 1986, expanding the retail network to 64 branches. Eight branches were relocated or upgraded in 1985.

To provide convenient 24-hour access to banking facilities, the company operates 10 full-service Money Machine ATMs in the Toronto market and provides Money Machine customers with access to the 19 Magicbanc ATMs operated by the Access ATM Network Inc. Last year, Guaranty Trust joined the Bank of Montreal's Circuit Network, which will provide its customers with access to a further 600 ATMs across Canada, and will also place the over 10,000 ATMs of the Cirrus network in the United States at the disposal of its customers.

Total deposits grew by 13%, including a 20% growth in term deposits—growth rates in excess of the financial industry generally. Aggressive marketing produced a 27% increase in Canada Savings Bond sales, compared with a total industry increase of 18%.

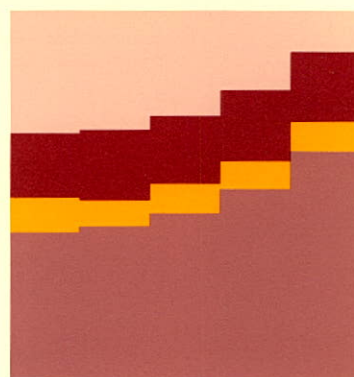
Guaranty Trust offers a “no fee” VISA card which continues to attract new customers. In 1985, the VISA client base increased by 34% to almost 55,000 accounts. New VISA services are being introduced, including a Cash Line service that provides pre-authorized immediate cash advances at competitive interest rates.

Guaranty Trust's mutual funds with income, equity and mortgage components, grew by 62% while the number of investors grew by almost 40%. Personal financial services represent a promising growth area.

The company's success in selling Government guaranteed “Cougar” stripped bonds encouraged it to launch its own stripped bond product, Guaranteed Earnings to Maturity or “GEMS”. This product allows the investor a guaranteed return at a fixed future maturity date.

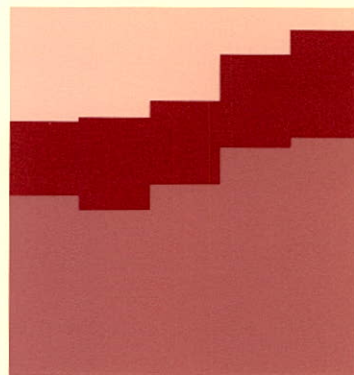
While the personal loans business grew by 14%, only moderate expansion was pursued in the residential mortgage portfolio. To encourage a broad relationship with its clients, preference in mortgage lending was given to customers who use other Guaranty Trust consumer services. Delinquency in Consumer Services loan portfolios was less than 1%, the lowest level in many years.

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



	81	82	83	84	85
Demand ■	0.62	0.66	0.66	0.66	0.67
Time ■	0.32	0.27	0.28	0.28	0.28
Term ■	1.40	1.44	1.56	1.80	2.16
Total	2.34	2.37	2.50	2.74	3.11

**Consumer Loan Portfolio**  
*Millions of dollars*



	81	82	83	84	85
Personal loans ■	29%	36%	31%	29%	31%
Residential first mortgages ■	71%	64%	69%	71%	69%
Total \$	1102	1114	1193	1391	1490

## Corporate Services

Guaranty Trust provides corporations, governments and institutions with a flexible selection of customized financial and fiduciary services. It has a reputation for innovative leadership in stock transfer, corporate trust, pension management and corporate lending services by stressing technical and customer service skills and by utilizing advanced computer resources.

The company offers comprehensive securities transfer and corporate trust services and is one of Canada's largest stock and bond transfer agents, representing more than 800 publicly traded corporations.

On-line stock and bond services expanded last year to the London offices of Guaranty Trust Company of Canada (U.K.) Limited. Unique in North America, this service allows Canadian companies with British or European shareholders prompt and efficient transfer facilities directly in Great Britain. The new service was utilized by a British company with a major Canadian subsidiary for a corporate reorganization and simultaneous reissuance of shares.

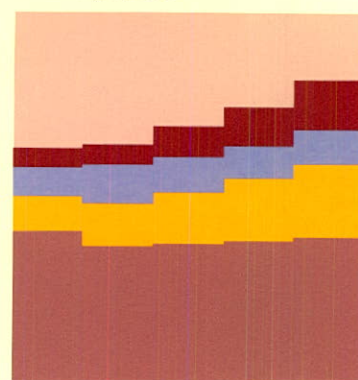
Guaranty Trust is the first choice of many governments and Crown corporations seeking a trust company to handle new debt issues. In 1985, we were selected trustee for bond issues by the Province of Saskatchewan, Saskatchewan Power Corporation and the Saskatchewan Oil and Gas Company Limited. Among other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

Guaranty Trust's pooled pension investment services have been rated in the top one percent of all pension fund managers in Canada over the past ten year period, in terms of the rate of return achieved. Pension fund assets under management grew by 50% in 1985 to total \$1.3 billion.

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

In a difficult year for some corporate lenders, Guaranty Trust's corporate lending portfolios remained of high quality. Delinquency in all portfolios was at the lowest level in many years. The company specializes in fixed asset financing on a secured basis for small, medium and large corporations. Loan exposure to any one client is restricted by the Board of Directors to ensure portfolio security, diversity and stability.

Corporate Loan Portfolio  
Millions of dollars



	81	82	83	84	85
Equipment financing	8%	8%	12%	14%	17%
Corporate term loans	13%	16%	14%	12%	11%
Manufacturer & dealer services	14%	17%	19%	23%	25%
Mortgages	65%	59%	55%	51%	47%
Total \$	885	897	967	1044	1131

Commercial mortgages, the largest component of the corporate loan portfolio, totalled \$533 million with a total balance of accounts in arrears of \$8.8 million, or 1.6%. Equipment financing showed strong growth last year to total \$190 million, a 31% increase. Retail and wholesale financing, leasing and capital loans to automobile dealers totalled \$283 million. Guaranty Trust now provides wholesale financing for one in every eight new cars in its major markets. Corporate term loans increased slightly to \$131 million, with accounts in arrears of only \$1.8 million, or 1.4%.

### Treasury Services

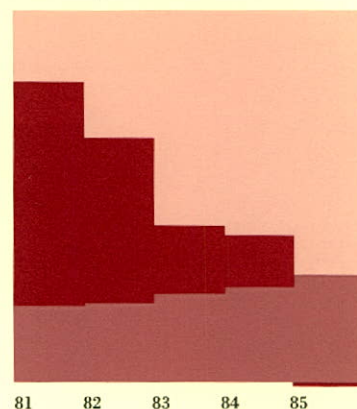
A Treasury Department was formed two years ago to improve the management of all funds raised from deposits and other income sources for reinvestment in mortgages, consumer and commercial loans and other assets. This department became fully operational in 1985 and has direct responsibility for management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

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

At the beginning of the year, instability in the financial markets in 1985 was anticipated. Consequently, Guaranty Trust increased its liquidity portfolios above its traditional substantial levels. The trust company is required by statute to maintain liquid assets at a minimum level of 20% of demand deposits and deposits due within 100 days, which amounted to \$1.3 billion at year-end. Liquid assets increased quite dramatically in 1985—to almost twice the amount required by government—for a surplus of over \$250 million. The capital position was also healthy with the ratio of borrowing to capital remaining below 20:1, although Guaranty Trust is permitted to go as high as 25:1. This ratio is considerably more conservative than that of most major chartered banks.

The liquidity position was further strengthened by the fact that most Guaranty Trust deposits are retail rather than wholesale and are also predominantly term rather than demand deposits. Both these factors increase the stability of the liability base.

**Interest Rate Sensitivity**  
Millions of dollars



Excess fixed rate assets funded by:

Excess rate sensitive deposits ■	300	222	87	67	(2)
Common equity ■	104	107	121	130	142
Total excess fixed rate deposits	404	329	208	197	140

### Borrowing Capacity

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

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

### Liquidity Management

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

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

### Real Estate Services

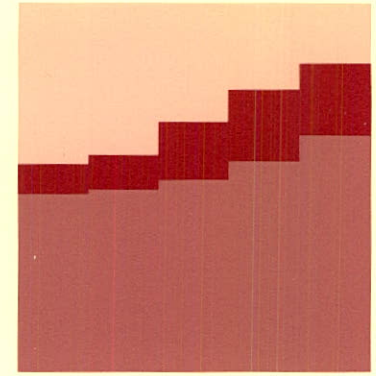
Guaranty Realty Investments Limited is a portfolio management company formed in 1984 to acquire and manage commercial real estate properties for Guaranty Trust, its clients and other investors. Fee income is earned from acquisition, portfolio and property management services.

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

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

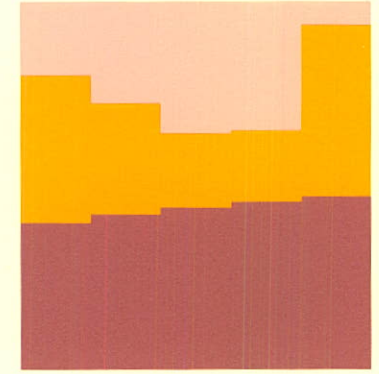
During 1985, Guaranty Realty Investments acquired in excess of \$80 million worth of commercial properties for investors.

**Borrowing Capacity**  
Millions of dollars



	81	82	83	84	85
Surplus capacity	403	452	788	952	975
Utilized capacity	2417	2466	2597	2861	3212
Total	2820	2918	3385	3813	4187

**Liquidity Management**  
Millions of dollars



	81	82	83	84	85
Surplus liquidity	219	164	112	102	256
Statutory liquidity	221	235	244	255	262
Total	440	399	356	357	518

Guaranty Properties Limited is committed to the long-term development and management of a diversified income producing property portfolio. A significant portion of its land bank is being sold through residential development. The company is involved in joint venture housing operations in the Metropolitan Toronto area, Ottawa, and Orlando, Florida. Last year, Guaranty Properties Limited participated in the sale of almost 1000 homes. A major project is the joint venture development with Hammerson Canada Inc. of 2,000 acres in Mississauga, Ontario.

In 1985, it acquired a 35% interest in the development of a medical office building and a 50% interest in a retail commercial project in Metropolitan Toronto.

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

## FINANCE GROUP

The Finance Group reported \$195 million in finance receivables at December 31, 1985, of which \$139 million was personal finance loans. This compares with \$407 million in finance receivables at year end 1984, of which \$335 million was personal finance loans.

Traders' personal finance loan operating company is Trans Canada Credit Corporation Limited. Founded in 1940, it is the largest Canadian-owned personal finance loan company. It provides personal loans, residential mortgages and financing of sales contracts to customers through a national network of 140 branch offices.

With the formation of Guaranty Trustco, the new and renewal business previously written by Trans Canada Credit Corporation was transferred to a new subsidiary of Guaranty Trustco—Trans Canada Credit Financial Inc. This process began in July, 1985, and at year-end, Trans Canada Credit Financial had acquired loans totalling \$204 million. By the end of 1986, most of the personal finance loan business generated and administered by Trans Canada Credit Corporation should be part of the assets of Trans Canada Credit Financial Inc.

Last year, the Trans Canada Credit organization managed, for companies within the Traders Group, a personal finance loan portfolio of \$428 million, compared with \$405 million a year earlier. This modest

asset growth was achieved despite the planned run-off of \$15 million in residential mortgages. After taking into account the transfer of loans to Trans Canada Credit Financial Inc., \$204 million by year end, and deducting corporate expenses, including certain finance related costs, the Finance Group reported a net income of \$2.1 million. However, when the operating incomes of the Trans Canada Credit companies are combined, the result is a contribution to companies within the Traders Group of \$9.7 million, a 36% increase over the previous year.

Personal finance loans account for most of the company's business and allow Canadians to consolidate debts, meet unexpected emergencies, take vacations and purchase large ticket items for their homes. Personal finance loans outstanding increased \$24 million in 1985. Residential mortgage services enable families to borrow against the equity in their homes. A sales financing program assists consumers in purchasing furniture, appliances and other goods. These contracts are purchased by Trans Canada Credit and increased by \$14 million last year.

The company's principal market strengths are its attention to personal service and a well-developed credit and administrative process. The branches are staffed by well trained, experienced specialists who provide a vital service to a broad cross-section of consumers seeking personalized, prompt and courteous service.

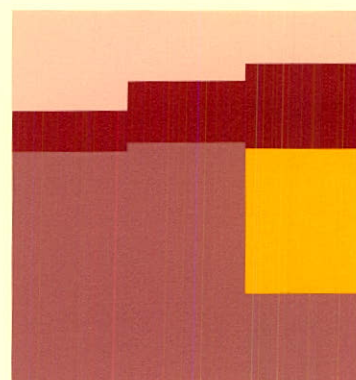
Much of the portfolio is repeat and referral business. In 1985, the customer base grew by 22,000 accounts. Delinquency levels in personal finance loans and residential mortgages continued to decline and were at their lowest levels in some time.

The steady increase in gross income in recent years reflects aggressive pricing, a more profitable mix of receivables and revenues from other customer services, such as the sale of insurance products, smoke detectors for homes, and auto club memberships.

## INSURANCE GROUP

The Insurance Group consists of two general insurance companies that write directly in the Canadian automobile, property and casualty lines of business; a general insurance company that specializes in the reinsurance assumed market; and a life insurance company that writes individual and group life, accident and sickness insurance.

**Personal Finance Loan Receivables**  
Millions of dollars



Administered by Trans Canada Credit Corporation Limited on behalf of:

	83	84	85
Guaranty Trustco Trust ■	15%	21%	26%
Personal Finance ■	—	—	46%
Traders Finance Group ■	85%	79%	28%
Total \$	366	405	428



## General Insurance Operations

The adverse conditions experienced by the industry in recent years continued in 1985. Underwriting losses exceeded investment income, resulting in reduced underwriting capacity in the marketplace.

The industry has been battered by liability settlements and judgments and is still reeling from the effects of legislation, such as the Family Law Reform Act, that has expanded the number of claimants far beyond those anticipated when the policies were originally written.

Fierce competition continued throughout the year and it was only within the last quarter that any meaningful movement in premium rates occurred. The outlook is not encouraging as price levels, particularly for automobile insurance in Ontario, are woefully inadequate. If the industry is to regain a profitable base, further substantial rate increases will be necessary.

In the liability insurance field, the industry is already experiencing substantial rate increases, although it is evident that many consumers will find it difficult to obtain the coverage they require.

Unfortunately, these industry difficulties continued to affect negatively on Canadian General's consolidated results. In 1985, the general companies experienced a net loss of \$6.7 million. This loss was offset to some extent by the life insurance operations, which produced a net profit of \$1.1 million, reducing the Group's net loss to \$5.6 million.

Investment income, together with capital gains taken, showed further improvement to total \$17.3 million during the year, compared with \$14.7 million in 1984.

General and administrative expenses increased by only 2% in 1985, due to tighter control of expenses and the implementation of enhanced computer systems.

Despite general difficulties, the Group once again met all statutory and industry reporting requirements and exceeded the Department of Insurance Solvency Test.

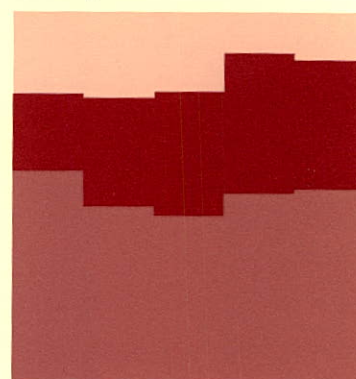
## Life Insurance Operations

Profitable growth continued in most areas, with gross premium income exceeding \$49 million, an 8% improvement over 1984.

Individual life insurance in force exceeded \$5.5 billion, an increase of 10% over 1984 providing protection for more than 38,000 Canadian policyholders. Group life, sickness and accident insurance gross premium income totalled over \$24 million, a 28% increase over 1984. This represents coverage for over 140,000 Canadians.

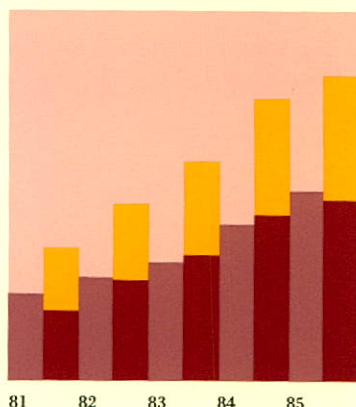
By year end, the total surplus and capital was \$12.9 million or 19% of corporate assets. This is a high ratio by industry standards.

Gross Written Premiums  
by company  
Percentage mix



	81	82	83	84	85
Toronto General Insurance Company	21.9	22.0	21.1	10.8	12.3
Traders General Insurance Company	20.5	29.8	33.5	37.3	35.5
Canadian General Insurance Company	57.6	48.2	45.4	51.9	52.2

Premiums Written  
Millions of dollars



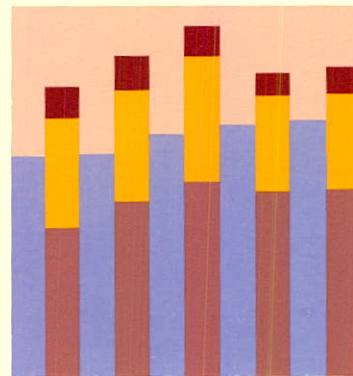
	81	82	83	84	85
Accident and sickness	10.5	12.4	14.7	18.8	20.3
Life	11.0	16.2	20.7	26.9	29.1
Net	14.1	16.6	19.4	25.6	30.7

**OPERATIONS SUMMARY –  
GENERAL INSURANCE COMPANIES**

*Thousands of dollars*

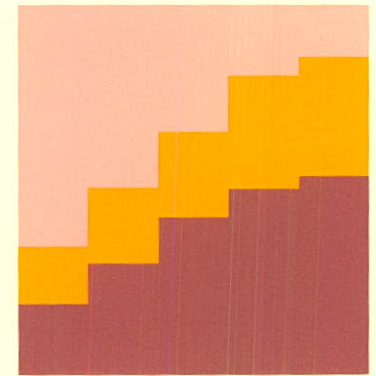
	Automobile		Property and Casualty			Total
	1985	1984	1985	1984	1985	1984
Net written premiums	\$ 73,983	\$ 73,848	\$ 46,839	\$ 44,455	\$120,822	\$118,303
Policies in force	147,430	156,209	169,097	167,186	316,527	323,395
Net premiums earned	\$ 74,115	\$ 75,797	\$ 47,257	\$ 45,386	\$121,372	\$121,183
Claims expense	69,919	67,103	36,103	33,918	106,022	101,021
Commission and premium taxes	11,905	13,197	10,575	10,828	22,480	24,025
Other expenses	9,998	9,134	7,767	8,840	17,765	17,974
Underwriting loss	\$ (17,707)	\$ (13,637)	\$ (7,188)	\$ (8,200)	\$ (24,895)	\$ (21,837)
Investment income and other					17,262	14,664
Income taxes recovery					878	4,007
Loss from operations					\$ (6,755)	\$ (3,166)
Underwriting loss ratio	23.9	18.0	15.2	18.1	20.5	18.0

**Premiums Written,  
by class of business<sup>1</sup>**  
*Millions of dollars*



	81	82	83	84	85
Casualty-Gross written premiums ■	14.5	16.0	14.7	10.4	12.6
Property-Gross written premiums ■	53.2	54.0	59.7	46.7	46.5
Auto-Gross written premiums ■	69.3	82.0	91.7	86.1	87.4
Net written premiums ■	104.3	105.0	114.0	118.3	120.8

**Business in Force – Life**  
*Billions of dollars*



	81	82	83	84	85
Group ■	1.5	2.0	2.3	3.0	3.2
Individual ■	1.9	3.0	4.2	5.0	5.3
Total	3.4	5.0	6.5	8.0	8.5

<sup>1</sup> Includes the following companies: Canadian General Insurance Company, Toronto General Insurance Company, Traders General Insurance Company

**Management's Report  
to the Shareholders  
of Traders Group Limited**

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

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

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

**Auditors' Report  
to the Shareholders  
of Traders Group Limited**

We have examined the consolidated balance sheet of Traders Group Limited as at December 31, 1985 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.

The Department of Insurance conducts an annual examination and enquiry into the Trust and Insurance Companies' affairs as it feels appropriate and necessary to satisfy itself that the provisions of the legislation under which they operate are duly observed and that the Companies are in sound financial condition.

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

Alan R. Marchment  
President and Chief Executive Officer

Edwin W. Austin  
Senior Vice President  
Finance and Administration

Toronto, February 3, 1986

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the 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

**Traders Group Limited**  
**CONSOLIDATED BALANCE SHEET**  
(\$ thousands)

December 31

	1985	1984	% Increase (Decrease)
<b>Assets</b>			
<b>Trustco Group</b>			
	<b>Guaranty Trust</b>		
Cash and money market instruments	\$ 442,918	\$ 332,809	33
Securities (Note 10)	227,204	145,137	57
Loans	2,621,106	2,435,472	8
	<u>3,291,228</u>	<u>2,913,418</u>	<u>13</u>
	<b>Guaranty Properties</b>		
Cash	1,913	1,132	69
Real Estate	217,438	171,683	27
	<u>219,351</u>	<u>172,815</u>	<u>27</u>
	<b>Trustco Finance</b>		
Cash and money market instruments	2,799	-	-
Personal loans	199,156	-	-
	<u>201,955</u>	<u>-</u>	<u>-</u>
	<u>3,712,534</u>	<u>3,086,233</u>	<u>20</u>
<b>Traders Finance Group</b>			
Cash and money market instruments	22,390	45,208	(50)
Receivables (Note 11)	189,751	394,567	(52)
	<u>212,141</u>	<u>439,775</u>	<u>(52)</u>
<b>Canadian General Insurance Group</b>			
Cash and investments	209,960	193,860	8
Premiums receivable and deferred acquisition costs	35,379	35,475	-
	<u>245,339</u>	<u>229,335</u>	<u>7</u>
<b>Other Assets</b>			
Premises and equipment	25,978	21,297	22
Miscellaneous	88,286	87,382	1
	<u>\$4,284,278</u>	<u>\$3,864,022</u>	<u>11</u>

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

Alan R. Marchment, F.C.A.  
President and Chief  
Executive Officer

**Traders Group Limited**  
**CONSOLIDATED BALANCE SHEET**  
(\$ thousands)

December 31

	1985	1984	% Increase (Decrease)
<b>Liabilities</b>			
<b>Trustco Group</b>			
<b>Guaranty Trust</b>			
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>
<b>Guaranty Properties</b>			
Bank and other loans secured by mortgages	99,809	66,199	51
<b>Trustco Finance</b>			
Short and medium term debt	173,047	-	-
Unearned finance charges	30,040	-	-
	<u>203,087</u>	<u>-</u>	<u>-</u>
	<u>3,411,526</u>	<u>2,806,126</u>	<u>22</u>
<b>Traders Finance Group</b>			
Debt (Note 3)	176,715	354,574	(50)
Unearned finance charges	29,245	61,557	(52)
	<u>205,960</u>	<u>416,131</u>	<u>(51)</u>
<b>Canadian General Insurance Group</b>			
Claims in course of settlement	139,079	122,054	14
Unearned insurance premiums	61,385	60,366	2
	<u>200,464</u>	<u>182,420</u>	<u>10</u>
<b>Other</b>			
Accounts payable and accrued expenses	237,693	238,813	-
Deferred income taxes (Note 8)	44,018	40,480	9
Minority interest	23,879	13,267	80
	<u>305,590</u>	<u>292,560</u>	<u>4</u>
<b>Shareholders' Equity (Notes 1 and 4)</b>			
Preferred shares	29,710	29,833	-
Class A shares and Class B common shares	41,126	65,512	(37)
	<u>70,836</u>	<u>95,345</u>	<u>(26)</u>
Retained earnings	89,902	100,789	(11)
	<u>160,738</u>	<u>196,134</u>	<u>(18)</u>
Elimination of inter-corporate holdings	-	(29,349)	-
	<u>160,738</u>	<u>166,785</u>	<u>(4)</u>
	<u>\$4,284,278</u>	<u>\$3,864,022</u>	<u>11</u>

**Traders Group Limited**  
**CONSOLIDATED STATEMENT OF INCOME**  
(\$ thousands)

Year ended December 31

	1985	1984	% Increase (Decrease)
<b>Revenue</b>			
Trustco Group			
Guaranty Trust loan, investment and fee income	\$400,825	\$368,241	9
Guaranty Properties sales and other income	44,808	36,284	23
Guaranty Realty fee and other income	1,229	—	—
Trustco finance charges and related income	20,322	—	—
Traders finance charges and related income	72,313	91,938	(21)
Canadian General Insurance Group premiums and investment income	170,842	165,150	3
Other	3,305	(715)	—
	<u>713,644</u>	<u>660,898</u>	<u>8</u>
<b>Expenses</b>			
Interest expense	336,069	312,184	8
Cost of property sales and write-downs	35,127	27,748	27
Insurance claims	129,684	120,201	8
Insurance commissions and premium taxes	27,318	28,235	(3)
Provision for loan losses	16,062	15,953	1
Salaries and staff benefits	70,610	68,150	4
Premises	15,182	13,693	11
Information processing, marketing and other	56,632	51,459	10
	<u>686,684</u>	<u>637,623</u>	<u>8</u>
Income before income taxes and minority interest	26,960	23,275	16
Income taxes (Note 8)			
— current	9,769	9,002	9
— deferred	3,011	(616)	—
	<u>12,780</u>	<u>8,386</u>	<u>52</u>
<b>Net operating income</b>	<u>14,180</u>	<u>14,889</u>	<u>(5)</u>
Minority interest and consolidation adjustments	1,565	765	—
<b>Net income for the year</b>	<u>\$ 12,615</u>	<u>\$ 14,124</u>	<u>(11)</u>
<b>Available for</b>			
Preferred shares	\$ 2,241	\$ 2,269	(1)
Common shares	10,374	11,855	(12)
	<u>\$ 12,615</u>	<u>\$ 14,124</u>	<u>(11)</u>
<b>Earnings per Class A share and Class B common share</b>	<u>\$ 2.20</u>	<u>\$ 2.33</u>	
Weighted average number of Class A shares and Class B common shares outstanding	4,707	5,094	
Return on average Class A and B shareholders' equity	7.93%	8.99%	

**Traders Group Limited**  
**CONSOLIDATED STATEMENT OF**  
**RETAINED EARNINGS**

(\$ thousands)

	Year ended December 31		%
	1985	1984	
<b>Balance at beginning of year</b>	<b>\$100,789</b>	<b>\$ 90,817</b>	<b>11</b>
Amortization of cost of issuing preferred shares, net of gain on redemption	21	155	(86)
	<b>100,810</b>	<b>90,972</b>	<b>11</b>
Less charges arising from reorganization (Note 1)			
Redemption of common shares	17,898	-	-
Income tax expense	1,049	-	-
Reorganization costs, net of income taxes	470	-	-
	<b>81,393</b>	<b>90,972</b>	<b>(11)</b>
<b>Net income for the year</b>	<b>12,615</b>	<b>14,124</b>	<b>(11)</b>
Less dividends on preferred shares			
4½%	135	135	-
5%	58	58	-
5%, Series A	45	47	(4)
\$2.16 Series B	352	359	(2)
10¼%	625	633	(1)
7.5%	1,026	1,037	(1)
	<b>2,241</b>	<b>2,269</b>	<b>(1)</b>
<b>Earnings available for Class A shares and Class B common shares</b>	<b>10,374</b>	<b>11,855</b>	<b>(12)</b>
Less dividends on Class A shares and Class B common shares, net of inter-corporate holdings (1985 and 1984—\$0.40 per share)	1,865	2,038	(8)
<b>Earnings retained for the year</b>	<b>8,509</b>	<b>9,817</b>	<b>(13)</b>
<b>Balance at end of year</b>	<b>\$ 89,902</b>	<b>\$100,789</b>	<b>(11)</b>

**Traders Group Limited**  
**CONSOLIDATED STATEMENT OF**  
**CHANGES IN FINANCIAL POSITION**

(\$ thousands)

Year ended December 31

	1985	1984
<b>Funds provided by</b>		
Operations		
Net income	\$ 12,615	\$ 14,124
Add non cash items		
<i>Depreciation and amortization</i>	7,960	4,425
<i>Deferred income taxes</i>	3,011	(616)
	<u>23,586</u>	<u>17,933</u>
Net increase (decrease) in		
Trust Company deposits	368,703	243,275
Guaranty Properties debt	33,610	4,932
Trustco Finance debt	173,047	-
Traders Finance debt	(177,859)	43,902
Insurance claims in course of settlement	17,025	18,996
Unearned insurance premiums	1,019	4,026
Other	(9,778)	39,632
	<u>\$ 429,353</u>	<u>\$372,696</u>
<b>Funds applied to</b>		
Reorganization (Note 1)		
Reductions arising from common share redemptions and exchanges		
<i>Share capital</i>	\$ 24,999	\$ -
<i>Retained earnings</i>	17,898	-
<i>Elimination of inter-corporate holdings</i>	(29,614)	-
	<u>13,283</u>	<u>-</u>
Minority interest in Guaranty Trustco preference shares	(11,031)	-
Income tax expense	1,049	-
Reorganization costs, net of income taxes	470	-
	<u>3,771</u>	<u>-</u>
Dividends	4,106	4,307
Addition to fixed assets	9,560	7,053
Net redemption of shares of the Corporation	123	404
Net increase (decrease) in		
Trustco Finance cash, securities and loans net of unearned finance charges	171,915	-
Trust Company cash, securities and loans net of unearned finance charges	372,660	298,350
Guaranty Properties cash, mortgages and real estate	46,536	7,444
Insurance cash, investments and other	16,004	11,392
Traders Finance cash and receivables, net of unearned finance charges	(195,322)	43,746
	<u>\$ 429,353</u>	<u>\$372,696</u>



**1. Corporate Reorganization**

During the course of the year Traders Group Limited (the Corporation) reorganized as follows:

*(i) Guaranty Trustco Limited*

*Share Exchange Offer*

Guaranty Trustco Limited (Trustco), a wholly owned subsidiary of the Corporation, was activated in 1985 as part of the reorganization of Guaranty Trust Company of Canada (Guaranty Trust). This reorganization was carried out in order to allow Trustco to continue the intermediary, fiduciary and real estate businesses of Guaranty Trust and to participate in the personal finance loan business as carried out by the Corporation.

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

On May 1, 1985 the ownership of 12,071,096 common shares of Guaranty Trust was transferred at book value from the Corporation to Trustco in exchange for 8,809,583 common shares of Trustco. Of the \$91,882,000 value assigned to the common shares, an amount of \$83,886,000 was added to the common shares outstanding and \$7,996,000 was added to the contributed surplus. Trustco also surrendered

all Class A shares and Class B shares of the Corporation acquired under the exchange offer to the Corporation for cancellation without repayment of capital.

*Other Reorganization Transactions*

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

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

At the close of business on December 31, 1985 the Corporation sold its entire holdings of issued capital stock of Trans Canada Credit Realty Limited to Trustco in exchange for 11,125 preference shares of Trustco valued at \$250,000. This corporation provides loans secured by realty mortgages.

*(ii) Elimination of Inter-Company Holdings with Parent*

In order to comply with the Canada Business Corporations Act, on December 10, 1985, the Corporation sold its entire holdings in Class A and B shares of Canadian General Securities, Limited to the latter corporation. The Corporation used the proceeds of this sale to purchase for cancellation some of its outstanding Class A shares and Class B shares from Canadian General Securities, Limited. These transactions were executed at fair values.

The effect of these transactions and cancellations on the Corporation is as follows:

	Shares outstanding			Shareholders' equity (\$ thousands)			
	A	B	Total	Share capital	Retained earnings	Inter-corporate elimination	Minority interest
<b>Cancellations:</b>							
Share exchange offer							
Public	599,552	741	600,293				
Inter-corporate	1,484,659	89,390	1,574,049				
Total	2,084,211	90,131	2,174,342				
Elimination of inter-corporate holdings with parent	427,177	242,610	669,787				
	2,511,388	332,741	2,844,129				
<b>Cancellations:</b>							
Share exchange offer							
Public	\$ (5,911)	\$ (1)	\$ (5,912)	\$ (3,614)	\$ 6,362	\$ (3,164)	\$ 3,164
Inter-corporate	(14,638)	(59)	(14,697)	(8,986)	15,816	(7,867)	7,867
Total	(20,549)	(60)	(20,609)	(12,600)	22,178	(11,031)	11,031
Elimination of inter-corporate Holdings with parent	(4,228)	(162)	(4,390)	(5,298)	7,436	(2,252)	-
	\$(24,777)	\$(222)	\$(24,999)	\$(17,898)	\$29,614	\$(13,283)	\$11,031

## 2. Summary of Significant Accounting Policies

### Consolidation

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

	Effective % held by Traders
<b>Trustco Group</b>	
Guaranty Trustco Limited	100.0%
Guaranty Trust Company of Canada	99.8%
Guaranty Properties Limited	99.8%
Guaranty Realty Investments Limited	99.8%
Guaranty Trust Company of Canada (U.K.) Limited	100.0%
Trans Canada Credit Financial Inc.	100.0%
Trans Canada Credit Realty Limited	100.0%
<b>Finance Group</b>	
Trans Canada Credit Corporation Limited	100.0%
Traders Finance Corporation (1976) Limited	100.0%
<b>Insurance Group</b>	
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%

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

### Foreign Exchange

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at either the exchange rate prevailing at balance sheet date or at forward contract rates where such contracts have been made.

Exchange gains or losses related to long-term foreign currency debt of the Corporation are amortized on a straight-line basis over the remaining term of the debt to which they relate. The unamortized balances of deferred gains and losses are recorded as a net deferred charge.

### Finance Accounting

Unearned income on direct financing lease contracts and certain long-term installment contracts is computed on an actuarial yield basis. Unearned income on other installment contracts is computed by the sum of the digits method.

Income from interest bearing loans is recorded on an accrual basis.

### Trust Company Accounting

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.

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.

Fees and commissions are recorded as income when earned.

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

### Guaranty Properties Accounting

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.

### Insurance Accounting

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, in the main, 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 claims and commissions are recorded net of reinsurance recoveries.

The provision for outstanding losses includes an estimated provision for all costs of investigation and settlement of claims incurred prior to the balance sheet date.

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. Debt

Details of secured and unsecured debt are as follows:

Traders Finance Group Debt		Due within one year	Due beyond one year	Total
				(\$ thousands)
<b>Summary</b>				
<b>Secured Debt</b>				
	Senior Secured Debt			
	<i>Short term notes</i>	\$ 1,338	\$ -	\$ 1,338
	<i>Medium term notes</i>	28,200	-	28,200
	<i>Long term notes</i>	23,396	76,028	99,424
	Other Secured Debt	2,455	5,810	8,265
		55,389	81,838	137,227
	Unsecured Debt			
	Debentures	1,688	37,363	39,051
	Other	437	-	437
		\$57,514	\$119,201	\$176,715

#### Senior Secured Debt

The senior secured notes of the Corporation are secured by a first specific charge on finance receivables and eligible securities, a first floating

charge on the undertaking and certain other property and assets of the Corporation and are protected by operating restrictions provided in borrowing agreements.

#### Long Term Notes

Series	Maturity date	Annual sinking fund or maximum annual purchase fund	Outstanding
			(\$ thousands)
6¼% AE <sup>1</sup>	April 1, 1986	\$ -	\$17,381
7¾% AH	December 1, 1986	79	1,490
7¼% AI <sup>1</sup>	July 1, 1987	-	19,576
7¾% AJ	September 15, 1987	125	2,965
8% AK <sup>1</sup>	December 1, 1988	1,046	10,907
8¾% AL	December 15, 1988	8	182
9¾% AM	December 15, 1989	29	801
9½% AN	May 15, 1990	5	192
10½% AO <sup>1</sup>	October 15, 1990	1,276	11,076
9% AP	February 15, 1991	625	14,605
10⅞% AR <sup>1</sup>	March 15, 1991	1,783	17,269
11¼% AQ	January 6, 1995	181	2,980
		\$5,157	\$99,424

<sup>1</sup>U.S. dollar issues.

#### Other Secured Debt

The Corporation has obligations of \$8,265,000 secured on leased property, bearing interest

rates from 8.35% to 10.25% and payable from 1986 through 1990.

#### Debentures

Series	Maturity date	Annual sinking fund or maximum annual purchase fund	Outstanding
			(\$ thousands)
14¾%	June 15, 1990	\$ 381	\$ 5,673
11½%	November 1, 1990	238	3,572
14%	April 15, 1991	121	1,935
9½%	June 15, 1991	106	2,728
13½%	April 15, 1992	178	3,350
8¾%	October 15, 1992	51	1,923
13%	April 15, 1993	135	2,603
8¾%	May 1, 1993	375	8,600
9%	October 15, 1993	375	8,667
		\$ 1,960	\$39,051

#### 4. Share Capital

##### Cumulative redeemable preferred shares

	Authorized shares	Issued and Outstanding	
		Shares	Amount
(\$ thousands)			
4½% preferred shares	35,000	35,000	\$ 3,500
Less held by subsidiaries		5,135	513
		29,865	2,987
5% preferred shares	29,149	29,099	1,164
\$30 preferred shares, issuable in series	351,917		
5%, Series A		30,749	922
Less purchases during 1985		700	21
		30,049	901
\$2.16, Series B		163,696	4,911
Less purchases during 1985		600	18
		163,096	4,893
\$10 preferred shares, issuable in series	5,000,000		
10¾% preferred shares		611,631	6,116
Less purchases during 1985		2,900	29
		608,731	6,087
7.5% preferred shares	331,100	274,662	13,733
Less purchases during 1985		1,100	55
		273,562	13,678
			<u>\$29,710</u>

The terms of issue of 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 preferred shares in the aggregate amount of \$1,385,000.

##### Class A shares and Class B common shares

	Authorized shares	Issued and Outstanding			
		1985		1984	
(\$ thousands)					
	Shares	Amount	Shares	Amount	
<b>Class A shares</b>					
Balance at beginning of year	Unlimited	6,610,054	\$ 65,032	6,580,213	\$64,485
Cancellations (Note 1)		(2,511,388)	(24,777)	-	-
Dividend reinvestment <sup>1</sup>		30,444	613	29,841	547
Balance at end of year	Unlimited	4,129,110	\$ 40,868	6,610,054	\$65,032
<b>Class B common shares</b>					
Balance at beginning of year	720,000	720,000	\$ 480	720,000	\$ 480
Cancellations (Note 1)	-	(332,741)	(222)	-	-
Balance at end of year	720,000	387,259	\$ 258	720,000	\$ 480
<b>Total balance at end of year</b>		<b>4,516,369</b>	<b>\$ 41,126</b>	<b>7,330,054</b>	<b>\$65,512</b>
Less elimination of shares held through a subsidiary		-		2,230,631	
<b>Shares effectively outstanding</b>		<b>4,516,369</b>		<b>5,099,423</b>	

<sup>1</sup> Under the Dividend Reinvestment Plan and Stock Dividend Program eligible holders of Class A non-voting shares and Class B common shares may elect to acquire new Class A non-voting shares at 95% of the average market price through the reinvestment of dividends.

##### 5. Related Party Transactions

During the year Traders Finance Group sold \$44,997,000 (1984-\$51,640,000) of consumer personal loans, net of unearned finance charges of \$15,439,000 (1984-\$17,625,000), to Guaranty

Trust Company of Canada and \$201,203,000 (1984-\$nil) of consumer personal loans, net of unearned finance charges of \$41,911,000 (1984-\$nil), to Trans Canada Credit Financial Inc. at fair market value.

## 6. Pension Plans

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

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

## 7. Commitments and Contingencies

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

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 opinions of its legal counsel, Guaranty Trust has a good defence to all actions.

## 8. Income Taxes

The Corporation and certain subsidiaries receive 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 in 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 income tax position at December 31, 1985 is as follows:

### i) Guaranty Trust

Deferred income tax liabilities, arising mainly from mortgage reserves claimed for tax purposes, have been reflected in the financial statements in the amount of \$14,573,000 (1984-\$9,644,000). The tax benefits of losses carried forward on a filing basis and recognized in the financial statements amount to \$1,243,000 (1984-\$1,585,000).

### 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

\$30,380,000 (1984-\$32,038,000). The tax benefits of losses carried forward on a filing basis and recognized in the financial statements amount to \$6,449,000 (1984-\$9,654,000).

iii) *Canadian General Insurance Group* Deferred income taxes arise from timing differences between reserves claimed for tax purposes and those amounts recognized in the financial statements. The tax benefits of losses available to offset future income taxes recognized in the financial statements as deferred income taxes amount to \$4,859,000 (1984-\$4,496,000). Tax benefits of \$3,900,000 (1984-\$nil) arising from losses have not been recorded in the accounts. Total tax benefits of \$8,759,000 (1984-\$4,496,000) arising from losses are available to reduce income taxes of future years and have no expiry date.

### iv) Traders Finance Group

Deferred income tax liabilities arising principally from direct financing lease contracts have been reflected in the financial statements in the amount of \$13,771,000 (1984-\$16,736,000). The Corporation's consolidated provision for income taxes, compared to assumed combined statutory rates, is summarized as follows:

	1985		1984	
				(\$ thousands)
Income before income taxes, and minority interest	\$26,960		\$23,275	
Provision based on combined statutory rates	\$14,121	52%	\$12,114	52%
Increase (decrease) resulting from:				
Tax-exempt dividend and debenture income	(5,553)	(21)	(3,275)	(14)
Income tax benefits not recognized	3,900	15	-	-
Other items	312	1	(453)	(2)
Income tax provision	\$12,780	47%	\$8,386	36%

## 9. Segmented Information

The major business segments are as follows:

### Trustco Group

#### Trust

- investment of depositor and shareholder funds in mortgages, securities, and personal and corporate loans.
- 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.

#### 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.

### Personal Finance

- investment of funds obtained from institutions and corporations in personal finance loan portfolios.

### Traders Finance Group

- investment of secured and unsecured debt in consumer and corporate loans through wholly-owned subsidiaries.

### Insurance Group

- provision of a full line of automobile, fire and miscellaneous casualty insurance and of individual and group life insurance.

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

	Gross revenue		Contributed earnings	
	Year ended December 31		Year ended December 31	
	1985	1984	1985	1984
				(\$ thousands)
Trustco Group				
Trust	\$400,866	\$367,604	\$20,554	\$15,021
Real Estate	46,037	36,284	2,878	1,880
Personal Finance	20,322	-	3,614	-
Traders Finance Group	72,313	91,938	5,924	12,379
Insurance Group	174,106	165,072	(6,010)	(6,005)
	<u>\$713,644</u>	<u>\$660,898</u>	<u>26,960</u>	<u>23,275</u>
Minority interest and consolidation adjustments			(1,565)	(765)
Income taxes			(12,780)	(8,386)
Net income			<u>\$12,615</u>	<u>\$14,124</u>

## 10. Securities

	December 31			
	1985		1984	
	Book value	Market value	Book value	Market value
				(\$ thousands)
<b>Bonds and debentures</b>				
Government of Canada and Provinces of Canada				
-short & medium term	\$49,900	\$48,790	\$25,102	\$23,866
-long term	37,007	30,776	22,398	16,931
Corporate and other	2,840	2,262	4,329	3,691
	<u>89,747</u>	<u>81,828</u>	<u>51,829</u>	<u>44,488</u>
<b>Stocks</b>				
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>

## II. Finance receivables

		1985	1984
i) Personal Finance			(\$ thousands)
	Personal loans	\$92,484	\$250,018
	Retail	2,040	2,160
	Mortgages	16,284	46,340
	Home improvements	2,398	3,508
	Other	26,110	33,897
		<u>139,316</u>	<u>335,923</u>
Commercial	Equipment financing	4,058	5,984
	Commercial loans	185	214
	Leasing	51,229	63,951
		<u>55,472</u>	<u>70,149</u>
Other		534	1,551
	Less: Allowance for loan losses	(5,571)	(13,056)
		<u>\$189,751</u>	<u>\$394,567</u>
ii) Maturities:			
	Finance receivables due within one year are		
	\$95,046,000 (1984-\$205,312,000).		
iii) Direct financing lease contracts:			
	The Corporation has the following net investment		
	in direct financing lease contracts:		
		1985	1984
			(\$ thousands)
Commercial receivables	Aggregate rentals receivable	\$48,901	\$61,618
	Residuals on expiry of leases		
	Contractual	559	559
	Non-contractual	1,774	1,774
		<u>51,234</u>	<u>63,951</u>
Unearned finance charges		10,725	13,627
		<u>\$40,509</u>	<u>\$50,324</u>

**Traders Group Limited**  
**FIVE YEAR REVIEW—TRADERS CONSOLIDATED**  
**CONDENSED STATEMENT OF INCOME**

(\$ thousands)

December 31

	1985	1984	1983	1982	1981
<b>Gross income</b>					
Trustco Group <sup>1</sup>					
Trust	\$400,866	\$367,604	\$343,370	\$374,975	\$336,849
Real Estate	46,037	36,284	26,278	28,463	20,628
Personal Finance	20,322	—	—	—	—
Traders Finance Group	72,313	91,938	89,424	96,785	125,505
Insurance Group	174,106	165,072	144,638	138,969	129,051
	<b>713,644</b>	<b>660,898</b>	<b>603,710</b>	<b>639,192</b>	<b>612,033</b>
<b>Expenses</b>					
Interest expense	336,069	312,184	288,365	356,041	352,212
Cost of property sales and write-down of inventory	35,127	27,748	16,144	16,745	12,311
Insurance claims	129,684	120,201	97,172	98,153	101,559
Insurance commissions and premium taxes	27,318	28,235	23,134	20,558	18,375
Provision for loan losses	16,062	15,953	20,569	18,532	9,779
Salaries and staff benefits	70,610	68,150	65,151	60,937	58,915
Premises	15,182	13,693	12,921	13,264	12,093
Information processing, marketing and other	56,632	51,459	55,941	47,783	44,580
	<b>686,684</b>	<b>637,623</b>	<b>579,397</b>	<b>632,013</b>	<b>609,824</b>
Income before income taxes, minority interest and extraordinary items	26,960	23,275	24,313	7,179	2,209
Income taxes (current and deferred)	12,780	8,386	10,981	1,716	(1,999)
<b>Net operating income</b>	<b>14,180</b>	<b>14,889</b>	<b>13,332</b>	<b>5,463</b>	<b>4,208</b>
Minority interest and consolidation adjustments	1,565	765	900	1,219	1,017
<b>Net operating income from continuing operations</b>	<b>12,615</b>	<b>14,124</b>	<b>12,432</b>	<b>4,244</b>	<b>3,191</b>
Loss from factoring operation, net of taxes	—	—	—	(1,590)	(526)
<b>Net income before extraordinary items</b>	<b>12,615</b>	<b>14,124</b>	<b>12,432</b>	<b>2,654</b>	<b>2,665</b>
Extraordinary items	—	—	9,660	—	—
<b>Net income for the year</b>	<b>\$ 12,615</b>	<b>\$ 14,124</b>	<b>\$ 22,092</b>	<b>\$ 2,654</b>	<b>\$ 2,665</b>
<b>Available for</b>					
Preferred shares	\$ 2,241	\$ 2,269	\$ 2,364	\$ 2,464	\$ 2,545
Class A shares and Class B common shares	10,374	11,855	19,728	190	120
	<b>\$ 12,615</b>	<b>\$ 14,124</b>	<b>\$ 22,092</b>	<b>\$ 2,654</b>	<b>\$ 2,665</b>
<b>Earnings per Class A share and Class B common share</b>	<b>\$2.20</b>	<b>\$2.33</b>	<b>\$3.88</b>	<b>\$0.04</b>	<b>\$0.02</b>
Dividends declared per share	0.40	0.40	0.40	0.40	1.03¾
Return on average annual Class A share and Class B common share equity	7.93%	8.99%	16.77%	0.16%	0.10%

<sup>1</sup>Includes for 1985 consolidated operating results of Trustco subsequent to reorganization for the 8 months ended December 31, 1985 and consolidated operating results of Guaranty Trust Company of Canada for the 4 months prior to reorganization.



**Traders Group Limited**  
**FINANCIAL ANALYSIS—FIVE YEAR REVIEW**  
(\$ thousands)

December 31

	1985	1984	1983	1982	1981
<b>Consolidated assets<sup>1</sup></b>					
Trustco Group					
Trust	\$3,291,228	\$2,913,418	\$2,599,906	\$2,466,172	\$2,483,973
Real Estate	219,351	172,815	165,371	154,985	145,702
Personal Finance	201,955	—	—	—	—
Traders Finance Group	212,141	439,775	404,823	494,038	668,791
Insurance Group	245,339	229,335	217,943	192,033	182,341
Other Assets	114,264	108,679	84,152	92,616	88,067
	<b>\$4,284,278</b>	<b>\$3,864,022</b>	<b>\$3,472,195</b>	<b>\$3,399,844</b>	<b>\$3,568,874</b>
<b>Consolidated capitalization</b>					
Traders Finance Group Debt					
Secured Debt					
Short term	\$ 1,338	\$ 96,830	\$ 71,485	\$ 78,259	\$ 155,033
Medium term	28,200	83,408	15,230	36,082	30,210
Long term	99,424	113,205	150,081	198,451	224,183 <sup>2</sup>
Other secured	8,265	10,510	12,570	22,986	16,269
	137,227	303,953	249,366	335,778	425,695
Debentures	39,051	49,087	59,703	68,857	86,013
Other	437	1,534	1,603	4,616	10,229
	176,715	354,574	310,672	409,251	521,937
Shareholders' equity and minority interest	184,617	180,052	171,224	152,711	164,513
	<b>\$ 361,332</b>	<b>\$ 534,626</b>	<b>\$ 481,896</b>	<b>\$ 561,962</b>	<b>\$ 686,450</b>
Book value per share	<b>\$ 27.84</b>	<b>\$ 26.88</b>	<b>\$ 24.95</b>	<b>\$ 21.42</b>	<b>\$ 22.99</b>
<b>Net income (loss) by line of business</b>					
Trustco Group <sup>3</sup>					
Trust	\$ 13,759	\$ 8,463	\$ 6,950	\$ 2,719	\$ 757
Real Estate	1,415	1,140	1,072	1,002	1,632
Personal Finance	992	—	—	—	—
Traders Finance Group	2,068	6,850	11,638	(2,495)	1,034
Insurance Group	(5,619)	(2,329)	2,432	1,428	(758)
Net Income	<b>\$ 12,615</b>	<b>\$ 14,124</b>	<b>\$ 22,092</b>	<b>\$ 2,654</b>	<b>\$ 2,665</b>
Weighted average number of Class A shares and Class B common shares outstanding	4,707	5,094	5,078	5,067	5,069
Number of employees	2,996	3,042	3,064	3,102	3,458

<sup>1</sup>Reclassified to reflect the account classification adopted in 1985.

<sup>2</sup>Not restated to reflect change in accounting policy for foreign exchange.

<sup>3</sup>Includes for 1985 consolidated operating results of Trustco subsequent to reorganization for the 8 months ended December 31, 1985 and consolidated operating results of Guaranty Trust Company of Canada for the 4 months prior to reorganization.

**Traders Group Limited**  
**QUARTERLY ANALYSIS OF RATE SPREAD AND**  
**NET INCOME (LOSS) BY LINE OF BUSINESS**

(\$ thousands, where applicable)

		Net rate spread		Net income (loss) <sup>5</sup>						
		Trustco Group								
Quarter		Trust <sup>1</sup>	Finance <sup>2,3,4</sup>	Personal Finance	Trust	Real Estate	Insurance Group	Traders Finance Group	Total	Per share
1981	Q1	1.12%	7.15%	\$ -	\$ 568	\$ 887	\$ (630)	\$ 862	\$ 1,687	\$ 0.20
	Q2	0.85	7.48	-	(128)	393	238	535	1,038	0.09
	Q3	0.29	7.86	-	(4,089)	(32)	548	394	(3,179)	(0.76)
	Q4	0.62	6.98	-	4,406	384	(914)	(757)	3,119	0.49
		0.71	7.36	-	757	1,632	(758)	1,034	2,665	0.02
1982	Q1	0.77	8.57	-	4	732	(1,614)	312	(566)	(0.23)
	Q2	0.96	9.81	-	(265)	1,161	965	(1,244)	617	-
	Q3	1.09	11.29	-	843	107	1,236	(990)	1,196	0.11
	Q4	1.39	10.71	-	2,137	(998)	841	(573)	1,407	0.16
		1.06	9.71	-	2,719	1,002	1,428	(2,495)	2,654	0.04
1983	Q1	1.68	13.97	-	1,053	(701)	689	1,247	2,288	0.33
	Q2	1.74	15.50	-	1,245	1,923	964	919	5,051	0.88
	Q3	1.93	16.17	-	1,446	(163)	192	1,194	2,669	0.41
	Q4	1.82	17.29	-	1,706	13	587	118	2,424	0.36
		1.80	15.67	-	5,450	1,072	2,432	3,478	12,432	1.98
1984	Q1	1.80	17.38	-	1,646	1,031	(465)	1,589	3,801	0.63
	Q2	1.72	17.11	-	2,027	(144)	1,540	1,652	5,075	0.89
	Q3	1.66	16.73	-	2,161	(103)	(427)	1,407	3,038	0.48
	Q4	1.72	14.98	-	2,629	356	(2,977)	2,202	2,210	0.33
		1.72	16.49	-	8,463	1,140	(2,329)	6,850	14,124	2.33
1985	Q1	2.00	17.71	-	2,382	(260)	(415)	1,504	3,211	0.52
	Q2	2.16	16.55	(353)	3,163	636	(268)	1,118	4,296	0.78
	Q3	2.23	16.56	1,014	3,545	530	(870)	(411)	3,808	0.72
	Q4	2.35	17.09	331	4,669	509	(4,066)	(143)	1,300	0.18
		2.19%	16.39%	\$ 992	\$13,759	\$1,415	\$(5,619)	\$ 2,068	\$12,615	\$ 2.20

<sup>1</sup> Average rate earned on loans and securities (excluding fee income) less average rate paid on deposits. Taxable equivalent basis for all periods except for the last three quarters of 1981 and all quarters

of 1982, wherein income tax credits were not available.

<sup>2</sup> Average rate earned on finance receivables less average rate paid on debt.

<sup>3</sup> Revised for 1981 to exclude Aetna Financial Services Limited.

<sup>4</sup> Includes finance loans in Trustco and in Traders.

<sup>5</sup> Excludes extraordinary items.

**Traders Finance Group**  
**ASSET & LIABILITY MATURITIES**

(\$ millions)

		1986	1987	1988	1989	1990	1990 1995	Total
<b>Traders Finance Receivables</b>								
<b>Personal Finance</b>								
<b>Personal loans</b>		\$44.5	\$27.3	\$14.7	\$ 4.7	\$ 1.3	\$ -	\$ 92.5
Retail		2.0	-	-	-	-	-	2.0
Mortgages		12.6	2.9	0.6	0.1	0.1	-	16.3
Home improvements		2.2	0.1	0.1	-	-	-	2.4
Other		21.0	4.0	1.1	-	-	-	26.1
		82.3	34.3	16.5	4.8	1.4	-	139.3
<b>Commercial</b>								
Equipment financing		3.5	0.2	0.2	0.1	0.1	-	4.1
Commercial loans		-	-	-	-	0.2	-	0.2
Leasing		8.7	9.3	6.0	5.3	21.9	-	51.2
Other		0.5	-	-	-	-	-	0.5
		12.7	9.5	6.2	5.4	22.2	-	56.0
		\$95.0	\$43.8	\$22.7	\$10.2	\$23.6	\$ -	\$195.3
<b>Debt</b>								
Short term		\$ 1.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.3
Medium term		28.2	-	-	-	-	-	28.2
Long term		23.4	27.3	12.9	4.7	8.7	22.4	99.4
Other secured		2.5	2.4	1.0	1.1	1.3	-	8.3
		55.4	29.7	13.9	5.8	10.0	22.4	137.2
Debentures		1.7	1.8	2.0	2.0	8.1	23.5	39.1
Other		0.4	-	-	-	-	-	0.4
		\$57.5	\$31.5	\$15.9	\$ 7.8	\$18.1	\$45.9	\$176.7

**Trustco Finance Group<sup>1</sup>**  
**STATEMENT OF INCOME**  
(\$ thousands)

8 months  
ended  
December 31  
1985

<b>Revenue</b>		<b>\$ 20,322</b>
<b>Expense</b>		
	Interest expense	6,834
	Provision for loan losses	2,709
	Other	7,165
		<u>16,708</u>
	Income before income taxes and minority interest	3,614
	Income taxes-current	1,785
<b>Net operating income</b>		<u>1,829</u>
	Minority interest	837
	Net income	<u>992</u>
	Equity Share of net income of Guaranty Trust Company of Canada	12,130
<b>Net contribution to Traders</b>		<u><b>\$ 13,122</b></u>

**BALANCE SHEET**  
(\$ thousands)

December 31  
1985

<b>Assets</b>		
	Cash and securities	\$ 2,799
	Consumer loans	199,156
		<u>201,955</u>
	Investment in subsidiaries Guaranty Trust Company of Canada	142,035
	Miscellaneous	8,388
		<u><b>\$352,378</b></u>
<b>Liabilities</b>		
	Short and medium term debt	\$174,811
	Unearned finance charges	30,040
		<u>204,851</u>
	Other liabilities	4,267
	Deferred income taxes	48
	Minority interest	11,434
<b>Traders equity investment and advances</b>		<u>131,778</u>
		<u><b>\$352,378</b></u>

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

**Guaranty Trust**  
**STATEMENT OF INCOME**  
(\$ thousands)

		Year ended December 31		
		1985	1984	% Increase (Decrease)
<b>Revenue</b>				
	Loan and securities income	\$ 374,733	\$ 336,014	12
	Fiduciary fees	26,092	25,841	1
	Real estate brokerage	-	6,386	-
		<u>400,825</u>	<u>368,241</u>	9
<b>Expense</b>				
	Interest expense	291,724	270,491	8
	Provision for loan losses	3,105	4,401	(29)
	Other	85,483	77,691	10
		<u>380,312</u>	<u>352,583</u>	8
	Income before income taxes and minority interest	20,513	15,658	31
	Income taxes—deferred	5,799	5,546	5
	<b>Net operating income</b>	14,714	10,112	46
	Other	41	(637)	-
	Minority interest and consolidation adjustments	996	1,012	(2)
	<b>Net income</b>	13,759	8,463	63
	Equity share of net income (loss) of			
	<i>Guaranty Properties Limited</i>	1,248	1,140	9
	<i>Guaranty Realty Investments Limited</i>	167	-	-
	<b>Net contribution for the year</b>	<u>\$ 15,174</u>	<u>\$ 9,603</u>	58
	<b>Contribution to</b>			
	Trustco	\$ 12,130	\$ -	-
	Traders	3,044	9,603	(68)
		<u>\$ 15,174</u>	<u>\$ 9,603</u>	58

**BALANCE SHEET**  
(\$ thousands)

		December 31		
		1985	1984	% Increase (Decrease)
<b>Assets</b>				
	Cash and securities	\$ 670,122	\$ 477,946	40
	Consumer loans	1,490,026	1,391,377	7
	Corporate loans	1,131,080	1,044,095	8
		<u>3,291,228</u>	<u>2,913,418</u>	13
	Other assets			
	Investment in and advances to			
	<i>Guaranty Properties Limited</i>	92,714	86,768	7
	<i>Guaranty Realty Investments Limited</i>	264	-	-
	Miscellaneous	75,301	74,545	1
		<u>\$3,459,507</u>	<u>\$3,074,731</u>	13
<b>Liabilities</b>				
	Deposits	\$3,108,630	\$2,739,927	13
	Unearned finance charges	23,836	18,686	28
	Other liabilities	159,500	165,864	(4)
	Deferred income taxes	13,330	8,059	65
	Minority interest (primarily preference shares)	12,176	13,003	(6)
	Traders investment, at equity value	-	129,192	-
	Guaranty Trustco investment, at equity value	142,035	-	-
		<u>\$3,459,507</u>	<u>\$3,074,731</u>	13

**Guaranty Properties**  
**STATEMENT OF INCOME**  
(\$ thousands)

		Year ended December 31		
		1985	1984	% Increase (Decrease)
<b>Revenue</b>				
	Property sales	\$ 39,416	\$ 31,586	25
	Mortgage interest and other	7,134	6,440	11
		<u>46,550</u>	<u>38,026</u>	<u>22</u>
<b>Expense</b>				
	Cost of sales and write downs	35,127	27,748	27
	Interest expense	6,331	6,060	4
	Other	2,381	2,338	2
		<u>43,839</u>	<u>36,146</u>	<u>21</u>
	Income before income taxes	2,711	1,880	44
	Income taxes—current and deferred	1,463	740	98
	<b>Net contribution to Guaranty Trust</b>	<u>\$ 1,248</u>	<u>\$ 1,140</u>	<u>9</u>

**BALANCE SHEET**  
(\$ thousands)

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

**Guaranty Realty Investments**  
**STATEMENT OF INCOME**  
(\$ thousands)

	Year ended December 31 1985
Revenue	\$ 1,229
Expense	1,062
Net contribution to Guaranty Trust	<u>\$ 167</u>

**BALANCE SHEET**  
(\$ thousands)

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

Comparative figures for the preceding year are not presented because operations commenced in the fourth quarter of 1984.

**Traders Finance Group**  
**STATEMENT OF INCOME**  
(\$ thousands)

		Year ended December 31		
		1985	1984	% Increase (Decrease)
<b>Revenue</b>				
	Consumer loan income	\$67,443	\$ 87,137	(23)
	Corporate loan income	3,373	4,303	(22)
	Other	1,497	498	-
		<u>72,313</u>	<u>91,938</u>	(21)
<b>Expense</b>				
	Interest expense	31,180	35,633	(12)
	Provision for loan losses	10,248	11,552	(11)
	Other	24,961	32,374	(23)
		<u>66,389</u>	<u>79,559</u>	(17)
	Income before income taxes	5,924	12,379	(52)
	Income taxes—current and deferred	4,096	5,769	(29)
<b>Net operating income</b>		1,828	6,610	(72)
	Minority interest and consolidation adjustments	(240)	(240)	-
<b>Net income</b>		2,068	6,850	(70)
	Equity share of net income of			
	Guaranty Trustco Limited	13,122	-	-
	Guaranty Trust Company of Canada	3,044	9,603	(68)
	Canadian General Insurance Group	(5,619)	(2,329)	-
<b>Net income for the year</b>		<u>\$ 12,615</u>	<u>\$ 14,124</u>	(11)

**BALANCE SHEET**  
(\$ thousands)

		December 31		
		1985	1984	% Increase (Decrease)
<b>Assets</b>				
	Cash and securities	\$ 22,390	\$ 45,208	(50)
	Finance receivables			
	Consumer	139,316	335,923	(59)
	Corporate	55,472	70,149	(21)
	Other	534	1,551	(66)
		<u>195,322</u>	<u>407,623</u>	(52)
	Less: Allowance for credit losses	5,571	13,056	(57)
		<u>189,751</u>	<u>394,567</u>	(52)
	Investments and advances			
	Investments in non-finance subsidiaries			
	at equity value			
	Guaranty Trustco Limited	131,778	-	-
	Guaranty Trust Company of Canada	-	129,192	-
	Canadian General Insurance Group	25,865	31,454	(18)
	Investment in associated corporations and other	505	2,852	(82)
		<u>158,148</u>	<u>163,498</u>	(3)
	Miscellaneous	15,344	13,702	12
		<u>\$385,633</u>	<u>\$616,975</u>	(37)
<b>Liabilities</b>				
	Debt	\$176,715	\$354,574	(50)
	Unearned finance charges	29,245	61,557	(52)
	Other liabilities	5,164	17,323	(70)
	Deferred income taxes	13,771	16,736	(18)
<b>Shareholders' equity</b>		160,738	166,785	(4)
		<u>\$385,633</u>	<u>\$616,975</u>	(37)

**Canadian General Insurance Group**  
**STATEMENT OF INCOME**  
(\$ thousands)

		Year ended December 31		
		1985	1984	% Increase (Decrease)
	Gross written premiums	\$240,055	\$188,922	27
	Reinsurance ceded	44,363	45,011	(1)
	Net written premiums	\$195,692	\$143,911	36
<b>Gross income</b>				
	Net earned premiums	\$150,313	\$145,595	3
	Investment income	20,529	19,555	5
		170,842	165,150	3
	Gain (loss) on sale of securities	3,264	(78)	-
		174,106	165,072	5
<b>Expenses</b>				
	Claims	129,684	120,201	8
	Commissions and premium taxes	27,318	28,235	(3)
	Other	23,114	22,641	2
		180,116	171,077	5
<b>Loss before income taxes and minority interest</b>		(6,010)	(6,005)	-
	Income tax-deferred	(363)	(3,669)	(90)
<b>Net loss before minority interest</b>		(5,647)	(2,336)	-
	Minority interest and consolidation adjustments	(28)	(7)	-
<b>Net contribution to Traders</b>		<u>\$ (5,619)</u>	<u>\$ (2,329)</u>	-

**BALANCE SHEET**  
(\$ thousands)

		December 31		
		1985	1984	% Increase (Decrease)
<b>Assets</b>				
	Cash and money market instruments	\$ 83,268	\$ 85,241	(2)
	Bonds	73,558	53,850	37
	Stocks	28,021	26,932	4
	Mortgages	25,113	27,837	(10)
		209,960	193,860	8
	Premiums receivable from agents and policyholders	26,155	26,164	-
	Deferred acquisition costs	9,224	9,311	(1)
	Miscellaneous	14,796	13,859	7
		<u>\$260,135</u>	<u>\$243,194</u>	7
<b>Liabilities</b>				
	Claims in course of settlement	\$139,079	\$122,054	14
	Unearned insurance premiums	61,385	60,366	2
	Provision for policy obligations	17,946	13,813	30
	Accounts payable and accrued expenses	12,053	11,328	6
	Deferred income taxes	(4,859)	(4,496)	8
	Minority interest and consolidation adjustments	8,666	8,675	-
	Traders investment, at equity value	25,865	31,454	(18)
		<u>\$260,135</u>	<u>\$243,194</u>	7

**Portfolio Policies**

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

**Lending Policies**

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

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

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

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

**Delinquencies**

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

**Accrual of Interest**

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

**Non-Performing Loans**

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

**Provision for Loan Losses**

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

**Loan Write-Offs**

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



## LOAN LOSS AND ALLOWANCE STATISTICS

Thousands of dollars

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

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

## LOAN LOSSES AND ALLOWANCES

Percentage of loans

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

<sup>1</sup>Includes non-performing loans

## NON-PERFORMING LOANS

Thousands of dollars

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

**Asset & Liability Maturity and Mix**

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

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

Further progress was made during 1985 in reducing the long-term low yield mortgage and bond portfolio. At December 31, 1984, it stood at \$181.2 million but by December 31, 1985 was \$163 million, of which \$55 million matures within 5 years. In addition to this area, and as can be seen in the table opposite, the Company was highly successful in 1985 in ensuring that current operational mismatches were kept within very modest limits. Guaranty Trust enters 1986 structurally sound—well matched in terms of asset and liability maturities and with minimal interest rate sensitivity exposure.

**Interest Rate Sensitivity**

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

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

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

## ASSET AND LIABILITY MATURITY AND MIX

Millions of dollars

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

## INTEREST RATE SENSITIVITY

Millions of dollars

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

**Guaranty Trust**  
**COMPARATIVE FINANCIAL DATA**  
**SELECTED FINANCIAL DATA AND RATIOS<sup>1</sup>**

(\$ thousands)

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

<sup>1</sup>All items exclude any extraordinary gains or losses.

**Guaranty Trust Company of Canada**  
**QUARTERLY ANALYSIS OF RATE SPREAD AND**  
**NET INCOME (LOSS) BY LINE OF BUSINESS**

(\$ thousands, where applicable)

Quarter	Net rate spread <sup>1</sup>	Guaranty			Total	Per share	
		Trust	Property	Realty			
1981	Q1	1.12%	\$ 743	\$ 887	\$ -	\$ 1,630	\$ 0.14
	Q2	0.85	148	393	-	541	0.13
	Q3	0.29	(3,838)	(32)	-	(3,870)	(0.43)
	Q4	0.62	4,705	384	-	5,089	0.44
		0.71	1,758	1,632	-	3,390	0.23
1982	Q1	0.77	273	732	-	1,005	0.06
	Q2	0.96	10	1,161	-	1,171	0.08
	Q3	1.09	1,115	107	-	1,222	0.09
	Q4	1.39	2,396	(998)	-	1,398	0.10
		1.06	3,794	1,002	-	4,796	0.33
1983	Q1	1.68	1,318	(701)	-	617	0.03
	Q2	1.74	1,516	1,923	-	3,439	0.28
	Q3	1.93	1,704	(163)	-	1,541	0.11
	Q4	1.82	1,969	13	-	1,982	0.14
		1.80	6,507	1,072	-	7,579	0.56
1984	Q1	1.80	1,903	1,031	-	2,934	0.22
	Q2	1.72	2,282	(144)	-	2,138	0.16
	Q3	1.66	2,411	(103)	-	2,308	0.17
	Q4	1.72	2,879	356	-	3,235	0.25
		1.72	9,475	1,140	-	10,615	0.80
1985	Q1	2.00	2,630	(169)	(91)	2,370	0.18
	Q2	2.16	3,415	423	213	4,051	0.31
	Q3	2.23	3,788	421	109	4,318	0.34
	Q4	2.35	4,922	573	(64)	5,431	0.43
		2.19%	\$14,755	\$1,248	\$167	\$16,170	\$ 1.26

<sup>1</sup> Average rate earned on loans and securities (excluding fee income) less average rate paid on deposits. Taxable equivalent basis for all periods except

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

<sup>2</sup> Excludes extraordinary items.

## DIRECTORS AND COMMITTEES

### Board of Directors

John P. Bassel, Q.C.  
Partner  
Bassel, Sullivan & Leake  
Barristers & Solicitors  
Toronto, Ontario

W. John A. Bulman  
President  
The Bulman Group  
Limited  
Winnipeg, Manitoba

Irving R. Gerstein  
President  
Peoples Jewellers  
Limited  
Toronto, Ontario

Robert G. Graham  
President and Chief  
Executive Officer  
Inter-City Gas  
Corporation  
Winnipeg, Manitoba

William A. Heaslip  
Chairman, President  
and Chief Executive  
Officer  
Grafton Group Limited  
Toronto, Ontario

Alan R. Marchment, F.C.A.  
President and Chief  
Executive Officer  
Traders Group Limited  
Toronto, Ontario

Frederic Y. McCutcheon  
President  
Arachnae Management  
Limited  
Toronto, Ontario

James W. McCutcheon, Q.C.  
Chairman of the Board  
Traders Group Limited  
Partner  
Shibley, Righton &  
McCutcheon  
Barristers and Solicitors  
Toronto, Ontario

### Committees

#### Audit

Irving R. Gerstein  
Chairman  
J.P. Bassel, Q.C.  
W.J.A. Bulman  
James W. McCutcheon, Q.C.

#### Function:

The Audit Committee reviews financial information intended for publication, and the adequacy thereof, before such information is submitted to the Board. It also reviews, on a continuing basis, control procedures in effect throughout the Corporation.

#### Pension Plans Trustees

Alan R. Marchment, F.C.A.  
Chairman  
R.E. Bethell  
M.A. Hasley  
F.Y. McCutcheon

#### Function:

The Pension Plans Trustees review and make recommendations with respect to the funding of employee pension benefits, the selection of investment managers and funding vehicles, the investment return objectives and the investment strategies and performance of the Traders and subsidiaries pension plans.

#### Compensation

James W. McCutcheon, Q.C.  
Chairman  
W.J.A. Bulman  
I.R. Gerstein  
R.G. Graham  
Alan R. Marchment,  
F.C.A.

#### Function:

The Compensation Committee reviews manpower planning and the performance of management personnel and makes recommendations to the Board concerning executive compensation.

## OFFICERS AND SUBSIDIARIES' OFFICERS

<b>Executive Officers of the Corporation</b>	<b>Senior Officers of Subsidiaries</b>	<b>Guaranty Trust Company of Canada (U.K.) Limited</b>
<b>Traders Group Limited</b> James W. McCutcheon, Q.C. Chairman of the Board	<b>Guaranty Trustco Limited</b> James W. McCutcheon, Q.C. Chairman of the Board	Alan R. Marchment, F.C.A. Chairman of the Board
Alan R. Marchment, F.C.A. President and Chief Executive Officer	Alan R. Marchment, F.C.A. President	Brian M. Benitz Managing Director London, England
Edwin W. Austin, C.A. Senior Vice President, Finance and Administration	Edwin W. Austin, C.A. Vice President, Finance	<b>Trans Canada Credit Corporation Limited</b> <b>Trans Canada Credit Financial Inc.</b>
David A. Ogilvie, C.A. Vice President and Controller	<b>Guaranty Trust Company of Canada</b> James W. McCutcheon, Q.C. Chairman of the Board	<b>Trans Canada Credit Realty Limited</b> Alan R. Marchment, F.C.A. Chairman of the Board
John F. Ellis Vice President and Secretary	Alan R. Marchment, F.C.A. President and Chief Executive Officer	Garnet H. Greenfield President
Bonita J. Then Vice President and Treasurer	E. Wallace Flanagan Vice Chairman of the Board	<b>Canadian General Insurance Group</b> <i>Canadian General Insurance Company</i> <i>Toronto General Insurance Company</i> <i>Traders General Insurance Company</i> Frederic Y. McCutcheon Chairman of the Board
George E. Whitley, Q.C. Vice President and General Counsel	Michael A. Hasley Executive Vice President	Robert E. Bethell President and Chief Executive Officer
	<b>Senior Vice Presidents</b> Edwin W. Austin, C.A. Finance and Administration	<b>Canadian General Life Insurance Company</b> Frederic Y. McCutcheon Chairman of the Board
	Rein W. Crecelius Consumer Services	Jack W. Roberts President and Chief Executive Officer
	William L. Cochrane Corporate Services	
	<b>Guaranty Properties Limited</b> Alan R. Marchment, F.C.A. Chairman of the Board	
	Ernest Bodnar President and Chief Executive Officer	
	<b>Guaranty Realty Investments Limited</b> Alan R. Marchment, F.C.A. Chairman of the Board	
	J. Morley Ringstrom President	

## CORPORATE INFORMATION

**Head Office**  
625 Church Street  
Toronto, Ontario  
M4Y 2G1  
Telephone (416) 975-4500

**Auditors**  
Price Waterhouse  
Toronto, Ontario

**Stock Exchange Listings**  
(Symbol: TG)  
Toronto Stock Exchange:  
Class A shares,  
Class B common and  
preferred (all classes)  
Vancouver Stock  
Exchange:  
Class A shares,  
Class B common and  
preferred  
(4½%, 10¼%, 7.5%)

**Share Transfer Agents  
and Registrars**  
Guaranty Trust  
Company of Canada  
Toronto, Montreal,  
Winnipeg, Calgary,  
Vancouver  
Bank of Montreal Trust  
Company  
New York, N. Y.

**Trustees**  
Senior Secured Debt—  
The Royal Trust Company  
Toronto, Ontario

Debentures—  
The Canada Trust  
Company  
Toronto, Ontario

**Employees – Full time**  
Trustco Group 1,709  
Trans Canada Credit 593  
Canadian General  
Insurance Group 690  
Total 2,992

### Subsidiaries

#### Effective % held by Traders

**Trustco Group**  
Guaranty Trustco  
Limited 100.0%

Guaranty Trust  
Company of Canada 99.8

Guaranty Properties  
Limited 99.8

Guaranty Realty  
Investments  
Limited 99.8

Guaranty Trust  
Company of Canada  
(U.K.) Limited 100.0

Trans Canada Credit  
Financial Inc. 100.0

Trans Canada Credit  
Realty Limited 100.0

**Finance Group**  
Trans Canada Credit  
Corporation  
Limited 100.0

Traders Finance  
Corporation (1976)  
Limited 100.0

**Insurance Group**  
Canadian General  
Insurance Company 99.4

Toronto General  
Insurance Company 98.8

Traders General  
Insurance Company 99.4

Canadian General Life  
Insurance Company 98.1

### Bankers

Bank of British Columbia

Bank of Montreal

Canadian Imperial Bank  
of Commerce

National Bank of Canada

The Bank of Nova Scotia

The Mercantile Bank of  
Canada

The Royal Bank of  
Canada

The Toronto-Dominion  
Bank

**United States of  
America**  
Manufacturers Hanover  
Trust Company

Manufacturers National  
Bank of Detroit

### Annual Meeting

The Annual Meeting of  
Shareholders will be held at  
11:30 a.m. on Thursday,  
February 27th, 1986 in  
Toronto in the Ballroom of  
the Royal York Hotel.

### Comptes de l'exercice

Si vous désirez recevoir un  
exemplaire en français des  
comptes de l'exercice de  
Le Groupe Traders Limitée,  
veuillez vous adresser au  
service de marketing,  
Le Groupe Traders Limitée,  
625, rue Church, Toronto  
(Ontario) M4Y 2G1

