Credit Foncier

105th Annual Report 1985

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Version française

Si vous désirez recevoir ce rapport en
français, veuillez communiquer avec
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Montréal (Québec) Canada H3C 1E1

Financial Highlights
Year ended October 31

	1985	1984
Results for the year		
Revenue	**$ 347 606 000**	$ 327 935 000
Net earnings	**6 093 000**	9 532 000
Balance sheet		
Total assets	**$2 896 391 000**	$2 638 023 000
Securities	**613 481 000**	642 055 000
Mortgages	**2 067 578 000**	1 777 451 000
Deposits	**2 712 018 000**	2 430 742 000
Shareholders' equity	**132 321 000**	130 214 000
Per share		
Net earnings	**$ 6.48**	$ 10.14
Shareholders' equity	**$ 140.74**	$ 138.50

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Corporate Profile

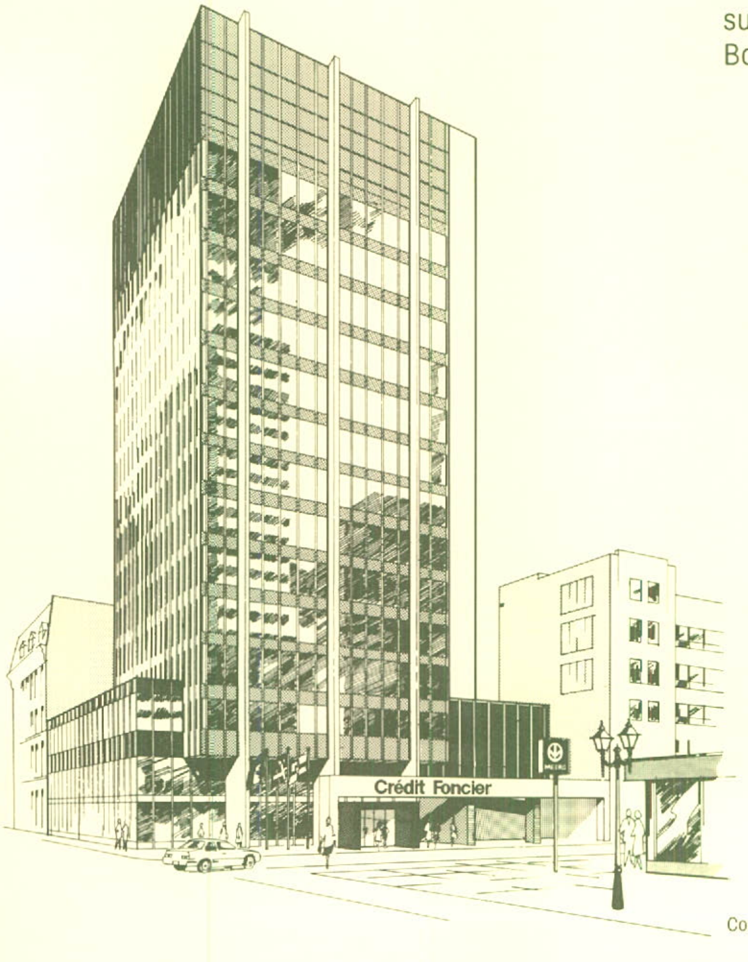
Credit Foncier is a national financial institution with assets of close to $3 billion. Our principal business activities are the granting of term financing on the security of properties and fixed assets and the marketing of competitive personal financial services to individual borrowers, savers and investors.

Established in 1880, Credit Foncier has an unbroken dividend record extending back to 1882. Since its early beginnings, the Corporation has operated across Canada, establishing branches in Quebec and Ontario in 1881, Manitoba in 1884, British Columbia in 1893, Alberta in 1905 and Saskatchewan in 1907. We serve our 170,000 clients through a branch network extending across Canada in 20 cities from St. John's to Victoria.

Our $2 billion mortgage portfolio represents over 70% of our assets; it is well diversified geographically and is secured by mortgages on residential, commercial and industrial properties. Diversified securities portfolios comprising short-term marketable investments, bonds and stocks account for another 20% of assets. In addition, Credit Foncier has substantial investments in real estate which it also manages through a network of property management units. This real estate comprises residential, industrial and commercial properties as well as land holdings including farms under cultivation.

Over 85% of our $2.7 billion in deposits comes from our retail clientele and the remaining 15% through the issuance of commercial paper and debentures marketed to institutional investors.

Credit Foncier has 530 employees across Canada and is a wholly owned subsidiary of the Montreal City and District Savings Bank.



Corporate Head Office

Board of Directors

Claude Castonguay, C.C.
Chairman of the Board
President and Chief Executive Officer
The Laurentian Group Corporation

Michel M. Lessard
President and Chief Executive Officer

Jacques Barbeau
Partner
Barbeau, Sutherland, Falk

Dr. Claude Bertrand
Emeritus Professor of Neurosurgery
University of Montreal

Roland B. Breton
Executive Vice-President, Financial Services
The Laurentian Group Corporation

The Honourable Jean-Pierre Côté, P.C.
Company Director

Réjean Gagné
President and Chief Executive Officer
Famcorp Inc.

Pierre Goyette
President and Chief Executive Officer
The Montreal City and District Savings Bank

J. Louis Lebel
Company Director

Paul H. Leman
Company Director

Pierre H. Lessard
Vice-Chairman of the Board
Télé-Capitale Inc.

Herb C. Pinder, Jr.
Chairman of the Board
Saskatchewan Oil & Gas Corporation

Jean-Marie Poitras
Chairman of the Board
The Laurentian Group Corporation

Philippe Roberge
Partner
Tees, Watson, Poitevin, Javet & Roberge

Paul M. Soubry
President
Versatile Farm Equipment Company

Executive Committee

Claude Castonguay, Chairman
Réjean Gagné
Pierre Goyette
Paul H. Leman
Michel M. Lessard
Pierre H. Lessard
Jean-Marie Poitras

Remuneration and Human Resources Committee

Réjean Gagné, Chairman
Paul H. Leman
Jean-Marie Poitras

Planning Committee

Roland B. Breton, Chairman
Pierre Goyette
Michel M. Lessard

Audit Committee

Dr. Claude Bertrand, Chairman
Jacques Barbeau
Philippe Roberge

(From left to right)
Mr. Michel M. Lessard, Mr. Pierre Goyette,
Mr. Roland B. Breton

(From left to right)
Standing
Mr. Pierre H. Lessard, Mr. Herb C. Pinder, Jr.,
Mr. Paul M. Soubry

Seated
The Honourable Jean-Pierre Côté,
Mr. Claude Castonguay, Mr. J. Louis Lebel

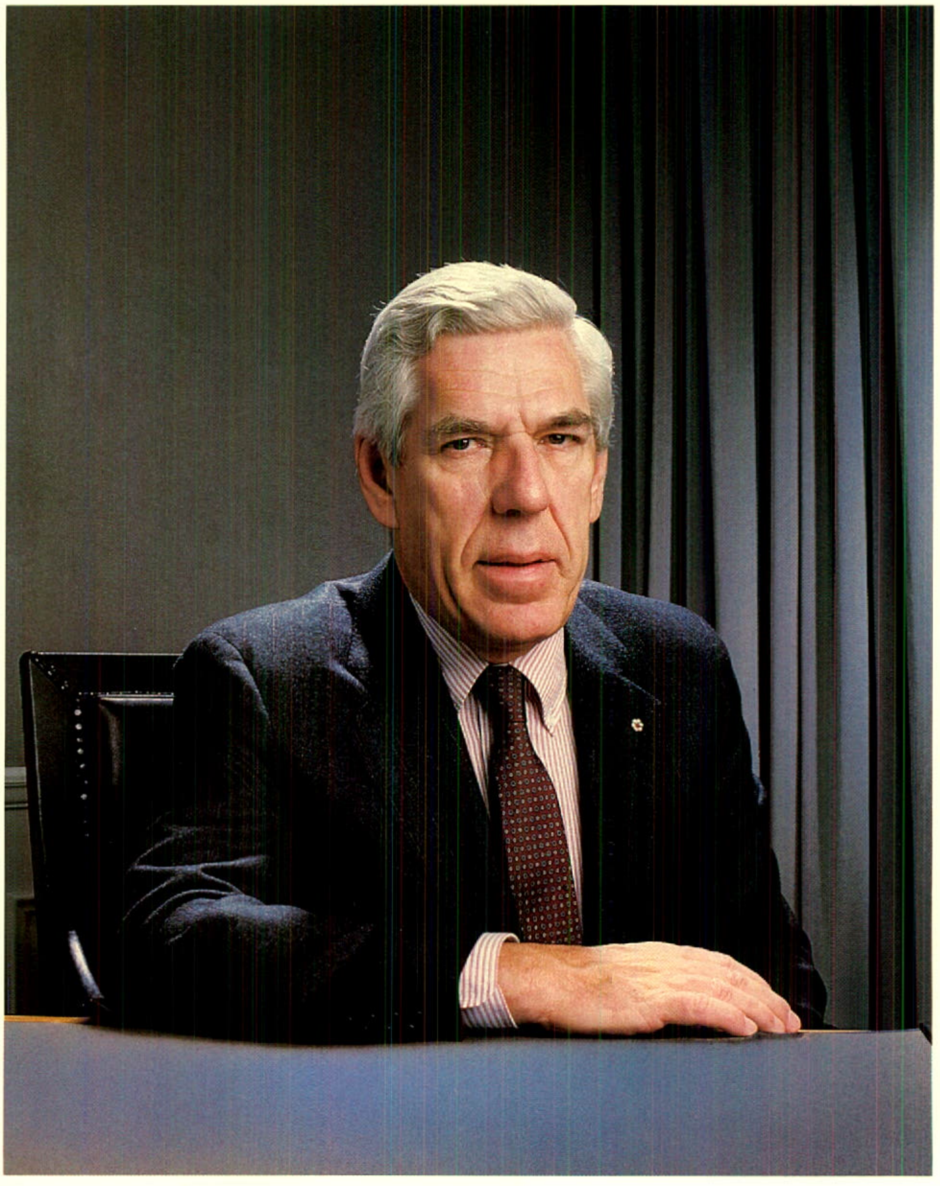
(From left to right)
Mr. Paul H. Leman, Mr. Réjean Gagné,
Mr. Jean-Marie Poitras

(From left to right)
Mr. Jacques Barbeau, Mr. Philippe Roberge,
Dr. Claude Bertrand

Report of the Chairman of the Board

On a number of occasions during 1985, I stressed the importance of updating the regulations governing financial institutions in this country to achieve a better balance among the various kinds of institutions. The current regulatory framework has been regularly reviewed as far as banks are concerned, but the federal and provincial legislation affecting insurance and trust companies has not been substantially revised for many years, with the exception of the Quebec insurance legislation.

Overall, we have a good financial system, and we should resist any temptation to paint it too black or to dramatize the particular problems that have arisen. It is true that the system is experiencing problems that must be corrected. That is the direction we should be moving in, rather than trying to start from scratch. We should be seeking a better equilibrium so that on the one hand, institutions can allow their functions to evolve, and on the other, they can join forces where they see fit, according to clearly defined rules, in the interest of better serving their customers.



Stimulated by the development of new technologies, the disappearance of traditional frontiers and increased competition, the financial services industry in Canada has changed a great deal in recent years. In this context, there is a range of powers that could be granted to all financial institutions with the consumer determining which one suits him best.

At the present time, several levels of government are actively engaged in reviewing their legislation on financial institutions, and we hope that their bills will be tabled during 1986. So far, legislative and regulatory trends have been moving generally in the same direction, without being identical. This has allowed the formation and development of national companies, like Credit Foncier, which soon after its formation in 1880 was able to take advantage of opportunities throughout Canada, gradually extending its branch network from St. John's, Newfoundland to Victoria, British Columbia.

While we can only applaud the clearly stated intentions of the legislatures to review the financial institutions industry, it seems to me worthwhile to point out two traps that should be avoided. Otherwise, the remedy might be worse than the disease.

First, I hope that there will be adequate consultation among the governmental authorities, so that they avoid proposing measures that would result in erecting artificial barriers in the market. The elimination or even weakening of a regulatory environment that has been favourable to the development of solid and stable national financial institutions would, in my judgment, be a major error that would lead to the balkanization of markets in a country where the clientele is already small. How ironic it would be if we were building barriers among the various provinces at the same time that a dialogue on free trade between Canada and the United States was getting underway.

On the other hand, I think that we must also avoid introducing excessive rigidity in the regulations. What we in financial institutions are all hoping for is a system of dynamic controls that would favour competition. In this respect, certain proposals in the federal Green Paper and other reports on the same subject would impose an extremely rigid framework on our institutions and might paralyze the financial system. Overall, our financial institutions have developed self-regulating systems that have generally performed well. They need to be reinforced by strengthening and clarifying, in particular, the roles and responsibilities of the boards of directors, their committees and the external auditors.

We must therefore hope that the authorities responsible for these areas will soon commit themselves to begin a constructive dialogue that will recognize that global competition is upon us and that only stable, strong and geographically well-balanced institutions can offer consumers the quality and reliability of services they are seeking.

The Economy

Looking at the economy, 1985 held some pleasant surprises for us. Contrary to the predictions of most financial analysts, the Canadian economy followed the trend of the two previous years and the GNP recorded real growth of about 4%. The best regional performance was by Alberta, which recovered from the recession much later than the other provinces; growth of its gross domestic product, which was 1% in 1984, rose to 5.2% in 1985.

The inflation rate continued to stay at a very encouraging level of 4%, and interest rates for consumer loans continued the drop begun in the summer of 1984, moving from 13% to about 10% at the end of the year. The rate of personal savings remained very high throughout the year, staying close to 14%. These elements have had a beneficial impact on residential construction, which was particularly strong in the fall.

Experts seem to agree that in 1986, the Canadian economy will again be slightly more vigorous than the American economy. On the other hand, we have been warned of a slowdown due to the massive budget deficits in both countries, which can only have negative consequences in the long term. In sum, we face another year in which financial institutions will have to display rigor, dynamism and imagination to continue to satisfy their customers.

The Year 1985

In 1985, our growth was good. Our main asset component, the portfolio of mortgage investments, grew by 16%, reaching $2.1 billion. Savings products continued to post solid growth, rising 12% to reach $2.7 billion.

The Company experienced substantial progress in administration and technology, as well as in developing strategic approaches. This progress will allow Credit Foncier to function effectively in today's highly competitive environment.

Net earnings for the year amounted to $6.1 million. This figure was affected by changes in our accounting practices and the prolonged effects of the recession in Alberta and British Columbia. We are confident that the measures taken and the economic outlook in these two provinces will produce a noticeable improvement in the results for 1986.

During 1985, the Board of Directors was pleased to welcome a new member, Roland B. Breton, Executive Vice-President for Financial Services of the Laurentian Group Corporation. Mr. Breton previously held a senior position with a major trust company.

In conclusion, let me mention the quality and diligence of the efforts of the management and senior executives of Credit Foncier during the year. Their competence, enthusiasm and high level of energy will continue to be important assets in meeting the many challenges awaiting Canadian financial institutions in the years to come.

Claude Castonguay

Report of the President and Chief Executive Officer

In 1985, Credit Foncier successfully pursued its organizational development plan, the main objectives of which I outlined to you last year. To date, the majority of the programs or projects undertaken have been of an administrative nature, generally representing deferred maintenance. They have been aimed at filling gaps or correcting areas of obsolescence and at effecting a catch-up in the administrative support necessary to ensure the future growth of the business. During the last financial year, we also initiated new programs of a strategic nature with a view to strengthening the competitive position of the Corporation. They impact on technological resources, on the distribution network, on the product range and product features and on client service and client communications.

These programs are essential if we are to ensure the future health of the business even though they weigh heavily on our short-term performance.

Financial Results

Net consolidated earnings for the year were $6,093,000 or $6.48 per share versus $9,532,000 or $10.14 per share for the preceding year. The results were affected by a contraction in profit margins as a result of intense competition between financial institutions, in particular as related to mortgages and consumer-targeted products and services. However, the main impact on net earnings came from loan arrears and from properties, with added pressure from adjustments in our accounting practices in these matters.

Since the 1981-82 recession, our profitability has been affected by high levels of loans in arrears and of properties foreclosed upon in settlement of these loans. The effect was exceptionally severe in 1984 and 1985 due to the heavy concentration of our activities in the western provinces. As at October 31, 1984, 36.3% of our mortgage portfolio was secured by properties located in British Columbia and Alberta. These two provinces, at best, have participated only slightly in the economic recovery experienced by the rest of the country with their natural resource, agricultural and real estate sectors continuing to experience difficulties.

An economic recovery began in the second half of 1985 and was reflected by a sizeable reduction in the level of loans in arrears in our portfolio as well as by a recovery in real estate values, particularly in the residential area. Nevertheless, as at October 31, 1985, 6% of the loans secured by properties in these two provinces remained three months or more in arrears compared with 0.8% in the other provinces.

A charge of $8,686,000 was made against the year's results, compared to $2,400,000 in 1984, as a provision against loans in arrears and foreclosed properties; these provisions arise largely from securities or properties of a residential nature. Net book values are equal to or lower than estimated realization values; the provisions were established regardless of possible future profits on some of these accounts receivable and properties.

The foreclosed properties taken as a whole, the majority of which are single-family dwellings, impact heavily on the financial margin since their net operating income only covers a small portion of the associated financial expenses. Their book value, after deducting provisions for possible losses, totalled $58,570,000 on 558 properties as at October 31, 1985 compared to $48,445,000 on 324 properties a year earlier. This amount is accounted for on the balance sheet under the item "Real Estate", which totals $176,604,000, the same level as in 1984.

The balance of the item "Real Estate" represents properties which we have held as investments for a number of years. Well distributed across the country, this portfolio is made up of corporate buildings, farms in Alberta and Saskatchewan, income properties — residential, industrial and commercial — as well as land held for development purposes. The book value of this portfolio totalled $118,034,000 as at October 31, 1985 compared with $127,996,000 in 1984. We estimate that this book value substantially understates by more than $40 million its market value.

Notwithstanding this possible surplus, a provision of $9,284,000 was taken against the year's results as a permanent write-down in the book value of certain land holdings held for development purposes for over ten years. This provision is accounted for in the consolidated statement of earnings under "Net gains on investments" which amounted to $3,581,000 versus $2,613,000 in 1984. This item combines gains on the disposal of securities totalling $4,973,000 in 1985 compared with $248,000 in 1984, with losses on properties of $1,392,000 in 1985 as against gains of $2,365,000 in 1984.

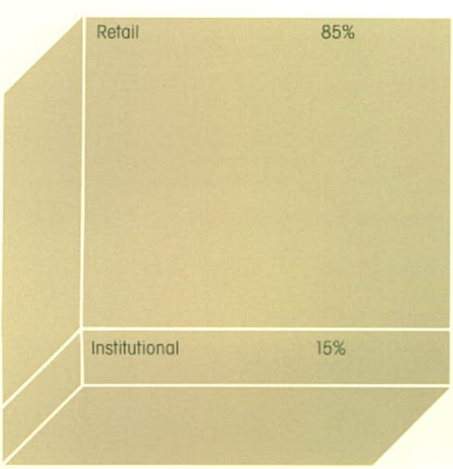
During the year just ended, we prepared a plan covering a three-year period and aimed at correcting, in a substantial way, the burden on the Corporation's operating income of the entire real estate portfolio, notwithstanding the probable appreciation in its market value. This portfolio includes numerous properties which have no long-term role to play and which should be disposed of in an orderly manner at an opportune time; this includes the great majority of our foreclosed properties. It includes also some interesting components capable of giving us some competitive advantages of which we intend to take full advantage.

The attaining of our profit objectives should be helped by a new network of six autonomous property management units, of which the three newest were established in Vancouver, Calgary and Edmonton during 1985. This network now benefits from a new interactive property management system which is both sophisticated and well documented and which was implemented starting at the end of 1984 and during 1985. The initial results are most encouraging and lead us to believe that this network will play an important role in our future development and will strengthen our competitive position.

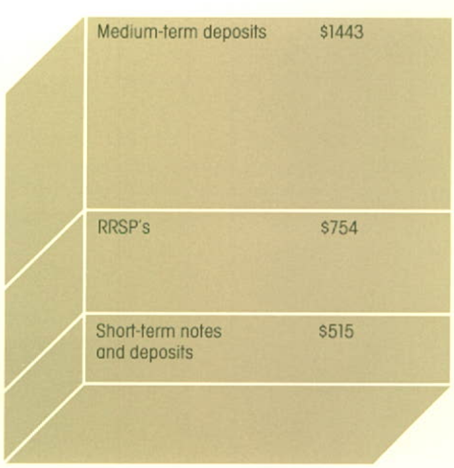
On August 8, 1985, the Corporation sold to a subsidiary of its parent company, the Montreal City and District Savings Bank, all the outstanding shares of the Montreal City and District Trustees Ltd., for a total amount of $12,418,000, being the book value of the shares held by Credit Foncier at that date. The investment in this company and its results are shown in the financial statements as an investment. The financial statements have been adjusted accordingly, which has the effect of reducing the 1984 consolidated assets by $315,655,000.

Our balance sheet as at October 31, 1985 totalled $2,896,391,000. It included shareholders' equity of $132,321,000 as well as subordinated notes of $30,000,000 bringing the capital base to $162,321,000, or 5.6% of assets.

Distribution of deposits by clientele
(in per cent)



Distribution of deposits by category
(in millions of $)



Expansion

We made significant progress in the expansion of our activities in 1985 and reached several milestones in the broadening and improvement of our line of products and services. Our actions at this stage have benefited from our first efforts in strategic planning; they are reflected in an appreciable increase in expenses related to the acquisition of new business and the distribution of our products and services. Our growth took place mainly at the consumer level.

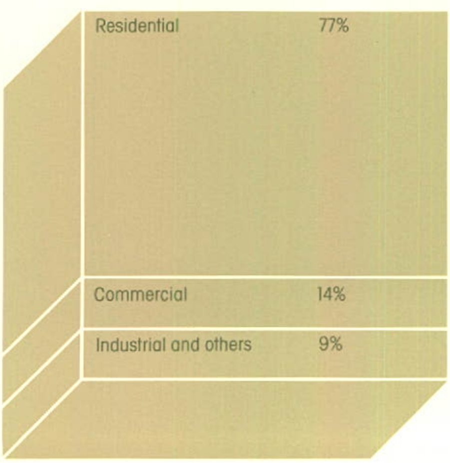
Our deposits grew by 12% to reach \$2,712,018,000 as at October 31, 1985. Over 85% of this total comes from the retail clientele served by our branch network. This same clientele now holds 50% of our short-term deposits, representing over 22% of total deposits. I must highlight the fact that the Prairie region once again experienced a remarkable rate of growth.

Our mortgage portfolio grew by \$290,100,000 or 16.3% to reach \$2,068,000,000 at year-end. The residential sector represented 63% of the portfolio. The strong growth recorded in Ontario helped provide us with a healthy geographical distribution, as follows: British Columbia 18.6%, Prairies 29.4%, Ontario 25.4%, Quebec and Atlantic 26.6%.

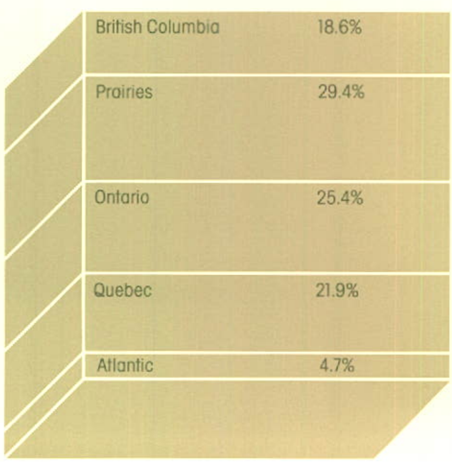
The acquisition at the end of the year of over \$50 million in performing loans from the Pioneer Trust portfolio contributed to the attainment of these results as well as adding to our presence in Saskatchewan and in neighbouring provinces. During the summer, our acquisition of the administration of the mortgage loan portfolio formerly managed by Western Capital Trust for third parties, a majority of whom are institutional investors, marked a first step into a new area of activity. This initial experience allowed us to validate our computerized management system and to accelerate the development of our new mortgage investment and management unit.

Over and above the specific points mentioned previously, we devoted much marketing effort to the broadening and the improvement of the features of our range of products offered to the consumer. We are happy to note that these additions have been well received and we propose to push further in this direction in 1986.

Mortgage portfolio by category
(in per cent)



Mortgage portfolio by region
(in per cent)



Branch Network

1985 was marked as well by the expansion of our network with the addition of new branches in Sherbrooke and Kelowna, thus bringing the number of our financial services branches to 22. In addition, we completed the expansion and/or the relocation of four branches: St. John's, Ottawa, Prince George and Victoria.

The year just past marked the first complete year in which all our branches operated on a uniform and autonomous basis, and incorporating as well our new mortgage administration system. The latter has allowed us to better control and monitor the credit process while improving client service. In 1986, we intend to pursue our efforts aimed at bringing decision making power and resources as close as possible to the point of client contact and to concentrate energies on communications with these same clients.

Technology

Moreover, we have made appreciable progress on the technological level to which we have committed substantial resources with a view to acquiring the technology, tools and integrated systems necessary to place us among the "First Division".

As well as the integrated property management system that we have spoken to you about already, we implemented an electronic mail system linking each of our branches to our computers and to the various Head Office departments with whom they are most likely to communicate on a constant basis. This new system will allow us, in early 1986, to introduce direct interrogation of client files and direct data acquisition from every branch. At the end of the year, we expect to have in place an integrated network linking more than 110 work stations compared to a total corporate staff complement of about 560. We will launch this year, as well, a two-year action plan aimed at implementing a new financial management system, covering management information and a general ledger which should be completed by 1987.

Human Resources

The changes which our industry is experiencing call for significant evolution of the tasks of our personnel towards a higher degree of professional content and requiring greater autonomy and client orientation. We intend to make this evolution easier by introducing training programs centered on human resources management, selling skills and technical knowledge in the best interests of all concerned, and of our customers in particular.

These achievements have demanded a considerable effort and a sustained commitment by our people who have shown determination, understanding and a sense of responsibility, for which I thank them most sincerely.

If we have had a few mishaps, we have also had some important successes. The investments of the past few years and the present represent a heavy burden now but augur well for the future. To us they seem essential for the strategic positioning of Credit Foncier. We have considerable resources that will be called upon to successfully face the challenges and opportunities as they are placed before us.

M. Lessard

Michel M. Lessard

Personal Financial Services

Personal Financial Services is Credit Foncier's largest single area of business activity. Homeowner mortgage loans of $650 million plus savings and investors' deposits of $2.25 billion total $2.9 billion, or virtually 50% of the total of the financial products held by the Corporation's clients.

Our clientele amounts to close to 170,000 homeowners, savers and investors. They are served by a network of 22 financial services branches located in 20 Canadian cities from St. John's to Victoria and supported in these and hundreds of other communities by over 2,500 brokers and agents.

Our clientele is a broad geographical mix with 33% in Quebec and Atlantic Canada, 31% in Ontario, 24% in the Prairie provinces and 12% in British Columbia. Our average savings and investor client has over $14,000 invested in our products while our average homeowner mortgage loan is close to $60,000.

New premises of the branch in St. John's, Newfoundland

Homeowner Mortgages

Our homeowner mortgages are fully competitive in every respect. A wide range of terms, features and options enable the homeowner to tailor a mortgage to individual financial needs, plans and objectives. Homeowners are increasingly aware of the impact that accelerated or lump sum mortgage repayments can have in reducing the sum total of mortgage repayments over the term of a loan.

Credit Foncier offers homeowners the opportunity of making lump sum repayments of up to 12% of the original loan principal every 12 months. As well, a homeowner can opt to increase his monthly payments by up to 12%, on a noncumulative basis, at any time initially and at 12-month intervals thereafter.

Term Deposits

One of the reasons why savers and investors invest in our term deposit products is that term deposits are not a sideline for Credit Foncier. People choose term deposits over many other investment alternatives because of their unique combination of security, high yield, and low minimum amount, their flexibility as to term, maturity date, and method of interest payment as well as the absence of fees and commissions. Credit Foncier's saver and investor clientele has over $1.5 billion invested in Guaranteed Investment Certificates, debentures and short-term investments. They benefit from our consistently competitive rates for all terms, as well as from such added benefits as rate guarantees on deposits by mail and on renewals of medium-term deposits.

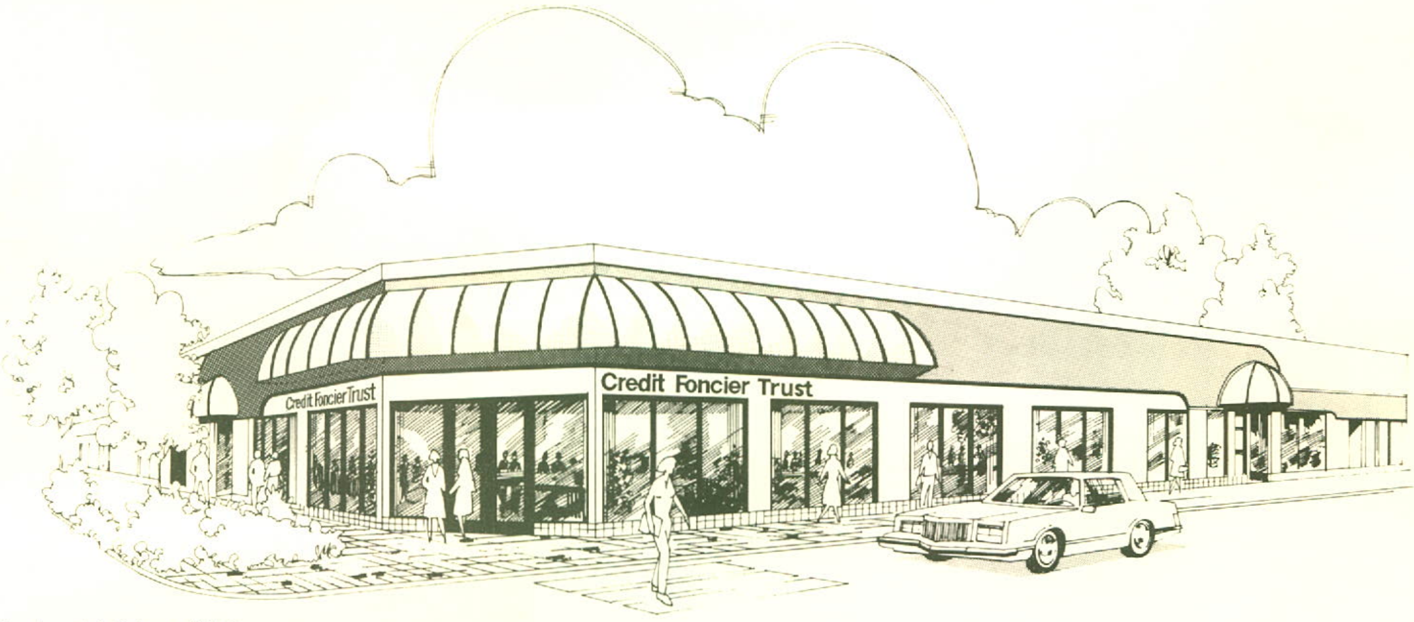
Retirement Savings Plans

Credit Foncier Trust first marketed its Registered Retirement Savings Plans in 1977. In less than nine years, our savings plans, which now number close to 70,000, have grown to over $700 million. Over 85% of plan deposits are invested in high yielding term deposits in the Guaranteed Investment Option. The Guaranteed Savings Option, which earns interest on minimum daily balances, grew by 30% in 1985 and accounts for a growing proportion of savings plan deposits.

Personal Service

The combination of specialization, size and highly competitive product and service features adds up to personalized and knowledgeable service for our clients. Each branch is big enough to allow us to employ experienced customer service professionals who focus their entire efforts on a specialized product line. Customers are served in privacy as a matter of course. They do not have to compete with long lines of early morning, noon and late afternoon customer traffic that they find in their bank nor do they experience the frustration of waiting at a counter for service.

Credit Foncier's clients get first-class service whether they choose to be served in person, over the phone or by mail. We are big enough to be competitive yet we are small enough to care.



New branch in Kelowna, British Columbia.

Commercial Real Estate Financial Services

Credit Foncier's principal lending activity is commercial real estate financing. Over $1.4 billion or two-thirds of our entire mortgage portfolio is composed of loans on income producing properties. The largest component is multiple unit residential properties accounting for over 60% and the rest comprises loans on commercial, industrial, office and other types of real estate property.

Our clientele of professional investors, builders and developers is geographically well distributed across the country. The regional breakdown of the portfolio by dollar amount is: Quebec and Atlantic Canada 34%; Ontario 20%; the Prairie provinces 29%; and British Columbia 17%, with an average loan of $400,000.

Presence in the market

For many decades, Credit Foncier has been an active mortgage lender on income producing properties. Because of our large volume of business and our presence throughout the country we are viewed by developers and investors as a reliable, continuous source of financing.

This strong market presence also means that we are always on the watch for changes in financing arrangements and can respond in a flexible manner to the product needs of the marketplace.

Loan on shopping centre, Dartmouth, Nova Scotia

Loan on residential complex, Ottawa, Ontario

Loan on industrial complex, Montreal, Quebec

Flexibility and Adaptability

Two hallmarks of Credit Foncier's approach to commercial real estate financing are flexibility and adaptability. With Credit Foncier, analysis is carried out by accredited appraisers and clients deal with qualified underwriters. Our people at all levels are oriented towards finding solutions and, when required, towards custom tailoring of financing requirements to fit the needs of the borrower. This applies whether the needs relate to interim financing, take-out lending, or refinancing existing properties. We are flexible as to term as well as offering variable or fixed rates.

Personalized Service

Providing personalized service in commercial real estate financing is another of Credit Foncier's trademarks. This is made possible, in part, by locating technically competent and experienced personnel in proximity to our clientele throughout the country. As well, by supporting them with sophisticated systems and communications technology, we reduce the time needed to issue firm loan commitments.

Service, however, goes beyond the individual deal. We value our clients and seek to develop lasting client-borrower relationships based on mutual interest. This often implies a counselling role and can include such support as advice on overall financial needs or on restructuring existing real estate holdings and investments. As well, our presence in all parts of the country enables us to provide clients with the latest information on economic and market conditions in various regions and centres, and to introduce clients to real estate investment opportunities.

Loan on commercial building, Cambridge, Ontario

Loan on high-rise apartment building, Calgary, Alberta

Loan on high-rise apartment building, Vancouver, British Columbia

1985 Credit Foncier Award

The Credit Foncier Award recognizes outstanding achievements in building preservation by the private sector. The award carries a prize of $20,000 which is shared equally by the developer and architect of the most significant project selected by the jury. In addition to the major award, three honourable mentions can also be attributed by the jury, along with a $2,000 prize for each. The award program is administrated by Heritage Canada.

The jury is an independent body composed of five members representing the Royal Architectural Institute of Canada, the Urban Development Institute of Canada, Heritage Canada and Credit Foncier.

The jury evaluates each project under various headings such as the architectural value, the respect of the original character, commercial validity, the challenge and complexity and finally the community impact.

(Left to right)
Eb Zeidler and Philip Reichmann, winners of the 1985 Credit Foncier Award, with Michel M. Lessard at a reception honoring the winning project.

Queen's Quay Terminal, Toronto, Ontario

The Winner

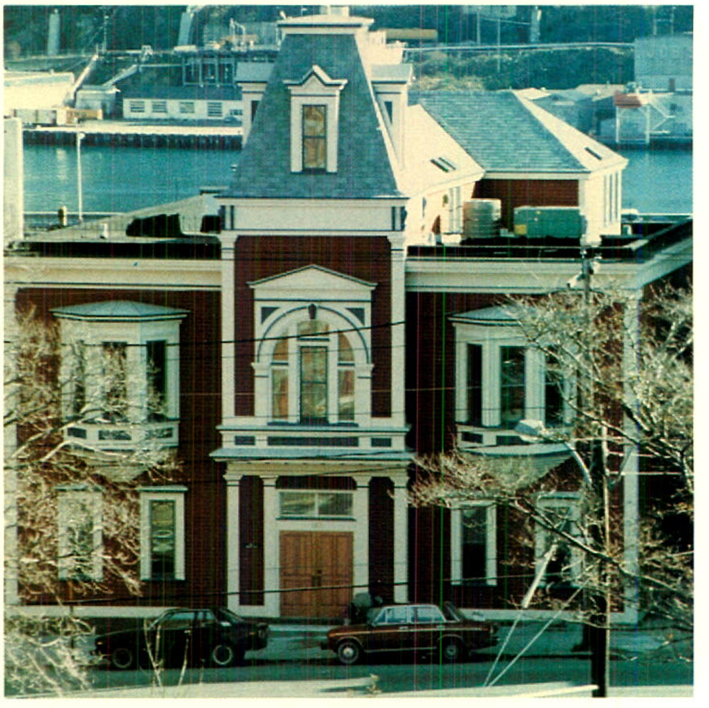
Queen's Quay Terminal, Toronto Ontario
Architect: Zeidler Roberts Partnership/Architects
Developer: Olympia & York Developments Ltd.

Built in the 1920s, the old harbourfront terminal is a world-class revitalization project which serves as an excellent example of creative preservation and an imaginative use of space. As part of the project, the cold storage wing was removed leaving the developer with an eight-storey structure. The first and second levels were transformed into a fashionable shopping and restaurant area, the third level was turned into a theatre and the remaining five levels were converted in modern office space. In addition, four storeys of condominiums were added to the top of the building.

Honourable Mentions

Victoria Hall, St. John's Newfoundland
Architect: William McCallum Architect Limited
Developer: John F. McNeill

Victoria Hall was built in 1894 as a meeting hall and lodge headquarters for the Loyal Orange Society of St. John's. The exterior had been damaged so much over the years it was difficult to recognize it as an historic property. As part of the renovation project, the outside was stripped and the architect used old photographs to reproduce an exact replica of the original exterior. The interior floor space was increased without sacrificing any of the intricate plaster work and other Victorian features.



Hoskin House, Toronto, Ontario
Architect: Gabor & Popper
Developer: Trilobyte Developments

Hoskin House was originally built for Mr. Alfred Hoskin, a Toronto lawyer. This Victorian house with high ceilings and other interesting features has been renovated very creatively. Two homes were created by cutting the existing structure in half and a third identical house was added to the West side. The interior was plastered rather than drywalled and all the interior finishing was done in the Victorian style.

La Cour Notre-Dame, Montreal Quebec
Architect: Carole Scheffer
Developer: Canada 121148 Inc.

Located in the historic sector of Old Montreal, within the limits of the original fortification walls, the 100-year-old warehouse was converted into an eight-unit condominium complex which retains the historical character of the original building. To make the project work, a boldly modern extension was designed to fit in with the rest of the old building.

Five Years Already

When we launched the Credit Foncier Award in 1980 as part of the celebration marking the Company's centennial, one of our key objectives was to encourage the preservation of Canada's architectural heritage by the private sector.

There was already quite a lot of interest in renovation projects at that time. But it has become a strong trend since and we can now say that renovation is a profitable industry which is producing high quality work that all Canadians can be proud of.

The members of the jury of the Credit Foncier Award have increasingly been made aware of this trend at their yearly meetings over the last five years. During this period, 20 projects have received awards: 3 in Atlantic Canada, 6 in Quebec, 7 in Ontario and 4 in Western Canada.

The winning projects since the beginning of the Award are shown below.

1981
252-264 Adelaide Street
Toronto, Ontario

Architect:
Stone & Kohn

Developer:
Sheldon Godfrey, Sagur Investments

1983
The Manhattan Apartments
Vancouver, British Columbia

Architect:
Thompson, Berwick, Pratt and Partners and Norman Hotson Architects

Developers:
Sunco Enterprises Ltd. and The Manhattan Co-operative Housing Association

1982
The Selby (tie)
London, Ontario

Architect:
Alfred Szeto

Developers:
Canadian Income Properties Inc. and Karas Corporation

1984
Maison Alcan
Montreal, Quebec

Architect:
ARCOP Associates

Developer:
Alcan Aluminium Ltd.

1982
The Popliger (tie)
Montreal, Quebec

Architects & Developers:
Ken Hampson and Norman Spatz

1985
Queen's Quay Terminal
Toronto, Ontario

Architect:
Zeidler Roberts Partnership/ Architects

Developer:
Olympia & York Developments Ltd.

Credit Foncier

CREDIT FONCIER TRUST

105th Annual Report

Consolidated Financial Statements as at October 31, 1985

Helping build Canada since 1880

Consolidated Statement of Earnings
for the year ended October 31

		1985	1984
Revenue	Interest	$ **308 255 000**	$ 290 782 000
	Dividends	**8 838 000**	9 453 000
	Real estate operations	**26 966 000**	24 746 000
	Fees and other	**3 547 000**	2 954 000
		347 606 000	327 935 000
Expenditure	Interest	**286 280 000**	269 915 000
	Real estate operations (Note 3)	**22 027 000**	20 685 000
	Salaries and staff benefits	**16 009 000**	14 297 000
	Other operating expenses	**19 298 000**	15 324 000
		343 614 000	320 221 000
	Income Before the Following Items:	**3 992 000**	7 714 000
	Provision for losses	**(8 686 000)**	(2 400 000)
	Net gain on investments (Note 8)	**3 581 000**	2 613 000
	Income (Loss) Before Income Taxes	**(1 113 000)**	7 927 000
	Income taxes (Note 6)	**(7 206 000)**	(1 605 000)
	Net Earnings	$ **6 093 000**	$ 9 532 000
	Earnings Per Share	**$ 6.48**	$ 10.14

Consolidated Statement of Retained Earnings
for the year ended October 31

	1985	1984
Balance – Beginning of the year	$ **109 286 000**	$ 103 740 000
Net earnings for the year	**6 093 000**	9 532 000
	115 379 000	113 272 000
Dividends	**3 986 000**	3 986 000
Balance – End of the year	$ **111 393 000**	$ 109 286 000

Consolidated Balance Sheet

as at October 31

		1985	1984
Assets	Securities (Note 2)		
	Deposits and short-term investments	$ 154 817 000	$ 159 535 000
	Bonds	332 722 000	369 862 000
	Stocks	125 942 000	112 658 000
		613 481 000	642 055 000
	Mortgages	2 067 578 000	1 777 451 000
	Real estate (Note 3)	176 604 000	176 441 000
	Other assets	38 728 000	42 076 000
		$ 2 896 391 000	$ 2 638 023 000
Liabilities	Short-term deposits	$ 607 168 000	$ 479 691 000
	Medium-term deposits	2 104 850 000	1 951 051 000
	Mortgages payable	4 688 000	5 347 000
	Other liabilities	17 364 000	41 720 000
		2 734 070 000	2 477 809 000
	Subordinated Notes (Note 4)	30 000 000	30 000 000
Shareholders' Equity	Capital stock (Note 5)	20 928 000	20 928 000
	Retained earnings	111 393 000	109 286 000
		132 321 000	130 214 000
		$ 2 896 391 000	$ 2 638 023 000

On behalf of the Board:
Claude Castonguay, Director
Michel M. Lessard, Director

Auditors' Report to the Shareholders of Credit Foncier

We have examined the consolidated balance sheet of Credit Foncier as at October 31, 1985 and the consolidated statements of earnings and retained earnings for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at October 31, 1985 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Poissant Richard
Chartered Accountants

Clarkson Gordon
Chartered Accountants

Montreal, Canada
December 3, 1985

Notes
to Consolidated Financial Statements as at October 31, 1985

1. Accounting Policies

a)
Consolidation
The consolidated financial statements include the accounts of all subsidiaries of Credit Foncier, the most important being: Credit Foncier Trust Company, Francana Real Estate Limited and Francana Development Corporation Ltd.

b)
Guaranteed and trust funds
As required by legislation, guaranteed investment certificates issued by the Company's trust subsidiary are treated as guaranteed trust funds. Accordingly, these liabilities and the related assets are segregated from the Company's own funds and are accounted for separately from that subsidiary's own funds. However, for purposes of financial reporting, these assets and liabilities are recorded in the Company's Consolidated Balance Sheet.

Assets managed under a trust agreement by the Company's trust subsidiary are not accounted for with that subsidiary's own funds and are not included in the Consolidated Balance Sheet.

c)
Securities
Bonds are stated at their amortized cost plus accrued interest. Stocks are stated at cost plus earned dividends.

d)
Mortgages
Mortgages are carried at cost plus accrued interest less repayments, unamortized discounts and a provision for losses which has the effect of reducing the book value of mortgages in arrears to the estimated realizable value of the underlying security. Discounts are amortized over the term of the loan.

e)
Real estate
Corporate buildings and real estate held for investment are carried at cost less accumulated depreciation. The depreciation of real estate acquired since 1973 is calculated using the sinking fund method to amortize the cost over 40 years at the rate of 5% per annum. Properties acquired before 1973 are depreciated on a straight-line basis at the rate of 2 1/2 % per annum.

Properties held for resale are carried at the lower of cost or estimated realizable value on the basis of an orderly disposal.

f)
Income taxes
The Company follows the tax allocation method of accounting for income taxes. It accounts for deferred income tax debits resulting from timing differences between accounting and tax treatments which it has reasonable assurance of realizing.

Also, the Company accounts for income taxes recoverable against future years' taxes in the year the loss for income tax purposes occurs as management is virtually certain that this benefit will be realized.

g)
Earnings per share
Earnings per share are calculated on the average daily number of shares outstanding during the year.

h)
Transactions between affiliated companies
Operations between affiliated companies are made at conditions equivalent to those made between non-affiliates.

i)
Translation of foreign currencies
Foreign exchange accounts are converted to Canadian dollars at the exchange rate prevailing as at balance sheet date or as determined by forward exchange contracts.

2. Securities

The market value of deposits, short-term investments, bonds and stocks was $640 754 000 as at October 31, 1985 and $675 772 000 as at October 31, 1984.

3. Real Estate

This item includes an amount of $118 034 000 as at October 31, 1985 and $127 996 000 as at October 31, 1984 representing buidings held for corporate purposes and real estate held for investment. The balance represents properties held for resale.

Real estate operations expenses include depreciation of $1 302 000 in 1985 compared with $1 301 000 in 1984, bringing total accumulated depreciation to $13 831 000 in 1985 compared with $13 174 000 in 1984.

4.
Subordinated Notes

The subordinated notes bear interest at the rate of 17 1/8 % per annum, payable annually, and mature on April 30, 1989. These subordinated notes may be included in the capital base for purposes of determining the maximum amount of debt that the Company may have outstanding.

5.
Capital Stock

Authorized:
1 272 000 common shares without par value

Issued and fully paid:

	1985	1984
940 203 common shares	$ 20 928 000	$ 20 928 000

6.
Income Taxes

This item in the Statement of Earnings comprises the following:

	1985	1984
Current income taxes	$ 375 000	$ 58 000
Deferred income taxes	(9 722 000)	(121 000)
Recoverable against future year's taxes	2 141 000	(1 542 000)
	$ (7 206 000)	$ (1 605 000)

Deferred income tax debits of $12 616 000 are carried on the balance sheet as "Other assets". Of this total, an amount of $2 595 000 is recoverable against future years' taxes of which $961 000 is recoverable up to October 31, 1990 and the remaining $1 634 000 is recoverable up to October 31, 1991.

The difference between statutory income tax rates and effective rates applied to income before income taxes results almost exclusively from income derived from certain securities of Canadian corporations not subject to income tax and from net gains on investments only partially subject to income tax.

7.
Sale of Montreal City and District Trustees Limited

On August 8, 1985, the Company sold to a subsidiary of the Montreal City and District Savings Bank all outstanding shares of the Montreal City and District Trustees Limited at their fair market value of $12 418 000 which was equal to their book value.

The Balance Sheet and the Statement of Earnings for the year ended October 31, 1984 were restated to exclude the assets, liabilities and earnings of the Montreal City and District Trustees Limited. The investment in that company, totalling $11 952 000 at October 31, 1984, is included in "Other assets". The net earnings for 1984 amounting to $530 000 and the net earnings for 1985 up to the date of disposal, amounting to $945 000, are included in "Fees and other" in the Statement of Earnings.

8.
Net Gains on Investments

This item comprises net gains realized on the disposal of certain securities and real estate assets, less a provision for losses on certain real estate properties, as follows:

	1985	1984
Securities	$ 4 973 000	$ 248 000
Real estate	(1 392 000)	2 365 000
	$ 3 581 000	$ 2 613 000

9.
Comparative Figures

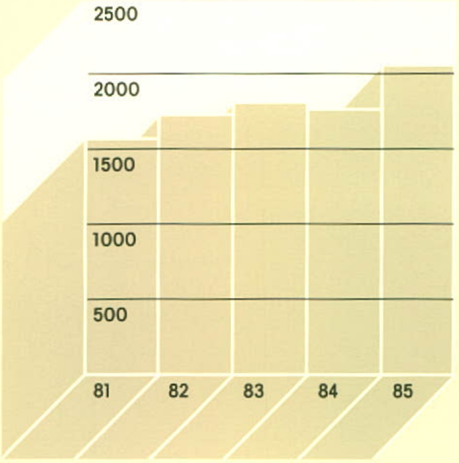
Certain 1984 accounts have been reclassified to conform with the financial statement presentation for 1985.

Five-Year Financial Summary

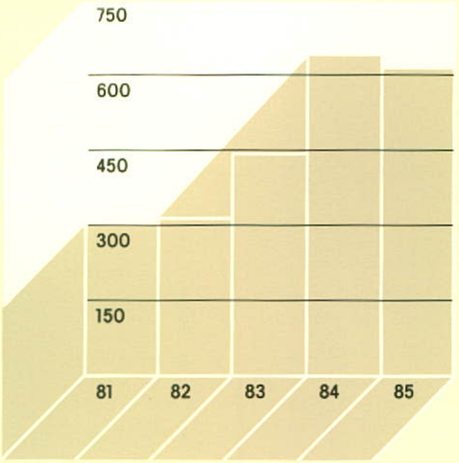
	1985	1984	1983	1982	1981
Principal balance sheet items (in thousands of dollars)					
Total assets	**2 896 391**	2 638 023	2 435 428	2 217 774	2 042 185
Mortgages	**2 067 578**	1 777 451	1 821 901	1 743 917	1 578 228
Securities	**613 481**	642 055	447 210	315 491	305 901
Real estate	**176 604**	176 441	142 838	140 086	105 627
Short and medium-term deposits	**2 712 018**	2 430 742	2 257 623	2 040 445	1 896 239
Shareholders' equity	**132 321**	130 214	124 668	117 998	114 355
Results for the year (in thousands of dollars)					
Revenue					
Interest	**308 255**	290 782	277 585	270 191	217 404
Dividends	**8 838**	9 453	9 619	10 051	7 681
Real estate operations	**26 966**	24 746	22 256	18 120	16 652
Fees and other	**3 547**	2 954	2 575	1 303	1 879
	347 606	327 935	312 035	299 665	243 616
Expenditure					
Interest	**286 280**	269 915	256 875	260 865	205 324
Real estate operations	**22 027**	20 685	17 355	15 213	13 711
Salaries and staff benefits	**16 009**	14 297	13 680	12 004	10 086
Other operating expenses	**19 298**	15 324	13 185	12 752	10 739
	343 614	320 221	301 095	300 834	239 860
Income before the following items:	**3 992**	7 714	10 940	(1 169)	3 756
Provision for losses	**(8 686)**	(2 400)	(2 100)	(1 273)	(561)
Net gains on investments	**3 581**	2 613	452	4 489	5 493
Income (loss) before income taxes	**(1 113)**	7 927	9 292	2 047	8 688
Income taxes	**(7 206)**	(1 605)	(1 363)	(6 296)	(3 958)
Net earnings	**6 093**	9 532	10 655	8 343	12 646

	1985	1984	1983	1982	1981
Per share information					
Net earnings	**$ 6.48**	10.14	11.33	9.03	13.68
Dividend	**$ 4.24**	4.24	4.24	7.25	9.41
Shareholders' equity	**$ 140.74**	138.50	132.60	125.50	123.76
Number of shares outstanding	**940 203**	940 203	940 203	940 203	923 983

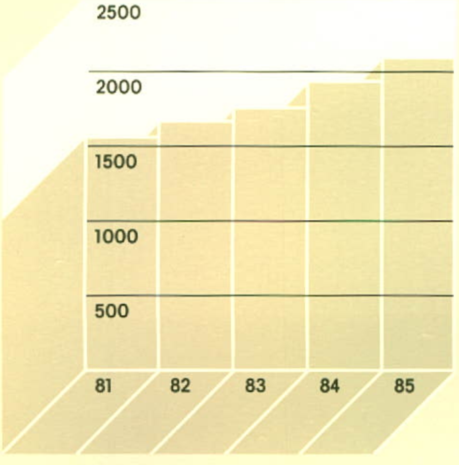
Mortgages
(in millions of $)



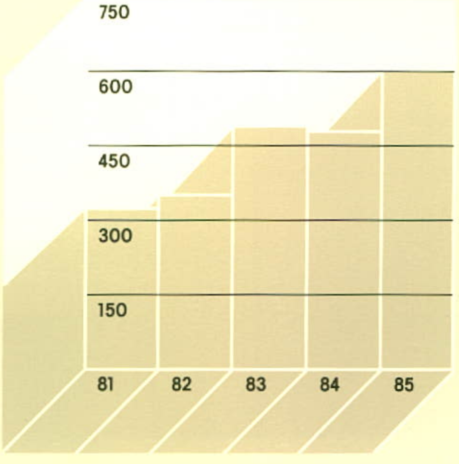
Securities
(in millions of $)



Medium-term deposits
(in millions of $)



Short-term deposits
(in millions of $)



Corporate Management

Chairman of the Board
Claude Castonguay, C.C.

President and Chief Executive Officer
Michel M. Lessard

Senior Vice-Presidents
Pierre Bruneau
Branch Operations

Michel Guay
Administration

Juri Koor
Finance

Jean C. Pinard
Mortgage Financing

Vice-Presidents
Samir Abboud
Commercial and Industrial Mortgage Investments

Louis H. Cousineau
Human Resources

Jacques David
Treasurer

Pierre de Feydeau
Real Estate Investments

C. Ross Gledhill
Investments

Christopher D. Hyde
Corporate Affairs

Denis A. Lussier
Marketing

Jean-Michel Seigneur
Control

Assistant Vice-Presidents
Claire Bellemare
Client Services

Claude Bolduc
Systems

André Dambrine
Economist

Pierre Mineau
Financial and Fiscal Planning

Department Managers
Yvon Desautels
Communications

Jean-Claude Dubreuil
Property Management Support

Marc Durocher
Market Operations

Laurent D. Gingras
Internal Audit

Pierre Girardin
Office Services

Yvon Grant
Marketing Planning and Development

Ann-Maureen Hennessy
Private Placements

Louis-Alexandre Rail
Secretary and General Counsel

Claude Richard
Corporate Accounting

Gérard Rose
Taxation

Michel St-Louis
Staffing and Development

Ian G. Speedie
Mortgage Banking

Robert Widdicombe
Mortgage Financing-Multi-Residential

Property Management
Rony N. Kattan
Vice-President, Property Management

Ezra Timan
Montreal

Yves Tassé
Quebec City

Branch Network Management

Marcel G. Bergevin
Vice-President, British Columbia

Ernest J. Castelane
Vice-President, Prairies

Arvid W. Fonkalsrud
Vice-President, Ontario

Kenneth A. W. Gordon
Vice-President, Quebec and Atlantic

British Columbia Region

Vancouver
Financial Services
Gerard V. McKenna

Property Management Services
Peter Arbuckle

Victoria
Financial Services
Alan E. Swan

Vernon
Financial Services
Carole Chamberlain

Prince George
Financial Services
John Grant

White Rock
Financial Services
Dale Steinsvoll

Kelowna
Financial Services
William L. Hanrahan

Prairies Region

Calgary
Financial Services
Barry McCorkindale

Property Management Services
Alexander Ingram

Edmonton
Financial Services
Albert C. Bond

Property Management Services
John Murphy

Regina
Financial Services
Elmer L. Hart

Saskatoon
Financial Services
Douglas W. Banzet

Winnipeg
Financial Services
John R. McDougall

Ontario Region

Toronto
Real Estate Financing
Anders J. Anderssen

Personal Financial Services
Robert McMillan

Ottawa
Financial Services
Gary R. Graham

London
Financial Services
Stephen Cafik

Kitchener
Financial Services
David Langill

Quebec and Atlantic Region

Montreal
Real Estate Financing
Jean-Pierre Paradis

Personal Financial Services
Denis Couillard

Quebec City
Financial Services
Richard Fabre

Sherbrooke
Financial Services
Jacques Arsenault

Halifax
Financial Services
Kris Markusson

St. John's
Financial Services
Raymond F. Fisher

Financial Services Network

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(709) 726-1880

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(902) 425-1880

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Real Estate Financing Centre
555 Dorchester Blvd. W. H2Z 1B1
(514) 878-9200

Quebec City
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(418) 681-0277

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(819) 564-1880

Ontario

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(519) 742-1880

London
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Real Estate Financing Centre
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