ANNUAL REPORT 1978

Laurentide
Financial Corporation Ltd.

Laurentide
Financial Corporation Ltd.

Contents

A Special Message from the President

On February 8, 1979, the shareholders of Laurentide Financial Corporation Ltd. approved an amalgamation agreement between Laurentide and a subsidiary of The Provincial Bank of Canada. The amalgamated company will continue as Laurentide Financial Corporation Ltd.

I should like to comment briefly on this important event in the development of your company.

Speaking personally, as well as on behalf of your Board of Directors and your company's senior executive team, I view this merger with pleasure, enthusiasm and confidence. The years ahead promise to be the most exciting and rewarding in your company's history.

When the idea of a merger was first proposed to us, we were already well advanced in our own plans to convert to a chartered bank. The final decision had been postponed pending enabling legislation. Therefore, the proposal was completely in line with our corporate planning and objectives.

The Provincial Bank of Canada is an aggressive, growth-oriented and highly respected organisation whose activities, strengths and national structure dovetail ideally with our own. We could not wish for a better partner for the future.

The mutual benefits which will accrue as a result of this merger are too numerous to detail here; indeed, a number of joint liaison committees are still studying and reporting on the broad range of marketing opportunities open to us, particularly in the service of small and medium-sized businesses.

Some of the advantages are readily apparent. For example, Laurentide's consolidated bank lines of credit during 1978 were $196 million with 29 separate banks. These standby lines of credit will be replaced with a single line of credit of $200 million provided by The Provincial Bank of Canada. This single benefit of amalgamation will result in substantial savings to the new corporation. Laurentide will continue, however, to maintain its presence in the short-term commercial paper market and aggressively seek to expand its sources of funding.

The merger also overcomes the enormous hurdle we would have faced in developing our own banking systems and procedures, and hiring and training personnel. It would have been a long and difficult process. As it is, we can start from a proven base and an established methodology.

From the point of view of The Provincial Bank, Laurentide is rich in exactly the resources it needs for continued national expansion: over 1,000 experienced people, nearly 200 branches from coast to coast, expertise in areas of financing which are complementary to its own, and assets of nearly half a billion dollars.

I cannot let this opportunity pass without expressing sincere gratitude, on your behalf and on behalf of all Laurentide people, to the present and past members of your Board of Directors.

I should also like to thank the many banks in Canada, the United States and Europe with whom Laurentide has enjoyed such a long and harmonious relationship over the past 28 years. Their support and understanding, especially during early years and years of difficulty, made an inestimable contribution to the success and growth we have enjoyed.

Finally, although it is a message traditionally reserved for the Report of the Board of Directors, I should like to pay tribute to the staff of Laurentide and its subsidiary companies. The touchstone of a company's success is, as ever, the enterprise and dedication of its people. Laurentide's stature, stability and reputation speak for them. The future for our personnel is, I am certain, one of expanded opportunity for career development. Given the same enthusiastic support which Laurentide has received over the years, this new enterprise cannot help but succeed, even beyond our expectations.

Cliff G. Simpson
President and Chief Executive Officer.
February 14, 1979

Report of the Directors

Your Directors are pleased to report on the company's activities during 1978.

Consolidated net earnings at December 31, 1978, before an extraordinary item, were $5.7 million and represented $1.14 per share. This compares with 1977 earnings of $6.8 million and $1.39 per share.

This reduced level of earnings is attributable to two principle factors: the steady rise in the cost of borrowed funds during 1978 and the continued weakness of the Canadian dollar. In terms of U.S. dollars, the Canadian dollar averaged 87.7¢ during 1978, compared with 94¢ average value during 1977. This drop in the rate of exchange resulted in a loss to the company of $1,882,946, principally related to the redemption of term debt payable in U.S. dollars. The decline in the value of the Canadian dollar also increased the cost of servicing the interest payments on U.S. debt.

After an extraordinary charge of $327,000 or 8¢ per common share, which reflected a further reduction in the carrying value of an associated company, net earnings available to common shareholders were $1.06 per share, compared with $1.22 the previous year.

At year-end, consolidated finance receivables, net of unearned finance charges, were up $4 million over the 1977 total to $430.5 million. Gross finance income rose by 1.4% to $74 million from $73 million a year earlier.

Provision for credit losses was maintained at 2% of finance receivables, net of unearned finance charges, or $8,610,000. This ratio remains well within accepted industry standards.

Throughout the year, the company continued to maintain its excellent liquidity position, and short term funds were readily available through the commercial paper market, albeit at steadily increasing rates, especially in the latter half of 1978. The average amount of commercial paper outstanding during the year was $130,633,000.

During the first quarter of 1978, the company arranged an issue of $15,000,000 principal amount of 10% Collateral Trust Notes, Series O, due February 22, 1993, retractable to 1984.

The average interest rate on the company's aggregate indebtedness for borrowed funds during 1978 was 9.3%, compared with 8.8% during 1977. This is indicative of the higher cost of short term borrowings that prevailed during the year and the higher average cost of long term debt caused by the maturing and replacement of funds borrowed in prior years at considerably lower rates of interest.

On September 1, 1978, Laurentide Financial Corporation Ltd. acquired the assets and liabilities of Union Acceptance Corporation Ltd., its wholly-owned subsidiary, as a further step in the wind-up of Union's activities. Union ceased to carry on business at that time. This move enables Laurentide to borrow on the capital markets as a single entity, thus continuing to strengthen the company's financial position.

Flaminia Nuova S. p. A., an Italian holding company in which the company owns approximately 14% of the equity, continued to experience deterioration during 1978. Your Directors have reduced the carrying value of this investment from $1,083,000 to $756,000.

Laurentide Finance Company Limited, a wholly-owned subsidiary which operates three branch offices in Jamaica, is still subject to foreign exchange restrictions enacted in April, 1977 which limit the movement of funds from that country. Therefore, the accounts of this company, as in 1977, have not been included in the 1978 consolidated statements. In view of economic conditions in Jamaica, the carrying value of advances to this subsidiary has been reduced by $1,247,816 in 1978 through charges to earnings. This action brings the value of this investment to $1,200,000, the amount on deposit with the Bank of Jamaica.

Norco Financial Services Ltd., jointly owned by Laurentide and B. A. Financial Services Ltd., performed well during the year and contributed $338,000 to Laurentide's earnings for 1978. Consequent upon an agreement reached in September 1977, Norco is no longer seeking new business. The liquidation of its portfolio is progressing satisfactorily and on schedule.

Consumer Division

Net loan receivables were up $5 million from 1977 levels to $146 million. Residential mortgages decreased $.4 million to $50 million from last year's total of $50.4 million. The highly competitive sales finance portfolio was lower by $4 million, from $30 million in 1977 to $26 million in 1978.

Overall, net receivables declined $2 million to $226.7 million while gross income remained stable at $45 million.

Delinquency in all types of consumer receivables showed a slight increase, as did net losses which rose from 1.71% to 2.03% of average net finance receivables. Both ratios are, however, at acceptable levels and within industry standards.

Increased marketing activity during the year was instrumental in confining the decline in receivables to an acceptable percentage. The "Good Guys" rebate programme continued to enjoy consumer acceptance, a small ticket leasing programme was developed and introduced with substantial success and promotional activity was continued to strengthen your company's position in the residential mortgage market.

Staff training was intensified during 1978 to familiarize Consumer Division personnel with the techniques of light industrial financing and small ticket leasing. Selected branch managers are currently receiving intensive training in these important and growing areas of business.

The productivity programme initiated in 1977 was continued throughout 1978. As a result, the average account outstanding was increased from $2,527 to $2,632, ten smaller offices were consolidated with other branch operations, and the increase in total operating expenses was held to 1.2%, an achievement of some merit at a time of rising prices and wages.

Industrial Division

This division's performance reflected the continuing sense of doubt and inertia which has characterized the industrial sector of the Canadian economy for some time. Gross income declined 4.6% to $21 million from $22 million in 1977. Net receivables were up by $1.5 million to $143 million.

New business activity was generally sluggish. However, the division launched an aggressive marketing and sales programme aimed at further diversifying its portfolio. It also inaugurated "Term Loan" financing to existing clients.

The result of these activities is just now beginning to make itself felt. The volume of new business written showed considerable improvement in the last quarter of 1978, although its effect on gross income was not yet apparent by year-end.

The concept of variable-rate lending, forecast a year ago, has become a marketing tool of considerable merit and influence. Receivables in this category increased by 70% during 1978 to $29 million, or 20% of total receivables. With the prime rate at an all-time high, variable-rate lending has a value beyond its impact as a marketing instrument; it gives the company the flexibility to monitor and adjust the yield on its portfolio on a continuing basis thus helping to stabilize the division's future income and permitting our customers to benefit from lower interest cost as banks' prime decreases.

Net credit losses in 1978 were down from .38% to .33% of average net finance receivables. This is a fine performance during a year which tested the stability and durability of many Canadian businesses. It speaks well of the business acumen of this division's personnel and the overall high quality of the portfolio it holds.

Real Estate and Mortgage Division

This division recorded another year of successful growth in both income and profits. Outstandings increased 9% from $56 million in 1977 to $61 million in 1978. Net income rose by $250,000 to $2.5 million.

The division's excellent record on credit losses was also maintained: losses registered in 1978 were insignificant.

The foundation for possible future growth in the United States was established in June, 1978, with the opening of a new branch in Seattle, Washington. With a staff of only three people, the branch had already made a rapid and successful penetration of this new market by year-end. A steady volume of new business is anticipated in 1979. The performance of this new branch will be one of the criteria determining future real estate and mortgage activity by the company in the U.S.

Throughout the year the division continued its emphasis on acquiring secure, high-yield second mortgages on revenue-producing commercial and industrial properties. The concept of "Total Service" loans, which offers clients turn-key financing from start-up to project completion, including first, second and interim mortgages, continued to enjoy wide acceptance.

Elite Insurance Company

In accordance with recommendations of the Canadian Institute of Chartered Accountants issued in 1978, Elite changed its accounting procedures to a generally accepted principle whereby expenses are matched to revenue. Based on these new procedures, net earnings for 1978 were $601,000, an increase of $297,000 over the restated 1977 earnings of $304,000.

This favourable result indicates continued improvement in the company's underwriting results together with substantial gains in investment income.

The year under review was one of intense competition between insurance companies. Many were offering reduced rates to obtain business. Under these market conditions Elite chose caution in the development of additional premium income; however, a satisfactory gain of 9.3% was registered by year-end.

Elite has now developed a firm base of property and casualty business both in Canada and those United States' markets in which it is licensed to operate. It is well positioned to move forward when market conditions are more stable.

Staff Development

The INTERACTION programme of employee development continued throughout 1978 with emphasis on training personnel to take advantage of the company's new role and responsibilities. There was particular acceleration in the development of skills in light industrial lending at a number of centres where opportunity exists for expansion in this field of financing.

In 1978, salaries and benefits amounted to $14.5 million compared with $13.7 million the year before. The number of employees was 1,010 against 1,081 in 1977.

In Memoriam

Your Directors record with deep regret the deaths of G. D. Sherwood, President and Chief Executive Officer of Odlum Brown & T. B. Read Ltd., a long-time Director of your company, and of K. R. Busfield, Vice-President, Real Estate and Mortgage Division.

Mr. Sherwood, the most senior of the company's Directors in terms of service, was first elected to the Board of Directors in October, 1956 and continued to serve Laurentide with distinction until his death in October 1978. His wise counsel will be missed.

Mr. Busfield joined the company in November, 1964 and in October 1966, he was promoted to Assistant Vice-President of the Commercial Finance and Leasing Division. Mr. Busfield became a Vice-President of the company in October, 1971. Throughout his career with Laurentide he earned the respect and admiration of his colleagues.

Executive Appointments

The Directors are pleased to announce the following executive appointments during 1978 and early 1979. Howard L. Smith became Vice-President and Treasurer; Eugene J. Quan was appointed Assistant Vice-President, Treasury; Roy L. Sheppard became Vice-President, Real Estate & Mortgage; R. Lindsay Matthews was appointed Assistant Vice-President, Administration; and Keith F. Harwood became Assistant Vice-President, Credit.

Peter D. Curry
Chairman

Cliff G. Simpson
President and Chief Executive Officer.

Vancouver, Canada
February 8, 1979

Laurentide Financial Corporation Ltd.

Consolidated Balance Sheet

December 31, 1978

Assets	1978	1977
Cash and short-term deposits (Note 3)	$ 17,615,281	23,844,932
Finance receivables (Notes 4, 6 and 9):		
Consumer loans	199,571,556	191,078,099
Consumer sales contracts	29,853,358	34,805,061
Residential mortgages	50,041,133	50,492,445
Industrial	105,973,701	107,779,530
Leases	53,508,004	49,838,937
Commercial real estate mortgages	60,765,373	56,114,356
Wholesale and other	6,845,454	11,850,921
Total finance receivables	506,558,579	501,959,349
Less: unearned finance income	76,061,116	75,404,147
allowance for credit losses	8,609,949	8,531,104
Finance receivables, net	421,887,514	418,024,098
Accounts receivable	3,011,793	1,960,721
Repossessions and property held for sale, at lower of cost or estimated realizable value	1,971,830	1,312,388
Prepaid expenses	3,265,469	3,107,798
Investments (Note 7)	26,713,602	24,395,553
Premises and equipment, at cost less accumulated depreciation of $4,724,065 (1977 — $5,463,302)	3,415,144	3,265,622
Unamortized debt discount and financing expenses	2,094,865	2,203,931
Goodwill	1,964,742	1,964,870
	$481,940,240	480,079,913

On behalf of the Board:

Edgar Saba

Director

Director

Liabilities	1978	1977
Short-term notes (Notes 5 and 6):		
Banks	$ —	2,220,800
Commercial paper	155,462,600	154,358,307
Other	5,733,189	2,858,174
	161,195,789	159,437,281
Accounts payable and accrued liabilities	17,427,123	14,124,217
Income taxes	12,205,538	12,365,565
Dealers' balances	944,766	968,487
Provision for insurance claims and related expenses	5,492,608	4,739,961
Unearned insurance premiums	7,962,824	4,759,687
Secured long-term notes (Schedule A) (Note 6)	163,292,069	168,929,539
Debentures (Schedule B) (Note 6)	41,828,539	42,890,703
Minority interest	949,249	2,472,200
	411,298,505	410,687,640
Shareholders' Equity		
Capital stock (Schedule C):		
Series preferred	7,261,715	8,005,510
Secondary preferred	9,852,602	10,361,840
Common	24,006,559	24,006,559
	41,120,876	42,373,909
Retained earnings, per accompanying statement (Note 8)	29,520,859	27,018,364
	70,641,735	69,392,273
	$481,940,240	480,079,913

See accompanying notes to consolidated financial statements.

Laurentide Financial Corporation Ltd.

Consolidated Statement of Earnings

Year ended December 31, 1978

	1978	1977
Gross income:		
Finance	$74,180,396	73,083,555
Insurance	7,463,160	6,859,694
Investment	1,931,687	1,234,976
	83,575,243	81,178,225
Cost of borrowings:		
Long-term	21,354,476	17,943,461
Short-term	11,173,848	13,312,410
Foreign exchange	1,882,946	333,490
	34,411,270	31,589,361
Earnings before other expenses	49,163,973	49,588,864
Other expenses:		
Salaries and benefits	14,496,536	13,731,364
Insurance claims and related expenses	5,388,420	5,633,510
Provision for credit losses	5,186,022	5,589,562
Write-down of advances to unconsolidated subsidiary (Notes 1(a) and 7)	1,247,816	550,000
Other operating expenses including depreciation of $954,180 (1977 — $935,936)	12,679,189	11,453,913
Total other expenses	38,997,983	36,958,349
Earnings before income taxes	10,165,990	12,630,515
Income taxes	4,132,066	5,379,573
Earnings before minority interest	6,033,924	7,250,942
Minority interest	349,449	440,268
Earnings before extraordinary item	5,684,475	6,810,674
Reduction in carrying value of investment in associated company (Note 7)	327,000	700,000
Net earnings	$ 5,357,475	6,110,674
Earnings per common share:		
Before extraordinary item	$1.14	1.39
After extraordinary item	$1.06	1.22

See accompanying notes to consolidated financial statements.

Laurentide Financial Corporation Ltd.

Consolidated Statement of Retained Earnings

Year ended December 31, 1978

	1978	1977
Net earnings	$ 5,357,475	6,110,674
Dividends paid:		
Series preferred shares	447,752	497,730
Secondary preferred shares	532,009	561,650
	979,761	1,059,380
Net earnings available to common shareholders	4,377,714	5,051,294
Gain on preferred shares purchased for cancellation, net	189,981	425,899
	4,567,695	5,477,193
Dividends paid on common shares	2,065,200	2,065,200
	2,502,495	3,411,993
Retained earnings at beginning of year	27,018,364	23,606,371
Retained earnings at end of year	$29,520,859	27,018,364

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1978

	1978	1977
Source of funds:		
Operations:		
Earnings before extraordinary item	$ 5,684,475	6,810,674
Add (deduct):		
Depreciation and amortization	1,520,619	1,449,473
Deferred income taxes	2,200,000	1,500,000
Write-down of advances to unconsolidated subsidiary	1,247,816	550,000
Equity in earnings of affiliates	(438,463)	(272,608)
Total funds from operations	10,214,447	10,037,539
Decrease (increase) in cash and short-term deposits	6,229,651	(2,058,393)
Proceeds from issue of secured long-term notes and debentures	25,819,678	41,343,087
Increase (decrease) in short-term notes	1,758,508	(11,903,543)
Decrease (increase) in other net assets	3,756,654	(8,862,581)
Total funds provided	47,778,938	28,556,109
Use of funds:		
Redemption of secured long-term notes and debentures	32,894,312	15,926,029
Dividends	3,044,961	3,124,580
Increase in marketable securities of insurance subsidiary	5,714,860	1,965,244
Increase in premises and equipment, net	1,103,702	1,185,235
Preferred shares purchased for cancellation	1,157,687	1,074,840
Total funds used	43,915,522	23,275,928
Increase in net finance receivables	3,863,416	5,280,181
Net finance receivables, at beginning of year	418,024,098	412,743,917
Net finance receivables, at end of year	$421,887,514	418,024,098

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1978

1. Summary of Significant Accounting Policies

(a) Principles of consolidation:
The consolidated financial statements include the accounts of the Company and all of its subsidiaries except Laurentide Finance Company Limited, a wholly-owned Jamaican subsidiary, which was excluded from the consolidated financial statements because significant foreign exchange restrictions concerning the movement of funds from Jamaica have made consolidation of this subsidiary's accounts inappropriate.

The subsidiaries included in the consolidated financial statements are:

Associated Computer Services Ltd.
Cambac Financial Projects Ltd.
Commonwealth Industrial Bank Limited (Bahamas)
Elite Insurance Company
Laurentide Acceptance Corporation Ltd.
Laurentide Finance Company
Laurentide Financial Realty Corporation (Western) Ltd.
Laurentide Insurance & Mortgage Co. Ltd. (Bahamas)
and 22 small inactive companies

(b) Foreign exchange:
United States and other foreign currency accounts included in the consolidated financial statements are translated into Canadian dollars at rates of exchange current at the balance sheet date or at forward contract rates, except that (i) non-current assets, fixed assets, accumulated depreciation relating thereto and non-current debt are at rates prevailing at dates of acquisition or issue, and (ii) items of income and expense are at rates prevailing during the year. Foreign exchange gains or losses resulting from the above translations are included in the consolidated statement of earnings.

(c) Unearned finance income and income recognition:
Income is recognized on a limited accrual basis. Income is accrued monthly account-by-account for those accounts which are less than 90 days past due, using the sum of the digits accrual method for precompute charge accounts and simple interest method for interest bearing accounts. Extension fees, late charges and income on accounts 90 days or more past due are recorded only as payments are received.

(d) Unearned insurance premiums and deferred acquisition costs:
Insurance premiums are included in income on a straight-line basis over the lives of the policies. Acquisition expenses (commissions and premium taxes) are deferred by major underwriting lines subject to their expected profitability and amortized over the periods in which the premiums are earned.

(e) Allowance for credit losses:
All portfolios are regularly reviewed for collectibility. All known losses are charged to income immediately. Specific loss reserves on an account-by-account basis are provided out of income for all anticipated losses. All consumer instalment accounts 180 days past due, except to the extent secured by real estate, are charged to income. In addition to specific reserves, the companies maintain general reserves for all categories of finance receivables, calculated as a percentage of net investment therein. During the past two years the total allowance for credit losses has been maintained at the greater of the aggregate of general and specific reserves or 2% of the net investment in finance receivables.

(f) Income taxes:
Tax allocation procedures are followed in recording charges for income taxes. Taxes deferred, as a result of reporting for tax purposes amounts different from those recorded in the accounts, are charged against current earnings. The timing differences relate mainly to lease income. Income taxes on the consolidated balance sheet include deferred income taxes of $15,100,000 (1977 — $12,900,000) less current income taxes recoverable of $2,894,462 (1977 — $534,435).

(g) Intangible assets:
Amortization of debt discount and financing expenses is computed on a weighted average basis to the first retractable or maturity date of the various issues.

Goodwill, which represents excess of cost of shares in subsidiaries over equity in net assets thereof at dates of acquisition, arising prior to 1974 is not being amortized. Goodwill arising from acquisitions subsequent to 1974 have been and will be amortized over such periods, not exceeding 40 years, as the directors determine.

(h) Approval of financial statements:
These consolidated financial statements have been prepared taking into consideration events occurring between December 31, 1978 and February 8, 1979, the date of their approval by the Board of Directors.

2. *Change in Accounting Practice*

The policy related to acquisition costs described in Note 1(d) was adopted effective January 1, 1978. Prior to 1978, costs of acquisition including commissions were charged to earnings when the policy was written. The effect of this change is that net earnings for the year ended December 31, 1978 have been increased by $725,000. Prior years accounts have not been restated as the amounts applicable to those years were not material.

3. *Cash and Short-Term Deposits*

Cash and short-term deposits include $8,300,000 (1977 — $11,500,000) on deposit with banks in the United States in accordance with agreements for lines of credit.

4. *Finance Receivables*

Finance receivables of the Company and certain of its finance subsidiaries are pledged as collateral to secure certain short and long-term notes. These notes are further secured by first floating charges upon all other property and assets of the Company.

5. *Short-Term Notes*

	1978	1977
Bank lines of credit	**$195,578,000**	186,892,000
Bank loans, secured	**$ —**	2,220,800
Commercial paper, secured	**155,462,600**	154,358,307
Other, unsecured, issued by a subsidiary	**5,733,189**	2,858,174
	$161,195,789	159,437,281

Cash and short-term deposits, prime short-term money market securities and unused bank lines are at all times equal to at least 100% of commercial paper outstanding.

6. *Maturities of Gross Receivables and Debt*

	In thousands of dollars		
	Gross receivables	Debt	Excess of receivables (debt)
Due in			
One year	$212,399	182,907	29,492
Two years	138,222	33,887	104,335
Three years	92,630	10,212	82,418
Four years	42,697	48,744	(6,047)
Five years	15,281	22,400	(7,119)
Six to ten years	4,296	50,275	(45,979)
Over ten years	1,034	17,891	(16,857)
	$506,559	366,316	140,243

Debt issues which have retractable option features have been included in the above maturities at the earliest repayment date and total debt does not reflect an increase of $11,170,000 which would be required if non-current foreign debt were translated at current rates of exchange.

7. *Investments*

	1978 Cost	1978 Market	1977 Cost	1977 Market
Marketable securities:				
Insurance subsidiary:				
Commercial paper	$18,553,933	18,554,000	10,415,408	10,415,000
Bonds	3,813,317	3,773,000	5,722,278	5,648,000
Shares	549,825	596,000	1,064,529	1,065,000
	22,917,075	22,923,000	17,202,215	17,128,000
Company:				
Shares	1,000,000	1,010,000	—	—
	23,917,075	23,933,000	17,202,215	17,128,000
Shares of and advances to affiliates, at equity value	1,596,527		4,616,215	
Advance to unconsolidated subsidiary	1,200,000		2,577,123	
	$26,713,602		24,395,553	

At December 31, 1978, the advance to unconsolidated subsidiary has been written down to an amount equal to the cash on deposit with the central Bank of Jamaica.

An affiliate has an investment in Flaminia Nuova S.p.A., an Italian holding company. In view of uncertainties concerning the current value of the investment it was reduced to $756,000, the estimated value of the underlying net assets translated at current rates of exchange.

8. Retained earnings

The Articles of the Company and trust agreements and indentures pertaining to the series preferred shares, collateral trust notes, collateral trust bonds, and debentures of the Company contain various provisions restricting the payment of dividends. At December 31, 1978, approximately \$15,700,000 (1977 — \$11,500,000) of consolidated retained earnings were unrestricted. Consolidated earnings include \$2,522,000 (1977 — \$2,332,000) contributed surplus.

9. Other Statutory Information

Aggregate remuneration of directors and senior officers, as defined by the B.C. Companies Act, amounted to \$472,357 for the year.

Finance receivables include the amount of \$355,672 (1977 — \$284,947) outstanding on housing loans to senior officers, and \$13,500,000 (1977 — \$13,400,000) lease receivables from affiliates.

10. Anti-Inflation Regulations

The Company and its Canadian subsidiaries were subject to, and believe they have complied with, controls on prices, profits, compensation and dividends under the Canadian Government's Anti-Inflation Programme.

11. Corporate Reorganization

On November 15, 1978, the directors of the Company agreed in principle to the eventual merger of the Company with The Provincial Bank of Canada. The merger requires three steps:

(i) continuance of the Company as a Corporation under the Canada Business Corporations Act;

(ii) the statutory amalgamation of the Corporation with Procan Holdings Ltd., a wholly-owned subsidiary of the Bank; and

(iii) a subsequent amalgamation of that amalgamated corporation with the Bank.

The Company has called special meetings of shareholders for February 8, 1979, to authorize the first two steps. The third step is to follow when and if appropriate enabling legislation is enacted. Approvals of certain governmental authorities are also required.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Laurentide Financial Corporation Ltd. as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 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, which, except for the change, with which we concur, in accounting for acquisition costs of insurance premiums referred to in Note 2 of the notes to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Vancouver, British Columbia, Canada
February 8, 1979

Details of Consolidated Secured Long-Term Notes

December 31, 1978

Schedule A

	Year of Issue	Series	Rate %	Maturity Date	Par Value U.S.	1978	1977
Payable in Canadian funds:							
Collateral Trust Notes	1959 to 1975	E	5¾ to 9¾	Various from January 2, 1979 to March 1, 1981		$ 3,755,000	4,005,000
	1965	H	6⅜ (1)	December 1, 1980		1,530,000	1,920,000
	1969	I	9¾	December 15, 1984		3,275,000	3,275,000
	1974	L	9⅝ (1)	February 1, 1994		12,907,000	13,447,000
	1977		9½	June 30, 1982		20,000,000	20,000,000
	1978	O	10 (1)(4)	February 22, 1993		14,481,000	—
	1960	UD	7¼ (6)	February 15, 1980		1,000,000	1,000,000
	1964	UH	6⅛ (6)	June 15, 1979 to 1984		1,200,000	1,400,000
	1964	UI	6⅛ (6)	June 15, 1980 to 1984		2,000,000	2,000,000
	1965	UJ	6⅛ (6)	April 15, 1979 to 1985		700,000	800,000
	1965	UK	6⅛ (6)	April 15, 1979 to 1980		2,000,000	3,000,000
	1974	UN	9½ (1)(4)(6)	April 1, 1990		9,098,000	9,292,000
	1974/ 1975		(5)(6)	December 31, 1978		—	6,000,000
						71,946,000	66,139,000
Payable in U.S. funds (3):							
Collateral Trust Notes	1964 to 1978	E	(5)(6)	Various from September 4, 1979 to January 13, 1985	$45,500,000	49,658,969	48,590,255
	1963	F	5¼ (1)	October 1, 1978	—	—	7,294,700
	1965	G	5¾ (1)	December 1, 1980	2,960,000	3,267,361	4,005,627
	1971	J	9 (1)	September 1, 1986	8,000,000	8,297,562	9,221,900
	1972	K	8½ (1)	December 1, 1992	11,200,000	11,316,300	12,040,520
	1976	M	10¾ (1)	April 15, 1991	16,150,000	16,035,760	16,792,770
	1963	UG	5¾ (6)	April 1, 1978	—	—	1,641,600
Collateral Trust Bonds	1960		6½ (1)(2)	February 1, 1980	2,626,000	2,770,117	3,203,167
					$86,436,000	91,346,069	102,790,539
						$163,292,069(7)	168,929,539(7)

(1) These notes and bonds have sinking and/or purchase fund provisions.

(2) Demand Series E notes payable in U.S. funds are issued and lodged with the Trustee as collateral security.

(3) The carrying value of amounts payable in U.S. funds is less than the liability therefore translated at the current rates of exchange by $11,156,000 (1977 — $5,449,000).

(4) The holders of Series 0 notes and Series UN notes have the right to elect repayment in 1984 and 1980 respectively.

(5) Interest rates on some of these notes are adjusted periodically based on certain prime lending rates. The interest rates on these notes were 5-1/8% to 11-1/4% (1977 — 5-1/8% to 9-3/4%).

(6) On September 1, 1978, the long-term notes of Union Acceptance Corporation Ltd. were assumed by the Company as a step in the winding up of this subsidiary.

(7) Secured long-term notes maturing within one year amount to $16,128,736 (1977 — $26,974,602).

Laurentide Financial Corporation Ltd.

Details of Consolidated Debentures

Schedule B

December 31, 1978

	Year of Issue	Series	Rate %	Maturity Date	Par Value U.S.	1978	1977
Payable in Canadian funds:							
Laurentide Financial Corporation Ltd.	1959	3	6¼ (1)	June 30, 1979		$ **803,000**	927,000
	1960	4	6½ (1)	September 1, 1980		**1,156,000**	1,280,000
	1961	5	6½ (1)	March 1, 1981		**922,000**	950,000
	1973	8	8½ (1)(3)	April 15, 1993.		**8,822,000**	9,019,000
	1975	9	11¾ (1)(3)	October 31, 1985		**10,000,000**	10,000,000
	1976	10	11¾ (1)(3)	May 15, 1991		**12,500,000**	12,500,000
						34,203,000	34,676,000
Assumed from Union Acceptance Corporation Ltd. (4)	1961		6¼ (1)	December 15, 1981.		**1,052,500**	1,112,500
	1962		6½ (1)	December 1, 1983.		**456,500**	481,500
	1964	H	6¾	July 2, 1980 to 1984		**1,400,000**	1,400,000
	1973	K	9¼ (1)(3)	August 1, 1989		**4,422,000**	4,546,000
						7,331,000	7,540,000
Payable in U.S. funds (2):							
Assumed from Union Acceptance Corporation Ltd. (4)	1963		6¼	August 15, 1978	$ —	**—**	251,712
	1965	I	6¼	May 15, 1979 to 1980. . .	260,000	**294,539**	422,991
					$ 260,000	**294,539**	674,703
						$ 41,828,539(5)	42,890,703(5)

(1) These debentures have sinking and/or purchase fund provisions.

(2) The carrying value of amounts payable in U.S. funds is less than the liability therefore translated at the current rate of exchange by $14,000 (1977 — $4,000).

(3) The holders of Series 8, Series 9 and Series 10 debentures of Laurentide Financial Corporation Ltd. and of the Series K debentures assumed from Union Acceptance Corporation Ltd. have the right to elect repayment in 1983, 1980, 1984 and 1979 respectively.

(4) On September 1, 1978, the liabilities of Union Acceptance Corporation Ltd. were assumed by the Company as a step in the winding up of this subsidiary.

(5) Debentures maturing within one year amount to $5,583,180 (1977 — $604,984).

Details of Capital Stock

December 31, 1978

	Number of shares authorized	Outstanding 1978 Shares	Outstanding 1978 Amount	Outstanding 1977 Shares	Outstanding 1977 Amount
Series preferred (1)(2):					
5¼% cumulative shares of $20 par value redeemable at $21	25,000	7,047	$ 140,940	8,356	$ 167,120
6¼% cumulative shares of $20 par value redeemable at $21	50,000	12,835	256,700	15,502	310,040
$1.40 cumulative shares of $25 par value redeemable at $26	270,000	125,647	3,141,175	141,202	3,530,050
$1.25 cumulative shares of $20 par value redeemable at $20.80	350,000	186,145	3,722,900	199,915	3,998,300
Total series preferred			7,261,715		8,005,510
Secondary preferred (1)(2):					
$2.00 cumulative secondary shares of $38 par value redeemable at $40	399,468	265,604	10,092,952	285,005	10,830,190
Less held by an insurance subsidiary		6,325	240,350	12,325	468,350
		259,279	9,852,602	272,680	10,361,840
Common shares of no par value	6,828,581 3/7	4,130,399	24,006,559	4,130,399	24,006,559
			$41,120,876		$42,373,909

(1) Purchased for cancellation during the year:

	Number of shares	Par Value
5¼% series preferred	1,309	$ 26,180
6¼% series preferred	2,667	53,340
$1.40 series preferred	15,555	388,875
$1.25 series preferred	13,770	275,400
$2.00 secondary preferred	19,401	737,238
	52,702	$ 1,481,033

(2) These shares have sinking or purchase fund provisions.

Five Year Consolidated Summary

	1978	1977	1976	1975	1974
FINANCIAL: (000's)					
Balance Sheet					
Total assets	$ 481,940	$ 480,080	$467,543	$ 429,156	$ 398,211
Cash and short-term deposits	17,615	23,845	21,787	15,859	19,303
Finance receivables — gross	506,559	501,959	499,750	462,590	424,877
Investment in Affiliates and other companies	2,597	4,616	5,196	6,122	5,822
Secured short-term borrowings (senior debt)	155,462	156,579	170,049	156,116	147,964
Secured long-term borrowings (senior debt)	163,292	168,930	141,891	132,087	126,027
Unsecured borrowings (junior debt)	47,562	45,749	45,404	39,113	29,684
Total borrowings	366,316	371,258	357,344	327,316	303,675
Shareholders' equity	70,642	69,392	67,465	65,680	64,227
Earnings Summary					
Gross income					
Finance	74,180	73,084	70,263	62,297	58,327
Insurance and investment	9,395	8,095	10,099	10,084	11,028
Total gross income	83,575	81,179	80,362	72,381	69,355
Cost of borrowings	34,411	31,589	30,846	26,032	26,756
Salaries and benefits	14,497	13,731	13,522	13,222	11,765
Provisions for credit losses	5,186	5,590	4,789	3,864	3,621
Insurance claims and related expenses	5,388	5,634	7,242	8,279	9,627
Other operating expenses	12,679	11,454	10,322	9,780	9,417
Earnings before extraordinary item	5,684	6,811	6,051	5,516	3,754
Extraordinary item	327	700	—	—	—
Net earnings	5,357	6,111	6,051	5,516	3,754
Ratios					
Senior debt to junior debt plus equity:times	2.70	2.83	2.76	2.75	2.92
Senior debt to equity:times	4.51	4.69	4.62	4.39	4.27
Total borrowings to equity:times	5.19	5.35	5.30	4.98	4.73
Net tangible asset coverage of secured borrowings:times	1.36	1.34	1.35	1.35	1.33
Net tangible asset coverage of unsecured borrowings:times	2.40	2.43	2.39	2.58	3.04
Consolidated earnings available for interest on consolidated borrowings:times	1.31	1.40	1.41	1.43	1.30

Corporate Information
Effective February 12, 1979

Laurentide Financial Corporation Ltd.
Incorporated under the Canada Business Corporations Act, is a subsidiary of The Provincial Bank of Canada.

Directors

* **Michel Bélanger**
President and Chief Executive Officer,
The Provincial Bank of Canada

* **Claude Bruneau**
Vice-President,
Power Corporation of Canada, Limited

†* **John C. Gilmer, F.C.A.**
Company Director, formerly President and Chief Executive Officer,
Canadian Pacific Air Lines, Limited

James D. Helmcken
Vice-President, Secretary and General Counsel,
Laurentide Financial Corporation Ltd.

Thomas L. Hunt
Vice-President, Industrial Finance Division,
Laurentide Financial Corporation Ltd.

† **Lawrence C. Jolivet**
Chairman,
Anderson General Sales Ltd.

A. Frank Knowles, C.A.
Vice-President, Finance and Treasurer,
Power Corporation of Canada, Limited

Richard Lapointe
Vice-President, Corporate Finance,
The Provincial Bank of Canada

† **Gordon F. MacFarlane**
Chairman and Chief Executive Officer,
British Columbia Telephone Company

Gilles Mercure
Vice-President and General Manager,
The Provincial Bank of Canada

* **Paul Britton Paine, Q.C.**
Chairman, President and Chief Executive Officer,
Montreal Trust Company

* **Gilles Roch**
Vice-President and General Manager,
The Provincial Bank of Canada

Réal René Rousseau
Vice-President, Consumer Finance Division,
Laurentide Financial Corporation Ltd.

†* **Edgar J. Saba**
President,
Saba Brothers Limited

Jacques A. Seigneuret, C.A.
Vice-President and Chief Financial Officer,
Laurentide Financial Corporation Ltd.

* **Clifford G. Simpson**
President and Chief Executive Officer,
Laurentide Financial Corporation Ltd.

* Member, Executive Committee
† Member, Audit Committee

Officers

Michel Bélanger
Chairman of the Board

C. G. Simpson
President and Chief Executive Officer

J. D. Helmcken
Vice-President,
Secretary and General Counsel

T. L. Hunt
Vice-President,
Industrial Finance Division

R. R. Rousseau
Vice-President,
Consumer Finance Division

J. A. Seigneuret, C.A.
Vice-President and Chief Financial Officer

R. L. Sheppard
Vice-President,
Real Estate and Mortgage Division

H. L. Smith, C.G.A.
Vice-President and Treasurer

T. R. Wilson
Vice-President,
Personnel

W. Aldridge, C.A.
Controller

K. F. Harwood
Assistant Vice-President,
Credit

R. D. Jacques
Area Vice-President,
Consumer Finance Division

R. L. Matthews
Assistant Vice-President,
Administration

J. A. McNicoll
Assistant Vice-President,
Management Information Systems

E. J. Quan
Assistant Vice-President, *Treasury and Senior Assistant Treasurer*

G. K. Munn, C.G.A.
Assistant Controller

N. T. Stott
Assistant Treasurer

J. W. Thompson, C.G.A.
Assistant Treasurer

Major Subsidiary

Elite Insurance Company

R. F. Lively, F.I.I.C.
President and Chief Operating Officer

J. E. Cosby, C.A.
Controller and Chief Financial Officer

J. E. Moran, F.I.I.C.
Administration

Registrar and Transfer Agents

6¼% Series Preferred Shares $1.40 Series Preferred Shares $1.25 Series Preferred Shares $2.00 Secondary Preferred Shares New Preferred Shares	Montreal Trust Company, *Vancouver*
5¼% Series Preferred Shares	Trust Général du Canada, *Montreal*

Trustees

Collateral Trust Notes	National Trust Company, Limited, *Vancouver*
6½% Collateral Trust Bonds	Citibank, N.A., *New York*
Debentures	The Canada Trust Company, *Vancouver*

Shares Listed

6¼% Series Preferred Shares	Toronto and Montreal Stock Exchanges
$1.40 Series Preferred Shares $1.25 Series Preferred Shares $2.00 Secondary Preferred Shares New Preferred Shares	Toronto, Montreal and Vancouver Stock Exchanges

Valuation Day Value
(December 22, 1971)

	$ Per Share
6¼% Series Preferred Shares	17.00
$1.40 Series Preferred Shares	19.00
$1.25 Series Preferred Shares	17.50
$2.00 Secondary Preferred Shares	25.88
New Preferred Shares	14.27

These are the values published by the Federal Government. (The New Preferred Shares value is 11/8 of the published value of $10.38 for the Common Shares of Laurentide then outstanding, and gives effect to the exchange of those Common Shares for New Preferred Shares effective February 12, 1979.)

Head Office:
Board of Trade Tower,
1177 West Hastings Street,
Vancouver, B.C.,
Canada V6E 2K3

Ce rapport annuel est aussi disponible en langue française.

LITHO'D IN VANCOUVER, CANADA BY PRICE PRINTING LTD.