1980
ANNUAL REPORT
Laurentide Financial Corporation Ltd.
a subsidiary of
NATIONAL BANK OF CANADA

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.

Laurentide
Financial Corporation Ltd.

Contents

Laurentide Financial Corporation Ltd.

Consolidated Balance Sheet

October 31, 1980

Assets

	1980	1979
Cash and short-term deposits	$ 18,851,712	2,894,629
Commercial paper, at cost	—	1,796,740
Finance receivables (Notes 3, 5 and 9):		
Leases	128,593,868	64,636,955
Industrial	106,369,349	112,231,662
Commercial real estate mortgages	78,162,471	82,873,924
Residential mortgages	20,968,163	44,316,967
Consumer loans	18,860,446	133,423,150
Consumer sales contracts	1,511,901	17,326,690
Wholesale and other	2,672,542	2,519,723
Total finance receivables	357,138,740	457,329,071
Less: unearned finance income	42,827,084	57,671,052
allowance for credit losses	5,064,704	9,170,197
	309,246,952	390,487,822
Accounts receivable	377,552	1,111,771
Repossessions and property held for sale, at lower of cost or estimated realizable value	1,660,436	2,784,710
Prepaid interest and other expenses	467,788	1,416,178
Shares of and advances to affiliates, at equity value	456,760	951,651
Investments, at cost (market value $755,000; 1979 — $920,000)	1,000,000	1,000,000
Premises and equipment, at cost less accumulated depreciation of $1,009,116 (1979 — $2,332,576)	252,279	1,522,138
	$332,313,479	403,965,639

On behalf of the Board:

J. D. Helmcken
Director
Edgar Saba
Director

Liabilities

	1980	1979
Short-term notes (Notes 4 and 5):		
Commercial paper	$ 28,538,000	105,612,545
Bank	34,000,000	9,000,000
Other	23,471,539	5,589,592
	86,009,539	120,202,137
Accounts payable and accrued liabilities	9,763,107	9,543,832
Income taxes	10,900,903	7,285,594
Secured long-term notes (Schedule A) (Note 5)	115,109,160	159,826,425
Debentures and unsecured notes (Schedule B) (Note 5)	44,416,500	37,682,998
Minority interest	1,223,081	1,022,471
	267,422,290	335,563,457

Shareholders' Equity

Capital stock (Note 6):		
New preferred	23,989,132	23,989,132
Common	25,000,010	25,000,000
	48,989,142	48,989,132
Contributed surplus, per accompanying statement	14,004,086	18,504,086
Retained earnings, per accompanying statement (Note 7)	1,897,961	908,964
	64,891,189	68,402,182
	$332,313,479	403,965,639

See accompanying notes to consolidated financial statements.

Laurentide Financial Corporation Ltd.

Consolidated Statement of Earnings

Year ended October 31, 1980

	1980	1979 (Note 10)
Gross income:		
Finance	$ 47,324,892	52,832,175
Investment	124,248	162,864
	47,449,140	52,995,039
Cost of borrowings including interest of $16,605,551 (1979 — $13,557,026) on long-term debt	24,056,837	24,612,994
Earnings before other expenses	23,392,303	28,382,045
Other expenses:		
Salaries and benefits	2,530,995	8,497,857
Provision for credit losses	3,751,484	5,441,858
Other operating expenses including depreciation of $325,150 (1979 — $1,233,368)	6,484,278	7,811,769
	12,766,757	21,751,484
Earnings before income taxes	10,625,546	6,630,561
Income taxes	4,802,217	2,511,771
Earnings before minority interest	5,823,329	4,118,790
Minority interest	316,349	190,978
Earnings from operations	5,506,980	3,927,812
Earnings of casualty insurance subsidiary to date of sale	—	564,013
Earnings before extraordinary item	5,506,980	4,491,825
Gain on sale of casualty insurance subsidiary, net of income taxes	—	301,201
Loss on sale of notes receivable net of income taxes of $4,007,000 (Note 2)	4,215,888	—
Net earnings	$ 1,291,092	4,793,026
Earnings (loss) per common share:		
Before extraordinary item	$ .08	.06
After extraordinary item	$(.09)	.08

See accompanying notes to consolidated financial statements.

Laurentide Financial Corporation Ltd.

Consolidated Statement of Retained Earnings

Year ended October 31, 1980

	1980	1979 (Note 10)
Retained earnings at beginning of period	$ 908,964	—
Net earnings	1,291,092	4,793,026
Transfer from contributed surplus	4,500,000	—
	6,700,056	4,793,026
Dividends paid:		
Series preferred shares	—	160,575
Secondary preferred shares	—	201,877
New preferred shares	3,602,095	2,521,610
Common shares	1,200,000	1,000,000
	4,802,095	3,884,062
Retained earnings at end of period	$ 1,897,961	908,964

Consolidated Statement of Contributed Surplus

Year ended October 31, 1980

	1980	1979 (Note 10)
Contributed surplus at beginning of period	$ 18,504,086	—
Arising on amalgamation of Procan Holdings Ltd. and Laurentide Financial Corporation Ltd.	—	18,501,685
Gain on redemption of preferred shares	—	2,401
	18,504,086	18,504,086
Transfer to retained earnings	4,500,000	—
Contributed surplus at end of period	$ 14,004,086	18,504,086

See accompanying notes to consolidated financial statements.

Laurentide Financial Corporation Ltd.

Consolidated Statement of Changes in Financial Position

Year ended October 31, 1980

	1980	1979 (Note 10)
Source of funds:		
Operations:		
Earnings before extraordinary item	$ 5,506,980	4,491,825
Add (deduct):		
Depreciation	325,150	1,233,368
Deferred income taxes	900,000	1,800,000
Equity in earnings of affiliates	(49,056)	(101,154)
Equity in earnings of casualty insurance subsidiary	—	(564,013)
Dividend from casualty insurance subsidiary	—	800,000
Total funds from operations	6,683,074	7,660,026
Issue of capital stock	10	25,000,000
Sale of casualty insurance subsidiary, net of income taxes	—	5,575,000
Decrease in advances to unconsolidated subsidiary	—	1,200,000
Decrease in premises and equipment, net	960,333	533,016
Decrease in other net assets	4,725,721	—
Total funds provided	12,369,138	39,968,042
Use of funds:		
Extraordinary item:		
Loss on sale of notes receivable, net of income taxes	4,215,888	—
Purchase of Procan Financial Services Ltd.	26,001,000	—
Redemption of secured long-term notes and debentures	52,983,763	17,410,187
Decrease in short-term notes	79,802,399	27,622,664
Dividends	4,802,095	3,884,062
Preferred shares purchased for cancellation	—	17,144,293
Increase in other net assets	—	4,176,181
Total funds used	167,805,145	70,237,387
Decrease in net finance receivables	155,436,007	30,269,345
Net finance receivables, at beginning of period	390,487,822	420,757,167
Net finance receivables of Procan Financial Services Ltd., at date of acquisition	74,195,137	—
	464,682,959	420,757,167
Net finance receivables, at end of period	$309,246,952	390,487,822

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

October 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries.

The subsidiaries included in the consolidated financial statements are:

Commonwealth Industrial Bank Limited (Bahamas)
Laurentide Acceptance Corporation Ltd.
Laurentide Finance Company
Laurentide Financial Realty Corporation Ltd.
Laurentide Financial Realty Corporation (Western) Ltd.
Laurentide Financial Services Ltd.
Laurentide Insurance & Mortgage Co. Ltd. (Bahamas)
Laurentide — Union Management Corporation Ltd.
Lincoln Investments Ltd.
Procan Financial Services Ltd.
and 21 small inactive companies.

The operations of Procan Financial Services Ltd. have been included since September 1, 1980, the date of its acquisition from the National Bank of Canada. A summary of the fair value of net assets acquired is as follows:

Finance receivables, net	$74,195,137
Liabilities assumed, net of other assets	48,194,137
Consideration paid	$26,001,000

(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, except that 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 actuarial method for all precompute accounts written with a term greater than 71 months, the sum of the digits accrual method for all other precompute 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) 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.

(e) 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 and foreign exchange. Income taxes on the consolidated balance sheet comprise deferred income taxes of $11,000,000 (1979 — $9,200,000) and current income taxes recoverable of $99,097 (1979 — $1,914,406).

2. CONTINUING OPERATIONS

Since April 1979 the Corporation has endeavoured to eliminate duplicate services and dispose of businesses not compatible with the business of banking. This liquidation was accelerated during the past fiscal year in order to minimize future costs relating thereto and included the sale of net investment in consumer finance receivables of $81,250,000.

3. FINANCE RECEIVABLES

Finance receivables of the Corporation 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 Corporation.

4. SHORT-TERM NOTES

	1980	1979
Bank lines of credit	$140,000,000	202,369,000
Commercial paper, secured	$ 28,538,000	105,612,545
Issued by subsidiaries:		
Bank loan, secured	34,000,000	9,000,000
Other, unsecured	23,471,539	5,589,592
	$ 86,009,539	120,202,137

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.

5. MATURITIES OF GROSS RECEIVABLES AND DEBT

	In thousands of dollars		
	Gross receivables	Debt	Excess of receivables (debt)
Due in			
One year	$149,534	100,081	49,453
Two years	91,232	27,190	64,042
Three years	61,816	25,281	36,535
Four years	29,286	30,506	(1,220)
Five years	16,106	28,072	(11,966)
Six to ten years	7,788	20,629	(12,841)
Over ten years	1,377	13,776	(12,399)
	$357,139	245,535	111,604

Debt issues which have retractable option features have been included in the above maturities at the earlier payment date.

6. CAPITAL STOCK

The Corporation is authorized to issue an unlimited number of common shares and preferred shares. Details of the issued and outstanding capital stock are as follows:

	1980		1979	
	Number of shares	Amount	Number of shares	Amount
New Preferred Shares	3,001,746	$23,989,132	3,001,746	$23,989,132
Common Shares	25,000,001	25,000,010	25,000,000	25,000,000
		$48,989,142		$48,989,132

During the period the Corporation issued one common share for $10 as part of the consideration for the purchase of Procan Financial Services Ltd.

The New Preferred Shares ("Preferred Shares") have attached the following rights, privileges, restrictions and conditions:

(a) *Preference of Preferred Shares:*

The Preferred Shares shall be entitled to a preference over the Common Shares of the Corporation with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Corporation.

(b) Dividends:

The holders of the Preferred Shares shall be entitled to receive cumulative preferential cash dividends equal to the dividends declared by the Board of Directors of the Bank to be payable on each Common Share in the capital of the Bank.

(c) Amalgamation:

Each Preferred Share shall be exchanged, upon an amalgamation of the Corporation with the Bank having become effective in accordance with applicable law, into the same number of Common Shares of the continuing corporation resulting from such amalgamation as each Common Share of the Bank is exchanged into upon such amalgamation.

(d) Redemption:

The Preferred Shares are redeemable under certain terms and conditions at a price per share based on the market value, at the time of redemption, of one Bank common share.

7. RETAINED EARNINGS

The Articles of the Corporation pertaining to the New Preferred Shares and trust agreements and indentures pertaining to collateral trust notes and debentures of the Corporation contain various provisions restricting the payment of dividends. At October 31, 1980, all of the consolidated retained earnings are available for the payment of dividends. The balance of retained earnings is after the transfer of $4,500,000 of contributed surplus during the year.

8. RELATED PARTY TRANSACTIONS

The Corporation is a subsidiary of the National Bank of Canada and when practicable the Corporation and its subsidiaries conduct their banking transactions through branches of the Bank and also maintain lines of credit with the Bank in the amount of $140,000,000. All transactions with the Bank are transacted under normal commercial terms.

Certain of the Corporation's branch offices and the security instruments relating to finance receivables administered therein have been physically relocated to premises of the Bank. Routine administrative functions required in connection with such accounts are supplied by the Bank to the Corporation for a fee. The aggregate amount of fees paid to the Bank under such agreement for the year was $2,148,000 (1979 — $874,000).

On January 1, 1980 all the employees of the Corporation became employees of the Bank and since that date the Bank has charged the Corporation for the salaries paid plus benefits incurred for any employees still working for the Corporation. The amount of $836,700 paid under this arrangement has been charged to salaries and benefits.

Finance receivables include loans to employees and to a director of $907,000 (1979 — $1,169,000) of which $159,000 (1979 — $297,000) are interest free housing loans.

9. CONTINGENT LIABILITIES

During the year, Revenue Canada, Taxation re-assessed a predecessor Corporation for additional income taxes in the amount of $566,000 as a result of not allowing the deduction of certain expenses in 1976 and 1977. The Corporation has filed Notices of Objection to these re-assessments and as it believes these re-assessments will be reversed and the income taxes paid thereon will be recovered, the amount paid has been netted with income taxes payable. If the Corporation is unsuccessful in its appeal, the income taxes paid of $566,000 will be charged to the contributed surplus arising on the purchase of the predecessor corporation. Although the Corporation has not, to date, received re-assessments for 1978, similar expenses were incurred in that year and the income taxes thereon could amount to a further $600,000.

During the year the Corporation sold an interest in mortgage loans to a U.S. bank and under the terms of the agreement the Corporation agreed that if any mortgage loan becomes in arrears then the Corporation shall, upon receiving demand in writing from the bank, repurchase the mortgage loan from the bank for a consideration equal to the bank's participation in the then outstanding balance. The bank's participation in the outstanding balance of these mortgage loans at October 31, 1980 was $10,219,000 (U.S. $8,692,000).

10. COMPARATIVE FIGURES:

The 1979 figures shown for comparative purposes are for the period from commencement of business, February 9, 1979 to October 31, 1979.

11. SUBSEQUENT EVENT

In order for the Corporation to qualify under the new Bank Act, with effect from December 1, 1980, as an authorized leasing affiliate of the National Bank of Canada, it agreed, on November 29, 1980, to sell to such Bank at fair market value all its assets, except cash and short-term deposits, finance receivables secured by conditional sale contracts and leases, related repossessions and miscellaneous other assets including premises and equipment. Although the final consideration will not be determined until January 1981, it is estimated that the Corporation will realize in excess of $100,000,000 from this sale and that the gains and losses resulting therefrom, net of applicable income taxes, will not have a material effect on the shareholders' equity in the Corporation.

Guy Chabot, C.A.
of Raymond, Chabot,
Martin, Paré & Associés

André G. Coupal, C.A.
of Peat, Marwick,
Mitchell & Co.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Laurentide Financial Corporation Ltd. as at October 31, 1980 and the consolidated statements of earnings, retained earnings, contributed surplus 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 October 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Guy Chabot, C.A.

André G. Coupal, C.A.

Montreal, Quebec
November 19, 1980
except for Note 11 which
is as of December 1, 1980

Laurentide Financial Corporation Ltd.

Details of Consolidated Secured Long-Term Notes

October 31, 1980

Schedule A

	Year of Issue	Series	Rate %	Maturity Date	Par Value U.S.	1980	1979
Payable in Canadian funds:							
Collateral Trust Notes	1960 to 1961	E	6¼ to 6½	Various from November 17, 1980 to March 1, 1981 ...		$ 900,000	900,000
	1965	H	6⅜ (4)	December 1, 1980		—	1,530,000
	1969	I	9¾	December 15, 1984		3,275,000	3,275,000
	1974	L	9⅝ (1)	February 1, 1994		12,155,000	12,508,000
	1977		9½	June 30, 1982		20,000,000	20,000,000
	1978	O	10 (1) (2)	February 22, 1993		13,429,000	14,118,000
	1960	UD	7¼	February 15, 1980		—	1,000,000
	1964	UH	6⅛	June 15, 1981 to 1984		800,000	1,000,000
	1964	UI	6⅛	June 15, 1981 to 1984		1,600,000	2,000,000
	1965	UJ	6⅛	April 15, 1981 to 1985		500,000	600,000
	1965	UK	6⅛	April 15, 1980		—	1,000,000
	1974	UN	9½ (1)	April 15, 1990		2,377,000	9,037,000
						55,036,000	66,968,000
Payable in U.S. funds:							
Collateral Trust Notes	1964 to 1978	E	(3)	Various from November 20, 1980 to November 20, 1984	$20,250,000	23,805,900	47,976,300
	1965	G	5¾ (4)	December 1, 1980	—	—	3,506,416
	1971	J	9 (1)	September 1, 1986	6,000,000	7,053,600	8,292,200
	1972	K	8½ (1)	December 1, 1992	10,400,000	12,226,240	13,267,520
	1976	M	10¾ (1)	April 15, 1991	14,450,000	16,987,420	18,124,380
Collateral Trust Bonds	1960		6½	February 1, 1980	—	—	1,691,609
					$51,100,000	60,073,160	92,858,425
						$115,109,160(5)	159,826,425(5)

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

(2) The holders of Series O notes have the right to elect repayment in 1984.

(3) Interest rates on some of these notes are adjusted periodically based on certain prime lending rates. The interest rates on these notes were 5⅛% to 8.95%.

(4) These notes were called for redemption on March 3, 1980.

(5) Secured long-term notes maturing within one year amount to $13,033,760 (1979 — $16,767,539).

Laurentide Financial Corporation Ltd.

Details of Consolidated Debentures and Unsecured Notes

October 31, 1980

Schedule B

	Year of Issue	Series	Rate %		Maturity Date	1980	1979
Debentures:							
Payable in Canadian funds:							
Laurentide Financial Corporation Ltd.	1960	4	6½		September 1, 1980	$ —	998,000
	1961	5	6½		March 1, 1981	758,000	842,000
	1973	8	8½	(1) (2)	April 15, 1993	8,265,000	8,591,000
	1975	9	11¾	(1)	October 31, 1985	4,535,000	10,000,000
	1976	10	11¾	(1) (2)	May 15, 1991	11,690,000	12,500,000
						25,248,000	32,931,000
Assumed from Union Acceptance Corporation Ltd. (3)	1961		6¼	(1)	December 15, 1981	989,000	1,001,500
	1962		6½	(1)	December 1, 1983	420,500	443,500
	1964	H	6¾		July 2, 1981 to 1984	1,120,000	1,400,000
	1973	K	9¼	(1)	August 1, 1989	1,639,000	1,753,000
						4,168,500	4,598,000
Payable in U.S. funds:							
Assumed from Union Acceptance Corporation Ltd. (3)	1965	I	6¼		May 15, 1980	—	153,998
						29,416,500	37,682,998
Unsecured notes:							
Payable in Canadian funds:							
Procan Financial Services Ltd.	1980		12¾		February 4, 1985	15,000,000	—
						$44,416,500(4)	37,682,998(4)

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

(2) The holders of Series 8 and Series 10 debentures of Laurentide Financial Corporation Ltd. have the right to elect repayment in 1983 and 1984 respectively.

(3) On September 1, 1978, the liabilities of Union Acceptance Corporation Ltd. were assumed by a predecessor corporation as a step in the winding up of that subsidiary.

(4) Debentures maturing or whose holders have the right to elect repayment within one year amount to $1,038,000 (1979 — $11,568,588).