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 Laurentide Financial Corporation Ltd.

Financial Statements
October 31, 1981

a subsidiary of

NATIONAL BANK OF CANADA

HOWARD ROSS LIBRARY
OF MANAGEMENT
1982
MCGILL UNIVERSITY

Head Office:
Board of Trade Tower,
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Laurentide

Financial Corporation Ltd.

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Balance Sheet

October 31, 1981

Assets	1981	1980
Cash and short-term deposits	\$ 29,474,629	18,478,712
Canada bonds, at cost, plus accrued interest	7,560,270	—
Finance receivables (Notes 3 and 8):		
Leases	154,333,203	128,593,868
Conditional sales contracts	81,771,624	107,711,807
Other	<u>2,615,730</u>	<u>25,430,168</u>
Total finance receivables	238,720,557	261,735,843
Less: unearned finance income	45,151,731	41,414,083
allowance for credit losses	<u>2,714,481</u>	<u>3,941,603</u>
	190,854,345	216,380,157
Accounts receivable	229,272	215,083
Repossessions held for sale, at lower of cost or estimated realizable value	549,385	750,534
Prepaid interest and other expenses	14,324	427,319
Shares of and advances to previous subsidiary companies, at equity value	—	49,437,732
Shares of affiliate, at equity value	—	456,760
Investments, at cost	—	1,000,000
Premises and equipment, at cost less accumulated depreciation of \$917,860 (1980 - \$881,868)	<u>150,518</u>	<u>177,731</u>
	<u>\$228,832,743</u>	<u>287,324,028</u>

See accompanying notes to financial statements.

On behalf of the Board:

André Bérard
Director

Liabilities

	1981	1980
Short-term notes (Note 4):		
Commercial paper, secured	\$ —	28,538,000
Unsecured notes	—	16,220,400
	<u> </u>	<u>44,758,400</u>
Accounts payable and accrued liabilities	5,082,662	9,066,771
Income taxes (Note 2 (d))	14,315,459	9,082,008
Secured long-term notes (Schedule A) (Note 5).....	101,969,850	115,109,160
Debentures and unsecured notes (Schedule B) (Note 5)	<u>46,225,969</u>	<u>44,416,500</u>
	<u>167,593,940</u>	<u>222,432,839</u>

Shareholders' Equity

Capital stock (Note 6):		
New preferred	23,988,836	23,989,132
Common	<u>25,000,010</u>	<u>25,000,010</u>
	48,988,846	48,989,142
Contributed surplus, per accompanying statement	12,004,382	14,004,086
Retained earnings, per accompanying statement (Note 7)	<u>245,575</u>	<u>1,897,961</u>
	<u>61,238,803</u>	<u>64,891,189</u>
	<u> </u>	<u> </u>
	<u>\$ 228,832,743</u>	<u>287,324,028</u>

Humberto Santos
Director

Statement of Earnings

Year ended October 31, 1981

	1981	1980
Gross income:		
Finance	\$ 29,284,658	30,044,276
Investment	6,585,892	124,248
	<u>35,870,550</u>	<u>30,168,524</u>
Cost of borrowings including interest of \$14,749,963 (1980 - \$16,605,551) on long-term debt	15,509,324	20,571,843
Less charged to previous subsidiary companies	425,625	8,229,256
	<u>15,083,699</u>	<u>12,342,587</u>
Earnings before other expenses	20,786,851	17,825,937
Other expenses:		
Salaries and benefits	2,007,674	1,683,645
Provision for credit losses	2,267,815	2,943,515
Other operating expenses including depreciation of \$44,184 (1980 - \$283,887)	2,956,721	4,876,093
	<u>7,232,210</u>	<u>9,503,253</u>
Earnings before income taxes	13,554,641	8,322,684
Income taxes	6,655,925	4,084,885
Earnings from operations	<u>6,898,716</u>	<u>4,237,799</u>
Equity in earnings of previous subsidiary companies (Note 1)	239,080	1,269,181
Earnings before extraordinary items	<u>7,137,796</u>	<u>5,506,980</u>
Gain on sale of subsidiaries and other investments ...	2,043,554	—
Loss on sale of finance receivables net of income taxes:		
Company, net of income taxes of \$440,000 (1980 - \$3,169,800)	431,674	3,090,918
Previous subsidiary companies, net of income taxes of \$837,200	—	1,124,970
	<u>—</u>	<u>1,124,970</u>
Net earnings	<u>\$ 8,749,676</u>	<u>1,291,092</u>
Earnings (loss) per common share:		
Before extraordinary items	<u>\$.14</u>	<u>\$.08</u>
After extraordinary items	<u>\$.21</u>	<u>\$ (.09)</u>

See accompanying notes to financial statements.

Laurentide Financial Corporation Ltd.

Statement of Retained Earnings

Year ended October 31, 1981

	1981	1980
Retained earnings at beginning of year	\$ 1,897,961	908,964
Net earnings	8,749,676	1,291,092
Transfer from contributed surplus	<u>2,000,000</u>	<u>4,500,000</u>
	12,647,637	6,700,056
Dividends paid:		
New preferred shares	3,602,062	3,602,095
Common shares	<u>8,800,000</u>	<u>1,200,000</u>
	12,402,062	4,802,095
Retained earnings at end of year	<u>\$ 245,575</u>	<u>1,897,961</u>

Statement of Contributed Surplus

Year ended October 31, 1981

	1981	1980
Contributed surplus at beginning of year	\$ 14,004,086	18,504,086
Adjustment	<u>296</u>	<u>—</u>
	14,004,382	18,504,086
Transfer to retained earnings	<u>2,000,000</u>	<u>4,500,000</u>
Contributed surplus at end of year	<u>\$ 12,004,382</u>	<u>14, 004,086</u>

See accompanying notes to financial statements.

Statement of Changes in Financial Position

Year ended October 31, 1981

	1981	1980
Source of funds:		
Funds from operations (note 10)	\$ 11,018,900	5,147,630
Sale of subsidiary companies and other investments	17,547,142	—
Dividends from previous subsidiary companies and affiliate subsidiaries less stock dividend	2,576,959	488,173
Decrease in advances to previous subsidiaries	33,053,025	55,252,358
Decrease in premises and equipment, net	—	926,601
Increase in unsecured notes	6,462,898	—
Decrease in other net assets	—	2,386,854
	<u>70,658,924</u>	<u>64,201,616</u>
Total funds provided		
Use of funds:		
Loss on sale of finance receivables, net of income taxes - company	431,674	3,090,918
Purchase of Procan Financial Services Ltd.	—	26,001,000
Increase in premises and equipment, net	16,971	—
Redemption of secured long-term notes and debentures	17,792,739	52,983,763
Decrease in short-term notes	44,758,400	106,463,946
Dividends	12,402,062	4,802,095
Increase in other net assets	20,782,890	—
	<u>96,184,736</u>	<u>193,341,722</u>
Total funds used		
Decrease in net finance receivables	<u>25,525,812</u>	<u>129,140,106</u>
Net finance receivables, as per previous consolidated financial statements	309,246,952	390,487,822
Net finance receivables, from previous subsidiaries	<u>92,866,795</u>	<u>119,162,696</u>
Net finance receivables, at beginning of year	216,380,157	271,325,126
Net finance receivables of Procan Financial Services Ltd., at date of acquisition	—	74,195,137
	<u>216,380,157</u>	<u>345,520,263</u>
Net finance receivables, at end of year	<u>\$ 190,854,345</u>	<u>216,380,157</u>

See accompanying notes to financial statements.

Notes to Financial Statements

October 31, 1981

1. CORPORATE REORGANIZATION

- (a) The Corporation was formed as a result of an amalgamation of Laurentide Financial Corporation Ltd. and its wholly-owned subsidiary, Procan Financial Services Ltd., on February 16, 1981, with the continuing Corporation carrying on business under the name of Laurentide Financial Corporation Ltd.

The financial statements for the year ended October 31, 1981 include the accounts of the Corporation for the period from February 16, 1981 to October 31, 1981 and the consolidated accounts of its two amalgamating companies for the period from November 1, 1980 to February 15, 1981. The accounts of the other subsidiaries have been excluded from these financial statements and have been accounted for on the equity method to the date of their disposal (See (b) below). The 1980 accounts, shown for comparative purposes, have been restated from those previously reported, to exclude the accounts of those subsidiaries disposed of in 1981 and account for these subsidiaries on the equity method. The 1980 operations of Procan Financial Services Ltd. have been included since September 1, 1980, the date of its acquisition from the National Bank of Canada ("Bank"), the Corporation's parent.

- (b) In order for the Corporation to qualify under the Bank Act as an authorized leasing affiliate of the Bank, the predecessor companies agreed on November 29, 1980, to sell to the Bank, at fair market value, those assets the retention of which would result in it not meeting the limitations imposed by the banking legislation as well as the then available draft regulations made thereunder. The fair market value of the assets sold was:

Finance receivables	\$ 57,139,592
Shares of and advances to previous subsidiary companies	45,199,379
Other assets	<u>1,642,670</u>
	<u>\$ 103,981,641</u>

This agreement, although effective as of November 28, 1980, was completed as to a portion on January 31, 1981 and the balance on April 30, 1981 when the conditions precedent to the entering into full force and effect of the November 29, 1980 agreement were fulfilled. As partial settlement for the above amount, the Bank transferred to the Corporation, conditional sales contracts having a fair market value of \$59,932,600 and Government of Canada bonds having a fair market value of \$40,417,846.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) *Unearned finance income and income recognition:*

Income is accrued monthly account-by-account for those accounts which are less than 90 days past due, generally using the actuarial method. Extension fees, late charges and income on accounts 90 days or more past due are recorded only as payments are received.

- (b) *Allowance for credit losses:*

All finance receivables 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. In addition to specific reserves, the Corporation maintains general reserves for all categories of finance receivables, calculated as a percentage of net investment therein except for certain conditional sales contracts having a net investment of \$43,316,000, on which no allowance for credit losses has been provided as these accounts were purchased from the National Bank of Canada as of November 28, 1980 and the Corporation has recourse from the Bank for all credit losses on these accounts.

(c) *Foreign exchange:*

United States and other foreign currency accounts included in the 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 statement of earnings.

(d) *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 balance sheet comprise deferred income taxes of \$13,621,000 (1980 - \$9,500,000) and current income taxes payable of \$694,459 (1980 - recoverable \$417,992).

3. FINANCE RECEIVABLES

Certain finance receivables of the Corporation are pledged as collateral to secure certain 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

Cash and short-term deposits and unused bank lines must at all time be equal to at least 100% of commercial paper outstanding.

5. MATURITIES OF DEBT (In thousands of dollars)

Due in	
One year	\$ 28,061
Two years	27,232
Three years	29,871
Four years	28,136
Five years	3,837
Six to ten years	21,624
Over ten years	<u>9,435</u>
	\$ <u>148,196</u>

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:

	1981		1980	
	Number of shares	Amount	Number of shares	Amount
New Preferred Shares	3,001,709	\$ 23,988,836	3,001,746	\$ 23,989,132
Common Shares	<u>25,000,001</u>	<u>25,000,010</u>	<u>25,000,001</u>	<u>25,000,010</u>
		<u>\$ 48,988,846</u>		<u>\$ 48,989,142</u>

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) *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, 1981, \$11,950,00 of retained earnings and contributed surplus are available for the payment of dividends. The balance of retained earnings is after the transfer of \$2,000,000 of contributed surplus during 1981 and \$4,500,000 in 1980.

8. RELATED PARTY TRANSACTIONS

The Corporation is a subsidiary of the National Bank of Canada and when practicable the Corporation conducts its banking transactions through branches of the Bank and also maintain lines of credit with the Bank. All banking 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 are located in the Bank's premises. 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 \$691,000 (1980 - \$2,148,000).

All persons engaged in administering the affairs of the Corporation are employees of the Bank and the Bank charges the Corporation for the salaries paid plus benefits incurred for any employees working for the Corporation. The amount of \$2,008,000 (1980 - \$836,700) paid under this arrangement has been charged to salaries and benefits.

9. CONTINGENT LIABILITIES

During the 1980 fiscal year, Revenue Canada, Taxation re-assessed a predecessor Corporation for additional income taxes in the amount of \$556,000 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 \$556,000 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 and subsequent years, similar expenses have been incurred in those years and the income taxes thereon could amount to a further \$475,000.

	<u>1981</u>	<u>1980</u>
10. FUNDS FROM OPERATIONS:		
Earnings from operations	\$ 6,898,716	4,237,799
Add (deduct):		
Depreciation	44,184	283,887
Deferred income taxes	4,076,000	675,000
Equity in earnings of affiliate	—	(49,056)
Total funds from operations	<u>\$ 11,018,900</u>	<u>5,147,630</u>

Auditors' Report to the Shareholders

We have examined the balance sheet of Laurentide Financial Corporation Ltd. as at October 31, 1981 and the 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 financial statements present fairly the financial position of the company as at October 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond, Chabot,
Martin, Paré & Associés

Chartered Accountants

Montreal, Quebec
November 26, 1981

Peat, Marwick,
Mitchell & Cie

Chartered Accountants

Details of Secured Long-Term Notes

October 31, 1981

Schedule A

	<u>Year of Issue</u>	<u>Series</u>	<u>Rate %</u>	<u>Maturity Date</u>		<u>1981</u>	<u>1980</u>
Payable in Canadian funds:							
Collateral Trust Notes							
	1960						
	to						
	1961	E	6¼ to 6½		\$		900,000
	1969	I	9¾	December 15, 1984		3,275,000	3,275,000
	1974	L	9⅝ (1)	February 1, 1994		11,657,000	12,155,000
	1977		9½	June 30, 1982		20,000,000	20,000,000
	1978	O	10 (1) (2)	February 22, 1993		12,829,000	13,429,000
	1964	UH	6⅛	June 15, 1982 to 1984		600,000	800,000
	1964	UI	6⅛	June 15, 1982 to 1984		1,200,000	1,600,000
	1965	UJ	6⅛	April 15, 1982 to 1985		400,000	500,000
	1974	UN	9½ (1)	April 15, 1990		2,213,000	2,377,000
						<u>52,174,000</u>	<u>55,036,000</u>
					<u>Par Value</u>		
					<u>U.S.</u>		
Payable in U.S. funds:							
Collateral Trust Notes							
	1964						
	to						
	1978	E	5⅛ to 8.95	Various from November 20, 1981 to November 20, 1984	\$ 13,300,000	15,958,670	23,805,900
	1971	J	9 (1)	September 1, 1986	5,000,000	5,999,500	7,053,600
	1972	K	8½ (1)	December 1, 1992	9,600,000	11,519,040	12,226,240
	1976	M	10¼ (1)	April 15, 1991	13,600,000	16,318,640	16,987,420
					<u>\$ 41,500,000</u>	<u>49,795,850</u>	<u>60,073,160</u>
						<u>\$ 101,969,850</u>	<u>115,109,160 (3)</u>

(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) Secured long-term notes maturing within one year amount to \$25,531,605 (1980 - \$13,033,760).

Details of Debentures and Unsecured Notes

October 31, 1981

Schedule B

	<u>Year of Issue</u>	<u>Series</u>	<u>Rate %</u>	<u>Maturity Date</u>	<u>1981</u>	<u>1980</u>
Debentures:						
Laurentide Financial Corporation Ltd.						
	1961	5	6½		\$ —	758,000
	1973	8	8½ (1) (2)	April 15, 1993	8,008,000	8,265,000
	1975	9	11¾ (1)	October 31, 1985	4,389,000	4,535,000
	1976	10	11¾ (1) (2)	May 15, 1991	11,170,000	11,690,000
					<u>23,567,000</u>	<u>25,248,000</u>
Assumed from Union Acceptance Corporation Ltd. (3)						
	1961		6¼ (1)	December 15, 1981	970,000	989,000
	1962		6½ (1)	December 1, 1983	417,500	420,000
	1964	H	6¾	July 2, 1982 to 1984	840,000	1,120,000
	1973	K	9¼ (1)	August 1, 1989	1,582,000	1,639,000
					<u>3,809,500</u>	<u>4,168,500</u>
					29,376,500	29,416,500
Unsecured notes:						
Payable in Canadian funds:						
	1980		12¾	February 4, 1985	<u>15,000,000</u>	<u>15,000,000</u>
	1981		10.157 to 15½	Various to September 1987	<u>3,849,469</u>	<u>—</u>
					<u>\$ 46,225,969</u>	<u>\$ 44,416,500 (4)</u>

- (1) These debentures have sinking and/or purchase fund provisions.
- (2) The holders of Series 8 and Series 10 debentures 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 and unsecured notes maturing within one year amount to \$2,529,560 (1980 - \$1,038,000).

