Mercantile Bank of Canada
NINETEENTH ANNUAL REPORT

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Mercantile Bank of Canada

DIRECTORS

PAUL H. AUSTIN
President
Mercantile Bank of Canada

ANDRÉ BACHAND
Director
Development Fund
University of Montreal

HUGH A. BENHAM
Executive Director
The Winnipeg Foundation

J. LAURENCE BLACK
Chairman
The New Brunswick Telephone Company Limited

STEPHEN C. EYRE
Senior Vice-President
First National City Bank

HON. LOUIS P. GÉLINAS
Consultant
Geoffrion, Robert & Gélinas Ltd.

JOHN T. JOHNSON, Q.C.
Partner
Borden, Elliot, Kelley & Palmer
Barristers and Solicitors

HOWARD T. MITCHELL
President
Mitchell Press Limited

ALFRED T. SEEDHOUSE
Chairman
The Manufacturers Life Insurance Company

RONALD D. SOUTHERN
President
Atco Industries Ltd.

H. ARNOLD STEINBERG
Executive Vice-President
Administration and Finance
Steinberg's Limited

H. HEWARD STIKEMAN, Q.C.
Senior Partner
Stikeman, Elliott, Tamaki, Mercier & Robb

JOHN H. TAYLOR
President
Canadian Fuel Marketers Ltd.

EDWARD D.H. WILKINSON, Q.C.
Partner
Russell & DuMoulin
Barristers and Solicitors

WALTER B. WRISTON
Chairman
First National City Bank

OFFICERS

WALTER B. WRISTON
Chairman

PAUL H. AUSTIN
President

HON. LOUIS P. GÉLINAS
Vice-President

ALFRED T. SEEDHOUSE
Vice-President

DUNCAN CAMPBELL
Vice-President
Ontario Region

JOHN E. CLEGHORN
Vice-President
Western Region

WALTER A. PRISCO
Vice-President
Eastern Region

E. EDWARD FULCHER
General Manager – Investment and Exchange

HAROLD F. HENRY
General Manager – Credit

GILLES LACHANCE
General Manager – Personnel and Corporate Planning

G. STEVENS LYNCH
Secretary

T. SEAN AHERN
Chief Accountant

JOHN E.G. MORRIS
Chief Inspector

PRESIDENT'S ADDRESS

The year 1972 was a good one for the Canadian banking industry; the generally favourable economic environment in which we worked is reflected in the year-end statement. As far as total assets, loans, revenue and "Balance of Profits" were concerned, Mercantile outperformed the average growth achieved by other chartered banks. Total assets grew to $390,004,078 or 35.2 percent, compared with the industry's average of 15.9 percent. The major portion of this asset growth was in our loan portfolio, which increased to $332,952,363 or 37.5 percent, while the other banks' average increase in this category was 20.1 percent. On the Liability side, total deposits rose by 35.0 percent to $350,994,785 and shareholders' equity grew by 52.2 percent to $19,995,934. This equity increase was a result of the new share issue which took place in the fiscal year's second quarter and to which I shall revert in a few minutes.

The Bank's total revenue gain of 29.6 percent last year far exceeded the banking industry's average of 9.3 percent and the increase of Mercantile's "Balance of Profits" of 37.7 percent (after appropriations for losses and income taxes) was well above the 23.3 percent average for all banks. As an indication of our staffs' good performance we had a 1.38 percent return on average assets, compared to a total industry average of 1.18 percent.

Despite the increase in the number of shares outstanding, from 2,000,000 in fiscal 1971 to an average of 2,583,333 in 1972, Mercantile's "Balance of Profits" per share rose from 89.3 cents to 95.2 cents, and a special dividend of 30 cents was declared, in addition to the regular quarterly one of 12½ cents. "Balance of Revenue" at $4,703,393 rose by 23.1 percent compared with $3,820,421 in 1971, while total operating expenses, which exclude interest costs, rose by only 18.3 percent.

As I said earlier, the economy in general progressed satisfactorily in 1972; however, there were distortions in rate patterns in the first half of the year. While the prime business loan rate remained stationary at 6.00 percent during the entire twelve month period, there was a sharp rise in market interest costs and in money supply. A significant part of this undesirable situation was due to abnormal pressures on the Canadian money market. Since Mercantile relies more than other banks on the money market for its source of funds, our spreads tended to narrow. This may be seen in our growth of deposit interest expenses of 38.2 percent in the 1972 fiscal year, exceeding the comparative figure of 30.3 percent on income from loans and securities. Towards mid-year, a major corrective force was needed to stabilize the money market. It was in June that the Canadian chartered banks, with Government approval, set maximum rates payable on short term deposits up to one year. This arrangement — called the "Winnipeg Agreement" — has been successful in holding rates at realistic local and international levels, and Government monetary policy, although still expansionary, has been reduced to a slower pace.

This past year has been one of particular significance for Mercantile Bank. The opportunities and possibilities of expanding our business as the result of the formula for growth reached with the Federal Government in 1971 and the subsequent share issues overshadow all other occurrences these past years. And during the negotiating period with the Government, which took many months, we organized our Bank to cope with new expansion once the agreement had been reached. We are now witnessing the results of these efforts; higher efficiency and increased productivity. Take, for example, our volume of loans per employee in 1972 of $909,669, against that in 1971 of $621,789. And our 1972 figure is more than double the industry's average. Of importance also, is the fact that our expansion came at a time when the Canadian commercial money market had successfully emerged. This process continues and the market has attained a significant degree of size and maturity.

As you may recall, the Bank's first public share issue took place at the end of last March; and we were delighted with investor reception. The issue of almost one million shares to Canadian residents was actively sought. It permitted Mercantile to increase its total assets by $100 million. In a matter of a few months subsequent to our March issue, we were closing in on the new asset ceiling of $400 million, illustrating the effectiveness.

Walter B. Wriston, Chairman

Paul H. Austin, President

A view of one department of Mercantile's new Head Office premises.

Montreal Branch's corporate loan officers at work in their new surroundings.

of the marketing and services effort of our men and women, as well as our operational capacity. It was for this reason that a second issue was programmed last November. A further one million shares, therefore, were offered to Canadian residents, and upon completion in mid-December, the Bank's asset ceiling was once again raised by $100 million to $500 million, and brought our capital account to $27.8 million. It may be noteworthy to mention here that as a consequence of provisions of the Bank Act, our Bank is obliged to maintain the strongest capital to asset position in the industry.

At approximately the same time as our spring 1972 share issue, our Head Office and Montreal Branch moved into new quarters on Dorchester Boulevard, one of the main thoroughfares of Montreal. We settled into our new offices quickly and I can safely say that our staff is able to work more efficiently in more compact and comfortable surroundings.

Of importance this last year was the installation of a computer. Prior to this, we had used an outside data processing service. Our in-house expertise co-ordinated with that of Citibank's, allowed us in short order to have our initial programs functioning properly, and thus we added a new degree of efficiency to the operational side of our Bank. We have several new computer program goals this year, particularly in the areas of management information systems.

I have so far largely talked about recent past events. What about the present year? Assuming there are no disruptions in the national and international economic markets, and a degree of balance is maintained between the prime rate and deposit costs, I anticipate an improvement in our Bank's performance in 1973. With our restricted asset ceiling gradually moving upward as I described earlier, we obviously have greater scope for expansion. Although we have not opened a new branch since September 1971 when our eighth office was established in Edmonton, we plan a few new locations this year in key commercial areas and as well to move into new sites in Calgary and Winnipeg. We intend to continue with our policy of concentrating on corporate business, but consumer transactions are not to be overlooked. In this respect, we have been watching with interest the expansion of new types of services in the financial market place. Our Bank intends to enter into any and all areas of financial services permissible, that, after due research, are deemed to be profitable. Looking outside our Canadian borders, we have the considerable advantages offered by our relationship with Citibank and its affiliates, in some eighty-nine countries. I should add here that this relationship does not exclude our expanding overseas at the opportune time and in this respect I think it appropriate to say that we have the full support of Citibank.

In conclusion I would say that, with a record of superior team performance, with our dedicated and well trained staff, with an expanding Canadian economy before us, with firmly established roots in the market place, with our fine clientele, and with the assistance and guidance afforded us by our Directors and by Citibank, our young Mercantile Bank has indeed an enviable future.

MINUTES OF THE NINETEENTH ANNUAL GENERAL MEETING

MINUTES of the Nineteenth Annual General Meeting of the Shareholders of The Mercantile Bank of Canada held at the Château Champlain, Montreal, on Thursday, the 11th day of January, 1973 at 11:00 o'clock of the forenoon.

The Chairman of the Bank, Mr. Walter B. Wriston, presided and the Secretary, Mr. G. S. Lynch, acted as Secretary of the Meeting.

The notice of the Meeting having been sent to all Shareholders entitled to receive it and a quorum being reported present, the Chairman declared the Meeting to be duly convened and constituted.

With the consent of the Meeting, the Chairman appointed Mr. D. Charlebois and Mr. N. W. Shazli to act as Scrutineers.

Upon motion of Mr. J. T. Johnson, seconded by Mr. H. T. Mitchell and carried, the Minutes of the last Annual Meeting held on December 8, 1971 and of a Special Meeting of Shareholders held on March 13, 1972 were taken as read and confirmed.

The Chairman then asked the Secretary to read the Directors' Report to the Shareholders, omitting the Annual Statement and the Auditors' Report as these had already been sent to all Shareholders and copies were in the hands of those present.

Directors' Report

The Directors take pleasure in submitting to the Shareholders the Annual Statement of the Bank for the year ended October 31, 1972, together with the Auditors' Report.

The public offering of 1,000,000 shares last March had the effect of raising, to the extent of $100,000,000, the limit imposed by the Bank Act on the size of the Bank's assets. The expansion in operations which was thus made possible is reflected in the Balance Sheet and the Statement of Revenue, Expenses and Undivided Profits. After the end of the fiscal year, another issue of 1,000,000 shares was sold bringing the total of shares outstanding to 4,000,000 of which slightly more than 51% are owned by residents of Canada. This issue like the previous one, enables the Bank to increase its assets by a further $100,000,000 which will facilitate increased earnings.

In conformity with the Bank's policy of distributing approximately 90% of earnings by way of dividends, an extra dividend of thirty cents per share was declared in respect of the fiscal year bringing the total distribution for the year to eighty cents per share.

The loyal and efficient services of the staff are gratefully and sincerely acknowledged.

Walter B. Wriston
Chairman

Montreal, January 11, 1973

The Chairman said that before asking for a motion that the Directors' Report be adopted he would ask the President to address the Meeting. (The President's Address is reproduced on pages two to four.)

It was moved by Mr. S. C. Eyre and seconded by Mr. H. A. Benham –

THAT the Directors' Report to the Shareholders, including the Annual Statement and the Auditors' Report thereon in respect of the Bank's fiscal year ended

October 31, 1972 be and the same is hereby approved and adopted.

The Chairman proposed that the ballot on this motion be taken later in the Meeting.

Auditors

It was moved by the Honourable L. P. Gélinas and seconded by Mr. A. T. Seedhouse –

THAT Mr. John S. Grant, C.A. and Mr. J. Emile Maheu, C.A. be appointed Auditors of the Bank for the current year and that their remuneration in that capacity be not more than $32,000.

Directors

In proposing that the election of Directors be proceeded with, the Chairman said –

"There has been no change in the composition of the Board since the last Annual Meeting, but I am pleased to be able to propose two additional persons for election as Directors at this Meeting, namely Mr. H. Heward Stikeman, Q.C. of Montreal and Mr. John H. Taylor of Toronto. Mr. Stikeman, the senior partner of the law firm of Stikeman, Elliott, Tamaki, Mercier & Robb, is a recognized expert in the field of tax law and has had a professional relationship with the Bank for many years. Mr. Taylor is President of Canadian Fuel Marketers Ltd. and is associated with a number of other important companies. I am confident that the knowledge and experience which both these gentlemen will bring to the Board will be of great benefit to the Bank."

At the Chairman's request, the Secretary then read the names of the persons proposed for election as Directors, namely: P.H. Austin, A. Bachand, H.A. Benham, J.L. Black, S.C. Eyre, L.P. Gélinas, J.T. Johnson, H.T. Mitchell, A.T. Seedhouse, R.D. Southern, H.A. Steinberg, H.H. Stikeman, J.H. Taylor, E.D.H. Wilkinson, W.B. Wriston.

Mr. L. Rousseau then nominated the persons whose names had been read by the Secretary for election as Directors of the Bank for the ensuing year.

The Chairman then directed that a ballot be taken on the motions to adopt the Directors' Report, to appoint Auditors and for the election of Directors. Upon receiving the report of the Scrutineers, the Chairman declared that the motions to adopt the Directors' Report and to appoint Auditors had been duly passed and that the persons whose names had been read by the Secretary, and duly nominated, had been elected Directors.

The Meeting then terminated.

G. S. Lynch
Secretary

Walter B. Wriston
Chairman

G. Stevens Lynch, Secretary

FINANCIAL STATEMENTS

HIGHLIGHTS	1972	1971
TOTAL ASSETS	**$390,004,078**	$288,474,181
TOTAL LOANS	**332,952,363**	242,220,746
TOTAL REVENUE	**24,840,819**	19,161,047
BALANCE OF REVENUE	**4,703,393**	3,820,421
BALANCE OF PROFITS FOR THE YEAR	**2,458,393**	1,785,421
BALANCE OF PROFITS PER SHARE, based on average shares outstanding	**95.2 ¢**	89.3 ¢

STATEMENT OF ASSETS AND LIABILITIES

as at October 31, 1972
(with comparative figures for 1971)

Assets	1972	1971
Cash and due from banks	**$ 15,831,958**	$ 13,701,779
Cheques and other items in transit, net	**186,278**	4,516,390
Total cash resources	**16,018,236**	18,218,169
Securities issued or guaranteed by Canada, at amortized value	**9,180,781**	13,249,949
Securities issued or guaranteed by provinces, at amortized value	**1,552,190**	–
Other securities, not exceeding market value	**14,201,078**	3,724,765
Total securities	**24,934,049**	16,974,714
Day, call and short loans to investment dealers and brokers, secured	**13,850,000**	9,212,201
Other loans, including mortgages, less provision for losses	**319,102,363**	233,008,545
Total loans	**332,952,363**	242,220,746
Bank premises, at cost, less amounts written off	**1,767,449**	1,152,741
Customers' liability under acceptances, guarantees and letters of credit, as per contra	**13,254,107**	9,296,374
Other assets	**1,077,874**	611,437
	$390,004,078	$288,474,181

Liabilities

Deposits by Canada ....
Deposits by provinces ....
Deposits by banks ....
Personal savings deposits, payable
Canada, in Canadian currency .
Other deposits ....
Total deposits ....

Acceptances, guarantees and letter
Other liabilities ....
Total liabilities ....

Accumulated appropriations for lo

Shareholders' equity:
Capital (see note):
Authorized—4,000,000 (1971—
shares, par value $5 each; issued
fully paid, 3,000,000 (1971—2,
Rest account ....
Undivided profits ....
Shareholders' equity ....

Paul Austin
President

AUDITORS' REPORT

to the Shareholders

We have examined the statement of assets and liabilities of The Mercantile Bank of Canada as at October 31, 1972 and the statements of revenue, expenses, and undivided profits, accumulated appropriations for losses and rest account for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the foregoing statements present fairly the financial position of the Bank as at October 31, 1972 and the revenue, expenses, changes in undivided profits, changes in accumulated appropriations for losses and transactions in the rest account of the Bank for the year ended on that date.

J.S. Grant, C.A.
of Peat, Marwick, Mitchell & Co.

Montreal, Quebec
November 29, 1972

J.E. Maheu, C.A.
of Maheu, Noël, Anderson, Valiquette et Associés

NOTE TO FINANCIAL STA

Capital:

By Order in Council dated February
increasing the authorized capital of the
each. The first such increase became
increase shall occur only after the ad
offered to and subscribed for by, or ot
Bank Act. Effective January 30, 1972,
the par value of $10 each was subdivide
the Bank issued an additional 1,000,
authorized capital was increased to $20
a further 1,000,000 shares. The autho
these shares have been fully subscribed.

	1972	1971
....	$ 1,214,538	$ 1,766,603
....	12,145,524	4,436,529
....	92,093,196	10,443,142
fter notice in		
....	5,296,036	6,552,813
....	240,245,491	236,833,551
....	350,994,785	260,032,638
s of credit	13,254,107	9,296,374
....	3,478,898	4,298,588
....	367,727,790	273,627,600
sses	2,280,354	1,708,040
3,000,000)		
l and		
000,000) shares ..	15,000,000	10,000,000
....	4,674,000	3,000,000
....	321,934	138,541
....	19,995,934	13,138,541
	$390,004,078	$288,474,181

T. Sean Ahern
for Chief General Manager

TEMENTS

23, 1971, the Government of Canada approved a special by-law
Bank from $10,000,000 to $40,000,000 in stages of $5,000,000
effective on the date of the Order in Council and each successive
ditional shares created by the previous increase shall have been
herwise disposed of to, residents of Canada in compliance with the
each issued or unissued share of the capital stock of the Bank of
d into two shares of the par value of $5 each. On March 30, 1972,
000 shares of the par value of $5 each and consequently the
,000,000. On November 8, 1972, a rights issue was made involving
rized capital of the Bank will be increased to $25,000,000 when

STATEMENT OF ACCUMULATED APPROPRIATIONS FOR LOSSES

For the Financial Year Ended October 31, 1972
(with comparative figures for 1971)

	1972
Accumulated appropriations at beginning of year:	
Tax-paid—from amounts not subject to income tax .	$ 1,603
General	1,706,437
Total	1,708,040
Add (deduct):	
Appropriation from current year's operations	300,000
Provision for losses on loans based on five-year average loss experience (included in other operating expenses) less the loss experience on loans for the year	271,353
Profits and losses on securities, including provisions to reduce securities other than those of Canada and its provinces to values not exceeding market	961
Other profits, losses and non-recurring items, net ...	–
Accumulated appropriations at end of year	$2,280,354
Tax-paid (amounts not subject to income tax)	$ 1,603
General	2,278,751
	$2,280,354

STATEMENT OF REST ACCOUNT

For the Financial Year Ended October 31, 1972
(with comparative figures for 1971)

	1972
Balance at beginning of year	$3,000,000
Premium on issuance of capital stock	1,750,000
Expenses of issue, net of income taxes relating thereto	76,000
	1,674,000
Transfer from undivided profits	–
	4,674,000
Special distribution to shareholder	–
Balance at end of year	$4,674,000

1971
$ 34,955
1,145,604
1,180,559
200,000
132,325
225,156
(30,000)
$1,708,040
$ 1,603
1,706,437
$1,708,040

1971
$5,000,000
–
–
–
500,000
5,500,000
2,500,000
$3,000,000

STATEMENT OF REVENUE, EXPENSES AND UNDIVIDED PROFITS

For the Financial Year Ended October 31, 1972
(with comparative figures for 1971)

	1972	1971
Revenue:		
Income from loans	**$21,654,146**	$16,082,159
Income from securities	**1,157,102**	1,424,983
Other operating revenue	**2,029,571**	1,653,905
Total revenue	**24,840,819**	19,161,047
Expenses:		
Interest on deposits	**13,802,058**	9,987,363
Salaries, pension contributions and other staff benefits	**3,024,282**	2,859,442
Property expenses including depreciation	**1,193,799**	946,564
Other operating expenses, including provision for losses on loans based on five-year average loss experience	**2,117,287**	1,547,257
Total expenses	**20,137,426**	15,340,626
Balance of revenue	**4,703,393**	3,820,421
Appropriation for losses	**300,000**	200,000
Balance of profits before income taxes	**4,403,393**	3,620,421
Provision for income taxes	**1,945,000**	1,835,000
Balance of profits for the year	**2,458,393**	1,785,421
Dividends	**2,275,000**	1,750,000
Amount carried forward	**183,393**	35,421
Undivided profits at beginning of year	**138,541**	603,120
	321,934	638,541
Transfer to rest account	**–**	500,000
Undivided profits at end of year	**$ 321,934**	$ 138,541
Balance of profits per share, based on average shares outstanding	**95.2 ¢**	89.3 ¢

AN ANALYSIS OF THE BANK'S OPERATIONS

The following two pages give an insight into the meaning and importance of some of the figures presented in the preceding financial statements, as well as a look at the Mercantile Bank's performance for the year.

Assets and Liabilities

Total assets of $390,004,078 at October 31, 1972 were up 35.2% from 1971. The loan portfolio, the most significant asset item, grew by $90,731,617 (37.5%), demonstrating its importance to Mercantile, a bank specializing in the corporate market. Moreover loans accounted for 85.4% and 84.0% of the Bank's total assets at the end of 1972 and 1971 respectively, compared with 58.1% and 55.9% for the banking industry.

As mentioned in last year's annual report, the Bank held a 1.65% share of the total market for chartered banks' business loans at the end of September, 1971. A year later this figure had grown to 1.95%. When business loans greater than $100,000 are considered, Mercantile's share in 1972 stood at 2.4%, and in the one to five million dollar category, the Bank had a 5.0% share. The Bank's portfolio is well diversified, with the largest concentrations of loans being in the natural resource sector, especially petroleum and forest products, in public utilities, in merchandisers and in manufacturing in such areas as iron and steel products, and food.

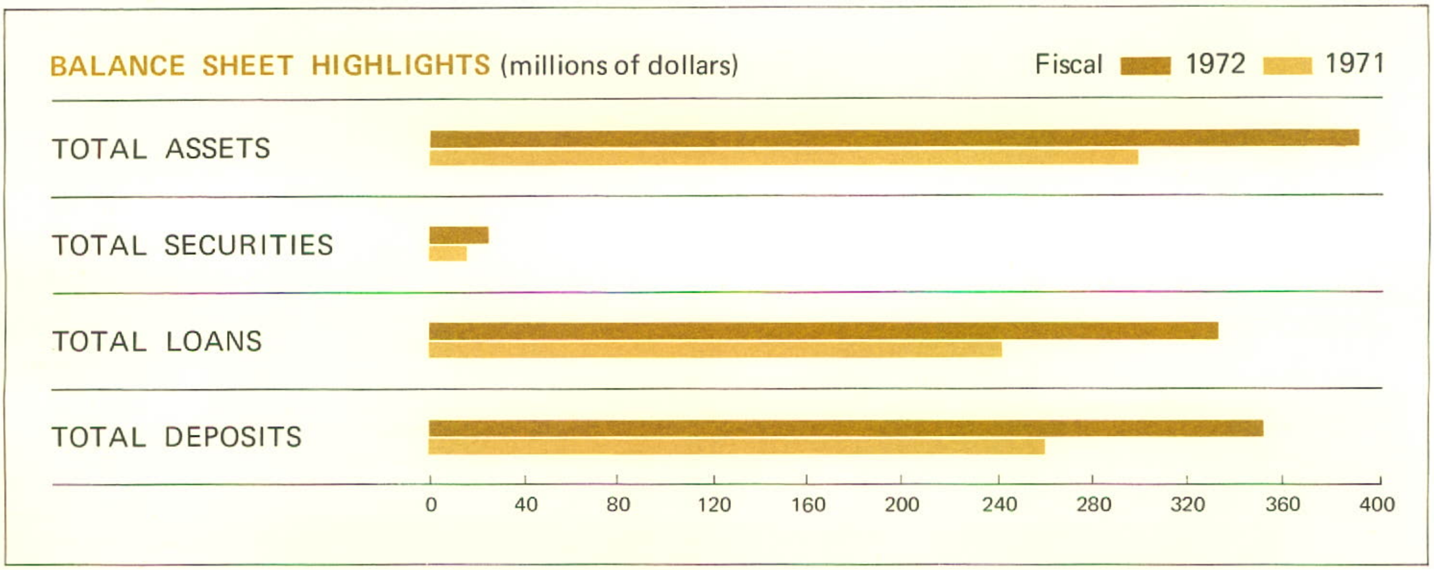
Mercantile's total liabilities rose by 34.4% in the 1972 fiscal year with deposits by banks, deposits by provinces, and acceptances, guarantees and letters of credit all growing at noteworthy rates. The capital structure of the Bank was enlarged substantially through the new share issue.

Profit and Loss

Total revenue grew by 29.6% in the 1972 fiscal year. However, the Bank's yield-cost spread[1] narrowed compared to 1971. This is illustrated by a smaller growth rate in income from loans and securities (30.3%) than the comparative growth rate in interest costs (38.2%). There are basically two reasons for this narrower yield-cost spread in 1972. First, Mercantile relies on the money market for much of its funds and thus its profitability is greatly influenced by money market costs. These remained high the greater part of the year. Secondly, a significant portion of the revenue from securities included interest from an income debenture which is low yielding but also tax free; while this revenue caused a lower yield in 1972 it also reduced the tax paid and hence increased after-tax profits.

Other operating revenue grew by 22.7% in the 1972 fiscal year compared with a rise of 13.4% for the industry. Although part of the increase was due to higher service charges, most was as a result of specialized services provided for clients.

Non-interest operating expenses increased by 18.3% in 1972 to $6,335,368. The



1. The yield-cost spread is the difference between the yield on interest sensitive assets and the interest cost of total deposits plus debentures.

category other operating expenses, which accounts for 33.4% of these expenses, rose by 36.8% and includes such items as business promotion, travel, communications, automation, legal fees, business taxes and insurance. The increase simply reflects the increased cost of putting more loans (47.3% on average) on the books.

Property expenses were up by 26.1% in 1972 and reflect the increased cost of the Bank's new Head Office premises (including the Montreal Branch) and a new branch opened in Edmonton late in 1971.

Staff and salary expenses have remained fairly stable, increasing by only 5.8% in 1972.

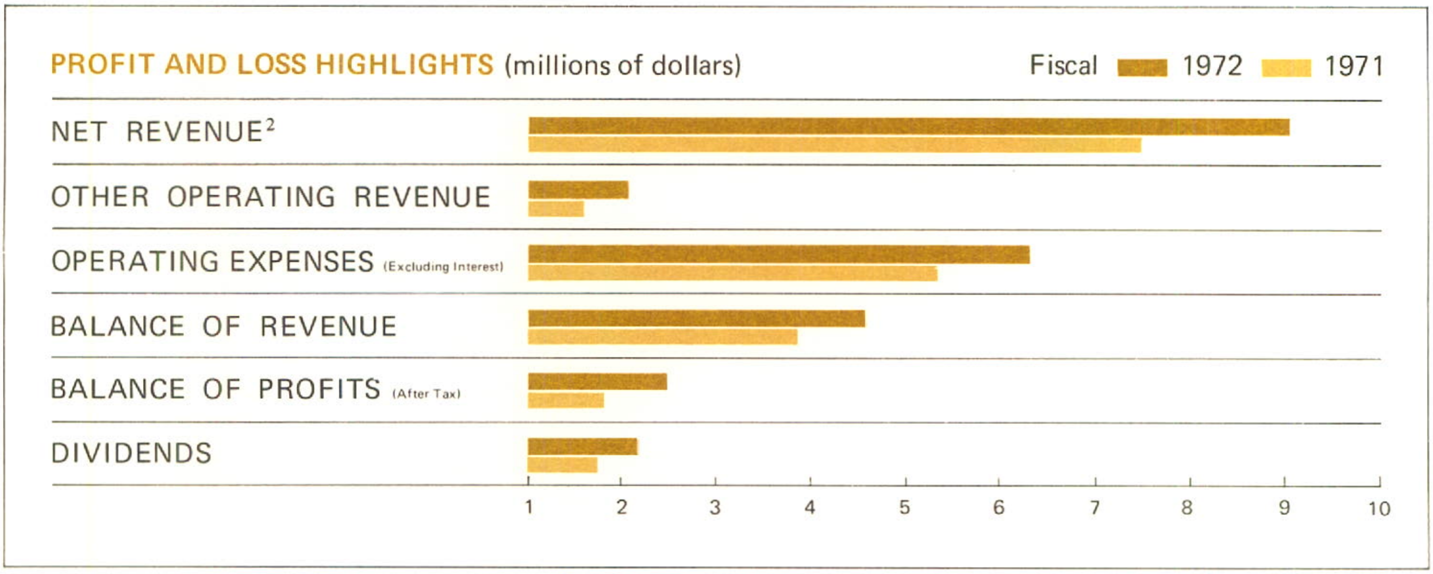
The real measure of a bank's profitability is balance of revenue; this grew by 23.1% in 1972. Mercantile's reported profit of $2,458,393 in 1972, compares with $1,785,421 in 1971, and is composed of the balance of revenue after provision for income taxes and appropriation for losses. The latter is a discretionary amount reserve for possible loan loss and is tax deductible. In 1972 this amount was $300,000 compared with $200,000 in 1971. The maximum permissible tax deductible appropriation that could have been taken in 1972 is considerably larger than $300,000. However, the excess is in effect deferred and can be taken as a deduction from tax at a future date.

Total dividends paid in 1972 amounted to $2,275,000 compared with $1,750,000 in 1971. Dividends in 1971 were paid on only 2,000,000 shares while in 1972 they were paid on 2,000,000 shares for the first quarter and on 3,000,000 for the remaining three quarters. Dividends per share on average shares outstanding were 88.1¢ for 1972 and 87.5¢ for 1971. The regular dividend rate for 1972 was 50¢ per share with a special dividend of 30¢ declared at year-end.

From a performance point of view the Mercantile Bank fared well in 1972. In spite of having 29% more average shares outstanding in 1972 over 1971 (2,583,333 shares versus 2,000,000 shares) the Bank's reported earnings per share rose to 95.2¢ from 89.3¢. Contributing to the higher per share earnings was a decline in the actual tax rate from 50.7% in 1971 to 44.2% in 1972, resulting from a lower statutory tax rate, an adjustment for overpayment of tax in prior years, and the fact that part of the revenue included in income from securities in 1972, as mentioned above, is not taxable.

Productivity

One of the factors influencing the ability of Mercantile Bank to successfully perform with a small spread in times when money costs are high in relation to the prime rate, is the Bank's productivity. In 1972 and 1971 respectively Mercantile's non-interest operating expenses amounted to 70.3% and 71.2% of net revenue[2]. This was well below the comparative figures of the banking industry which spent 81.7% and 83.8% of net revenue on non-interest operating expenses for the same periods respectively.



2. Net revenue is the income from loans and securities less interest expense.

FOCUS ON MERCANTILE BANK

Figures by themselves do not indicate the types of effort and work that are carried out in order to produce them. To a very large extent Mercantile's successes are a reflection of the quality of its staff and the enthusiasm and energy they have applied to their roles. We would like, through pictures and words, to introduce our organization and people to you.

Mercantile is divided into three regions — the Eastern Region, Ontario Region and Western Region — each headed by a Vice-President who reports directly to the President. Each Vice-President directs all banking activities, spearheads marketing efforts and is responsible for the future of the Bank in his own area. It is at Head Office that various types of administrative work are performed in order to support and co-ordinate regional efforts.

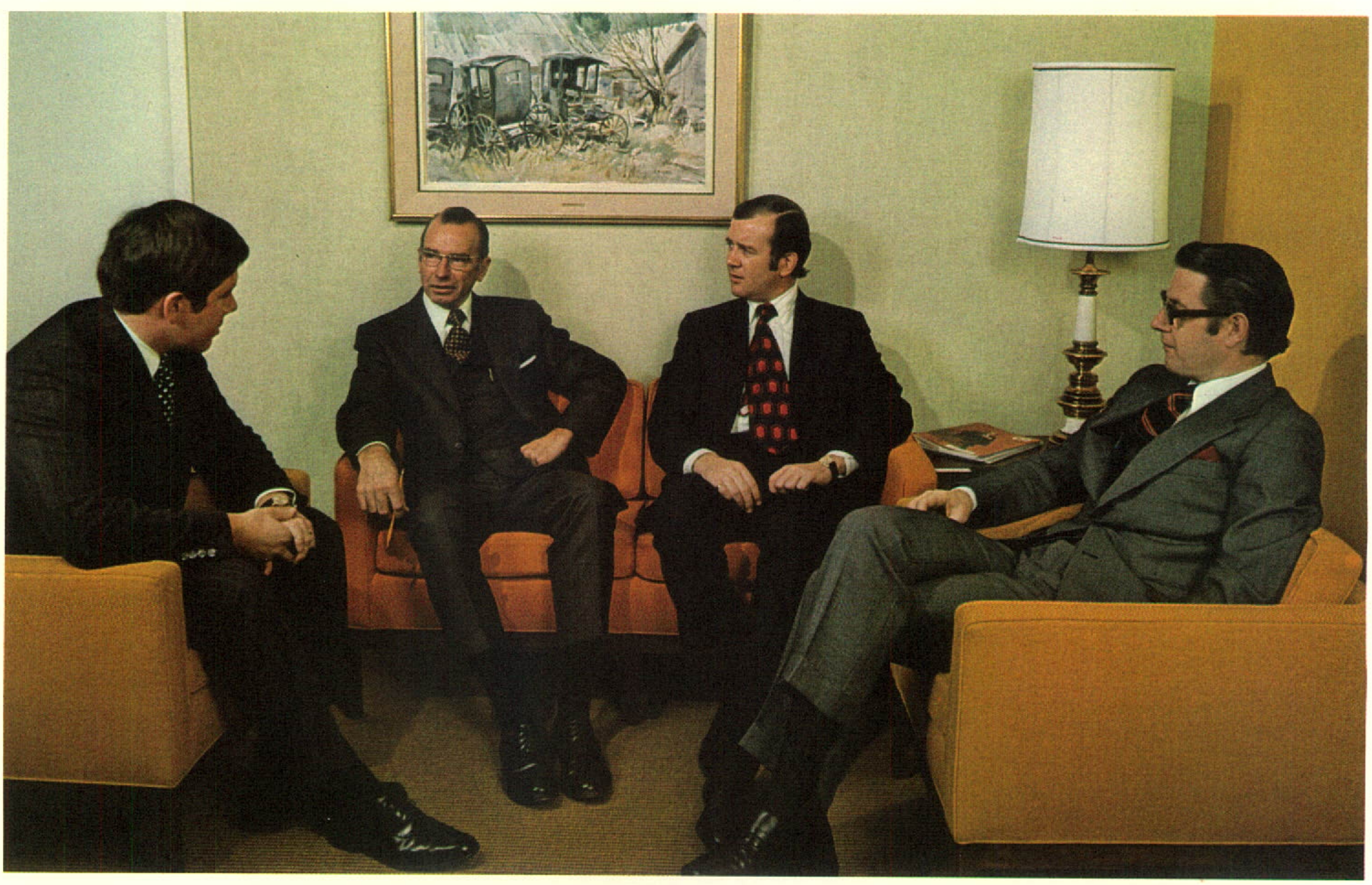
We are proud of our staff who are young, aggressive and well trained and educated. With such a dynamic force behind us, we are able to confront day to day business and banking problems and provide services in a unique way.

The success of the Bank is, in part, a function of our ability to react quickly to the needs of our market and the clients we serve. In this regard we feel Mercantile Bank is exceptionally well equipped to take advantage of opportunities in the market.

With a total staff of 328 operating from our Head Office and eight branches in the field, our lines of communication are short and direct. Investment and policy decisions can be handled expeditiously and the results communicated quickly to our officers in the field. In brief, we enjoy the classic advantages of a small close-knit team able to react quickly in a rapidly changing environment.

Large organizations benefit from the full range of specialist functions they are able to support and the breadth and depth of their experience in the market. Mercantile Bank's affiliation with just such a large organization, First National City Bank, New York, enables us to draw on their full range of expertise and experience — in essence, to benefit from association with a large, established organization enjoying a commanding position in the international banking arena.

The banking industry in Canada has evolved and changed considerably over the past decade. For the next decade we



Vice-Presidents John E. Cleghorn, Walter A. Prisco and Duncan Campbell (left to right) with Paul H. Austin, President.

foresee even greater potential for change, challenge and opportunity for the flexible, innovative banker. We believe we have structured and equipped our Bank to meet these challenges.

Management and allocation of assets is a critical function inherent in the operation of any business. Our *Personnel and Corporate Planning Department* is charged with two basic responsibilities. In the first place it is responsible for the management of our key resource – people – and the provision of a framework which allows them to effectively contribute to the Bank's progress. This, in addition, involves the necessity of identifying our staff's needs and aspirations and of creating the environment within which individual goals can be achieved. Secondly the corporate planning group is constantly surveying our domestic and international markets to identify new opportunities for the Bank. As a part of this function, it also prepares and reviews marketing plans outlining the goals, objectives and strategies of Mercantile Bank on a continuing basis. A vital part of this process is the constant two-way interchange of ideas between the Head Office planning group and the field. Since our branch personnel are in close touch with their market they are able to provide feedback in the form of ideas, programs and research to our corporate planning group.

Mercantile Bank's *Investment and Exchange Department* manages the Bank's foreign exchange positions and raises the funds that are necessary to support our loan activities. Successful management of this function requires close monitoring of both changes and conditions in the market place and the needs of our customers as reflected in communication with our branches across Canada. Mercantile Bank's foreign exchange and money market traders are in constant touch by telephone and cable with the financial centres of the world.

The major portion of our revenue is generated by our investment in loans to Canadian corporations and citizens. As an integral part of this key activity, our *Credit Supervision Department* has the responsibility of supervising individual loan decisions and the lending policy and criteria of our Bank. The Department makes available to our loan officers in the field specialized knowledge on key industries – gained directly from Mercantile's own product and industry specialists as well

1. T. Sean Ahern, Chief Accountant, at work with his assistant Allan B. Cruikshank and Peter H. Corrigan of Investment and Exchange.
2. Gilles Lachance, General Manager of Personnel and Planning, discusses a new project with two of his assistants.
3. The Bank's new computer in operation.
4. A fast response to a credit proposal from a distant branch is given by Harold F. Henry, General Manager of Credit Supervision.
5. E. Edward Fulcher, General Manager, Investment and Exchange, hears the latest foreign exchange news from Dieter Engel and William J. Hamill.
6. Chief Inspector, John E.G. Morris, reviews the latest inspection report.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as from First National City Bank's counterparts. To augment these activities, a credit training unit designed to equip our loan officers with the latest tools and techniques available in the field of credit analysis, is operated under the guidance of our Credit Supervision Department.

At the hub of our operations system is the *Chief Accountant's Department*. As the volume and scope of the Bank's activities in the market expands, a critical ingredient to our continued success is an effective and efficient operations system at both the Head Office and field levels. Our ability to react in response to changing conditions is highly dependent on fast and accurate internal management reports. From the Chief Accountant's Department to our executive management flows a constant stream of reports reflecting the status of each of our centres of operation and of the Bank as a whole. This continued "pulse taking" is a key component of our management team effort.

A link between the Chief Accountant's and Credit Supervision departments, is the *Chief Inspector's Department*, which is responsible for making sure that all operations are carried out in accordance with the prescribed guidelines. In addition it gives advice to officers as to the correct procedures for any new or unusual circumstances.

Our officers serving the market in the *Eastern Region* operate from branches located in the key commercial areas of Montreal, Quebec City and Halifax and increased the Bank's outstanding loans in this region by some 50% in the last year. While many of our customers are located in these cities, our loan officers do of course travel within the region to meet with current and prospective clients. An important aspect of any relationship with a customer is the appreciation and understanding of his operations, requirements and particular needs. This can only be obtained by visiting the client's place of business.

Our officers have made significant inroads in developing new business and increasing the level of our investment in existing clients. As a result of the excellent port facilities in Eastern Canada water transportation is of importance to the area's growth. Mercantile has contributed to this in both the shipping and stevedoring sectors. Further afield, fishing is a major

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activity of the Maritimes and investments by our Bank in all its aspects — the fishing, processing and marketing of fish — were made last year. In the mining sector the Bank assisted in the finance of a new asbestos mine. Turning from natural resources to the urban areas, our Eastern Region officers have participated in real estate ventures concerning apartment and office buildings and shopping centres.

Operating from our base in Toronto, our *Ontario Region* enjoyed a year of outstanding achievements with a growth in corporate loans of almost 60% and in earnings of 66%. In line with the diversity of the province's economy, the branch's investment in loans registered significant gains across a broad spectrum of industries. These include real estate, in particular a downtown development and a major regional shopping centre, instalment financing, transportation in the trucking, air and materials handling sectors, as well as establishing new banking relationships with several growth oriented manufacturing companies.

Many of our Ontario clients are based outside Toronto. We are gratified by the reception of our officers when calling on customers away from the city, but in order to improve our service to these areas we plan to extend our branch network into other key commercial and manufacturing centres in Ontario.

Serving Canada's four western provinces and the North, Mercantile Bank's *Western Region* offers a challenging range of opportunities. To participate effectively in this dynamic market the regional headquarters for the Bank are based in Vancouver with offices in Winnipeg, Calgary, Edmonton and Vancouver. As a unit the region incurred a 60% year to year growth in corporate loans in 1972 while contributing a 26% increase in its earnings for the year.

Our business activities in the West reflect to a large extent the sizable primary and related industry base. Thus new business has been recently generated in the areas of farm implement manufacturing, meat packing, oil and gas production and servicing, pipeline transmission and the production and distribution of lumber and other forest products. In addition, in this vast area, especially the North, transportation is vital and Mercantile is contributing by financing heavy road and railway

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construction equipment as well as aircraft, tugs, barges and trucks.

Certain other economic sectors are playing an increasingly important role in Western Canada. In secondary industry Mercantile's involvement includes manufacturers of electrical components, furniture, garments, furnaces and mobile shelter units, to name just a few. In commercial real estate the Bank is playing a major role in financing significant new developments in several western cities. We are also doing our part to foster the growth of western based financial institutions in both the commercial and consumer fields. To round out Mercantile's diverse activities our portfolio includes other industries such as tourism, all areas of construction, wholesale distribution, communications and a growing number of companies involved in trans-Pacific trade.

Each area in Canada has great potential in terms of both natural and human resources. To develop them to their fullest and concurrently protect our heritage for future generations is indeed a challenge. Mercantile Bank expects to play a significant role in the Canadian market place.

1. Mercantile's Eastern Region managers André L. Morissette, James S. Parsons and Gilles Seguin visit one of their clients in the stevedoring business together with Vice-President, Walter A. Prisco.
2. A new financial proposal is evaluated by the Toronto Branch Credit Committee and Vice-President, Duncan Campbell.
3. Mercantile's expertise in lending enables it to structure sophisticated financing for one of Canada's leading high technology aerospace companies. Geoffrey D. Farrar, Manager of Toronto Branch is seen here keeping up to date with the industry.
4. Emphasizing the continuing interest of Mercantile in supporting heavy equipment manufacturers in Canada. Together with our clients is one of our Toronto Account Officers, Keith B. Hollebone.
5. Western Region Vice-President John E. Cleghorn, holds his weekly meeting with Branch Manager John R. Pitcher and other officers in his Vancouver office.
6. Brian McL. Romer, Edmonton Branch Manager, stands by with two other officers as a containerized freight "igloo" is loaded onto an Arctic bound jet.
7. Winnipeg Branch Manager, Maurice M. Christens meets a manufacturing client on his premises.
8. In the heart of Canada's oil country, Calgary Branch Manager, Peter J. Lilly, and his colleagues help towards Canada's growth in perhaps one of today's most exciting areas.

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HEAD OFFICE

625 Dorchester Boulevard West
Montreal 101, Quebec

BRANCHES

EASTERN REGION

Montreal: 625 Dorchester Blvd. West	André L. Morissette, Manager
Quebec City: 580 Grande Allée East	Gilles Seguin, Manager
Halifax: 1 Sackville Place	James S. Parsons, Manager

ONTARIO REGION

Toronto: 120 Adelaide Street West	Geoffrey D. Farrar, Manager

WESTERN REGION

Vancouver: 1177 West Hastings Street	John R. Pitcher, Manager
Calgary: 700, 8th Avenue, S.W.	Peter J. Lilly, Manager
Edmonton: 10030 Jasper Avenue	Brian McL. Romer, Manager
Winnipeg: 244 Portage Avenue	Maurice M. Christens, Manager

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