



**141st
Financial Statements
1987**

HOWARD ROSS LIBRARY
OF MANAGEMENT
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Notice of annual and special meeting

The annual and special meeting of the shareholders of Laurentian Bank of Canada will be held in Le Windsor, 1170 Peel Street, in Montreal, Quebec, on Friday, January 15, 1988, at 11:00 a.m.

La Banque Laurentienne du Canada publie ses états financiers en français et en anglais. Pour obtenir un exemplaire de la version française, veuillez écrire à:

Banque Laurentienne du Canada
266, rue St-Jacques
Bureau 120
Montréal (Québec)
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**Highlights of Consolidated
Financial Statements
as at October 31**

 (in thousands of dollars,
except for per share amounts)

	1987	1986	Per cent change
Assets and Liabilities			
Total assets	\$ 3,930,103	\$ 3,841,248	2.32
Cash resources and securities	\$ 1,443,642	\$ 1,943,744	(25.73)
Mortgage loans	\$ 1,691,166	\$ 1,318,948	28.23
Other loans	\$ 714,273	\$ 497,029	43.71
Deposit liabilities	\$ 3,573,814	\$ 3,504,422	1.99
Capital and reserves	\$ 259,374	\$ 249,404	4.00
Income			
Income before extraordinary item	\$ 24,654	\$ 20,286	21.54
Net income	\$ 26,874	\$ 20,286	32.48
Net income attributable to common shares	\$ 21,099	\$ 14,371	46.82
As percentage of average total assets:			
Income before extraordinary item	0.63%	0.56%	12.50
Net income	0.68%	0.56%	21.43
As percentage of average common shareholders' equity and appropriations for contingencies:			
Income before extraordinary item	9.90%	8.02%	23.45
Net income	11.06%	8.02%	37.91
Per Common Share			
Book value	\$ 13.50	\$ 12.81	5.39
Income before extraordinary item	\$ 1.31	\$ 1.00	31.00
Net income	\$ 1.47	\$ 1.00	47.00
Dividends*	\$ 0.51	\$ 0.50	2.00
Share quoted price (after 2 for 1 split)			
High	\$ 25.00	\$ 15.375	—
Low	\$ 12.00	\$ 9.063	—
Closing	\$ 12.25	\$ 14.563	—
Other			
Average number of common shares outstanding	14,400,000	14,400,000	—
Number of common shareholders	2,403	2,422	(0.79)
Number of employees	1,806	1,603	12.67
Number of branches	121	121	—

* On September 2, 1987 the Board of Directors approved a quarterly dividend of \$0.135, which represents a yearly dividend of \$0.54.



To our Shareholders

We are pleased to present you with an overview of the financial statements of Laurentian Bank of Canada for the fiscal year ended October 31, 1987.

Our annual report will be ready within the next few weeks. It will provide shareholders with a thorough analysis of our financial situation and a detailed review of operations.

Financial performance

Net consolidated income for the fiscal year was \$26.9 million, for an impressive increase of 32.5% over last year's figure of \$20.3 million.

There are several reasons for this significant performance. Firstly, there was a major increase in the proportion of loans to total assets. In a single year, this proportion rose from 47.3% to 61.2%.

Secondly, the sale of one of our subsidiaries had a beneficial impact on our overall financial results, including net income. During the fiscal year, the Bank succeeded in liquidating almost all of the investments, real estate and securities it had acquired through the sale of this subsidiary.

The Bank thus realized an extraordinary gain of \$2.2 million net of related taxes; this amount was applied to the consolidated income statement, and contributed greatly to absorbing the \$4.2 million pre-tax cost of changing our institution's name and status.

The major changes to the Bank's status and corporate name were the highlights of the past fiscal year. On September 28, 1987, The City and District Savings Bank obtained letters patent transforming it into a chartered bank registered in Schedule B of the Bank Act. The Bank would henceforth conduct its business under the name "Laurentian Bank of Canada".

By becoming a chartered bank, our institution gained additional powers with respect to commercial and consumer loans, especially in terms of loan flexibility and amounts. This move has also increased our potential for geographic expansion.

In addition, the changes to the Bank's legal status have led to the creation of a new subsidiary, The Laurentian Bank of Canada Mortgage Corporation. This company holds a portion of the Bank's mortgage and G.I.C. portfolio. Deposits received by this corporation are unconditionally guaranteed by the Bank. This subsidiary is also a member of the Canada Deposit Insurance Corporation.

The changes accompanying the launching of Laurentian Bank of Canada have also led to a new name for the subsidiary formerly called Montreal City and District Trustees Limited. It is now known as Laurentian Trust of Canada Inc.

Assets

At fiscal year-end, Laurentian Bank of Canada registered total assets of \$3.9 billion, representing a modest increase of 2.3% over the figure registered as at October 31, 1986. This increase in assets must be analyzed in the light of two factors.

Firstly, the Bank decided during the second quarter to reduce certain treasury activities with marginal return. This measure was taken to improve return and lower the cost of maintaining the reserves required under the Bank Act. Thus, approximately \$200 million were shaved off total assets.

Secondly, during the final quarter there was a major increase in the loans portfolio, whose value rose from \$1.8 billion to over \$2.4 billion, for an increase of \$589.5 million. This performance reflects the dynamic market activity that prevailed throughout the fiscal year, and the results of the advertising and promotion programs implemented by the Bank to increase its market share.

While mortgage loans have risen by \$372.2 million in the past year, personal and commercial loans have registered an even greater rise, with a combined increase of 43.7%, this surge is due largely to the Bank's ability to respond to the high demand for personal loans.

The vigorous loan activity prompted the Bank to reduce its liquid assets and securities by over \$500 million, although these remain at the relatively high level of \$1.44 billion.



The modest 2.0% increase in deposits was an offshoot of the Bank's decision to reduce its treasury activities on certain low-return investments; this offshoot affected deposit liabilities. On the positive side, however, consumer deposits rose by 6.1% during the past fiscal year.

The return on total average consolidated assets, which now include the results of Laurentian Bank of Canada and the subsidiaries Laurentian Trust of Canada Inc. and The Laurentian Bank of Canada Mortgage Corporation, rose from 0.56% as at October 31, 1986, to 0.68% at fiscal year-end. This figure compares very favourably with those of the other Canadian chartered banks.

Our subsidiary Laurentian Trust of Canada Inc. recorded a net profit of \$1.3 million at fiscal year-end, compared to \$1.2 million a year earlier. Its total assets, which were \$377 million as at October 31, 1986, reached \$400 million at the end of the year.

1987 Operations

Over the past fiscal year, Laurentian Bank of Canada opened two new branches: one on Greber Blvd. in Gatineau, and a second on Maurice-Duplessis Blvd. in Rivière-des-Prairies, Montreal. In keeping with our rationalization program, we have maintained the total number of branches at 121.

The Bank's decision to offer customers the "Investment Excellence" account, a savings account with higher progressive interest, has turned out to be a very good one. Thanks to the enthusiastic response, the balance in these accounts was over \$120 million after only three weeks.

The program to implement shared-access automatic tellers, which are linked to the nationwide Interac system and the international Plus System Inc., also contributed to customer satisfaction. Laurentian Bank of Canada currently operates 65 shared-access automatic tellers.

Board of Directors

At the commencement of the fiscal year, the Chairman of the Board, Jean-Marie Poitras, resigned from his position but remained a member of the Board. He was replaced by Claude Castonguay.

The President and Chief Executive Officer of the Bank, Pierre Goyette, left his position after many years of devoted service.

Guy A. Beaudin also resigned from the Board, and was succeeded by Jacques A. Drouin.

We would like to take this opportunity to thank Messrs. Poitras, Goyette and Beaudin for their significant contributions to the Bank's development and prosperity.

The dividend paid on common shares during the fiscal year was \$0.51. Net income on common shares rose to \$1.47, for an increase of \$0.47 over the figure at the previous fiscal year-end. As at October 31, 1987, the book value of common shares was \$13.50, as compared to \$12.81 a year earlier, for an increase of 5.4%. Share performance must be interpreted in light of the shareholders' decision on January 16, 1987, to split the shares two for one.

At a meeting held on December 1, 1987, the Board of Directors passed an agreement in principle to merge the Bank's activities with those of two other companies controlled by The Laurentian Group Corporation: The Eaton Trust Company and Eaton Bay Holdings Limited. The Bank's shareholders will be asked to vote on this move at their annual and special meeting, to be held on January 15, 1988.

In closing, I would like to extend heartfelt thanks to all our shareholders for the interest and confidence they have shown in their institution throughout the past fiscal year.

Claude Castonguay
Chairman of the Board

Roland Breton
President and Chief Executive Officer



Management's Responsibility for Financial Reporting

The following consolidated financial statements have been prepared and are presented by the Management of Laurentian Bank of Canada, in accordance with the requirements of the Bank Act.

The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

The Management of the Bank discharges its responsibility for the reliability and integrity of the published financial information and the supporting accounting system as follows:

- The Bank has established and maintains a system of internal control that ensures as far as possible that its affairs are conducted in accordance with sound and efficient management practices, that its assets are safeguarded and that proper accounting records are kept. Furthermore, the Bank selects and trains qualified staff and sets up organizational structures that provide a well-defined segregation of responsibilities.
- Internal auditors audit various aspects of the Bank's operations, ensure that the internal control system operates properly and make recommendations to Management for improvements in controls.

During each year, the Superintendent of financial institutions (Canada) makes such examinations and inquiries as he deems necessary to satisfy that the provisions of the Bank Act relating to the protection of depositors and shareholders of the Bank are being duly observed and that the Bank is in a sound financial position.

Poissant Richard and Raymond, Chabot, Martin, Paré, two firms of independent auditors appointed by the shareholders, audit the Bank's consolidated financial statements and express their opinion of the statements in their report.

Periodically, the internal and external auditors meet with the Audit Committee to discuss all aspects of their mandate and submit comments on the Bank's accounting and internal control systems.

The Audit Committee, which is appointed by the Board of Directors, consists of three directors who are neither officers nor employees of the Bank. One of the committee's responsibilities is among other things, to review the consolidated financial statements of the Bank before they are submitted to the Board of Directors for approval.

Roland Breton

President and Chief Executive Officer



**Auditors' Report
to the Shareholders
of Laurentian Bank
of Canada**

We have examined the Consolidated Statement of Assets and Liabilities of Laurentian Bank of Canada as at October 31, 1987 and the Consolidated Statements of Income, Appropriations for Contingencies and Changes in Shareholders' Equity 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 Bank as at October 31, 1987 and the results of its operations for the year then

ended in accordance with prescribed accounting principles, applied on a basis consistent with that of the preceding year.

Poissant Richard

Poissant Richard
Chartered Accountants

Raymond Chabot, Martin, Paré

Raymond, Chabot, Martin, Paré
Chartered Accountants

Montreal, Canada
December 1, 1987


**Consolidated
Statement of Assets
and Liabilities**

	(in thousands of dollars)	
as at October 31	1987	1986
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	\$ 85,731	\$ 49,578
Deposits with other banks	150,008	299,284
Cheques and other items in transit, net	27,356	15,528
	263,095	364,390
Securities (note 3)		
Issued or guaranteed by Canada	283,827	171,193
Issued or guaranteed by provinces and by municipal or school corporations	319,601	500,196
Other securities	577,119	907,965
	1,180,547	1,579,354
Loans		
Brokers	118,500	57,400
Mortgages	1,691,166	1,318,948
Other loans	595,773	439,629
	2,405,439	1,815,977
Other		
Land, buildings and equipment (note 4)	44,450	35,063
Other assets (note 5)	36,572	46,464
	81,022	81,527
	\$3,930,103	\$3,841,248
LIABILITIES		
Deposits (note 6)		
Payable on demand	\$ 160,084	\$ 138,895
Payable after notice	1,264,106	1,178,514
Payable on a fixed date	2,149,624	2,187,013
	3,573,814	3,504,422
Other liabilities (note 7)	96,915	87,422
Capital and reserves		
Appropriations for contingencies	19,460	26,508
Shareholders' equity		
Capital stock (note 8)	106,800	106,800
Retained earnings	133,114	116,096
	259,374	249,404
	\$3,930,103	\$3,841,248

Claude Castonguay
Chairman of the Board

Roland Breton
President and
Chief Executive Officer


**Consolidated
Statement of Income**

		(in thousands of dollars, except for per share amounts)
for the year ended October 31	1987	1986
Interest income		
Loans	\$219,044	\$183,901
Securities	138,625	140,699
Deposits with banks	19,503	32,743
Total interest income, including dividends	377,172	357,343
Interest on deposits	258,108	258,402
Net interest income	119,064	98,941
Provision for loan losses	1,947	3,473
Net interest income after loan loss provision	117,117	95,468
Other income	20,675	17,607
Net interest and other income	137,792	113,075
Non-interest expenses		
Salaries	54,349	47,620
Pension contributions and other staff benefits	7,513	6,919
Premises and equipment expenses, including depreciation	18,688	14,397
Other	29,626	24,634
Total non-interest expenses	110,176	93,570
Income before unusual items, provision for income taxes and extraordinary item	27,616	19,505
Unusual items		
Reorganization expenses (note 9)	(4,208)	—
Share in net income of a subsidiary sold	—	1,927
Total unusual items	(4,208)	1,927
Income before provision for income taxes and extraordinary item	23,408	21,432
Provision for income taxes (note 10)	(1,246)	1,146
Income before extraordinary item	24,654	20,286
Extraordinary gain (note 11)	2,220	—
Net income	\$ 26,874	\$ 20,286
Average number of common shares outstanding	14,400,000	14,400,000
Income per common share before extraordinary item	\$ 1.31	\$ 1.00
Net income per common share	\$ 1.47	\$ 1.00



Consolidated Statement of Appropriations for Contingencies

		(in thousands of dollars)
for the year ended October 31	1987	1986
Tax allowable		
Balance at beginning	\$26,508	\$21,989
Loss experience on loans	(3,295)	(1,004)
Provision for loan losses included in the Consolidated Statement of Income	1,947	3,473
Transfer from (to) retained earnings	(5,700)	2,050
Balance at end	\$19,460	\$26,508

Consolidated Statement of Changes in Shareholders' Equity

		(in thousands of dollars)
for the year ended October 31	1987	1986
Capital stock (note 8)		
Balance at beginning and end	\$106,800	\$106,800
Retained earnings		
Balance at beginning	\$116,096	\$110,079
Net income of the year	26,874	20,286
Dividends		
Preferred	(5,775)	(5,915)
Common	(7,344)	(7,200)
Transfer from (to) appropriations for contingencies	5,700	(2,050)
Income taxes related to the above transfer (note 10)	(2,437)	896
Balance at end	\$133,114	\$116,096



**Notes to the
Consolidated
Financial Statements**

as at October 31, 1987
The tabular amounts are
in thousands of dollars.

1. Transformation of the Bank

a) Statute

On September 28, 1987, The Montreal City and District Savings Bank (the Savings Bank), governed by the Quebec Savings Bank Act, obtained letters patent transforming it into a bank governed by the Bank Act. According to these letters patent, the Savings Bank is continuing its activities under the name of Laurentian Bank of Canada (the Bank) entered as of this date in appendix B of the Bank Act. The assets and liabilities of the Savings Bank have become the assets and liabilities of the Bank which also remains liable for the other obligations of the Savings Bank.

b) Incorporation of a mortgage subsidiary

The Laurentian Bank of Canada Mortgage Corporation (the Corporation) incorporated according to the Loan Companies Act on September 17, 1987 is a wholly-owned subsidiary of Laurentian Bank of Canada.
By virtue of a sale agreement on September 28, 1987, the Bank transferred to the Corporation mortgage loans and deposit certificates. This transfer was carried out in accordance with the provisions of Section 85 of the Canadian Income Tax Act and Section 518 of the Quebec Income Tax Act. The Bank manages the mortgage loans and the deposit certificates for the Corporation by virtue of a management agreement. The Bank guarantees the deposit certificates and undertakes to take back the loans considered unsatisfactory by the Corporation.



Notes to the Consolidated Financial Statements

2. Significant accounting policies

The consolidated financial statements have been prepared according to the accounting principles prescribed by the Bank Act and the rules issued by the Minister of Finance.

These accounting principles conform with the generally accepted accounting principles in Canada except for those related to the accounting for losses on loans and gains and losses on disposal of certain debt securities.

a) Consolidation

The consolidated financial statements include the accounts of the wholly-owned subsidiaries: Laurentian Trust of Canada Inc. (formerly The Montreal City and District Trustees Limited) and The Laurentian Bank of Canada Mortgage Corporation.

b) Securities

i) Investment account

Fixed term securities held in the investment account are recorded net of amortization. Other securities are recorded at cost. Gains and losses realized on the sale of debt securities other than Treasury bills are deferred and recorded in income over a five-year period. Gains and losses realized on the sale of other securities, and the provisions to reflect permanent impairments in value are recorded in the Consolidated Statement of Income at the time they occur.

ii) Trading account

The securities held in the trading account are recorded at market value. Gains and losses on disposals and adjustment to market value are recorded in income at the time they occur.

c) Loans

Loans are stated in the Consolidated Statement of Assets and Liabilities net of specific provisions for loan losses. Loan portfolios are reviewed quarterly in order to determine the specific provisions required so that loans can be adjusted to an amount not exceeding the estimated net realizable value. Credit card balances are written off when no payment has been received for 180 days.

Commissions and fees related to loans are recorded in the income of the year with the exception of those related to the changes in credit terms as well as those received as interest which are amortized over the term of the loan.

d) Non-accrual loans

Interest income is recorded on the accrual basis. The Bank reverses against income for the year uncollected interest if repayment of principal or payment of interest is past due 90 days, unless, in the opinion of management, there is no doubt as to the collectibility of principal and interest. Subsequent recoveries on non-accrual mortgage and commercial loans are initially applied against the principal up to the amount of the specific provision, if any, and then included in income. On non-accrual personal loans, subsequent receipts, net of collection costs, are initially applied against interest in arrears, and then to repayment of principal.

e) Loan losses

Loan losses consist of write-offs, less collections on previously written-off loans and adjustments to specific provisions on loans and repossessed properties.

The provision for loan losses shown in the Consolidated Statement of Income is calculated at an average rate (the ratio between losses and eligible loans for the previous five years) applied to the balance of eligible loans at year-end.

f) Appropriations for contingencies

In addition to the specific provisions for loan losses deducted from the value of loans shown in the Consolidated Statement of Assets and Liabilities, the Bank sets up appropriations for contingencies to provide for unforeseen loan losses.

During the year, appropriations for contingencies are decreased by actual loan losses and increased by the provision for loan losses included in the Consolidated Statement of Income.

At year-end, the balance is adjusted by transfers from or to retained earnings; the maximum amount of the transfer that is deductible for tax purposes is prescribed by the Minister of Finance.

g) Land, buildings and equipment

Fixed assets are recorded at cost less accumulated depreciation. Fixed assets are depreciated over their estimated useful lives on the declining balance method, except for leasehold improvements which are amortized on the straight-line basis over the term of the lease.

The costs relating to the development and implementation of application software are charged to expenses in the year in which they are incurred.

h) Translation of foreign currencies

The assets and liabilities in foreign currencies are translated at the exchange rate prevailing at year-end. Income and expenses are translated at the average exchange rate of the year.


**Notes to the
Consolidated
Financial Statements**
3. Securities

							1987	1986
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	No stated maturity	Total	Total
Issued or guaranteed								
by Canada	\$267,686	\$ —	\$ 15,088	\$ —	\$ 1,053	\$ —	\$ 283,827	\$ 171,193
by provinces	67,236	72,072	37,133	86,129	—	—	262,570	397,734
by municipal or school corporations	16,776	34,733	3,522	2,000	—	—	57,031	102,462
Other debt securities	111,304	55,793	87,689	37,650	17,000	—	309,436	603,117
Preferred shares	20,868	25,879	40,281	69,508	17,043	64,789	238,368	277,664
Other shares	—	—	—	—	—	29,315	29,315	27,184
	<u>\$483,870</u>	<u>\$188,477</u>	<u>\$183,713</u>	<u>\$195,287</u>	<u>\$35,096</u>	<u>\$94,104</u>	<u>\$1,180,547</u>	<u>\$1,579,354</u>

The estimated market value of securities amounted to \$1,226,875,000 in 1987 compared to \$1,591,603,000 in 1986.

4. Land, buildings and equipment

			1987	1986
	Cost	Accumulated depre- ciation	Net book value	Net book value
Office premises	\$36,524	\$15,617	\$20,907	\$19,739
Computer equipment	26,042	12,890	13,152	10,235
Other	25,048	14,657	10,391	5,089
	<u>\$87,614</u>	<u>\$43,164</u>	<u>\$44,450</u>	<u>\$35,063</u>

Depreciation charged to expenses for the year amounted to \$7,283,000 in 1987 compared to \$5,766,000 in 1986.



Notes to the Consolidated Financial Statements	5. Other assets				
				1987	1986
	Accrued interest			\$29,043	\$42,468
	Other			7,529	3,996
				\$36,572	\$46,464
6. Deposits					
				1987	1986
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
Canada	\$ 21,979	\$ —	\$ 54,039	\$ 76,018	\$ 139,168
Individuals	60,998	1,214,491	1,744,647	3,020,136	2,846,427
Others	77,107	49,615	350,938	477,660	518,827
	\$160,084	\$1,264,106	\$2,149,624	\$3,573,814	\$3,504,422
7. Other liabilities					
				1987	1986
Accrued interest				\$80,855	\$82,350
Other				16,060	5,072
				\$96,915	\$87,422



Notes to the Consolidated Financial Statements

8. Capital stock

• Authorized:

3,000,000 Class A Preferred Shares, without par value, issuable in series for a total consideration of \$75,000,000.

30,000,000 Common Shares, without par value, issuable for a total consideration of \$200,000,000.

• Issued and fully paid:

	1987	1986
1,400,000 \$2.625 Cumulative Redeemable Retractable Class A Preferred Shares, Series 1	\$ 35,000	\$ 35,000
300,000 Floating Rate Cumulative Redeemable Class A Preferred Shares, Series 2	30,000	30,000
14,400,000 Common Shares	41,800	41,800
	\$106,800	\$106,800

Effective January 16, 1987, shareholders approved a by-law providing for the split of each issued Common Share of the Bank's capital stock into two Common Shares.

The Class A Preferred Shares, Series 1, will be retractable on February 1, 1990 at the price of \$25.00 per share. The Bank may elect, no later than November 6, 1989, to create a further series of Class A Preferred Shares for which the Preferred Shares, Series 1 may be exchanged at the option of the holders. These shares will be redeemable starting February 1, 1990 at the price of \$25.00 per share plus a premium of \$1.25 per share, such premium declining annually to zero by 1996. Furthermore, the Bank has agreed to make all reasonable efforts to purchase for cancellation on the market, at a price not exceeding \$25.00 per share plus costs of purchase,

7,000 shares during each calendar quarter until December 31, 1989 and 1% of the number of shares outstanding on February 1, 1990 during each calendar quarter commencing January 1, 1990.

The Class A Preferred Shares, Series 2, will be redeemable starting July 1, 1989 at the price of \$100.00 plus a premium of \$4.00 per share, such premium declining annually to zero by 1994. Furthermore, the Bank may purchase for cancellation, on the market or by invitation tender to all holders, any Preferred Share at a price not exceeding \$104.00 per share, if the purchase is made on or before June 30, 1989, and thereafter, at a price per share not exceeding the redemption price applicable on that date, plus costs of purchase.



Notes to the Consolidated Financial Statements

9. Reorganization expenses

On September 28, 1987, The Montreal City and District Savings Bank became the Laurentian Bank of Canada. Some of the expenses related to such reorganization, namely expenses for the name change and improvements to the computer sys-

tem, were incurred by the Bank as at October 31, 1987. These expenses were charged to income of the year and total \$4,208,000.

10. Income taxes

	1987	1986
Income taxes related to:		
Consolidated Statement of Income		
Net income before income taxes	\$ (1,246)	\$ 1,146
Retained Earnings		
Transfer from (to) appropriations for contingencies	2,437	(896)
Total income taxes	\$ 1,191	\$ 250

Income taxes are calculated on accounting income which is reduced by certain non-taxable income. The Bank records in other assets or other liabilities, as the case may be, the deferred income taxes resulting from timing differences between

amounts recorded in the Consolidated Statement of Income as well as in retained earnings and amounts claimed for income tax purposes.

Income taxes consist of the following:

Current	\$ (1,357)	\$ 1,084
Deferred	2,548	(834)
Total income taxes	\$ 1,191	\$ 250

The difference between statutory income tax rates and effective tax rates on income before income taxes results almost entirely from income derived from Canadian

corporations' securities, not subject to tax and net gains from investments only partly subject to tax.

11. Extraordinary gain

Pursuant to the sale in 1986 of all outstanding shares of a wholly-owned subsidiary, the Bank had acquired investments in Francana Real Estate Limited. The Bank had also acquired through a wholly-owned subsidiary certain real estate and securities.

During the year:

a) the Bank realized its investments in Francana Real Estate Limited; and

b) the subsidiary sold its securities and most of its real estate. On October 28, 1987, this subsidiary was wound up.

As a result of these transactions, an extraordinary gain of \$2,220,000, net of related taxes of \$999,000, has been recorded in the Consolidated Statement of Income.



Notes to the Consolidated Financial Statements

12. Related party transactions

On October 1, 1987, The Laurentian Group Corporation acquired control of the Bank. Transactions carried out during the year as well as the balances as at October 31 with the parent company and its affiliated companies are as follows:

a) during the year

	1987	1986
Parent company		
Expenses		
Other	\$ 1,101	\$ 245
Affiliated companies		
Assets		
Purchase of securities	\$ 5,000	\$ 2,077
Sale of securities	\$ 5,613	\$ 1,000
Additions to fixed assets	\$ 1,812	—
Income		
Income from securities	\$ 817	\$ 577
Other	\$ 487	\$ 83
Expenses		
Interest on deposits	\$ 1,207	\$ 1,207
Staff benefits	\$ 1,440	\$ 1,215
Reorganization	\$ 1,191	—
Other	\$ 1,586	\$ 877

b) as at October 31

Affiliated companies		
Assets		
Other securities	\$ 9,841	\$10,454
Liabilities		
Deposits	\$11,250	\$11,250
Other liabilities	\$ 1,231	\$ 40



**Notes to the
Consolidated
Financial Statements**

13. Pension Plans

The Bank and its subsidiaries have pension plans covering almost all employees. Actuarial valuations showed an actuarial surplus of approximately \$6,784,000 as at December 31,

1986. As certain improvements to the plans were suggested, the Bank would use the actuarial surplus to offset costs, if any, of these improvements.

14. Lease commitments

The Bank has commitments under non-cancellable long-term leases for premises. The minimum lease payments for each of the next five years and subsequent years are as follows:

1988	\$ 2,439
1989	3,988
1990	3,671
1991	3,341
1992	3,154
1993 and subsequent years	45,482
	<hr/>
	\$62,075

Total rental expenses for premises charged to expenses for the year amount to \$3,003,000 in 1987 compared to \$2,733,000 in 1986.



**Notes to the
Consolidated
Financial Statements**

15. Planned amalgamation with Eaton Trust and Eaton Bay Holdings Limited

On December 1, 1987, the Board of Directors of the Bank ratified an agreement in principle entered into on November 24, 1987. Under this agreement, the Bank would amalgamate its operations with two other companies under the control of The Laurentian Group Corporation, that is Eaton Trust (Eaton) and Eaton Bay Holdings Limited (Eaton Bay).

Following the approval by the shareholders of the Bank, of Eaton and of Eaton Bay and the deliverance of letters patent by the Minister of Finance, the amalgamation would then be deemed to have occurred on November 1, 1987. The amalgamated bank would carry on its operations under the name "Laurentian Bank of Canada".

The Bank's Common Shares would be exchanged for Common Shares of the amalgamated bank. In addition, the Bank's Class A Preferred Shares, Series 1 and 2 would be

exchanged for Class A Preferred Shares, Series 1 and 2 of the amalgamated bank and would have essentially the same rights, privileges, restrictions and conditions as prior to the amalgamation.

The Common Shares of Eaton and Eaton Bay would be acquired as consideration for the assumption of liabilities and the issue of Common Shares of the amalgamated bank for a total amount of approximately \$27,000,000. Eaton's First Preferred Shares, Series A and B would be exchanged for Class A Shares, Series 3 and 4 of the amalgamated bank. Eaton Bay's Preferred Shares, Series A would be exchanged for Class A Shares, Series 5 of the amalgamated bank. These shares would have essentially the same rights, privileges, restrictions and conditions as prior to the amalgamation.

**Balance sheet**

		(in thousands of dollars)
as at October 31	1987	1986
HIGHLIGHTS		
Assets		
Deposits and short-term investments	\$ 32,203	\$ 93,579
Bonds	27,379	35,723
Stocks	11,266	12,223
Mortgage loans	322,406	231,897
Other loans	4,738	1,889
Other	2,503	2,118
	\$400,495	\$377,429
Liabilities		
Deposits	\$ 12,521	\$ 16,482
Certificates	369,379	344,696
Other	964	720
	382,864	361,898
Subordinated notes	5,500	2,000
Shareholders' equity		
Capital stock	10,800	12,918
Contributed surplus	118	—
Retained earnings	1,213	613
	12,131	13,531
	\$400,495	\$377,429

Statement of earnings

		(in thousands of dollars)
for the year ended October 31	1987	1986
HIGHLIGHTS		
Revenue		
Interest on mortgage loans	\$29,010	\$26,133
Other investment income	13,199	15,592
Fees and commissions	3,517	3,040
	45,726	44,765
Expenditure		
Interest	35,607	35,961
Salaries and staff benefits	4,836	4,721
Other operating expenses	3,961	2,952
	44,404	43,634
Income before income taxes	1,322	1,131
Income taxes	19	(70)
Net earnings	\$ 1,303	\$ 1,201

Note: The Bank owns 100% of the capital stock of Laurentian Trust of Canada Inc.



Balance Sheet

	(in thousands of dollars)
as at October 31	1987
HIGHLIGHTS	
Assets	
Cash resources	\$ 76,660
Securities	73,818
Mortgage loans	1,013,704
Other	4,506
	\$1,168,688
Liabilities	
Deposits payable on a fixed date	\$1,057,469
Other	40,974
	\$1,098,443
Shareholders' equity	
Capital stock	\$ 70,000
Retained earnings	245
	\$ 70,245
	\$1,168,688

Statement of Income

	(in thousands of dollars)
for the one-month period ended October 31	1987
HIGHLIGHTS	
Revenue	
Interest on loans	\$ 8,863
Other	1,277
	10,140
Expenses	
Interest on deposits	8,405
Other	1,307
	9,712
Income before provision for income taxes	428
Provision for income taxes	183
Net income	\$ 245

Note: The Bank owns 100% of the capital stock of
The Laurentian Bank of Canada Mortgage Corporation.



Board of Directors

***	Claude Castonguay Chairman of the Board	***	Pierre H. Lessard
***	Roland Breton President and Chief Executive Officer	***	Jean-Marie Poitras
	The Hon. Martial Asselin	***	Philippe Roberge
****	Pierre Bourgie	*	Henri A. Roy
	Jacques A. Drouin		Louise Roy
	Raphaël Esposito	***	Jeannine Guillevin-Wood
***	Réjean Gagné	*	Member of the Executive Committee
***		**	Member of the Audit Committee
**	Michael B. Harding	***	Member of the Human Resources Committee
	Josette D. Leman	****	Member of the Credit Committee

Executive Officers of the Bank

President and Chief Executive Officer	Roland Breton	Vice-President – Branch Network	André Dusablon
Senior Vice-President – Administration and Secretary	Louis Bernard	Vice-President – Premises and Supply	Jean-François Fournier
Senior Vice-President – Human Resources	Jules W. Comtois	Vice-President – Marketing	Patrick A. Gedge
Senior Vice-President – Information Systems and Marketing	Hubert Marceau	Vice-President – Information Systems	Richard Lecompte
Senior Vice-President – Operations	André Monette	Vice-President – Audit	Denis Lefort
Senior Vice-President – Finance	Jean Plamondon	Vice-President – Credit	Guy Lemieux
Vice-President – Accounting and Control	Gilles Babin	Vice-President – Treasurer	Michael J. Livingston

