



COMMERCE
CAPITAL
CORPORATION *Ltd.*

ANNUAL
REPORT

1975

HOWARD ROSS LIBRARY,
OF MANAGEMENT
APR 1 1976
MCGILL UNIVERSITY

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**COMMERCE
CAPITAL
CORPORATION
LIMITED**

HIGHLIGHTS	1975	1974
Total Income	\$ 31,860,000	\$ 22,132,000
Net Earnings Per share	\$ 1,305,000 51¢	\$ 826,000 36¢
Total Assets	\$315,737,000	\$220,708,000
Shareholders' Equity Per share	\$ 10,542,000 \$3.61	\$ 8,063,000 \$3.38
Number of Shares Outstanding Weighted average At year-end	2,539,336 2,916,870	2,314,843 2,386,870
Approximate Number of Registered Shareholders	2,300	2,300

COMMERCE CAPITAL CORPORATION LIMITED

DIRECTORS

T. L. CHARNE, Q.C., Winnipeg,
President,
Commerce Capital Properties Limited

M. GAASENBEEK, Toronto,
Vice-President,
Midland Doherty Limited

*D. C. HANNAFORD, Montreal,
President,
Mead & Co. Limited

*N. E. HARDY, London,
Vice-Chairman,
John Labatt Limited

B. F. KELLY, Montreal,
President,
Eastern Elevator Ltd.

R. B. LOVE, Q.C., Calgary,
Partner,
Macleod Dixon

*P. E. MARTIN, Montreal,
President,
Canada Steamship Lines (1975) Limited

C. ORENSTEIN, Toronto,
President,
Commerce Capital Financial Corporation

J. A. TIMMINS, Toronto,
Vice-President,
Marketing & Sales,
The de Havilland Aircraft
Company of Canada Ltd.

R. H. E. WALKER, Q.C., Montreal,
Partner,
Martineau, Walker, Allison,
Beaulieu, MacKell & Clermont

*J. B. WHITELY, Montreal,
President of the Company

*Member of the Executive Committee

OFFICERS

J. B. WHITELEY
President and Chief Executive Officer

T. L. CHARNE, Q.C.
Vice-President

J. W. LEECH
Vice-President

L. R. LUNN, C.F.A.
Vice-President

E. D. BATEMAN, C.A.
Secretary-Treasurer

Auditors

THORNE RIDDELL & CO.
Montreal

Transfer Agent and Registrar

CANADA PERMANENT TRUST
COMPANY,
Montreal, Toronto, Winnipeg, Regina,
Calgary and Vancouver

Stock Listings

THE TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
THE ALBERTA STOCK EXCHANGE

Head Office

One Place Ville Marie, Suite 3424,
Montreal, Quebec. H3B 3N6

COMMERCE CAPITAL COMPANIES

Farmers & Merchants Trust Company
209-8th Avenue S.W.,
Calgary, Alberta

J. B. WHITELEY
Chairman of the Board
and President

J. W. LEECH
Executive Vice-President

R. B. LOVE, Q.C.
Vice-President

O. J. DIZEP
Vice-President, Mortgages

H. KRAMER, C.A.
Vice-President, Finance

L. R. LUNN, C.F.A.
Vice-President, Investments

A. G. DUCIE
Treasurer

Commerce Capital Properties Limited

349 Portage Avenue
Winnipeg, Manitoba

J. B. WHITELEY
Chairman of the Board

T. L. CHARNE, Q.C.
President

G. O. TERRY
Vice-President, Leasing

G. K. CINNAMON
Vice-President, Development

G. W. ROMAN, C.A.
Secretary-Treasurer

General Mortgage Corporation of Canada

8 King Street E., Suite 1801,
Toronto, Ontario

J. B. WHITELEY
Chairman of the Board

C. J. CANN, C.G.A.
President

G. R. GREER
Vice-President

G. A. HILL, C.A.
Secretary-Treasurer

Commerce Capital Financial Corporation

121 Richmond Street W., Suite 203,
Toronto, Ontario

J. B. WHITELEY
Chairman of the Board

C. ORENSTEIN
President

C. J. CANN, C.G.A.
Vice-President

N. R. STAGG
Vice-President

G. A. HILL, C.A.
Secretary-Treasurer

Comcap Factors Inc.

50 Cremazie Boulevard W., Suite 609,
Montreal, Quebec

J. B. WHITELEY
Chairman of the Board

R. H. CAMERON
President

P. G. BERNIER
Vice-President

L. R. LUNN, C.F.A.
Vice-President

E. D. BATEMAN, C.A.
Secretary-Treasurer

L. MARTIN
Assistant Secretary

PRESIDENT'S REPORT

For Commerce Capital 1975 was a year of solid growth and accomplishment. Earnings increased at an above-average rate, reaching targets not expected for at least another year. Similarly, assets expanded at a vigorous pace largely due to our accelerated residential mortgage lending activities. This growth was financed principally through an increase in deposits, guaranteed investment certificates and other types of guaranteed accounts. The required expansion of our capital base was accomplished through the retention of earnings but more significantly through the placement of various debt and equity issues at the parent and subsidiary levels. During the year we re-examined our corporate objectives and came to the conclusion that we should strive toward greater consolidation of our companies, from an operating as well as a financial viewpoint. Most of the financial service areas we wish to pursue can be carried out within our present framework and for this reason further corporate acquisitions are not an essential ingredient in our long-range planning. With this in mind, our efforts are being concentrated on the growth and development of our existing operating structure.

Financial Highlights

Net earnings reached \$1,305,000 compared to \$826,000 in 1974. After taking into account an increase in the average number of shares outstanding, this represents 51 cents per share compared to 36 cents — a 42% improvement. This percentage gain in earnings per share is twice as great as the long-term objectives we have established.

Total assets increased from \$221 million to \$316 million, a gain of \$95 million or 43%. This included an increase of \$72 million in mortgage loans, \$9 million in marketable securities and \$4 million in real estate investments. Our cash position, at \$14 million, was up \$8 million from the previous year.

By year-end shareholders' equity had grown to \$10,542,000 or \$3.61 per share compared to \$8,063,000 or \$3.38 per share the year before.

Dividend Policy

A modest dividend programme for the benefit of our shareholders was begun in November. At that time we declared our first quarterly dividend of 3 cents per share payable December 31, 1975. Since then a second quarterly dividend of 3 cents payable March 31, 1976 has been declared. Although our intention was to pay a similar quarterly dividend at June 30, 1976 and September 30, 1976, these payments may not be permitted under the anti-inflation guidelines imposed by the federal government. Under these guidelines our total dividends per share for the period from mid-October 1975 to mid-October 1976 would be limited to 25% of

1974 earnings or \$206,000. Based on our present shares outstanding, this would limit the additional dividends which we may pay between now and mid-October of this year to 1 cent per share. It is our intention, however, to make application to the Anti-Inflation Board for permission to pay the June and September dividend as originally planned.

Operating Highlights

Farmers & Merchants Trust Company had an excellent year in 1975. Total assets increased 46% to \$263 million and mortgage loans 47% to \$196 million. The number of deposit accounts grew to over 45,000 with the major areas of growth being guaranteed investment certificates and Registered Retirement Savings Plans. In March, 1975 the trust company opened a new branch office in Winnipeg, Manitoba, bringing the total number of branches across Canada to twelve.

General Mortgage Corporation of Canada also experienced an excellent year with total assets increasing 39% to \$40 million. As in previous years this growth was financed through the sale of Series B Bonds. The mortgage company's application to increase its borrowing ratio from 17 to 20 times admitted capital was approved in July.

Commerce Capital Properties Limited made significant progress. Construction started on two new shopping centres, one in Courtenay, British Columbia and the other in Winnipeg, Manitoba, with both expected to open by this summer. Also, this February the company entered the residential development field with the purchase of two condominium complexes in the greater Vancouver area.

Comcap Factors Inc. expanded at a healthy rate, the volume of accounts receivable processed increasing from \$15 million in 1974 to \$31 million in 1975.

Commerce Capital Financial Corporation continues to face difficulties with some of its short-term mortgage loans in the United States and as a result the level of its operations is being reduced. In 1975 total assets declined from \$7 million to \$6 million.

Financing Corporate Growth

During 1975 and early 1976 we completed four major corporate financings. In April Commerce Capital along with other institutional investors purchased a \$2 million issue of Farmers & Merchants Trust subordinated notes, these funds augmenting the trust company's borrowing base. In July, the trust company expanded its borrowing base further through the sale of a \$3 million preferred share issue to the public. In November, Commerce Capital arranged a \$5 million income debenture with its bankers. General Mortgage completed a rights issue to shareholders in January, 1976, adding an additional \$567,000 in common share capital to its borrowing base; the greater part of this issue was underwritten and taken up by Commerce Capital.



J. B. Whitely,
President and Chief Executive Officer.

In addition to the purchase of Farmers & Merchants Trust subordinated notes and General Mortgage common shares referred to above, Commerce Capital increased its investment in subsidiaries in a number of other ways. In the Fall, we purchased 212,000 shares of Farmers & Merchants Trust from certain shareholders for an aggregate consideration of 530,000 treasury shares of Commerce Capital. This purchase, along with other open market purchases during 1975 and 1976 to date, increased our interest in the trust company from 61% to 86%. We made an additional investment in Comcap Factors in May, thereby expanding its borrowing base and increasing our interest from 82% to 87%. Throughout 1975 and 1976 to date we continued to purchase shares of General Mortgage in the open market and our interest now stands at 94%.

Change in Directors and Officers

At the Annual General Meeting of Shareholders held in April, the Board of Directors was increased from ten to eleven members and Mr. N. E. Hardy was elected as a new director. In March of this year Mr. D. A. Ross resigned as a director and the vacancy was filled by the appointment of Mr. B. F. Kelly. We welcome these new directors to the Board and look forward to their contribution to the affairs of the Company.

Early this year Mr. D. A. Ross left his position as President of Farmers & Merchants Trust in order to

pursue other business interests. Mr. Ross made an important contribution to the trust company's development during his term of office and we wish to express our appreciation for his efforts. I have assumed the position of President of the trust company in addition to my duties as Chairman of the Board.

In December, two new executive appointments were made. Mr. J. W. Leech was appointed Executive Vice-President of Farmers & Merchants Trust, while retaining his position as a Vice-President of Commerce Capital. Mr. L. R. Lunn was appointed a Vice-President of Commerce Capital and retains his position as Vice-President, Investments of Farmers & Merchants Trust.

Commerce Capital People

A financial service company such as ours is only as effective as the people who make up its management and staff. We are fortunate in having an exceptionally fine group of men and women who are both talented and industrious, and who are dedicated to the job of building Commerce Capital into one of Canada's leading financial institutions. We have made considerable progress in the past few years and look forward to the challenges which lie ahead. We want to thank all of our people, from senior officers to junior staff members, for their contribution to our success.

Outlook

The Canadian economy is now in the recovery stage and should turn in a fairly strong performance in 1976. Unemployment, unfortunately, will likely remain relatively high due to the rapid growth of the labour force. There are signs that the historically high rate of inflation experienced in the past few years is at last beginning to decline, partly due to the federal government's wage and price control programme and partly due to an easing in the upward pressure on food and energy prices. However, indications are that any decline in the rate of inflation will be slow largely as a result of the persistence of high government deficits. With inflation modifying somewhat, there may be a decline in the general level of interest rates throughout the year but, given the Bank of Canada's less expansionary policy regarding the growth of the money supply, any such decline will likely be quite modest.

Housing staged a strong recovery during 1975 because of various government programmes and growing consumer confidence. The demand for housing is expected to remain strong throughout 1976 which, in turn, will mean a good demand for mortgage financing, with mortgage rates remaining at a comparatively high level. Based on this outlook and our experience in the first quarter, we expect continuing expansion in our mortgage operations throughout 1976. In other areas of activity such as real estate development and factoring we also anticipate a year of further growth.

J. B. Whitely

Montreal, March 29, 1976

FINANCIAL REVIEW

Earnings Performance

Net earnings during 1975 totalled \$1,305,000 — an increase of 58% over the \$826,000 earned in 1974. This brought the Company's four-year average annual growth rate to 38%. For the second consecutive year there were no extraordinary items in our earnings.

This year's earnings reflected a substantial rise in net interest income from our lending operations and a close control of expenses in an environment of strong inflationary pressures.

The following is a quarterly summary of our net earnings for the past two years:

	Net Earnings by Quarter		Per Share	
	Amount			
	1975	1974	1975	1974
First Quarter	\$ 242,000	\$185,000	10¢	8¢
Second Quarter	315,000	258,000	13¢	11¢
Third Quarter	332,000	198,000	13¢	9¢
Fourth Quarter	416,000	185,000	15¢	8¢
Total Year	\$1,305,000	\$826,000	51¢	36¢

Return on Shareholders' Equity

During 1975 shareholders' equity expanded from \$8,063,000 to \$10,542,000 — an increase of \$2,479,000 or 31%. This consisted of a \$1,021,000 increase in retained earnings and a \$1,458,000 increase in common share capital.

The rate of return on average shareholders' equity, as measured by earnings before extraordinary items, increased sharply in 1975, moving to 14.3% compared to 10.9% in 1974. The following table provides information on the return on shareholders' equity for the past five years.

	Return on Shareholders' Equity (thousands)				
	1975	1974	1973	1972	1971
Average Shareholders' Equity	\$9,148	\$7,559	\$6,540	\$3,564	\$2,772
Earnings before Extraordinary Items	1,305	826	668	357	44
Return on Shareholders' Equity	14.3%	10.9%	10.2%	10.0%	1.6%

Net Interest Income

For 1975, net interest income reached \$7,248,000 — an increase of \$1,817,000 or 33% over 1974. The following table shows the breakdown of interest income and interest expense.

	Net Interest Income (thousands)	
	1975	1974
Interest Income Derived From:		
Mortgage Loans	\$24,944	\$17,335
Securities	3,591	2,516
Factoring	472	346
	<u>\$29,007</u>	<u>\$20,197</u>
Less: Interest Expense On:		
Guaranteed Accounts	\$20,511	\$13,683
Bank Indebtedness	1,000	967
Notes & Debentures	248	116
	<u>21,759</u>	<u>14,766</u>
Net Interest Income	<u>\$ 7,248</u>	<u>\$ 5,431</u>

NOTE: Excludes interest expense on real estate development (1975 — \$709,000; 1974 — nil.)

Other Income and Expenses

Other income consists of such items as rental income, factoring commissions, dividends, property management income, gain on the sale of securities and properties, and various other forms of fee income. In 1975 the aggregate of these items amounted to \$2,853,000 — an increase of \$918,000 over the previous year. The major part of this gain came from increases in rents, factoring commissions and dividends.

Other expenses include personnel expenses, space costs, provision for losses, and various other types of general and administrative expenses. Last year these totalled \$5,863,000 — up \$1,065,000 from 1974. The largest contributor to this increase was the rise in personnel expenses due to additional staff and salary increases.

Investment Portfolio

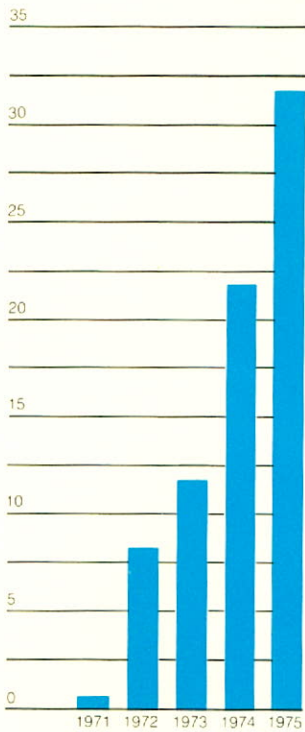
1975 was a year of mixed economic results. The Canadian economy suffered from the uncertainties of recession and the continuance of high inflation. As a result, equity markets moved erratically and interest rates climbed to within their historical highs. Despite this, real progress was made in the management of our investment portfolio in terms of both our market and corporate objectives.

Our year-end investment holdings were comprised of the following securities:

	Investment Portfolio (thousands)	
	1975	1974
Government Bonds	\$15,251	\$13,908
Corporate Bonds & Debentures	15,861	11,103
Short Term Paper & Cash	13,892	5,952
Preferred Shares	4,686	794
Common Shares	1,707	2,241
	<u>\$51,397</u>	<u>\$33,998</u>

TOTAL INCOME

millions of dollars



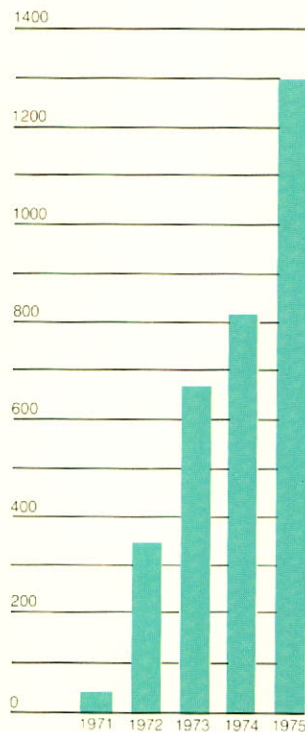
NET INTEREST INCOME

millions of dollars



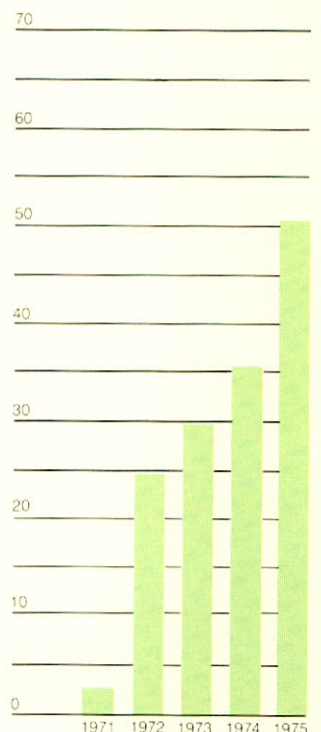
EARNINGS BEFORE EXTRAORDINARY ITEMS

thousands of dollars



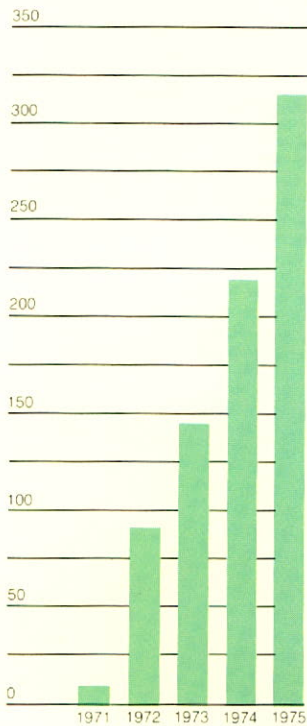
EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEMS

cents



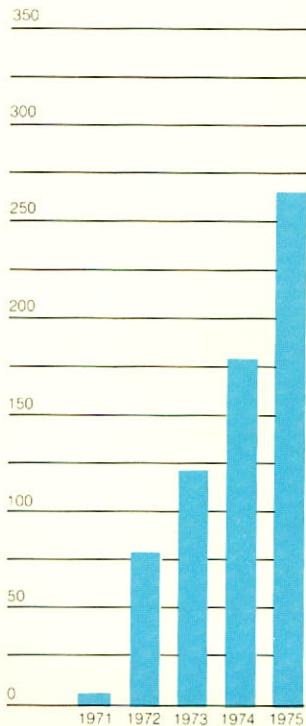
TOTAL ASSETS

millions of dollars



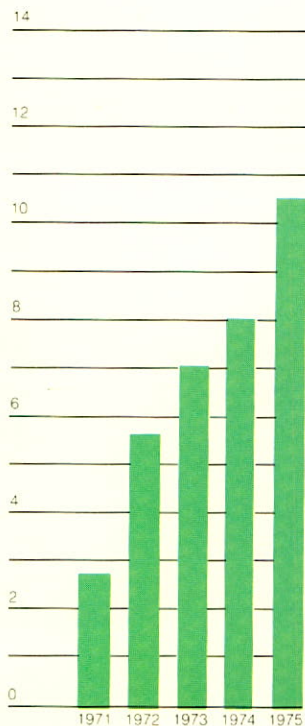
GUARANTEED ACCOUNTS

millions of dollars



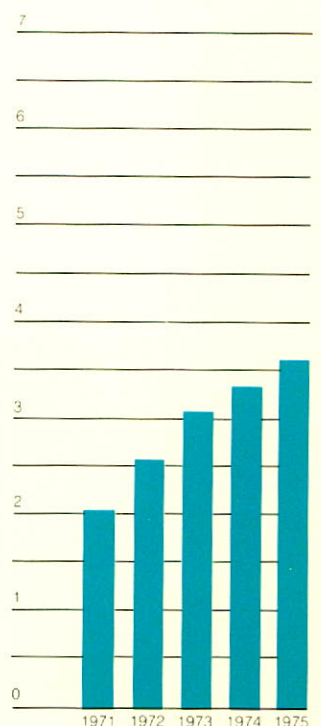
SHAREHOLDERS' EQUITY

millions of dollars



SHAREHOLDERS' EQUITY PER SHARE

dollars



The increase of \$17 million in our holdings over the past year resulted from the investment of funds received from the placement of \$2 million in subordinated notes and \$3 million in preferred shares as well as the general increase in our guaranteed accounts. At \$51 million, our holdings now represent 16% of total assets.

During the year we moved closer to our objective of having all debt obligations mature within five years, in order to better match our security investments to our liabilities. This was accomplished through selective purchases and increased trading activity. At the same time, we managed to increase significantly the yield on our bond portfolio despite the existence of a positive yield curve throughout the year. Our success in shortening term is shown in the following table, which reflects holdings at year-end:

Term of Holdings	1975		1974	
	Principal Amount (thousands)	%	Principal Amount (thousands)	%
Under 1 year	\$14,554	32.3	\$ 6,188	20.0
Between 1 and 5 years	9,772	21.7	6,450	20.8
Over 5 years	20,678	46.0	18,325	59.2
	\$45,004	100.0	\$30,963	100.0

The performance of our equity portfolio relative to the market averages was again favourable, up 14% versus 9% for The Toronto Stock Exchange Industrial Index. Dividends received added another 5% to our total return. During the year our holdings of preferred shares increased substantially in order to provide a direct offset against the preferred share issue of Farmers & Merchants Trust.

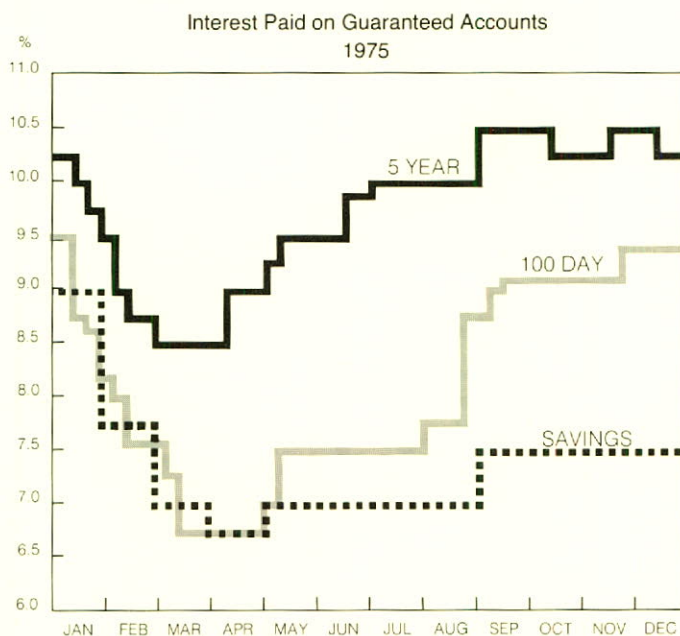
We continued to remain active in the money market, carrying an average balance of over \$14 million during the year. Taking into account the roll in this portfolio, we purchased over \$200 million in short-term obligations. We also placed \$25 million in block deposits. These money market operations enabled us to increase our investment performance and further facilitate corporate cash flows.

Guaranteed Accounts

Our guaranteed accounts increased by over \$78 million or 42% in 1975. At year-end their composition was as follows:

Type	Guaranteed Accounts Analysis	
	Principal Amount (thousands)	%
Chequing	\$ 4,143	1.5
Savings	18,765	7.1
R.R.S.P.	43,700	16.5
R.H.O.S.P.	1,858	0.7
Bank Loans & Other	3,783	1.4
G.I.C.'s & Bonds		
Due: 1976	58,049	21.9
1977	32,399	12.2
1978	43,970	16.6
1979	16,423	6.2
1980	41,929	15.8
After	158	0.1
	\$265,177	100.0

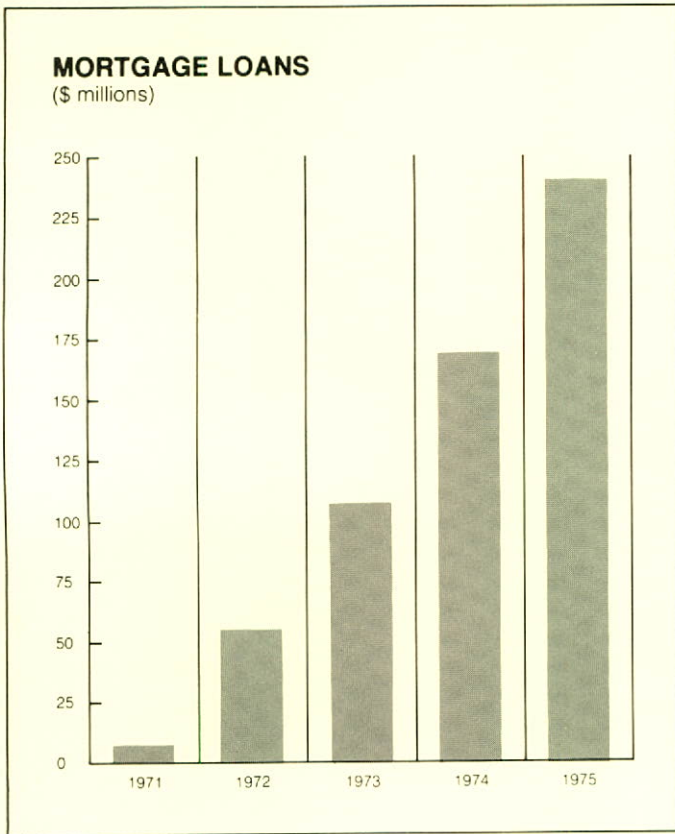
Rates of interest paid on guaranteed accounts are illustrated in the chart below:



REVIEW OF OPERATIONS 1975



MORTGAGE LENDING



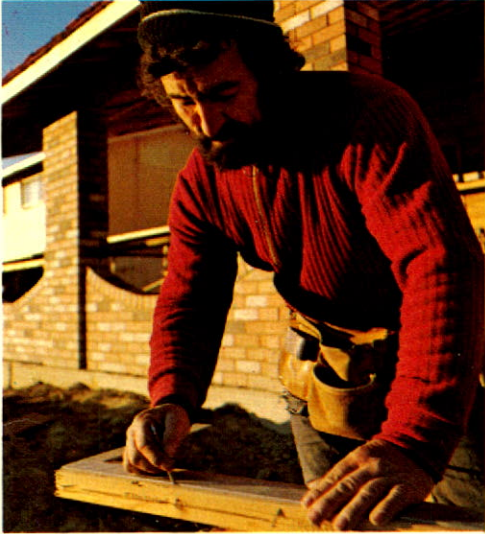
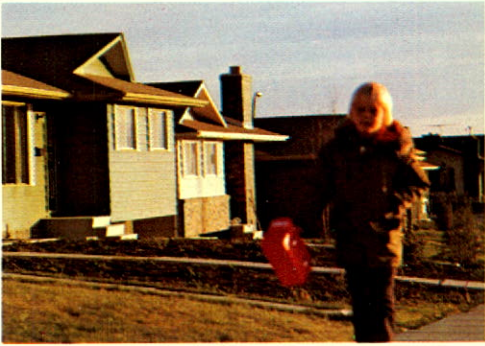
Mortgage lending is our major activity. It accounts for over 77% of all revenues generated while loans placed make up approximately 76% of total assets. In 1975 a total of \$130 million in new mortgages was placed across Canada for a net increase in the loan portfolio of \$72 million. Total mortgages by year-end amounted to \$239 million which brought the average annual growth rate of our mortgage portfolio over the past four years to 35%.

Most of our mortgage lending is carried out through Farmers & Merchants Trust Company and General Mortgage Corporation of Canada, both regulated companies specializing in first mortgages on residential properties and, to a lesser extent, on commercial and industrial properties. The greatest part of their lending is of a conventional nature, with all loans on real property limited to 75% of the appraised market value. In addition, both are approved lenders and make high ratio loans insured under the National Housing Act (NHA) and by the Mortgage Insurance Company of Canada (M.I.C.C.). The value of residential loans in our mortgage portfolio has been increasing in percentage terms over the last few years reaching a level of 69% by the end of 1975. This has been in accordance with general corporate policy and in response to government policies encouraging the development of more homes for Canadians. To this end, we financed over 2,100 housing units in 1975 and will continue to emphasize this aspect of mortgage lending during 1976.

A policy of minimizing risk in our mortgage portfolio through diversification according to size, type of property and geographical location has always been a high priority. The following tables illustrate this diversification at year-end:

Size of Mortgage Loans

	Number of loans	Principal Amount (thousands)	%
Up to \$ 25,000	2,994	\$ 45,370	19.0
\$ 25,000 — \$ 50,000	2,020	70,083	29.3
\$ 50,000 — \$100,000	319	21,851	9.1
\$100,000 — \$500,000	253	54,201	22.7
\$500,000 and over	46	47,699	19.9
	<u>5,632</u>	<u>\$239,204</u>	<u>100.0</u>



Financing Housing for Canadians

Suburban developments
Nursing homes
Condominiums

	Property Type		%
	Number of loans	Principal Amount (thousands)	
House loans	4,226	\$134,914	56.4
Other residential	741	29,291	12.2
Commercial and industrial	340	59,571	24.9
Land and farms	304	12,816	5.4
Others	21	2,612	1.1
	<u>5,632</u>	<u>\$239,204</u>	<u>100.0</u>

	Geographical Breakdown		%
		Principal Amount (thousands)	
British Columbia		\$ 96,940	40.5
Prairie Provinces		76,624	32.0
Ontario and Quebec		58,721	24.6
Other		6,919	2.9
		<u>\$239,204</u>	<u>100.0</u>

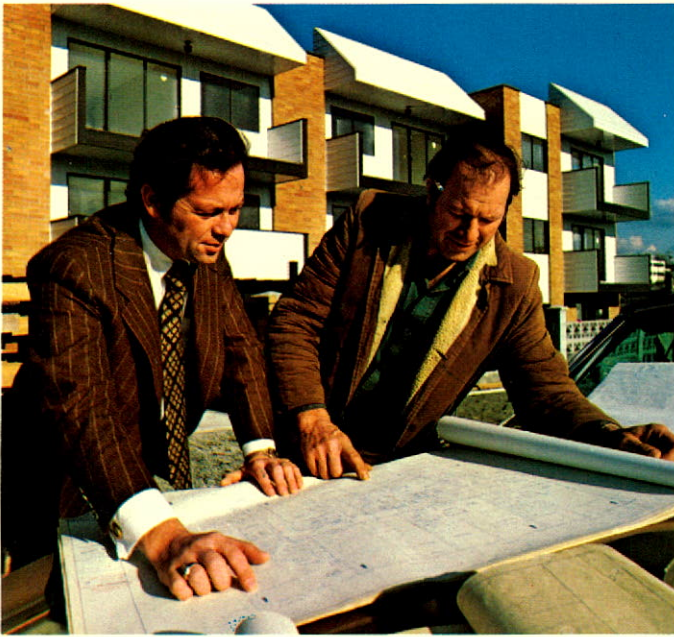
In 1975 we expanded our operations in the field of mortgage banking, with a total of \$8 million in mortgages being placed with pension funds and other clients. It is felt that this area offers significant future growth potential and a continuing emphasis will be placed on strengthening our involvement.

In an effort to provide more flexibility in the type of mortgages available to our customers we have been offering the option of shorter maturities ranging from one to five years. We believe this practice will become fairly widespread in the future. This policy has not only been helpful to our mortgage customers but has also resulted in a shortening in the average term of our mortgage portfolio to under three years, enabling us to match the term of our guaranteed accounts more closely to our investments. The following table gives a breakdown of the mortgage portfolio's maturity schedule at December 31, 1975:

	Maturity Schedule	
	Principal Amount (thousands)	%
1976	\$ 58,872	24.6
1977	26,385	11.0
1978	94,588	39.5
1979	43,023	18.0
1980	11,631	4.9
After	4,705	2.0
	<u>\$239,204</u>	<u>100.0</u>

A new in-house computer facility at Farmers & Merchants Trust has enabled us to centralize the administration of the trust company's mortgage portfolio. This has not only improved the efficiency of handling the portfolio, both from the company's and clients' point of view, but also has allowed our branch mortgage personnel to devote more of their time to business development. It is anticipated that General Mortgage's portfolio will be adapted to this computer facility in 1976. Commerce Capital Financial's loan portfolio will remain on its existing computer installation.

The principal reason our mortgage operations have experienced such outstanding growth in recent years is due to the expertise of the people who work in this area, both at the Head Office and field level. This expertise allows us to make efficient and timely decisions on mortgage applications.



Financing Housing for Canadians

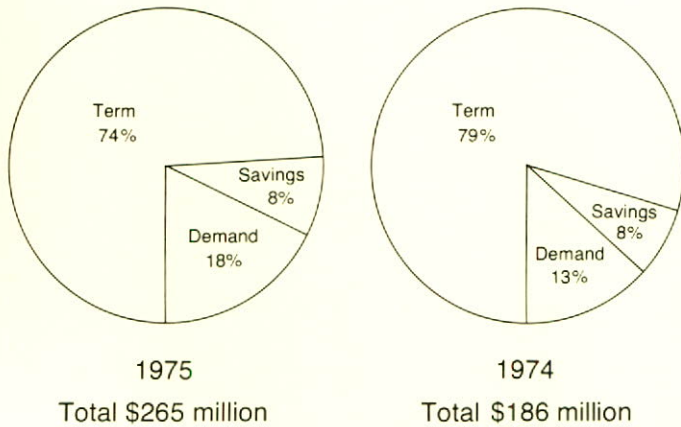
- Examining construction plans
- Applying for a mortgage loan
- Viewing future home
- Breaking ground for new housing development

MONEY SERVICES

Commerce Capital had another exceptionally good year in terms of deposit taking and related services. The ability to attract funds in a variety of ways has enabled us to expand our asset base at a highly satisfactory rate. Our success in this area has been largely due to such factors as the careful selection by the trust company of branch locations, the ability of the mortgage company to market its bonds effectively and the competitive rates offered on all our saving instruments. The areas of major growth were: guaranteed investment certificates, which increased 31% from \$123 million to \$161 million; Registered Retirement Savings Plans, which more than doubled to a year-end level of \$44 million; and Series B Bonds, which increased 44% to \$35 million. Total guaranteed accounts for the year reached \$265 million, for a year over year increase of 42%. Our guaranteed account mix is shown in the following graph.

COMPOSITION OF GUARANTEED ACCOUNTS

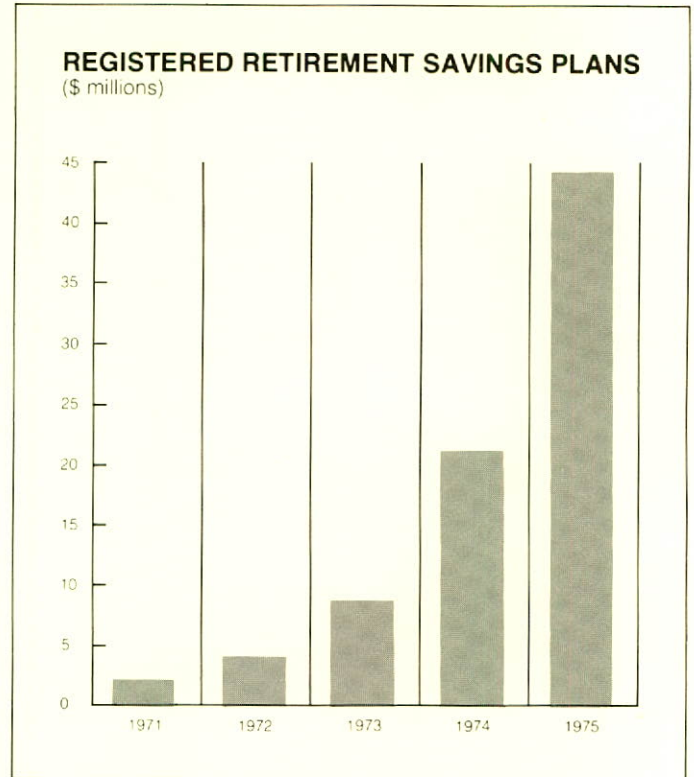
(as at December 31)



The higher proportion in term accounts allows the Company to match longer term commitments, in particular mortgages, to its liability position. This matching principle is essential to the maintaining of interest spreads over a period of time.

An area in which we have been able to develop an excellent record is the Registered Retirement Savings Plan field. Major financial studies published in 1975 and 1976 showed that our plans out-performed all fixed income R.R.S.P.'s over their four-year history. This performance has been responsible for the outstanding growth in this type of account. Because of the public's desire for a variety of R.R.S.P. vehicles, a new five-year guaranteed rate plan was developed this past year and it is anticipated that several other plans with a variety of new features will be introduced in 1976.

The outstanding growth in our Registered Retirement Savings Plans is illustrated in the following graph.



In the latter part of 1975 we decided to centralize our money market and portfolio management departments in Montreal. We believe this will further improve our investment performance as well as giving us further effectiveness in the development of new investment plans and related financial services. One money management technique which we expect will be handled more effectively from this central location is the sale of wholesale block deposits to institutional investors.

Through Farmers & Merchants Trust we continue to expand our customer services in such areas as transfer agencies, corporate trust services, agency accounts, trustee for pension plans, estate planning, deferred profit-sharing plans, income averaging annuity contracts and computer services for payroll and portfolio management programmes.

We are planning in 1976 to participate with certain investment dealers in the marketing of General Mortgage Bonds. Our participation will be through the branch system of Farmers & Merchants Trust. This will provide the trust company with a new savings vehicle for its customers and will give the mortgage company a broader marketing base for its bonds.



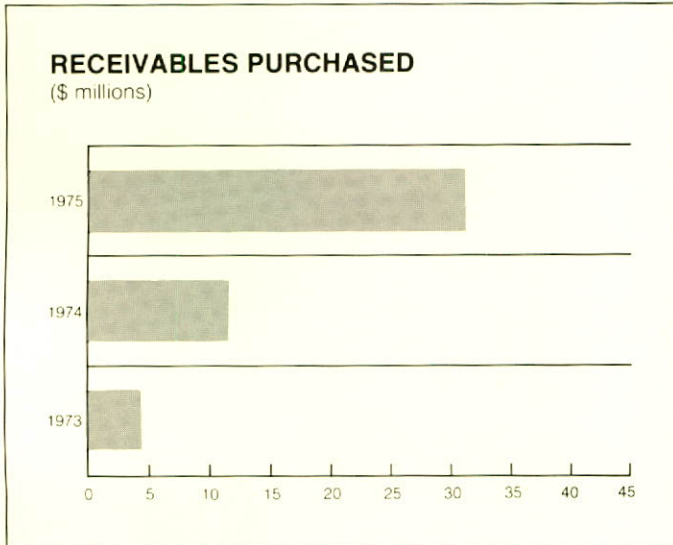
Money Services for Canadians

Competitive deposit rates
 Friendly and efficient service
 Pleasant surroundings
 President of General Mortgage, C. J. Cann

FACTORING

Commerce Capital's factoring business, carried on through Comcap Factors Inc., continued to make substantial progress during the past year as the company continued to attract more clients to its wide range of services. The purchasing of accounts receivable on a recourse and non-recourse basis nearly doubled, exceeding the \$30 million mark. Of this total volume, over 58% was factored sales (non-recourse), in which Comcap Factors assumed the risk of credit loss, while the balance represented commercial financing (recourse). The increased volume was due not only to the attraction of new clients but also to the growth-oriented nature of the clientele. The ability to factor its increasing receivables allows a company to utilize its working capital in the most efficient manner and to expand at a more rapid rate.

The following graph illustrates the growth that our factoring business has enjoyed since 1973.



By year-end our clientele totalled fifty-four companies, consisting of manufacturers, importers and distributors. These companies took advantage not only of our credit and collection facilities, but also a broad range of ancillary services such as credit approval, account collection and bookkeeping, business counselling and a variety of other management information reports.

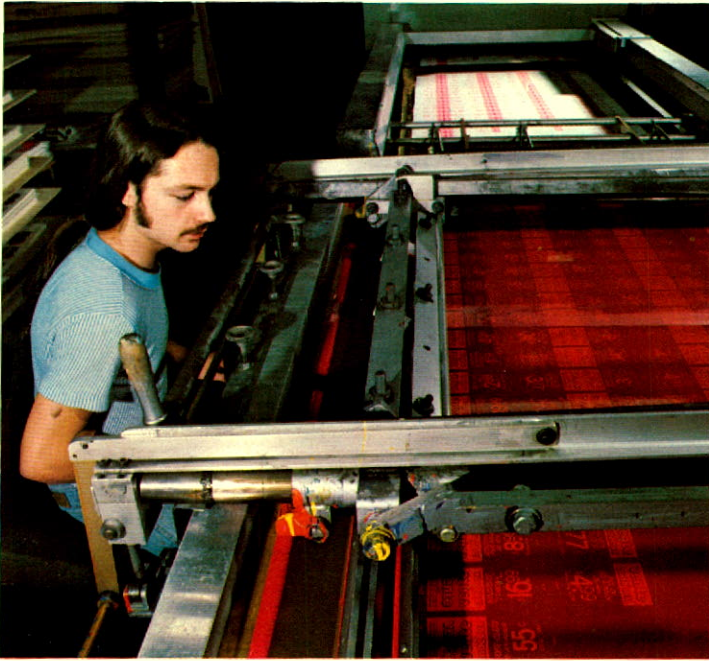
1975 was a year in which we achieved further diversification in our client base and in the geographical distribution of our business. Comcap Factors' activities extended from its base in Quebec into the Ontario market, as well as overseas. In response to the strong demand on the part of Canadian importers for the financing of overseas purchases under letters of credit, we expect to expand further our international factoring services.

Industry diversification of receivables processed has also progressed satisfactorily. The following chart compares our industry weightings at year-end:

Category	Industry Diversification	
	1975 %	1974 %
Advertising	6.0	12.0
Automobile Accessories	3.0	3.5
Cartons and Packaging	4.0	7.5
Drapery Fabrics	6.0	—
Fabrics — Woven and Knitted	8.5	18.0
Furniture	8.5	1.7
Furniture & Machinery Components	5.0	5.8
Garments and Footwear	41.0	47.0
Restaurant Equipment and Refrigeration	5.0	1.5
Sporting Goods	1.0	—
Yarn	12.0	3.0
	<u>100.0</u>	<u>100.0</u>

Although the factoring business remains closely associated with the textile and garment industries, we were successful in 1975 in reducing our exposure to this industrial sector. During the past year only 49.5% of our volume was concentrated in this area compared to 65.0% in 1974. This greater diversification by market and by industry has strengthened Comcap Factors' position and has helped expand its volume of business.

Although the cost of funds rose during the year the company was able to maintain profit margins since all factoring contracts contain interest rate escalation clauses. This enabled Comcap Factors to translate the increased volume of business processed into increased profits. This profit growth augurs well for the future as the company continues to expand its capital base and, in turn, its lending capabilities.



Factoring and Commercial Financing for Canadian Industry

REAL ESTATE DEVELOPMENT

Our real estate development programme, carried out through Commerce Capital Properties, continued to move forward in 1975, with our investment in properties increasing from \$10 million to \$13 million. As in previous years, our principal activity was the development and management of shopping centres, with emphasis on medium-size enclosed mall centres in communities in Western Canada.

We entered 1975 with two centres in operation — the Kenora Shoppers Mall (140,000 square feet) in Kenora, Ontario and the Estevan Shoppers Mall (178,000 square feet) in Estevan, Saskatchewan. Both these centres are fully leased and showing good progress, with retail sales in an upward trend.

During 1975 construction began on our third and fourth centres:

Driftwood Mall — This enclosed mall plaza, located on a 22-acre site in Courtenay, British Columbia will consist of 140,000 square feet of retail space and parking for 700 automobiles. The main department store, with 60,000 square feet, has been leased to Zeller's and Overwaitea Foods has leased the 26,000 square foot supermarket. The opening is scheduled for the spring of 1976.

Garden City Square — Situated on a 20-acre site in Winnipeg, Manitoba, this centre will comprise 242,000 square feet of retail space and will provide parking for 1,176 automobiles. The department store will contain 146,000 square feet and has been leased to F. W. Woolworth Co. Limited. The supermarket tenant will be Canada Safeway Limited who has leased 42,000 square feet. The opening of this enclosed mall shopping plaza is expected this coming summer.

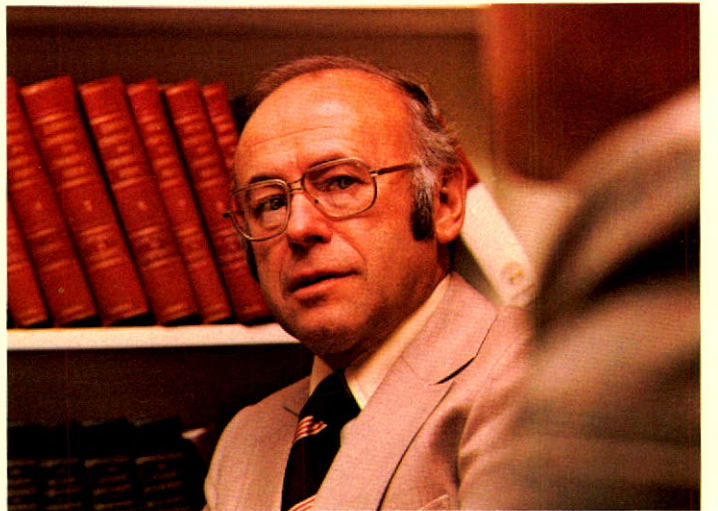
In both cases, permanent financing has been arranged and lease negotiations for the remaining commercial rental units are in their final stages.

During the year we disposed of our interests in Unicity Fashion Square in Winnipeg and three neighbourhood centres under development in various communities in Alberta. At the same time, a number of land positions were acquired or maintained for future shopping centre sites. Planning continues on several new centres, involving such activities as land rezoning, market and traffic flow studies, architectural design, major lease negotiations and financing.

In February, 1976 we entered the field of residential development through the purchase of two condominium complexes in the greater Vancouver area. One, consisting of 156 residential units, is located in Richmond and the other, consisting of 272 residential units, is in Surrey. We expect these projects will be completed and ready for sale by late spring of this year. We will provide mortgage financing to purchasers of the condominium units through Farmers & Merchants Trust.

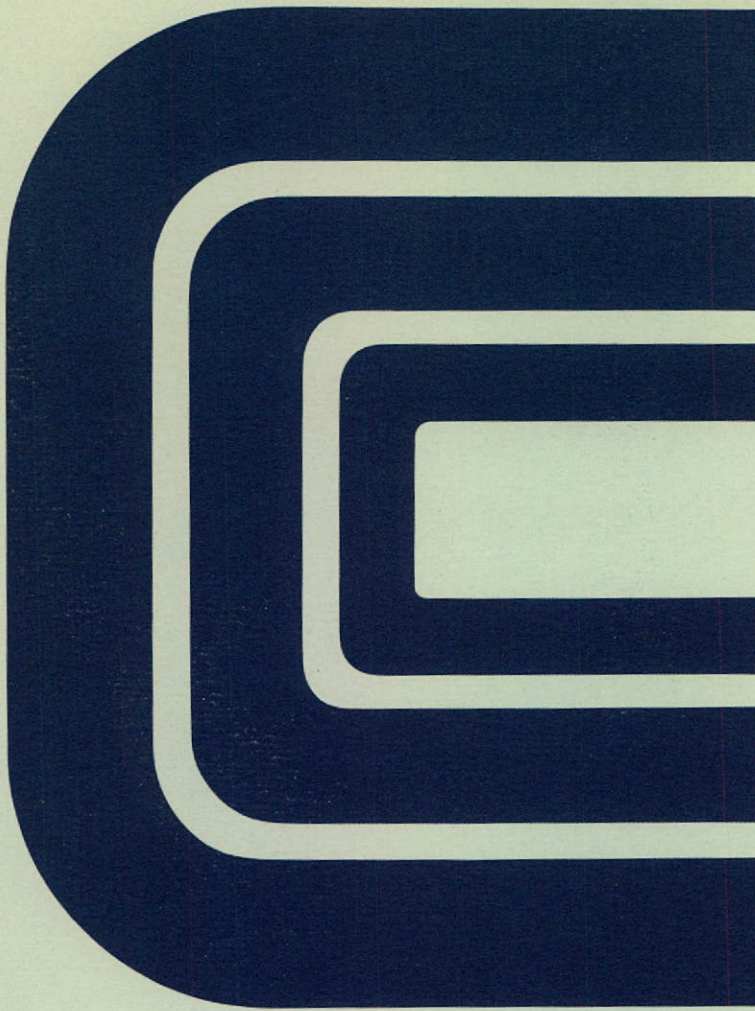


Developing and Managing Shopping Centres across Canada



Driving pylons at our new Winnipeg centre
Shopping in our new plazas
President of Commerce Capital Properties,
T. L. Charne





**COMMERCE
CAPITAL
CORPORATION**

CONSOLIDATED
FINANCIAL STATEMENTS

1975

COMMERCE CAPITAL CORPORATION LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended
December 31, 1975

	<u>1975</u>	<u>1974</u>
Income		
Interest	\$29,007,000	\$20,197,000
Income from all other sources	<u>2,853,000</u>	<u>1,935,000</u>
	<u>31,860,000</u>	<u>22,132,000</u>
 Expenses		
Interest	22,468,000	14,766,000
Other administrative and general expenses	<u>5,863,000</u>	<u>4,798,000</u>
	<u>28,331,000</u>	<u>19,564,000</u>
 Earnings Before Income Taxes and Minority Interest	 <u>3,529,000</u>	 <u>2,568,000</u>
 Income Taxes		
Current	1,449,000	879,000
Deferred	<u>461,000</u>	<u>440,000</u>
	<u>1,910,000</u>	<u>1,319,000</u>
	1,619,000	1,249,000
Minority Interest	<u>314,000</u>	<u>423,000</u>
Net Earnings	<u>\$ 1,305,000</u>	<u>\$ 826,000</u>
 Earnings per Share (note 10)	 51¢	 36¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended
December 31, 1975

Balance at Beginning of Year	\$ 2,144,000	\$ 1,318,000
Net earnings	<u>1,305,000</u>	<u>826,000</u>
	<u>3,449,000</u>	<u>2,144,000</u>
Dividends	88,000	—
Share of expenses of issue of preferred shares by a subsidiary company	<u>196,000</u>	<u>—</u>
	<u>284,000</u>	<u>—</u>
Balance at End of Year	<u>\$ 3,165,000</u>	<u>\$ 2,144,000</u>

**CONSOLIDATED
BALANCE SHEET**

as at December 31, 1975

	1975	1974
Assets		
Cash and deposit receipts	\$ 13,892,000	\$ 5,952,000
Marketable securities (note 1(b))	37,505,000	28,046,000
Mortgages (note 2)	239,204,000	167,673,000
Accounts receivable and other assets (note 3)	8,447,000	6,889,000
Investment in properties (note 4)	13,391,000	9,643,000
Premises, equipment and leasehold improvements — at cost less accumulated depreciation of \$457,000 (1974 — \$367,000)	2,089,000	1,612,000
Excess of cost of shares over net book value of assets of subsidiary companies (note 1(a))	1,209,000	893,000
	\$315,737,000	\$220,708,000
 Liabilities and Shareholders' Equity		
Guaranteed accounts (note 5)		
Deposits	\$ 68,466,000	\$ 37,916,000
Guaranteed investment certificates	160,616,000	122,719,000
Bonds	33,388,000	24,643,000
Bank loans	2,707,000	1,321,000
	265,177,000	186,599,000
Other liabilities		
Bank indebtedness — secured	8,244,000	8,383,000
Accounts payable and accrued liabilities	4,015,000	2,099,000
Income taxes	555,000	193,000
Income debenture (note 6)	5,000,000	—
Notes payable (note 7)	2,400,000	1,150,000
Mortgages payable (note 8)	9,515,000	7,421,000
Deferred income	4,701,000	2,899,000
	299,607,000	208,744,000
Deferred income taxes	1,311,000	853,000
Minority interest		
Preferred shares	3,100,000	100,000
Common shares and retained earnings	1,177,000	2,948,000
	4,277,000	3,048,000
Shareholders' equity		
Capital stock (note 9)		
Authorized: 5,000,000 common shares without nominal or par value		
Issued: 2,916,870 shares (1974 — 2,386,870 shares)	7,377,000	5,919,000
Retained earnings	3,165,000	2,144,000
	10,542,000	8,063,000
	\$315,737,000	\$220,708,000

Approved by the Board:
J. B. Whitely, Director
R. H. E. Walker, Director

COMMERCE CAPITAL CORPORATION LIMITED

**CONSOLIDATED
STATEMENT
OF CHANGES IN
FINANCIAL
POSITION**

for the year ended
December 31, 1975

	1975	1974
Source of Funds		
Operations		
Net earnings	\$ 1,305,000	\$ 826,000
Items not involving funds	969,000	1,029,000
	2,274,000	1,855,000
Changes in accounts receivable and payable	912,000	(3,021,000)
Increase in guaranteed accounts	78,578,000	63,976,000
Issue of income debenture	5,000,000	—
Issue of notes payable	1,250,000	50,000
Increase in mortgages payable	2,094,000	7,140,000
Increase in deferred income	1,802,000	1,176,000
Investment in subsidiary companies by minority shareholders	—	228,000
Issue of common shares (note 9)	1,458,000	193,000
Issue of preferred shares by a subsidiary company	3,000,000	—
	\$96,368,000	\$71,597,000
Application of Funds		
Acquisition of shares of subsidiary companies (note 9)	\$ 2,142,000	\$ 57,000
Increase in cash and deposit receipts	7,940,000	3,785,000
Increase (decrease) in marketable securities	9,459,000	(1,354,000)
Increase in mortgages receivable	71,487,000	62,238,000
Increase in investment in properties	3,864,000	5,574,000
Increase in premises, equipment and leasehold improvements	591,000	574,000
Decrease in bank indebtedness	139,000	293,000
Dividends paid by subsidiary companies to minority common shareholders	85,000	97,000
Expenses of issue of preferred shares by a subsidiary company	235,000	—
Changes in other assets and liabilities	338,000	333,000
Dividends paid	88,000	—
	\$96,368,000	\$71,597,000

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

for the year ended
December 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations and the changes in their financial positions from their respective dates of acquisition or incorporation.

The excess of the cost of shares over the net book value of assets of subsidiary companies acquired is recorded on the consolidated balance sheet. An amount of \$893,000 pertaining to subsidiaries acquired prior to March 31, 1974 is being carried without amortization. For acquisitions subsequent to that date, the excess, amounting to \$320,000 in 1975, is being amortized over 40 years.

(b) Marketable Securities

The major portion of marketable securities consists of government and corporate bonds which are recorded in the accounts at amortized cost.

No provision is made for the decline in the market value of securities below recorded value as all gains and losses are recorded only upon sale. The quoted market value of securities is \$33,730,000 (1974 — \$24,413,000).

(c) Mortgages

Mortgages are subject to continual review and, if required, appropriate provisions are recorded in the accounts for estimated losses.

(d) Investment in Properties

All costs and expenses which are directly related to real estate development activities are capitalized until substantial rental occupancy is achieved. Thereafter, the cost of the developed properties, exclusive of land costs, is depreciated on a 5%, thirty-year sinking fund basis.

Properties held for sale are recorded at the lower of cost or appraised value.

(e) Premises, Equipment and Leasehold Improvements

Premises, equipment and leasehold improvements are stated at depreciated cost. In general, depreciation and amortization is being provided using the following methods and rates.

Premises	—	5% declining balance
Equipment	—	straight line over 10 years
Leasehold improvements	—	straight line over 5 years

(f) Recognition of Revenues and Expenses

Interest income and interest expense are recorded on an accrual basis, as are all other income and expense items with the exception of the following:

- (i) In connection with mortgage operations, mortgages are issued at a discount or a service fee is charged. Both of these are deferred and taken into interest income over the term of each mortgage.
- (ii) Financing expenses in connection with bond issues are carried as an asset at unamortized cost and are being amortized to interest expense over the terms of the bonds.

(g) Income Taxes

The tax allocation method of providing for income taxes is being used. Under this method income taxes in the consolidated statement of earnings have been calculated on the basis of reported earnings rather than on earnings currently taxable.

2. MORTGAGES

Included therein is an amount of \$5,622,000 (1974 — \$7,400,000) representing beneficial ownership of interests in certain registered mortgages, which interests are held in trust by an officer and director of a subsidiary company who is also a director of Commerce Capital Corporation Limited.

COMMERCE CAPITAL CORPORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Cont'd)

3. ACCOUNTS RECEIVABLE

Included therein is an amount of \$5,935,000 (1974 — \$3,282,000) representing accounts receivable purchased in connection with factoring operations.

4. INVESTMENT IN PROPERTIES

	1975	1974
Developed properties	\$ 8,117,000	\$ 7,337,000
Accumulated depreciation	145,000	30,000
	<u>7,972,000</u>	<u>7,307,000</u>
Properties under development	5,231,000	2,285,000
Properties held for sale	188,000	51,000
	<u>\$13,391,000</u>	<u>\$ 9,643,000</u>

Developed properties and properties under development pertain to real estate development operations; properties held for sale are those acquired on mortgage foreclosure.

5. GUARANTEED ACCOUNTS

The guaranteed accounts pertain to regulated trust and loan operations and are secured by the following segregated assets:

	1975	1974
Cash and deposit receipts	\$ 3,410,000	\$ 3,718,000
Marketable securities	29,732,000	23,765,000
Mortgages	232,035,000	159,116,000
	<u>\$265,177,000</u>	<u>\$186,599,000</u>

6. INCOME DEBENTURE

In 1975 the company issued a \$5,000,000 secured income debenture to its bankers. This income debenture matures December 31, 1977 and bears interest at a rate which is tied to the prime lending rate of its bankers.

7. NOTES PAYABLE

Notes payable amounting to \$1,150,000 are due primarily to minority shareholders of subsidiary companies, are unsecured and are subordinated to the bank indebtedness of the respective subsidiary companies. \$1,000,000 thereof matures in 1979 and bears interest at 6% and \$150,000 matures in 1984 and bears interest at 12%.

In 1975, \$1,250,000 of subordinated notes of a subsidiary company, bearing interest at 10½% per annum, were issued to outside investors. With respect to this amount, annual principal repayments of \$105,000 are to commence in 1976 with a final payment of \$620,000, in 1982. Certain marketable securities, maturing in 1982, are being held to provide funds for this final payment.

8. MORTGAGES PAYABLE

Mortgages are payable mainly in connection with real estate development operations. A total of \$8,916,000 of these mortgages (1974 — \$6,600,000) are secured by developed properties and properties under development, bear interest at rates ranging from 9¾% to 13¾%, and mature from 1980 to 1994.

Minimum annual principal payments for the next five years are: 1976 — \$365,000; 1977 — \$167,000; 1978 — \$93,000; 1979 — \$48,000 and 1980 — \$748,000.

9. CAPITAL STOCK

In 1975, 530,000 fully paid shares of the company were issued in exchange for 212,000 common shares of a subsidiary company, upon which a value of \$1,458,000 was placed.

10. EARNINGS PER SHARE

Earnings per share have been calculated based on the weighted average number of shares outstanding in 1975 and 1974 of 2,539,336 and 2,314,843 respectively.

11. SUBSEQUENT EVENT, COMMITMENTS AND CONTINGENT LIABILITIES

- (a) Subsequent to December 31, 1975, properties costing approximately \$15,300,000 have been purchased.
- (b) There are commitments totalling \$7,389,000 under construction contracts for which financing of \$3,492,000 has been arranged.
- (c) At December 31, 1975, in connection with factoring operations, the collection of accounts receivable of approximately \$1,760,000 in addition to those reflected on the consolidated balance sheet had been guaranteed and the company was contingently liable for outstanding letters of credit of approximately \$280,000.

12. ANTI-INFLATION RESTRICTIONS

The company is subject to dividend restrictions under the provisions of the Anti-Inflation Act (Canada) which became effective October 14, 1975. Under these restrictions the maximum amount of dividends which may be paid during the year ending October 13, 1976 is \$206,000.

13. STATUTORY INFORMATION

	<u>1975</u>	<u>1974</u>
(a) Remuneration of Directors and Officers		
Number of directors	11	10
Directors' remuneration	\$ 28,000	\$ 25,000
Number of officers	5	5
Officers' remuneration	\$124,000	\$ 95,000
Number of directors who are also officers	3	3
(b) Depreciation and amortization of leasehold improvements charged to operations	\$229,000	\$125,000

14. COMPARATIVE FIGURES

Certain 1974 items have been reclassified to conform with the 1975 presentation. The most significant reclassification has been the inclusion in interest income, rather than income from all other sources, of the amortization of mortgage discounts and service fees referred to in note 1 (f) (i).

AUDITORS' REPORT

To the Shareholders
Commerce Capital Corporation Limited

We have examined the consolidated balance sheet of Commerce Capital Corporation Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. 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 these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their 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.

Montreal, Quebec,
March 8, 1976

Thorne Ridell & Co.

Chartered Accountants

FIVE-YEAR FINANCIAL SUMMARY

	1975	1974	1973	1972	1971
YEAR-END POSITION (thousands except per share figures)					
Assets					
Cash and deposit receipts	\$ 13,892	\$ 5,952	\$ 2,167	\$ 7,746	\$ 2,496
Securities	37,505	28,046	29,483	27,101	1,295
Mortgages	239,204	167,673	105,412	53,566	6,422
Accounts receivable factored	5,935	3,282	1,828	—	—
Properties	13,391	9,643	4,099	1,851	63
Other	5,810	6,112	3,605	1,637	222
	<u>\$315,737</u>	<u>\$220,708</u>	<u>\$146,594</u>	<u>\$ 91,901</u>	<u>\$ 10,498</u>
Guaranteed accounts					
Deposits	\$ 68,466	\$ 37,916	\$ 13,020	\$ 10,720	\$ —
Guaranteed investment certificates	160,616	122,719	92,740	59,123	—
Bonds	33,388	24,643	15,419	7,627	5,577
Bank loans	2,707	1,321	1,444	2,790	1,786
	<u>\$265,177</u>	<u>\$186,599</u>	<u>\$122,623</u>	<u>\$ 80,260</u>	<u>\$ 7,363</u>
Other liabilities	<u>\$ 34,430</u>	<u>\$ 22,145</u>	<u>\$ 13,929</u>	<u>\$ 2,959</u>	<u>\$ 36</u>
Deferred income taxes	<u>\$ 1,311</u>	<u>\$ 853</u>	<u>\$ 489</u>	<u>\$ 213</u>	<u>\$ 73</u>
Minority interest	<u>\$ 4,277</u>	<u>\$ 3,048</u>	<u>\$ 2,508</u>	<u>\$ 2,780</u>	<u>\$ 273</u>
Shareholders' equity	<u>\$ 10,542</u>	<u>\$ 8,063</u>	<u>\$ 7,045</u>	<u>\$ 5,689</u>	<u>\$ 2,753</u>
Per share	<u>\$ 3.61</u>	<u>\$ 3.38</u>	<u>\$ 3.09</u>	<u>\$ 2.68</u>	<u>\$ 2.04</u>
RESULTS FOR YEAR (thousands except per share figures)					
Income					
Interest	\$ 29,007	\$ 20,197	\$ 10,659	\$ 7,387	\$ 737
Other	2,853	1,935	1,535	955	39
	<u>\$ 31,860</u>	<u>\$ 22,132</u>	<u>\$ 12,194</u>	<u>\$ 8,342</u>	<u>\$ 776</u>
Expenses					
Interest	\$ 22,468	\$ 14,766	\$ 7,587	\$ 5,224	\$ 436
Other	5,863	4,798	2,753	1,726	247
	<u>\$ 28,331</u>	<u>\$ 19,564</u>	<u>\$ 10,340</u>	<u>\$ 6,950</u>	<u>\$ 683</u>
Earnings before extraordinary items	<u>\$ 1,305</u>	<u>\$ 826</u>	<u>\$ 668</u>	<u>\$ 357</u>	<u>\$ 44</u>
Per share	<u>51¢</u>	<u>36¢</u>	<u>30¢</u>	<u>25¢</u>	<u>3¢</u>
Net earnings	<u>\$ 1,305</u>	<u>\$ 826</u>	<u>\$ 667</u>	<u>\$ 401</u>	<u>\$ 251</u>
Per share	<u>51¢</u>	<u>36¢</u>	<u>30¢</u>	<u>28¢</u>	<u>19¢</u>
SHAREHOLDERS' STATISTICS					
Common shares outstanding					
Weighted average	2,539,336	2,314,843	2,258,061	1,441,037	1,349,370
At year-end	2,916,870	2,386,870	2,276,870	2,124,370	1,349,370
Approximate number of registered shareholders	2,300	2,300	2,300	2,000	1,700

