



### NERVES TO MATCH BRIDGE

Ray Santana of San Francisco is one of the 40 elite painters who scramble daily 746 feet above the rip tides of San Francisco Bay to protect the famous Golden Gate

Bridge with its coat of International Orange paint. Here he is atop one of the two towers. The other is in the background (RIGHT) silhouetted against the San Francisco skyline. (AP Wirephoto)

### Johnson Urged To Apply N. Viet Nam Quarantine

WASHINGTON (AP) — U.S. Republicans have urged President Johnson to apply quarantine to North Viet Nam the kind of quarantine the late president John F. Kennedy used against Cuba in the 1962 missile crisis.

in any radical or extremist organization." While leaders insisted this includes the John Birch Society, no organization was named specifically in the resolution.

Turning to foreign affairs the Republicans advocated "the maximum use of American conventional air and sea power against significant military targets" in North Viet Nam.

"Since it appears that the major portion of North Vietnamese military supplies arrive by sea, our objective should be to impose a Kennedy-type quarantine on North Viet Nam."

### Former MLA Dies In Sask.

KINISTINO, Sask. (CP) — William Carleton Woods, 74, a former Liberal member of Saskatchewan legislature, died here Sunday.

Senate Republican Leader Everett M. Dirksen of Illinois told a press conference the Republicans are not advocating the bombing of Haiphong, North Viet Nam's chief port, or of Hanoi, the capital.

The quarantine should begin with a warning to all nations not to carry military supplies to North Viet Nam, he said.

The U.S. objective in Viet Nam should not be unconditional surrender of North Viet Nam, the Republican statement said, adding there is growing danger "that the United States is becoming involved in an endless Korean-type jungle war."

### Economic Outlook Encouraging

TORONTO (CP) — The economic outlook for 1966 remains encouraging despite mounting pressures on costs and prices.

House Minority Leader Gerald R. Ford of Michigan said Defense Secretary Robert S. McNamara has indicated the United States will have 200,000 men in South Viet Nam by the end of this year and the total eventually may exceed 300,000.

Ford said the Republicans believe that with greater use of air and sea power the commitment of ground troops may be much lower than now indicated.

### COUNCIL HAS SAFETY NOTE

TORONTO (CP) — Christmas notes from the Ontario Safety League.

Christmas plants, mistletoe and holly berries are no onus and could prove lethal to small children.

Leaves from poinsettias and berries from dieffenbachia plants are dangerous and cause the mouth to swell painfully.

The most important holiday plant — the Christmas tree — is a fire hazard.

Planning to give your children a pet for Christmas? The pet should be brought home a few days before Christmas to give the animal a chance to get acquainted with children.

Don't hang the pet in a Christmas stocking on Christmas Eve. Christmas is exciting for children, but it may scare a baby animal.

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## Strong Growth Trend Maintained

"This has been a challenging year for the Canadian banking system", said William M. Currie, President, addressing the 99th Annual Meeting of the Canadian Imperial Bank of Commerce.

### PRESIDENT'S ADDRESS

This has been another good year for the Canadian economy. The strong growth trend to which we returned in 1961 has been maintained despite some initial concern as to its continuation for another year, and every region of the country has participated in full measure.

Momentum within the economy itself has had a great deal to do with this excellent performance as indicated by the sharp increase in capital investment, the continuing rise in output of the manufacturing industries and the high level of retail sales. We have had a bumper crop of wheat and markets are assured for virtually the entire harvest of about 700 million bushels. Of importance also has been the fact that economic conditions in our principal markets abroad turned out to be more favourable than had been anticipated so that demand for our exports continued to be strong. The United States enjoyed another impressive increase in output; Britain with international help weathered two serious financial crises, and growth rates picked up in most countries of continental Europe and in Japan.

### Developments within Canada

On the domestic scene, our Gross National Product for the year as a whole is expected to exceed \$51 billion. This would represent an increase over last year of some nine per cent in terms of current dollars and six per cent in terms of volume. Employment has continued to rise strongly, allowing for the usual seasonal fluctuations: total employment in October was over the seven million mark, the year-over-year increase being approximately 290,000. In October the margin of unemployment was estimated at 2.4 per cent of the labour force.

The personal sector of the economy which accounts for roughly two-thirds of the Gross National Product has been buoyant throughout the year. Rising personal incomes and the continuing increase in the use of consumer credit have been reflected in the demand for goods and services. Notably, sales of new automobiles in 1965 are expected to reach about 700,000 units, a striking advance from the 440,000 units sold in 1961.

The new wave of accelerated capital investment continues. In 1965, business investment in machinery and equipment and non-residential construction within the range of \$7.5 billion will be 15 to 20 per cent higher than in 1964 and plans already announced suggest there may be a further increase next year. The expansion in capacity financed by this investment covers a broad range of activity from the resource-based industries to many types of secondary manufacturing and some of the plants will produce products which are either new in Canada or were produced previously on a limited scale. The 1965 estimate for total outlays of \$2.8 billion in social capital projects also represents a sharp increase, over 20 per cent higher than last year. The investment in housing, amounting to approximately \$2.3 billion, will be nearly 15 per cent above last year although the number of starts will show only a modest increase over the 1964 record of 166,000 starts.

Capital investment on this scale creates strong demands for resources. The flow of materials and equipment for the programme has been reasonably well maintained but there are warnings which suggest that shortages of engineering skills and skilled labour, in particular, may prevent the completion of the full programme planned for this year.

Turning to the government sector, both current and capital expenditures continue to increase with total outlays for goods and services by the three levels of government estimated to exceed \$9 billion this year. Tax revenues and other forms of government collections are considerably higher because of the high level of economic activity. At the federal level, the administrative budget should be close to balance and in fact may show a small surplus.

### International Trade

Looking abroad, our exports of merchandise, exclusive of wheat, were up about seven per cent through the first nine months of the year but the contraction in wheat shipments which followed completion of the deliveries to Russia under the 1963-1964 contract brought the overall increase in merchandise exports down to about 1.5 per cent. However, following the latest contracts with Russia and China, shipments of wheat are again on the advance and total merchandise exports for 1965 are expected to show an increase of about five per cent over the 1964 total of \$8.3 billion. It is encouraging to see the continuing penetration of Canadian manufactured goods into foreign markets but this trend will have to be maintained in the years to come if the Canadian economy is to continue to support a high level of imports.

The rate at which we import persists as one of our most difficult and fundamental economic problems. This year our imports have risen at a faster rate than our exports with imports of merchandise for the first nine months of the year up 12 per cent over the corresponding period in 1964. The list of major increases in imports runs all the way from fabricated materials, machinery and equipment to a broad range of consumer goods, reflecting the acceleration in the pace of activity in manufacturing, the rise in capital investment and the high level of consumer demand. Of special note is the expansion in trade in automobiles and parts between Canada and the United States resulting from the recent agreement on conditional free trade in motor vehicles and original equipment parts. Comparing the first six months of this year with the same period in 1964, we find that our exports of automotive products to the United States increased from \$37 million to \$76 million while our imports of the same categories of goods from the United States increased from \$387 million to \$470 million. At the same time, our exports of automotive products to overseas countries increased by \$45 million.

### Balance of Payments

During this year a good deal of attention has been focused on the steps taken to bring about a sustained reduction in the overall deficit in the balance of payments of the United States. In February the Interest Equalization Tax, applicable since July 1963 to most transactions in longer-term foreign securities by United States citizens, was extended to apply to commercial bank loans, with maturities of one year or more, advanced to foreign borrowers in developed countries. In addition, all commercial banks doing business in the United States were requested to co-operate in a voluntary programme to cut back their lending abroad and business corporations were enlisted in a national campaign to limit their direct foreign investments, their deposits in foreign banks and their holdings of other foreign financial assets. These measures, designed primarily as a means of limiting the mounting outflow of dollars to Western Europe, have been reasonably effective in the short run but it is too soon yet to evaluate their longer-run effects on domestic and foreign business. Because of the increasingly integrated world environment in which we live, there have also been repercussions in countries outside Western Europe.

Canada has been recognized as meriting special consideration in the application of the United States balance of payments measures because the capital markets of the two countries are so closely interconnected and because exports of United States capital to Canada are normally required to finance a substantial proportion of the annual Canadian current account deficit with the United States. For this reason, the Interest Equalization Tax has not been applied so far to new issues of Canadian securities. In return for this exemption, it was understood between the two countries that our official holdings of gold and United States dollars would not be permitted to rise appreciably above their July 1963 level while the Interest Equalization Tax remained in effect. However, any undertaking to maintain a ceiling

on official reserves has the effect of tying the Canadian interest rate structure more closely to that of the United States, thus restricting to some extent the flexibility of Canadian monetary policy. Otherwise we would probably have seen a somewhat stronger rise in interest rates before the 6th December increases in the United States Federal Reserve discount rate and the Canadian Bank Rate. This would have been rather more characteristic of a period of high activity when pressures on capacity, materials and labour are increasing within the economy and the deficit in the current account of our balance of payments is higher.

It is clear from an analysis of the full range of transactions between Canada and the United States that Canada has made a substantial contribution to the improvement in the United States balance of payments position. Traditionally, the value of Canadian imports of goods and services from the United States has exceeded the value of Canadian exports to that country and in recent years the margin in favour of the United States has increased. In 1963 total current payments by Canada to the United States for merchandise imports and all other current account payments amounted to over \$6.5 billion. This exceeded the value of current receipts from the United States by \$1.2 billion. The margin in favour of the United States increased in 1964 to over \$1.6 billion and there has been a further increase in 1965. Trade with Canada in goods and services has thus been an important factor in increasing the surplus in the current account of the United States balance of payments and reducing that country's overall deficit.

Stated in the simplest terms, the United States dollars required by Canada to cover our current account deficit with the United States have come from two main sources: the surplus earned in our current transactions with other countries and substantial net inflows of short-term and long-term capital from the United States. This capital is either invested directly by United States citizens and corporations in Canada or borrowed by Canadians in United States financial markets. In 1965 the intake of long-term capital from the United States continued without interruption from the proceeds of new security issues marketed in the United States and from direct investment, there being no official directives or restrictions pertaining to the outflow in 1965 of such capital from the United States to Canada. The situation respecting the supply of short-term capital, however, has undergone a marked change since February when United States citizens and corporations, in response to the President's measures to improve the United States balance of payments, began to draw down United States dollar balances carried in the Canadian chartered banks and to realize on funds invested in the Canadian short-term money market. In the result, the net outflow of short-term capital from Canada to the United States during the first half of 1965 amounted to \$39 million, largely offsetting the net inflow of long-term capital from the United States which amounted to \$367 million during the same period.

It was therefore necessary to finance a very large part of Canada's current account deficit with the United States, which amounted to over \$1 billion during the first half of this year, by employing substantial and unusual net inflows of short-term capital from overseas countries. Some \$715 million in United States dollars were obtained in this way.

### Operations of the Chartered Banks

This movement of short-term funds to meet obligations with the United States was accomplished primarily through the foreign currency operations of the Canadian chartered banks. A substantial volume of United States funds became available through the banking system to help meet the current account deficit with the United States and to finance the sharp reduction in the deposits of United States residents in Canadian banks. In the latter connection, it is significant that there has been very little net liquidation of assets held by the Canadian banks in the United States in order to meet the withdrawal of these deposits. Otherwise, the improvement in the United States balance of payments from this source would have been illusory.

This has been a challenging year for the Canadian banking system at home. Requirements for credit to finance the high level of business activity have shown steady increases while at the same time the supply of short-term funds normally available in the United States has been curtailed. In addition, the understanding with the United States as to the ceiling on Canada's official reserves has imposed certain limitations on the use of interest rates in situations calling for restraint.

In part the demand for funds to finance the higher level of consumer expenditures and capital investment has been met from the stronger flow of personal income and from Canadian corporate earnings. There has also been a comparatively substantial increase in the Canadian money supply amounting to about 13 per cent over the year. The volume of credit outstanding is considerably higher than a year ago, and credit facilities generally are under more pressure. At the end of October the general loans of the Canadian chartered banks were up about 17 per cent and exceeded \$9.5 billion while the more liquid assets of the banks remained at about the same level as they were a year ago. Thus, for the banking system as a whole, the ratio of more liquid assets to total Canadian dollar deposit liabilities has declined. In these terms, the liquidity ratio of the chartered banks was about 30.5 per cent at the end of October this year compared with 33 per cent a year earlier.

### Outlook for Next Year

As we approach 1966 the favourable aspects of 1965 are still clearly in evidence on every hand. The rise in output has been accomplished in an orderly way and the benefits are well spread out across the country. There are, however, signs of increasing pressures which are chiefly associated with the extent of this comparatively long period of prosperity. These pressures are showing up in higher prices for services, shortages of skilled manpower, lengthening delivery dates for certain types of materials and equipment, and tightness in the money market. Costs of production are creeping up, with labour costs per unit of output running about three per cent higher than a year ago. While the outlook remains encouraging, we shall be well advised to give heed to the mounting pressures on costs and prices if we are to retain the advantages gained in four consecutive years of impressive growth.

L. G. Greenwood, Chief General Manager, reviewed the balance sheet:

During the fiscal year ended October 31, 1965, the Bank's total assets passed the \$6,000,000,000 mark, reaching a new peak of \$6,208,405,418. This represented an increase of \$705,000,000, or 12.8%, over the total as at the preceding year-end.

The liquid position of the Bank remains strong. Quick assets at the year-end totalled \$2,722,000,000, an increase of \$162,000,000 during the fiscal year, and were equal to 46% of the Bank's total liabilities to the public.

The balance of the increase in total assets was centred chiefly in loans, which rose by \$530,000,000 from \$2,400,000,000 to \$2,930,000,000. This increase of 23% in total loans was distributed through practically all categories of borrowers, both large and small, and reflected the active pace of the economy throughout the year.

Bank Premises at \$73,000,000 showed a modest increase after depreciation. During the year there was a net increase of 41 banking offices, including 7 new offices outside Canada. At the year-end there were 1,375 offices in all, of which 40 were located in countries other than Canada.

Total deposits rose by \$667,000,000 to \$5,637,000,000, an increase of 13.4%. Of this increase, \$175,000,000 occurred in personal savings deposits and there was also a gratifying increase in the numbers of savings bank depositors. In the category of Other Deposits, which includes other Canadian deposits payable after notice, Canadian demand deposits and other deposits in foreign currencies, an increase of \$193,000,000 was recorded. Deposits by other banks, by the Government of Canada and by Canadian Provincial Governments rose by a total of \$298,000,000.

Rest Account increased by \$35,000,000 over the preceding year-end and now stands at \$240,000,000. Further reference to this increase will be made later in this report.

Turning now to the Statement of Revenue, Expenses and Undivided Profits, it will be observed that this year the Statement has been drawn up to show in some detail the principal categories of earnings and expenses.

Total revenue was \$287,706,839, an increase of over \$32,000,000, or 12.6%. From the breakdown of revenues shown on this statement, it will be seen that income from loans accounted for the largest proportion of this increase and this, of course, reflected the substantial rise in the total of advances during the past year. As noted at the foot of the Statement of Revenue, Expenses and Undivided Profits, the amounts of income from loans and securities are stated after making transfers to inner reserves; that is, provisions for bad debts and/or other losses, out of which full provision has been made for diminution in value of loans and investments.

Total expenses were \$241,802,981, an increase of \$29,000,000, or 13.6%. Of this increase, approximately \$21,000,000 was accounted for by higher interest costs reflecting both the substantial increase in total deposits during the past year and also the upward trend in rates of interest on certain categories of deposits.

A further \$5,300,000 of the increase was in salaries, pension fund and other personnel benefits.

Property Expenses and Other Operating Expenses increased by approximately \$1,400,000 and \$1,000,000 respectively.

Balance of Revenue totalled \$45,903,858 and after deduction of income taxes in the amount of \$22,600,000, there remained a balance of profits for the year of \$23,303,858, an increase of \$1,901,256 over 1964. Earnings per share were \$3.34 as compared with \$3.07 for the previous year.

Dividends paid were at the rate of \$2.45 per share as compared with \$2.25 in 1964 and dividend payments totalled \$17,071,600, an increase of \$1,393,600 over last year.

After deduction of dividends paid there remained an amount to be carried forward of \$6,232,258 to which has been added \$3,088,867 being the balance of Undivided Profits at the beginning of the year, and \$28,000,000 transferred from inner reserves. This latter sum arises mainly from gains on the investment over a period of years of shareholders' funds in the shares of other companies and does not derive from normal banking earnings; hence it should be regarded as non-recurrent.

The sum of \$35,000,000 has been transferred to Rest Account leaving a balance of Undivided Profits at the end of the year of \$2,321,125.

The Statement of Rest Account shows a balance at the end of the year of \$240,000,000. This completes the review of the Bank's 99th Annual Statement. It remains to be said, however, that the progress reported was made possible only by the combined efforts of all the men and women who are our personnel and who, at every level, have demonstrated qualities of ability, devotion to duty and pride in the institution which augur well for the future. To these people General Management extends congratulations on their accomplishments during the past year and best wishes in their efforts to achieve high goals in the year that lies ahead.

ANNUAL STATEMENT HIGHLIGHTS YEAR ENDED OCTOBER 31, 1965	
<b>ASSETS</b>	
Cash Resources (including items in transit)	\$ 715,829,781
Government and Other Securities	1,715,131,237
Loans	291,824,945
Total Quick Assets	2,722,785,963
Real Estate	2,980,675,488
Mortgages and Hypothecs insured under the N.H.A., 1954	182,958,087
Customers' Liability under Acceptances, Guarantees and Letters of Credit, as per contra	886,324,860
Bank Premises	73,000,000
Other Assets	30,838,049
<b>Total Assets</b>	<b>\$6,208,405,418</b>
<b>LIABILITIES</b>	
Deposits	\$5,637,417,963
Acceptances, Guarantees and Letters of Credit	886,324,860
Other Liabilities	20,861,870
Shareholders' Equity:	
Capital Paid Up	69,680,000
Rest Account	240,000,000
Undivided Profits	2,321,125
<b>Total Liabilities</b>	<b>\$6,208,405,418</b>
<b>STATEMENT OF REVENUE, EXPENSES AND UNDIVIDED PROFITS YEAR ENDED OCTOBER 31, 1965</b>	
Revenue:	
Income from Loans*	\$ 184,282,311
Income from Securities*	64,642,877
Other Operating Revenue	38,781,651
<b>Total Revenue</b>	<b>287,706,839</b>
Expenses:	
Interest on Deposits	125,743,167
Salaries, Pension Fund and other Personnel Benefits	73,382,268
Property Expenses, including Depreciation	22,974,280
Other Operating Expenses	19,703,291
<b>Total Expenses</b>	<b>241,802,981</b>
Balance of Revenue	45,903,858
Provision for Income Taxes	22,600,000
<b>Balance of Profits for the year</b>	<b>23,303,858</b>
Dividends	17,071,600
Amount carried forward	6,232,258
Undivided Profits at beginning of year	28,000,000
Transfer from Inner Reserves†	28,000,000
<b>Total</b>	<b>37,381,125</b>
Transferred to Rest Account	35,000,000
Undivided Profits at end of year	2,321,125
<b>STATEMENT OF REST ACCOUNT YEAR ENDED OCTOBER 31, 1965</b>	
Balance at beginning of year	\$ 206,000,000
Transferred from Undivided Profits	35,000,000
<b>Balance at end of year</b>	<b>\$ 240,000,000</b>

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