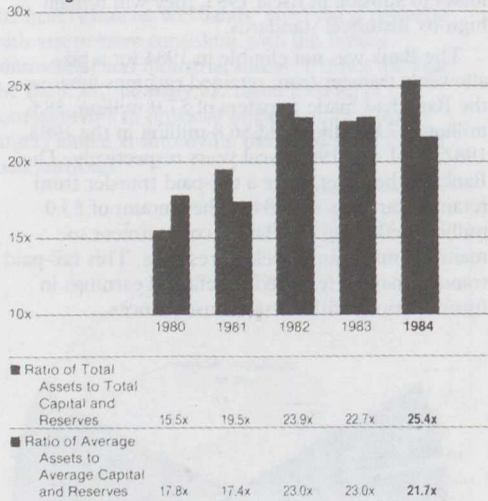


## Financial Review

### Leverage

The Bank's primary capital leverage ratio, as defined by the Inspector General of Banks, increased from 24.5 times at October 31, 1983 to 25.9 times at October 31, 1984. The higher ratio reflects a 28.8% growth in total assets as a result of the acquisition and consolidation of Westlands and the increased value of U.S. denominated assets linked to the lower exchange value of the Canadian dollar. Average leverage for the year of 21.7 times is marginally improved from 1983. The Bank is currently evaluating several options to augment primary capital in early 1985.

#### Leverage

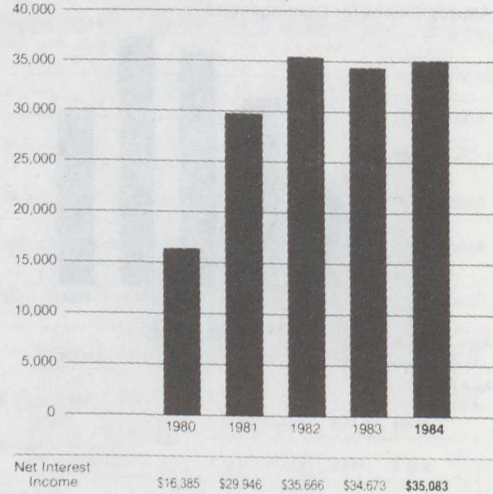


### Net Interest Income

Net interest income on a taxable equivalent basis increased in 1984 to \$35.1 million compared with \$34.7 million in 1983. However, as a percentage of average assets, net interest income declined from 1.68% in 1983 to 1.34% in 1984. The primary factors contributing to this decline were:

- An expanded portfolio of non-earning loans coupled with higher funding costs,
- Equity losses of Westlands prior to the date of acquisition, and
- Compressed loan yields.

#### Net Interest Income\* (\$ Thousands)



Net Interest Income: \$16,385 (1980), \$29,946 (1981), \$35,666 (1982), \$34,673 (1983), \$35,083 (1984)

\*Net interest income includes amounts grossed-up to express non-taxable income from Canadian securities, including income from income debentures, small business development bonds, term preferred shares and other preferred and common shares, on a fully taxable equivalent basis. The amounts of the gross-up included in net interest income for the years ended October 31, 1984, 1983, 1982, 1981, and 1980 are \$7.8 million, \$4.5 million, \$3.2 million, \$1.7 million, and \$0.3 million, respectively. The marginal tax rates utilized to calculate these amounts were 48.0%, 49.2%, 48.9%, 49.2%, and 47.0% for the years ended October 31, 1984, 1983, 1982, 1981, and 1980, respectively.

Non-earning loans peaked in the third quarter with the acquisition of Westlands. Significant progress was realized in reducing the level of non-earning loans in the latter stages of the year with