Report to Shareholders

Canadian Commercial Bank

world energy prices and amendments to the National Energy Program and Foreign Investment Review Agency should create a more attractive investment climate in Canada, an essential ingredient for the capital intensive energy sector.

We expect moderate economic growth to prevail for the next three years with annual real rates of growth approximating 3.5% in the U.S. and 3.0% in Canada. Inflation rates are expected to remain stable at present levels and, unfortunately, only marginal progress is anticipated in reducing the level of unemployment. Interest rates are expected to fall marginally over the next year as both the U.S. and Canadian governments concentrate on reducing the size of their massive deficits. Stable economic growth and inflation, lower interest rates, and an improving energy sector will positively impact the markets in which CCB operates.

1984 in Review

The most important development in fiscal 1984 was the June 27th acquisition of the remaining 61% of the outstanding shares of Westlands Diversified Bancorp, Inc. (Westlands). Westlands is a U.S. bank holding company with licensed banking offices in several key market areas in California. Prior to this unanticipated acquisition, the Bank recorded substantial equity losses on its proportionate share of the operating losses sustained by Westlands. Consummation of this acquisition provides the Bank with the opportunity to attract diversified U.S. deposits, the most formidable obstacle to further penetrating the U.S. market.

Westlands also possesses sophisticated and marketable software packages and market contacts and expertise in profitable mortgage banking services. Exploitation of this potential has begun with Westlands contributing positively to the Bank's earnings in the post acquisition period.

Last year the Bank identified the following four major strategies expected to have a positive impact on fiscal 1984 results. While not all objectives were attained, material progress was realized under a difficult operating environment.

- Improved productivity through control of non-interest expenses and automation.

  Excluding Westlands, non-interest expenses for the Bank decreased $1.6 million or 4.4% from 1983 levels. As a percentage of average assets, excluding Westlands, non-interest expenses were 1.45% for the year compared with 1.79% in 1983 reflecting ongoing productivity gains. This improved efficiency has been achieved through control of salary costs, reductions in fringe benefits, closure of marginal branches and effective zero base budgeting techniques. Against this favorable achievement, the mid-year acquisition of Westlands brought with it the expense burden of a full service bank. This added $5.7 million in operating costs and resulted in an increase in non-interest expenses of $4.1 million or 11.0% in 1984.

  Continuation of tight expense controls, efficiency gains from the complete integration of Westlands and an ongoing commitment to automation will provide additional productivity gains over the next two to three years.

- Resumption of prudent loan growth.

  Total assets increased $0.7 billion or 28.8% during 1984. Consolidation of Westlands' assets accounted for $0.4 billion of the increase. Loan growth in Ontario and California, CCB's key target markets, was most encouraging.

- Reduction of non-earning loans and loan loss experience.

  At year-end aggregate non-earning loans represented 7.9% of eligible assets compared with 5.9% at October 31, 1983. Excluding Westlands, CCB's non-earning loans of $139 million were 34% below the peak level experienced during the year.

  The bulk in non-earning assets is directly linked to real estate loans in Alberta and British Columbia and energy related loans in the United States and Alberta. Almost 55% of the non-earning loan portfolio is located in British Columbia and Alberta.

  The Bank has committed substantial resources, including its most talented and