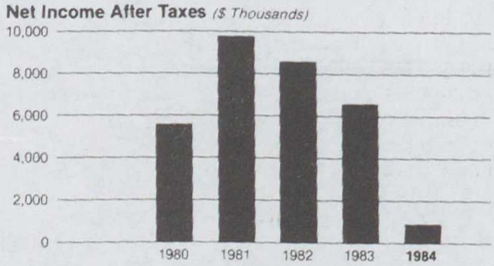
Financial Review

Overview

The Bank completed the acquisition of Westlands Diversified Bancorp, Inc. (Westlands) on June 27, 1984. Westlands is a California bank holding company and on consolidation was the most significant contributing factor to the Bank surpassing the $3.0 billion level of assets during 1984. At year-end, total assets aggregated $3.1 billion, an increase of 28.8% over the previous year. This growth in assets was supported by a 34.1% increase in average capital and reserves during 1984.

Net income for the year was $0.8 million or $0.16 per common share before dividends on preferred shares, compared with net income of $6.5 million or $1.57 per common share a year earlier. After payment of preferred share dividends, the loss per common share is $0.22 for the year.

Net Income After Taxes *($ Thousands)*



	1980	1981	1982	1983	1984
Net Income After Income Taxes	$5,595	$9,859	$8,529	$6,505	**$ 804**

Interest rates were generally higher in 1984 with the Canadian and U.S. prime rates averaging 43 and 109 basis points respectively ahead of 1983 averages. These higher interest rates served to compress interest spreads, particularly in Canada, as deposit costs rose more rapidly than loan yields. Moreover, higher interest rate levels resulted in substantially higher costs attributed to the portfolio of non-earning loans which increased during the year from 5.9% of eligible assets at October 31, 1983, to 7.9% at October 31, 1984, with the increase largely linked to non-earning loans acquired with Westlands. CCB's personnel have enjoyed early and significant progress in reducing the level of Westlands' non-earning loans since acquisition.

The provision for loan losses increased by $5.8 million or 64.4% from 1983 due to substantially higher loss experience on loans combined with the growth in eligible assets and the impact of the five year averaging formula prescribed by the Minister of Finance. The Bank was only marginally affected by the establishment of general reserves on sovereign risk lending due to the Bank's minimal exposure in this market.

Other income amounted to $21.7 million for the year, a decline of 9.7% from 1983. The decline is linked to reduced domestic loan demand and intense competition for loan product.

Non-interest expenses increased $4.1 million to $41.0 million as a result of the acquisition of Westlands which added $5.7 million in operating costs. Excluding Westlands, non-interest expenses actually declined by $1.6 million or 4.4% from 1983. Declining operating costs are a result of ongoing efficiency gains from selective automation programs coupled with rigid control of discretionary expenses and the closure of two marginally profitable lending platforms.

The rate of provision for recoverable income taxes is affected by the level of tax-exempt income earned by the Bank. During 1984 the Bank earned $8.5 million of tax-exempt income, an increase of 82.7% over the previous year.