

Financial Statements

Canadian Commercial Bank

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1984 (All dollar amounts displayed in tabular form are in thousands of dollars.)

1. Prescribed Accounting Principles

The consolidated financial statements of banks in Canada follow accounting principles prescribed by the Bank Act, 1980, and the related rules issued by the Inspector General of Banks under the authority of the Minister of Finance.

The significant accounting policies are as follows:

a) Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiaries after eliminating inter-company transactions and balances. The Bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the proportionate share of the fair value of assets acquired is amortized on a straight-line basis over 40 years. See the Schedule of Subsidiaries for a listing of subsidiary companies.

Investments in corporations of which the Bank owns between 20% and 50% of the voting shares are accounted for using the equity method and are included in "Other securities" in the Consolidated Statement of Assets and Liabilities. The Bank's share of earnings of such corporations is included in "Income from securities" in the Consolidated Statement of Income for the period of such percentage ownership.

b) Securities

Securities include both investment account and trading account securities.

Debt securities held in the investment account are carried at amortized cost. Realized gains and losses relating thereto are amortized on a straight-line basis in the Consolidated Statement of Income over five years. Unamortized balances of realized gains and losses are carried in "Other liabilities" and "Other assets" on the Bank's Consolidated Statement of Assets and Liabilities.

Other securities held for investment purposes are carried at cost, with due provisions for losses in value which are other than temporary. Gains and losses are reported in the Consolidated Statement of Income in the year in which they occur.

All securities held in the trading account are carried at market value. Gains and losses are reported in the Consolidated Statement of Income in the year in which they occur.

Realized gains and losses on Government of Canada treasury bills are reported in the Consolidated Statement of Income in the year in which they occur.

c) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. Revenue and expenses in foreign currencies are translated into Canadian dollars at the average of the prevailing month-end exchange rates. Realized and unrealized gains and losses from foreign currency translation are included in "Other income", with the exception of unrealized gains and losses in respect of net investment positions in foreign operations, which are included in retained earnings, net of applicable income taxes, in the Consolidated Statement of Changes in Shareholders' Equity together with any gains and losses arising from economic hedges of these net investment positions.

Prior to November 1, 1983, unrealized gains and losses in respect of net investment positions in foreign operations and related economic hedges of these net investment positions were reported in "Other income" in the Consolidated Statement of Income. In accordance with instructions issued under the authority of the Minister of Finance, this change in accounting policy has been applied prospectively and the prior year's financial statements have not been adjusted. The effect of this change is not material in relation to the prior year's financial statements.

d) Loans

Loans are carried at their principal amount less any specific provisions for anticipated losses. The actual net loss experience on loans for the year comprises the amount of loans written off, recoveries on loans previously