Financial Review

7.9% of eligible assets classified as non-earning by year-end. The Bank classifies loans as non-earning and discontinues the accrual of interest income where interest or principal is contractually past due 90 days unless senior credit management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. Accrued but uncollected interest income is reversed when loans are placed on a non-earning basis when there is doubt surrounding its collectibility. The Bank's 1984 non-earning loan policy is consistent with guidelines issued by the Inspector General of Banks for implementation in fiscal 1985.

Non-earning loans continue to be concentrated in Alberta with 43.6% of total non-earning loans, excluding Westlands, located in this province at year-end. By comparison, only 20.5% of the Bank's total loan authorizations are located in this region. The Westlands' portfolio of non-earning loans has been reduced from approximately U.S. $70.7 million at the date of acquisition to U.S. $52.3 million at year-end. This reduction reflects enhanced loan management techniques and a recovering California real estate market.

By sector, 72.1% and 13.6% of the Bank's non-earning loans are represented by funds committed to the real estate and energy sectors respectively.

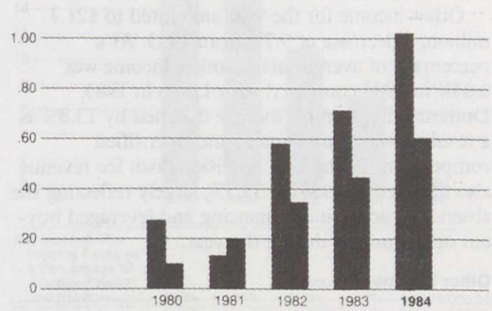
The cost of carrying non-earning loans increased considerably in 1984 because of the higher cost of deposits funding these assets. Specifically, the average Canadian and U.S. prime rates for 1984 were 12.0% compared with 1983 average prime rates of 11.6% and 10.9% respectively.

Domestic spreads on earning loans came under increasing pressure, particularly in the latter half of the year as the decline in deposit costs trailed the precipitous decline in prime rates. Lower cost retail deposits partially stabilized spreads in view of their competitive costs compared with wholesale money market funds. Spreads on foreign currency loans were reduced throughout most of the year as U.S. short term interest rates remained under pressure reflecting an unsettled inter-bank market.

Loan Losses

Loss experience on loans rose sharply in 1984 to $25.2 million, an increase of $10.7 million or 73.6% from 1983. As a percentage of eligible assets, the 1984 loss experience represents 1.03% of eligible assets compared with 0.72% in 1983.

Loan Losses *(Percentage of Eligible Assets)*



	1980	1981	1982	1983	1984
■ Loss Experience on Loans	0.27%	0.13%	0.58%	0.72%	**1.03%**
■ Five Year Average Loan Loss Provision	0.10%	0.20%	0.35%	0.45%	**0.61%**
($Thousands) Loss Experience on Loans	$ 2,177	$ 1,904	$10,862	$14,507	**$25,183**
Five Year Average Loan Loss Provision	$ 803	$ 2,799	$ 6,582	$ 9,024	**$14,832**

Loss experience on loans was largely generated from real estate loans in Alberta and British Columbia and energy loans in the United States and Alberta. Specifically, loan losses in the real estate and energy sectors accounted for 23.2% and 30.0% respectively of the 1984 loss experience. Domestic operations accounted for 69.7% of the loss experience on loans in 1984 compared with 83.4% in 1983. Loans where risk was situated in the provinces of Alberta and British Columbia accounted for 87.9% of the domestic loss experience.

The Bank's modest portfolio of international sovereign risk credits resulted in $0.3 million being established as a general provision against such loans. By virtue of the modest size of this portfolio, the Bank will not be materially affected by additions to this general provision over the ensuing years.