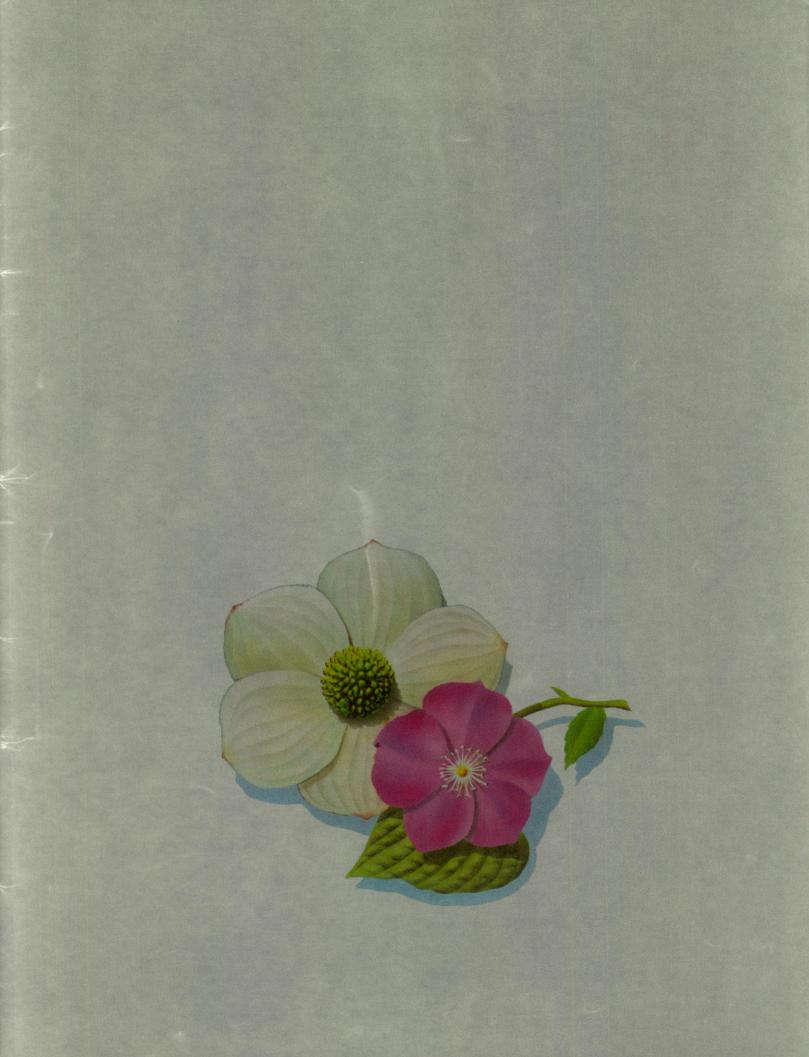
Canada's Western Bank Bank of British Columbia

Annual Report 1981









Annual Statement Highlights

	1981	1980	% INCREASE
TOTAL ASSETS	\$2,995,832,191	\$2,338,545,170	28.1
TOTAL DEPOSITS	2,730,326,764	2,130,723,909	28.1
LOANS	2,195,121,538	1,641,949,106	33.7
SECURITIES	283,356,800	217,520,071	30.3
BALANCE OF REVENUE	19,455,251	9,020,781	115.7
BALANCE OF REVENUE (after provision for income taxes)	14,680,251	7,650,781	91.9
PER SHARE*	8.08	5.00	61.6
CONSOLIDATED BALANCE OF REVENUE (after provision for income taxes)**	15,859,822	8,015,308	97.9
PER SHARE**	8.76	5.23	67.5
DIVIDENDS — common	2,240,117	1,715,463	30.6
— preferred	437,361		
PER SHARE — common	1.28	1.12	14.3
— preferred	0.57	_	
CAPITAL FUNDS (including accumulated appropriations for losses of \$18,549,298; 1980 — \$14,207,578)	122,040,085	85,806,667	42.2
NUMBER OF COMMON SHARES ISSUED	1,786,940	1,531,663	16.7

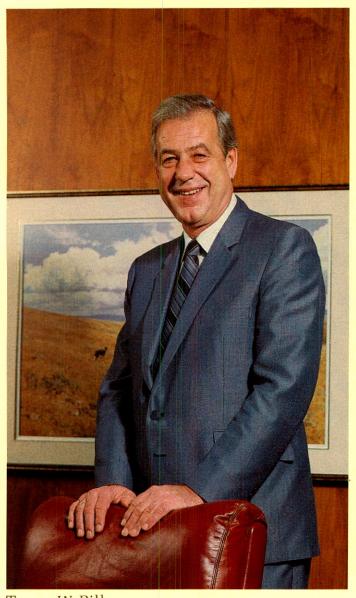
^{*}The earnings per common share figures have been calculated on the daily weighted average equivalent of fully paid common shares. These were 1,735,536 shares and 1,531,663 shares for the respective years.

December 1, 1980, which will govern the reporting of future years' earnings, banks will consolidate the results of those corporations which they control through ownership of more than 50% of the voting stock (consolidated basis). For the Bank, the consolidated basis includes the after-tax earnings of the Bank and its wholly-owned subsidiaries: British Columbia Financial Corp. (H.K.) Limited, WestBank Leasing Limited, Bank of British Columbia Mortgage Corporation, BBC Realty Ltd., and BBC Investments Ltd.

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^{**}The Bank Act, which governs the reporting of 1981 earnings, permits the consolidated financial statements of a bank to include only wholly-owned subsidiaries engaged in banking (statutory basis). The Bank has no such subsidiaries. Under the regulations of the Bank Act, passed into law on



Trevor W. Pilley, Chairman and Chief Executive Officer



D. Edwin McGeachan, President and Chief Operating Officer

Report To The Shareholders

Operating Highlights

Fiscal 1981 was a very successful year for Bank of British Columbia. Balance of revenue after taxes amounted to \$14.7 million, an increase of \$7.0 million, or 92% over last year's level. These earnings represent \$8.08 per common share, 62% higher than 1980. Showing these figures on a fully consolidated basis, as will be required under the Bank Act in fiscal 1982, the balance of revenue after tax becomes \$15.9 million, a 98% increase over 1980 results. The inclusion of the Bank's subsidiary companies adds 68¢ per share for a consolidated earnings per common share of \$8.76 for fiscal 1981, 68% higher than in 1980.

Average total assets of Bank of British Columbia rose 24% during fiscal 1981 to \$2,654 million. Total assets at year end reached \$2,996 million, representing a 28% increase over the previous year end. This growth, coupled with improved operating efficiencies, wider domestic spreads (achieved primarily in the first quarter due to the rapid escalation of interest rate levels), and a stronger contribution to profit from our International activities, all assisted in achieving the overall level of profitability reported.

In terms of profitability, our return per \$100 of average assets increased to 55¢ from the 1980 level of 36¢. On a fully consolidated basis the figure is 59¢ for 1981, up from 38¢ in 1980.

In 1981, the Bank again increased its dividends per common share, to a total of \$1.28 for the year. This represents a 14% increase from the \$1.12 paid in 1980. As in previous years the Bank has transferred a significant portion of its profits to retained earnings to help provide the capital base required to support future asset growth.

The capital funds base was increased during 1981 by \$36.2 million, or 42%, to \$122.0 million as at October 31, 1981. The two major components of this increase were a preferred share issue which added \$19.2 million and a common share issue, by means of a rights offering, which accounted for an additional \$8.2 million.

In summary, while the Bank enjoyed a fine year in 1981, the rapid decline in interest rates seen during the last quarter of that year and the first quarter of 1982, is now resulting in a significant profitability squeeze.

Economic Conditions

Volatile and record setting interest rates created an unusual economic environment in the early stages of the fiscal year. Economic conditions in our market area were more favourable than in many other areas of the country, but softened, in line with national trends, as the year progressed.

The trend in interest rates dramatically affected bank operations throughout the year. The Bank of Canada continued to constrain money supply growth and maintain orderly foreign exchange markets. The impact of the National Energy Program negatively affected the Canadian dollar, and the Central Bank had no choice but to follow world interest rate movements. The Canadian prime rate rose from a low of 13.25% in November, 1980, to a peak of 22.75% in August, 1981; an increase of 9.5 percentage points. It was not until the fourth quarter of our fiscal year that any sustained declines in the prime rate occurred. The rapid increase in interest rates throughout the early part of the year resulted in somewhat wider domestic margins, particularly in the first quarter. As the term deposit portfolio responded to a levelling of rates and subsequently to actual declines, the balance of the year was characterized by a continual narrowing of spreads.

High interest rates made many individuals and corporations more cognizant of the benefit of investing cash surpluses in order to maximize their returns, thereby resulting in overall higher deposit costs to the Bank. The high levels of interest rates eventually took

their toll on general economic activity, even within the most favourable markets of British Columbia and Alberta. Consumer spending eased in the closing months of 1981, as did demand for corporate credit. Investment spending, especially commercial construction, proved to be the mainstay of economic activity in our market. The thrust was essentially within the large project category. This

provided profitable opportunities for the first year of operation of the Bank's new Corporate Banking Group and for our subsidiary,

WestBank Leasing Limited.

Corporate Banking

The Bank's performance during the past year reflected the balanced nature of its operations. A Corporate Banking Department was established in 1981 to develop incremental business for the Bank in the corporate middle market of Western Canada and the United States. The Department arranges financing of projects in the oil and gas, mining, forest and real estate industries for corporations doing business in Western North America and the Pacific Rim.

The establishment of an Oil and Gas Department in the Bank of British Columbia's Main Office in Calgary will aid the Bank in attracting and financing resource industry business in Canada and the United States.

A Senior Corporate Banking Officer, with asset management and marketing responsibility, has been appointed in San Francisco to develop business for the Bank in the Western U.S. market.

This step is the first phase of a programme to establish other offices in selected Western U.S. centres to service Canadian and U.S. corporations doing business in the United States and in the Pacific Rim.

Further careful and prudent expansion is planned, as we continue to position ourselves for significant growth in both domestic and international corporate business.

International Banking

The International Banking climate in 1981 followed the trend of the previous two years. Narrow margins, volatile interest rates and high liquidity dominated the market. There was a further weakening of world economic conditions with political problems continuing to cause concern.

Against this background, the International Division employed a similar strategy to that followed in the previous year. Corporate and sovereign risk lending took precedence over interbank money market transactions. The major marketing thrust was aimed at North America and countries in the Asia-Pacific region.

These efforts resulted in the following distribution of international assets:

North America	37.5%
Asia-Pacific	27.5%
Western Europe	18.5%
Latin America and Caribbean	
Other areas	0.5%

In addition to the geographic concentration, high priority was given to management of the maturity profile of earning assets. At the end of the fiscal year, 53% of foreign currency assets had maturities of less than one year, 25% one to five years and 22% more than five years.

The foregoing strategy resulted in a satisfactory performance, with year-end asset balances increasing by 39% and earnings by 32%. Significant contributions to revenue came from effective use of funding opportunities, loan fees, and foreign exchange commissions. All the operating units, and the European Representative Office, made major contributions to these results.

The substantial increase in the volume of business over the past two years has created new operational demands, which are being met by the installation of a comprehensive automated accounting system. Implementation has begun and conversion should be completed during the second quarter of fiscal 1982.

Leasing

October 31, 1981, marked the end of the first full year of operations for WestBank Leasing Limited, the wholly-owned financial leasing subsidiary of the Bank. During this period the Company proved to be a welcome and valuable addition to the Bank's financial services. WestBank Leasing offers a complete leasing service, including full payout tax oriented leases, interim lease financing of assets under construction, consortium or syndicated leases and a lease brokerage/underwriting facility for private placement of large leases.

Assets have increased threefold to nearly \$18 million. This investment in assets represents the purchase of a wide variety of

equipment, including aircraft, computers, ship unloaders and complete manufacturing plants. This equipment is being leased to industry and governments in the three Western Provinces.

1982 should prove to be a year of opportunity and continued growth for the Company. Despite a projected slowdown in the acquisition of equipment by Western Canadian industry during the first half of the year, the developing economy of the Western Provinces and the resultant large projects in such areas as transportation, mining and energy should provide much opportunity. Staff and systems are in place to allow the Company to play an increasingly important role in the financing of equipment for these projects.

People at the Bank

The Bank's success in 1981 was directly attributable to the effort and quality of its employees. In 1981 increased emphasis was placed on training, while the succession and career planning processes were accelerated and streamlined. Almost all senior management appointments in the past twelve months were filled from within our own ranks. We are also pleased to report that the percentage of women holding management positions has risen this year to 35%. At present, Bank of British Columbia employs in excess of 2,200 individuals. These employees of the Bank are committed professional bankers who continue to reveal the innovative and dynamic character which has been the hallmark of this Bank since its inception.



The foundation of the Bank has been, and always will be, people. We are committed to providing the total climate necessary to attract, develop and retain the best bankers in the industry. More and more of our employees are considering the Bank of British Columbia as their career home, a major contributing factor to our maturing corporate character and identity.

Strategic Planning

While the operating environment of 1981 challenged management, it reflected only the

beginning of a series of structural changes in the economy and financial markets. Because of these changes, the Bank's senior management team gave high priority to medium-term strategic planning. The team assessed the economic, social, political and technological trends, and identified the risks and opportunities arising from them. They then revisited the Bank's missions and developed objectives and action plans based on these trends.

The Bank remains committed to being a full-service Western Canadian operation with principal markets in British Columbia and



Alberta. Already a strong retail Bank, we have established new priorities for commercial lending, some of which were undertaken in the last twelve months. The Bank's diversified interbank money market and sovereign risk lending throughout the world will be supplemented by the expansion of Corporate Banking into the Western United States.

Automation

In support of our continuing commitment to our customers, the Bank of British Columbia has positioned itself to enter the next phase of automation. The selection of hardware and software to support automated teller machines and an on-line teller system has been undertaken and development work commenced.

While not underestimating the magnitude of the task, we are confident we have arrived at a solution which will be cost effective, while employing up-to-date technology. This should see us fully on-line within a reasonable time frame, without the very major expenditures experienced by others in the development process.

The Year Ahead

The Bank is aware of the changing financial needs of the 1980's and has developed plans to capitalize on them. Our emphasis will continue to be on profitability, improved service to our customers, and the maintenance of a sound balance sheet — goals of mutual benefit to shareholders and employees alike.

While the environment of fiscal 1982 is unlikely to be any easier to operate in than 1981 we are anticipating a positive turn in mid-year, and both our domestic and international markets are positioned for a good recovery.



Strategic Plan Mission Statements

Bank of British Columbia will:

☐ Be a prime retail and commercial Bank within the domestic markets we serve.
☐ Be dedicated to developing and delivering the highest quality services and products on a fully competitive basis.
Focus resources only on those products, services and markets in which we can excel.
☐ Attract, develop, and retain personnel of the highest competence and character.
☐ Employ the emerging electronic banking technology in the development and delivery of innovative financial products and services.

Attract, develop, and retain personnel of the highest competence and character.



Employ the emerging electronic banking technology in the development and delivery of innovative financial products and services.



Officers of the Bank

TREVOR W. PILLEY
Chairman and
Chief Executive Officer
VICTOR DOBB
Executive Vice President

D. EDWIN McGEACHAN
President and
Chief Operating Officer
F. PETER DARLING
Executive Vice President, International Division

Senior Vice Presidents

HENRY J. BOW DUNCAN CAMPBELL ROBERT J. FRUIN ARNOLD E. MILES-PICKUP GORDON R. WALLACE DONALD C. WOLLSTEIN

Vice Presidents

STEPHEN D. ADAMS
EARL V. ANDRUSIAK
HUGH DALGLEISH
ANDREW K.C. EE
NORMAN S. ELLIOT
W. ALAN FRANKLIN
P. NEIL McEACHERN
EINAR N. MYRHOLM

MICHAEL S. ROGERS
JAMES D. STODDART
JOHN A. THOMAS
PAUL E. VILLENEUVE
O. GRANT WEST
J.E. GERALD YOUNG
JOSEPH S.K. YU

Assistant Vice Presidents

JAMES M.A. BRIDEN BRIAN D. CARTER HENRY FETIGAN IAN A. FOLLIS MICHAEL J. HUMJAN DAVID W. MULLER PATRICK A. O'CONNOR GERARD M. O'KEEFE PHILIP A. PEPIN CALVIN M.J. QUONG DONALD A. RAYMOND CYRIL TODD

Board of Directors



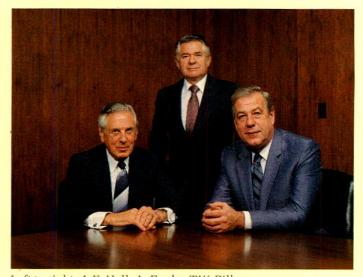
Seated, left to right: W.T. Brown, T.A. Buell. Standing, left to right: A.H. Mitchell, D.M. Clark.



Left to right: J.W. Madill, D.U. Pekarsky, T.A. Dohm.



Seated, left to right: R.J. Bennett, W.C. Mearns. Standing, left to right: A.W. Everett, A.J. Block.



Left to right: A.E. Hall, A. Fouks, T.W. Pilley.



Seated, left to right: B.K. Lecky, B.J. Reynolds. Standing, left to right: J.B. Smith, P.P. Saunders.



Left to right: G.B. McIntosh, J.L. Schlosser, D.E. McGeachan.

Board of Directors

TREVOR W. PILLEY Chairman and Chief Executive Officer

D. EDWIN McGEACHAN President and Chief Operating Officer

ARTHUR FOUKS, Q.C. Vice President Senior Partner Bonner & Fouks Vancouver, B.C. A. HOADLEY MITCHELL Vice President President Mitchell & Associates Ltd. Edmonton, Alberta DONALD M. CLARK, Q.C. Secretary Senior Partner Clark, Wilson Vancouver, B.C.

RUSSELL J. BENNETT Kelowna, B.C. President M.W. Stores Ltd. ARTHUR I. BLOCK Vancouver, B.C. President Block Bros. Industries Ltd. HARRY BOOTH Calgary, Alberta President and Chief Executive Officer Alberta and Southern Gas Co. Ltd. Alberta Natural Gas Company Ltd W. THOMAS BROWN Vancouver, B.C. Chairman Odlum Brown & T.B. Read Ltd. THOMAS A. BUELL Vancouver, B.C. Chairman, President and Chief Executive Officer Weldwood of Canada Ltd.

THE HONOURABLE THOMAS A. DOHM, O.C. Vancouver, B.C. Senior Partner Dohm & Jaffer A. WILLIAM EVERETT Vancouver, B.C. Chairman Dominion Vancouver Motors Limited ALBERT E. HALL Vancouver, B.C. Adviser Bank of British Columbia BEVERLEY K. LECKY Vancouver, B.C. President Hosmer Holdings Ltd. G. BUCHAN McINTOSH Vancouver, B.C. Senior Partner Lawson, Lundell, Lawson & McIntosh J. WALLACE MADILL Calgary, Alberta General Manager Alberta Wheat Pool

WILLIAM C. MEARNS Victoria, B.C. President Rockcliffe Estates Ltd. DANIEL U. PEKARSKY Vancouver, B.C. Executive Vice President Bel-Fran Investments Ltd. BRYAN I. REYNOLDS Vancouver, B.C. Private Investor PETER PAUL SAUNDERS Vancouver, B.C. Chairman and President Versatile Corporation JOHN L. SCHLOSSER Edmonton, Alberta President Tri-Jay Investments Ltd. I. BRUCE SMITH Kelowna, B.C. President Okanagan Holdings Ltd.

Corporate Departments and Divisions

Alberta Division

Senior Vice President D. C. Wollstein Vice President E. N. Myrholm, Credit Senior Manager J. D. Wiggins, Commercial Credit

Managers J. B. Carlson, Human Resources

J. E. Haller, Consumer Credit A. J. Harasemchuk, Commercial Credit E. E. Wright, Branch Operations

Branch Development & Premises

Assistant Vice President G. M. O'Keefe

Controller's Department

Vice President & Controller J. A. Thomas Assistant Vice President & Chief Accountant M. J. Humjan Managers W. D. Alexander, Financial Planning R. B. Sykes, Taxation and Insurance

Corporate Banking

Senior Vice President D. Campbell Vice President S. D. Adams Assistant Vice President I. A. Follis, San Francisco Senior Account Managers J. C. Helms G. F. Ledwith M. J. Troniak, Calgary

Corporate Credit

Senior Vice President R. I. Fruin Assistant Vice President J. M. A. Briden Senior Manager C. J. Nordstrom, Credit Administration B. F. Troniak, Automotive & Industrial Equipment

Data Processing

Vice President W. A. Franklin Managers L. C. Benzley, Computer Systems & Programming J. D. Lyon, Data Processing Operations J. A. Mills, Vancouver Data Centre M. B. Myhre, Planning & Technical P. W. Wishloff, Calgary Data Centre

Economics

Assistant Vice President and Chief Economist B. D. Carter

General Counsel

Assistant Vice President & General Counsel C. M. J. Quong

Human Resources

Vice President O. G. West Assistant Vice President P. A. O'Connor

Managers J. S. Bower, Technical Training & Development

R. D. Earthy, Training & Development R. H. Muth, Employee Relations D. L. Simpson, Human Resources R. S. Tait, Compensation Planning

Inspection

Vice President and Chief Inspector H. Dalgleish Managers J. R. Ancrum, Branch Inspection D. J. McLean, Development & Corporate Audit G. D. Mulligan, EDP Audit

International Division

Senior Vice President H. J. Bow Vice President and Chief Dealer A. K. C. Ee Vice President I.S.K. Yu Assistant Vice President D. A. Raymond Managers R. R. Mackin, International Administration D. H. Pender, International Credit

Investments

Senior Vice President A. E. Miles-Pickup Vice President J. D. Stoddart, Leasing Assistant Vice President D. W. Muller Manager and Chief Trader R. B. Hawkesworth Manager R. B. Stewart, Equipment Lease Marketing

Marketing & Consumer Services

Vice President M. S. Rogers Assistant Vice President C. Todd, Consumer Services Managers A. L. J. Cummings, Marketing B. M. Martin, Mortgages

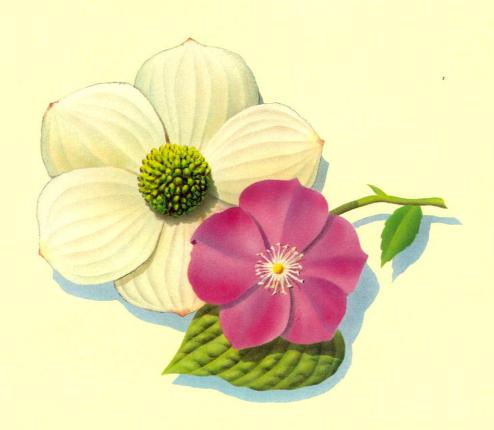
Pacific Division Senior Vice President G. R. Wallace Vice President P. E. Villeneuve, Credit Senior Managers B. R. Hewson, Commercial Credit J. V. McKay, Commercial Credit Managers J. D. Bourgeois, Division Services E. A. Dalgarno, Commercial Credit E. D. Houston, Commercial Credit A. B. Jenkins, Human Resources P. D. Peake, Commercial Credit K. B. G. Statham, Branch Operations L. E. Swaykoski, Consumer Credit C. R. Tricker, Commercial Credit

Systems and Administration

Vice President P. N. McEachern Managers L. S. Bailey, Administrative Services D. G. J. Cann, Systems Development & Documentation W. P. McGrenera, Security G. E. Stephenson, Organization and Planning

Canada's Western Bank Bank of British Columbia

Financial Statements



Fully Consolidated Reporting

All of the financial information which follows is provided on a statutory (bank only) basis. However, for fiscal 1981, Bank of British Columbia's earnings are 68¢ per common share greater on a fully consolidated basis. Under the regulations of the Bank Act in force prior to December 1, 1980, which governs financial reporting for fiscal 1981, banks were required to include in their consolidated financial statements only wholly-owned subsidiaries engaged in banking (as specifically defined in the Bank Act). The Bank of British Columbia has no such subsidiaries. In order to provide a better understanding of the complete scope of the Bank's operations we have included on the opposite page the highlights of the Bank of British Columbia's fully consolidated balance sheet and income statement. Beginning November 1, 1981 banks are to consolidate the results of those corporations which they control through ownership of more than 50% of the voting stock. The consolidated figures shown on the opposite page, subject to the effect of certain changes in accounting policy contained in the new Bank Act, will become the basis for future comparisons. The consolidated figures

include the financial results of the Bank and the following subsidiary companies: British Columbia Financial Corp. (H.K.) Limited, Bank of British Columbia Mortgage Corporation, WestBank Leasing Limited, BBC Realty Ltd., and BBC Investments Ltd.

The major impacts of full consolidation are: total loans increase by \$152 million or 6.9% to \$2,347.3 million at October 31, 1981, total assets are \$16.6 million or 0.6% higher at \$3,012.5 million, and balance of revenue after tax increases by \$1,180 thousand or 8.0% to \$15,860 thousand which represents a 68¢ per share increase and results in consolidated earnings per common share of \$8.76.

At October 31, 1980 the total capital funds of the Bank were \$20.3 million or 23.6% greater on a fully consolidated basis than on a statutory basis. In June 1981 the Bank exchanged \$19.2 million of its preferred shares for an identical amount of preference shares of its wholly-owned subsidiary BBC Mortgage Ltd. At October 31, 1981 total capital funds were 0.5% higher on a fully consolidated basis than on a statutory basis.

Highlights of Consolidated Results

(in thousands of dollars)

Assets and Liabilities as at	October	31, 1981	October	31, 1980
	Fully		Fully	
	Consolidated	Statutory	Consolidated	Statutory
Total loans	\$2,347,335	\$2,195,122	\$1,708,088	\$1,641,949
Total assets	\$3,012,452	\$2,995,832	\$2,365,878	\$2,338,545
Total deposits	\$2,782,066	\$2,730,327	\$2,171,333	\$2,130,724
Sundry liabilities	107,774	143,465	88,481	122,014
Capital funds:				
Debentures	19,402	19,402	19,420	19,420
Accumulated appropriations				
for losses	18,944	18,549	14,344	14,208
Shareholders' equity	84,266	84,089	72,300	52,179
Total capital funds	122,612	122,040	106,064	85,807
Total liabilities and capital	\$3,012,452	\$2,995,832	\$2,365,878	\$2,338,545
Revenue and Expenses				
Income from loans & securities	\$ 436,302	\$ 425,076	\$ 280,723	\$ 274,719
Interest paid on deposits				
and debentures	353,543	344,892	220,129	215,105
Net interest earnings	82,759	80,184	60,594	59,614
Non-interest revenue	17,080	16,976	13,550	13,478
Non-interest expense	78,412	77,705	64,561	64,071
Balance of revenue	21,427	19,455	9,583	9,021
Provision for income taxes	5,567	4,775	1,568	1,370
Balance of revenue after taxes	\$ 15,860	\$ 14,680	\$ 8,015	\$ 7,651
Earnings per common share (1)	\$ 8.76	\$ 8.08	\$ 5.23	\$ 5.00

⁽¹⁾ Balance of revenue after taxes less preferred dividend obligations divided by the daily weighted average equivalent of fully paid common shares outstanding.

Statement of Revenue, Expenses and Undivided Profits

Year ended October 31, 1981 (with comparative figures for 1980)

	1981	1980
Revenue:		
Income from loans	\$395,597,814	\$254,961,744
Income from securities	29,478,579	19,757,092
Other operating revenue	16,975,906	13,477,675
Total revenue	442,052,299	288,196,511
Expenses:		
Interest on deposits and bank debentures	244 902 496	215 105 105
Salaries, pension contributions and	344,892,486	215,105,195
other staff benefits	42,241,299	34,740,747
Property expenses, including depreciation	8,484,328	6,417,071
Other operating expenses, including provision of \$9,405,482 (1980 — \$7,199,859) for losses on		
loans based on five-year average loss experience	26,978,935	22,912,717
Total expenses	422,597,048	279,175,730
Balance of revenue	19,455,251	9,020,781
Provision for income taxes relating thereto (Note 2)	4,775,000	1,370,000
Balance of revenue after provision for income taxes		
(per common share 1981 — \$8.08; 1980 — \$5.00)	14,680,251	7,650,781
Appropriation for losses	10,300,000	4,600,000
Balance of profits for the year	4,380,251	3,050,781
Dividends — common — preferred	2,240,117	1,715,463
Amount carried forward	437,361	- NAME OF THE PARTY OF THE PART
	1,702,773	1,335,318
Undivided profits at beginning of year	87,459	77,141
Transfer from accumulated appropriations for losses	2,860,000	3,950,000
	4,650,232	5,362,459
Transfer to rest account (Note 9)	4,559,345	5,275,000
Undivided profits at end of year	\$ 90,887	\$ 87,459

Statement of Accumulated Appropriations for Losses

Year ended October 31, 1981 (with comparative figures for 1980)

	1981	1980
Accumulated Appropriations at Beginning of Year:		
General	\$13,634,889	\$12,248,032
Tax-paid	572,689	410,776
Total	14,207,578	12,658,808
All's (D. L. s'. a) D. s'. a V		
Additions (Deductions) During Year:		
Appropriation from current year's operations	10,300,000	4,600,000
Loss experience on loans for the year less provision		
included in other operating expenses (Note 10)	477,053	533,293
Profits (losses) on securities, including provisions to reduce		
securities other than those of Canada and provinces	(0.400.074)	(405 400)
to values not exceeding market value (Note 10)	(6,426,654)	(105,120)
Other profits, losses and non-recurring items, net (Note 10)	400,969	(56,528)
Income tax credit relating to appropriation from		
current year's operations (Note 2)	2,450,352	527,125
Transfer to undivided profits	(2,860,000)	(3,950,000)
	4,341,720	1,548,770
Accumulated Appropriations at End of Year:		
General	17,330,512	13,634,889
Tax-paid	1,218,786	572,689
Total	\$18,549,298	\$14,207,578

Statement of Assets and Liabilities as at October 31, 1981

(with comparative figures for 1980)

Assets

		1981		1980
Cash Resources:				
Cash and due from banks (Note 3)	\$	252,166,424	\$	279,884,407
Cheques and other items in transit, net		6,998,580		6,265,815
		259,165,004		286,150,222
Securities (Note 4):				
Securities issued or guaranteed by Canada, at amortized value		126,753,502		131,360,915
Securities issued or guaranteed by provinces,				
at amortized value		1,030,736		906,540
Other securities, not exceeding market value		155,572,562		85,252,616
		283,356,800		217,520,071
Loans:				
Day, call and short loans to investment		00 000 040		00.040.045
dealers and brokers, secured		39,060,246		28,316,215
Other loans, including mortgages, less provision for losses (Note 5)	0	150 001 000		040 000 004
provision for fosses (tvote 5)		2,156,061,292		,613,632,891
	2	2,195,121,538		,641,949,106
Bank premises, at cost less amounts written off (Note 6)		21,385,624		15,368,890
Securities of and loans to corporations controlled				
by the Bank		97,956,605		55,485,808
Customers' liability under acceptances, guarantees				
and letters of credit, as per contra (Note 7)		131,278,798		116,527,409
Other assets	20	7,567,822		5,543,664
	\$2	,995,832,191	\$2	,338,545,170

TREVOR W. PILLEY, Chairman and Chief Executive Officer D. EDWIN McGEACHAN, President and Chief Operating Officer

Statement of Assets and Liabilities as at October 31, 1981

(with comparative figures for 1980)

Liabilities

	1981	1980
Deposits:		
Deposits by Canada	\$ 46,231,425	\$ 35,964,334
Deposits by provinces	13,967,294	27,659,768
Deposits by banks	378,336,693	183,623,445
Personal savings deposits payable after notice,		
in Canada, in Canadian currency	1,326,274,165	1,075,595,698
Other deposits	965,517,187	807,880,664
	2,730,326,764	2,130,723,909
Acceptances, guarantees and letters of credit (Note 7)	131,278,798	116,527,409
Other liabilities	12,186,544	5,487,185
Capital Funds: Debentures issued and outstanding (Note 8) Accumulated appropriations for losses Shareholders' equity:	19, <mark>402,00</mark> 0 18,549,298	
Capital stock (Note 9): \$2.28 Cumulative Redeemable Preferred Shares Series A, no par value: Authorized 3,000,000 shares Issued 767,300 shares Common shares, par value \$10 each: Authorized 2,500,000 shares	19,182,500	_
Issued 1,786,940 shares	17,869,400	15,316,630
Rest account (Note 9)	46,946,000	36,775,000
Undivided profits	90,887	87,459
Total shareholders' equity	84,088,787	52,179,089
Total equity and accumulated appropriations	102,638,085	66,386,667
Total capital funds	122,040,085	85,806,667
20112	\$2,995,832,191	\$2,338,545,170

Auditors' Report to the Shareholders of Bank of British Columbia

We have examined the statement of assets and liabilities of Bank of British Columbia as at October 31, 1981 and the statements of revenue, expenses and undivided profits and accumulated appropriations for losses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion these financial statements present fairly the financial position of the Bank as at October 31,

In our opinion these financial statements present fairly the financial position of the Bank as at October 31, 1981 and its revenue, expenses and undivided profits and accumulated appropriations for losses for the year then ended.

Vancouver, British Columbia, Canada November 23, 1981 Peat, Marwick, Mitchell & Co. Thorne Riddell Chartered Accountants

Notes to Financial Statements October 31, 1981

1. Significant accounting policies:

The Bank Act and related regulations issued by the Minister of Finance stipulate the form and content of the Bank's financial statements, as well as most of the significant accounting policies. The significant accounting policies followed by the Bank are:

- (a) Controlled corporations: The Bank's investments in controlled corporations are carried at cost, and income from such investments is recognized only when dividends are received. As required by the Bank Act, the statements of assets and liabilities of significant non-consolidated subsidiaries are shown separately.
- Securities issued or guaranteed by the Government of Canada or the provinces are recorded at amortized value. Investment account and trading account securities are recorded at the lower of cost or market. Realized gains and losses and adjustments to the lower of cost or market of investment account securities are included in the Statement of Accumulated Appropriations for Losses. The corresponding items related to trading securities are included in the Statement of Revenue, Expenses and Undivided Profits.
- (c) Loans: Loans plus applicable accrued interest are recorded net of unearned income and specific provision for Actual loan loss experience for the year consists of changes in specific provisions for losses less recoveries on loans previously written off. The provision for losses on loans reported in other

operating expenses in the Statement of Revenue, Expenses and Undivided Profits, is an amount determined by calculating the ratio of the last five years of loan loss experience to the last five years of eligible loans and applying this ratio to the outstanding eligible loans at the end of the current year. The difference between the actual loss experience for the year and the provision for losses on loans is recorded in the Statement of Accumulated Appropriations for Losses.

Bank premises and equipment are written off on the straight-line basis over the estimated useful life of the asset. Gains and losses on disposals of fixed assets are reported in the Statement of Accumulated Appropriations for Losses.

(e) Accumulated appropriations for losses: The Bank makes an appropriation from balance of revenue after provision for income taxes in respect of possible unforeseen future losses on loans, securities and other assets. The accumulated appropriations for losses consist of two elements — general and tax-paid. The general portion is limited to an amount equal to a percentage (11/2% of the first \$2 billion and 1% in excess thereof) of eligible assets less specific provisions for losses relating to such assets. The amount transferred from earnings to general appropriations is deductible for income tax purposes. The tax-paid portion is an additional amount accumulated over the years, upon which income tax has been paid.

(f) Translation of foreign currencies: Assets and liabilities in foreign currencies are translated into Canadian dollars at the prevailing year-end rates; revenues and expenses are translated at prevailing month-end rates. Realized and unrealized gains and losses on foreign currency positions held in the Bank's trading account are reported in other operating revenue in the Statement of Revenue, Expenses and Undivided Profits.

2. Income taxes:

The income tax provision is included in the financial statements as follows:

	1981	1980
Revenue, expenses and undivided profits Accumulated appropriations for losses:	\$4,775,000	\$1,370,000
General	(2,450,352)	(527,125)
Tax-paid (Note 10)	218,358	_
Rest account (Note 9)	(143,602)	_
	\$2,399,404	\$ 842,875

The recovery of income taxes shown in the Statement of Accumulated Appropriations for Losses results from a deduction from taxable income of \$4,704,073 (1980 — \$1,020,373) in respect of current appropriations for possible future losses. The provision for income taxes in the Statement of Revenue, Expenses and Undivided Profits takes into account \$10,478,426 of income from securities and investments in Canadian corporations (1980 — \$6,529,966) representing after-tax payments from Canadian corporations, not subject to additional tax.

Cash and due from banks: 1981 1980 Non-interest bearing: Cash and deposits with Bank of Canada \$ 37,682,279 \$ 61,796,850 Operating balances with banks 5,550,512 6,189,733 Interest bearing deposits 190,727,946 185,383,921 Interest bearing loans 18,205,687 26,513,903 4. Securities: 1981 1980 Securities issued or guaranteed by Canada and provinces: 1981 1980 Within 1 year \$105,391,241 9 Over 1 to 3 years 7,519,314 9 7,519,314 9 Over 1 to 3 years 4,137,717 9 1,096,900 \$127,784,238 \$132,267,455 Other securities: 9,639,066 \$127,784,238 \$132,267,455 Other securities: 115,661 156,710 Municipal and school corporations 115,661 156,710 Floating rate income debentures 4,030,651 1,429,073 Other Canadian issuers 4,030,651 1,429,073
Cash and deposits with Bank of Canada Operating balances with banks \$37,682,279 \$61,796,850 Operating balances with banks 43,232,791 67,986,583 Interest bearing deposits 190,727,946 185,383,921 Interest bearing loans \$252,166,424 \$279,884,407 4. Securities: 1981 1980 Securities issued or guaranteed by Canada and provinces: Within 1 year \$105,391,241 Over 1 to 3 years 7,519,314 7,519,314 Over 3 to 5 years 4,137,717 7,719,314 7,719,314 Over 5 to 10 years 1,096,900 \$127,784,238 \$132,267,455 Other securities: 9,639,066 \$127,784,238 \$132,267,455 Other securities: 115,661 156,710 Municipal and school corporations 115,661 156,710 Floating rate income debentures 4,030,651 1,429,073
Operating balances with banks
Interest bearing deposits 190,727,946 185,383,921 18,205,687 26,513,903
Interest bearing deposits 190,727,946 185,383,921 18,205,687 26,513,903 \$252,166,424 \$279,884,407 \$252,166,424 \$252,166,424 \$279,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424 \$252,166,424
Interest bearing loans 18,205,687 26,513,903 \$252,166,424 \$279,884,407
\$252,166,424 \$279,884,407 4. Securities: Securities issued or guaranteed by Canada and provinces: Within 1 year \$105,391,241 Over 1 to 3 years 7,519,314 Over 3 to 5 years 4,137,717 Over 5 to 10 years 1,096,900 Over 10 years 9,639,066 \$127,784,238 \$132,267,455 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 4,030,651 1,429,073
4. Securities: Securities issued or guaranteed by Canada and provinces: Within 1 year \$105,391,241 Over 1 to 3 years 7,519,314 Over 3 to 5 years 4,137,717 Over 5 to 10 years 1,096,900 Over 10 years 9,639,066 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 4,030,651 1981 1980 \$1980 \$1981 \$1980 \$1980 \$1980 \$1981 \$1980
Securities issued or guaranteed by Canada and provinces: Within 1 year \$105,391,241 Over 1 to 3 years 7,519,314 Over 3 to 5 years 4,137,717 Over 5 to 10 years 1,096,900 Over 10 years 9,639,066 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 1981 1980 \$1981 1980 \$105,391,241 \$1,096,900 \$1,096,900 \$127,784,238 \$132,267,455
Securities issued or guaranteed by Canada and provinces: Within 1 year \$105,391,241 Over 1 to 3 years 7,519,314 Over 3 to 5 years 4,137,717 Over 5 to 10 years 1,096,900 Over 10 years 9,639,066 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 1981 1980 1980 1981 1980 1981 1980 1980 105,391,241 1,096,900 1
Canada and provinces: Within 1 year
Within 1 year \$105,391,241 Over 1 to 3 years 7,519,314 Over 3 to 5 years 4,137,717 Over 5 to 10 years 1,096,900 Over 10 years 9,639,066 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) \$105,391,241 7,519,314 4,137,717 0,96,900 9,639,066 \$127,784,238 \$132,267,455
Over 1 to 3 years 7,519,314 Over 3 to 5 years 4,137,717 Over 5 to 10 years 1,096,900 Over 10 years 9,639,066 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 7,519,314 4,137,717 1,096,900 9,639,066 \$127,784,238 \$132,267,455
Over 3 to 5 years
Over 5 to 10 years Over 10 years 1,096,900 9,639,066 S127,784,238 \$132,267,455 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 1,096,900 9,639,066 \$127,784,238 \$132,267,455 115,661 156,710
Over 10 years 9,639,066 \$127,784,238 \$132,267,455 Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 4,030,651 1,429,073
Other securities: Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 115,661 156,710 4,030,651 1,429,073
Debt securities: Municipal and school corporations Floating rate income debentures (mainly 5 to 10 years) 115,661 156,710 4,030,651 1,429,073
Floating rate income debentures (mainly 5 to 10 years) 4,030,651 1,429,073
(mainly 5 to 10 years) 4,030,651 1,429,073
(11111111111111111111111111111111111111
Lither Canadian Issuers
(mainly 1 to 5 years) 49,883,003 18,850,077
Issuers other than Canadian 1,137,472 751,764
Equity securities:
Floating rate preferred shares 82,858,893 58,778,617
Other Canadian issuers 17,546,882 5,286,375
\$283,356,800 \$217,520,071
5. Other loans: 1981 1980
1901
N.H.A. and conventional mortgages \$ 112,718,978 \$ 100,077,683
Loans to provinces 7,540,000 —
Loans to municipalities and
school corporations 1,234,680 4,744,504 Other loans in Canadian currency 1,716,455,862 1,321,973,874
Other loans in Canadian currency Other loans in currencies other 1,716,455,862 1,321,973,874
than Canadian 318,111,772 186,836,830
\$2,156,061,292 \$1,613,632,891
6. Bank premises:
1981 1980
Accumulated Net Book Net Book Cost Depreciation Value Value
Cost Depreciation Value Value
Land \$ 7,812,438 \$ — \$ 7,812,438 \$ 2,735,734
Buildings 61,577 13,662 47,915 49,738
Furniture, fixtures
and equipment 7,510,937 3,756,406 3,754,531 3,207,847
Leasehold improvements 13,724,200 3,953,460 9,770,740 9,375,571 \$29,109,152 \$7,723,528 \$21,385,624 \$15,368,890
\$29,109,152 \$7,723,528 \$21,385,624 \$15,368,890

7. Acceptances, guarantees and letters of credit:	1981	1980
Acceptances	\$ 12,500,000	\$ 26,700,000
Guarantees:		
Controlled corporations	42,676,880	35,530,757
Other	50,027,871	37,951,348
Letters of credit	26,074,047	16,345,304
	\$131,278,798	\$116,527,409
8. Debentures issued and outstanding: 7½% sinking fund debentures, maturing 1991 9% debentures, maturing 1984 9¾% debentures, maturing 1985 10¼% debentures, redeemable at Bank's option in 1984, maturing 1989	\$ 402,000\\ 6,000,000\\ 3,000,000\\ 10,000,000\end{array}	1980 \$ 420,000 6,000,000 3,000,000
	\$19,402,000	\$19,420,000
	4-0,-0-1000	410,120,000

9. Capital stock and rest account:

In October 1980 the Bank offered additional shares to shareholders of record at the close of business on October 31, 1980 on the basis of one new share at \$32.50 for every six shares held, and subsequently the offer was taken up in full.

At the Bank's Annual General Meeting in January 1981 the shareholders approved an increase in the authorized capital of the Bank by the creation of 3,000,000 preferred shares without nominal or par value. In June 1981 the Bank issued \$19,182,500 \$2.28 Cumulative Redeemable Preferred Shares Series A of no par value. The issuance of these preferred shares was undertaken in order to effect the exchange of these shares for an identical amount of preference shares of the Bank's wholly-owned subsidiary BBC Mortgage Ltd., put into liquidation on October 30, 1981 and effectively replaced by the federally chartered Bank of British Columbia Mortgage Corporation, in order to comply with the December 1980 revision to the Bank Act.

	Capital Stock				
	Common		Preferred		
	Number of Shares		Number of Shares		Rest
	Issued	Amount	Issued	Amount	Account
October 31, 1980 Proceeds from	1,531,663	\$15,316,630	<u> </u>	\$ —	\$36,775,000
rights offering	255,277	2,552,770	_	_	5,743,733
Expenses of rights offering (net of income taxes of					
\$124,899)					(114,876)
Proceeds from preferred share issue			767,300	19,182,500	
Expenses of preferred share issue (net of income taxes of			707,300	19,102,300	
\$18,703) Transfer from					(17,202)
undivided profits					4,559,345
October 31, 1981	1,786,940	\$17,869,400	767,300	\$19,182,500	\$46,946,000

10. Accumulated appropriations for losses:

Additions to and deductions from Accumulated Appropriations for Losses relating to loans, securities held for investment, and other items are comprised of the following:

nerd for investment, and other items are comprised of the following.	1981	1980
Loans:		
Loss experience for the year on loans		
(net new reservations for losses on		
loans less recoveries of loans	¢ (0,000,400)	¢ (c ccc =cc)
previously written off)	\$ (8,928,429)	\$ (6,666,566)
Provision for losses on loans based on		
five-year average loss experience		
included in other operating expenses in the Statement of Revenue, Expenses		
and Undivided Profits	9,405,482	7,199,859
Net addition to Accumulated		
Appropriations for Losses	\$ 477,053	\$ 533,293
Securities held for investment:		
Net profits (losses) on disposals of Government of Canada securities	\$ (1,485,502)	\$ (69,591)
Provincial government securities	-	2,166
Other securities	(257,684)	(37,570)
Net change in specific provisions on		
securities to adjust to values not		()
exceeding market	(4,683,468)	(125)
Net deduction from Accumulated		+ (105 100)
Appropriations for Losses	\$ (6,426,654)	\$ (105,120)
Other items:		
Profit on disposals of bank premises		
(net of income taxes of \$218,358)	\$ 400,969	\$
Miscellaneous		(56,528)
Net addition to (deduction from)	d 400 000	Φ (Ες Εςς)
Accumulated Appropriations for Losses	\$ 400,969	\$ (56,528)

11. Earnings per common share:

Earnings per common share have been calculated on the daily average equivalent of fully paid common shares outstanding. The earnings figure used in the calculation of earnings per common share reflects both the dividends paid on preferred shares (\$437,361) plus the Bank's unpaid preferred share dividend obligation at October 31, 1981 (\$221,084). The daily average number of common shares outstanding for the year ended October 31, 1981 was 1,735,536 (1980 — 1,531,663).

12. Long term commitments for leases:

Rental expense for buildings for the year ended October 31, 1981 was \$4,336,760 (1980 — \$3,560,256). Minimum future rental commitments for buildings under long term leases are as shown below. The Bank has no lease commitments which extend beyond 1999.

1982	\$4,479,790
1983	3,841,883
1984	3,502,050
1985	3,291,050
1986	2,741,106
1987-1991	8,938,206
1992-1996	2,167,111
1997-1999	434,909

13. Pension plan:

The Bank has an employee pension plan which is available to all employees at age 25, after three months service, on a contributory or non-contributory basis. The total cost in respect of current service charged to income for the year ended October 31, 1981 amounted to \$1,618,611 (1980 — \$1,307,833).

An actuarial evaluation of the pension fund is performed every three years in accordance with statutory requirements; however, the Bank's policy requires an interim actuarial review to be carried out every year. As at January 1, 1981, the date of the last interim review, the pension fund was fully funded.

Statement of Assets and Liabilities as at October 31, 1981

Assets:	
Mortgages, at cost plus accrued interest	\$53,402,559
Other assets	420,284
	\$53,822,843
Liabilities:	
Bank of British Columbia	\$ 6,092,464
Term promissory notes	42,676,880
Other liabilities	30,220
	48,799,564
Shareholder's Equity:	
Capital stock:	
Preference shares	2,500
Common shares	5,000,000
Retained earnings	20,779
	5,023,279
	\$53,822,843

Notes:

- 1. The Bank of British Columbia owns the entire capital stock of Bank of British Columbia Mortgage Corporation which is carried on the books of the Bank at \$5,002,500.
- 2. Effective October 30, 1981 the assets net of liabilities of BBC Mortgage Ltd., another controlled corporation (since put into liquidation), were purchased by the Company.

Statement of a controlled corporation BBC Realty Ltd.

Statement of Assets and Liabilities as at October 31, 1981

(with comparative figures for 1980)		
	1981	1980
Assets:		
Cash	\$ 9,341	\$ 70,132
Houses held subject to agreements for sale to employees of Bank of British Columbia	20,506,397	24,867,109
Agreements for sale, other	402,914	634,895
Land and buildings, at cost less accumulated depreciation	1,806,243	740,059
Other assets	6,422	1,047
	\$22,731,317	\$26,313,242
Liabilities:		
Bank of British Columbia	\$22,052,801	\$26,176,928
Other liabilities	668,516	126,314
Capital stock	10,000	10,000
	\$22,731,317	\$26,313,242

Note:

The Bank of British Columbia owns the entire capital stock of BBC Realty Ltd. which is carried on the books of the Bank at \$10,000.

Statement of Assets and Liabilities as at October 31, 1981

(with comparative figures for 1980)		
Acceptan	1981	1980
Assets:		4
Cash and term deposits	\$2,898,386	\$7,065,128
Other assets	129,256	18,844
	\$3,027,642	\$7,083,972
Liabilities:		
Due to co-owners of a property project (Note 2)	\$2,965,732	\$7,027,311
Other liabilities	11,327	5,377
	2,977,059	7,032,688
Shareholder's Equity:		
Capital stock	50,000	50,000
Retained earnings	583	1,284
	50,583	51,284
	\$3,027,642	\$7,083,972

Notes

- 1. The Bank of British Columbia owns the entire capital stock of BBC Investments Ltd. which is carried on the books of the Bank at \$50,000.
- 2. The Company is acting under the terms of an agreement as the manager for the co-owners of a property for which a building development is proposed.

Statement of Assets and Liabilities as at October 31, 1981

(with comparative figures for 1980)		
	1981	1980
Assets:		
Cash	\$ 117,061	\$ 9,856
Investment in leases, less unearned income of		
\$9,637,902 (1980 — \$3,149,185)	17,126,246	5,438,401
Other assets	743,609	22,642
	\$17,986,916	\$5,470,899
Liabilities:		
Bank of British Columbia	\$ 12,203	\$ 22,071
Other liabilities	3,432,215	30,044
	3,444,418	52,115
Shareholder's Equity:		
Capital stock:		
Preference shares	13,750,000	5,400,000
Common shares	10	10
Retained earnings	792,488	18,774
	14,542,498	5,418,784
	\$17,986,916	\$5,470,899

Note:

The Bank of British Columbia owns the entire capital stock of WestBank Leasing Limited which is carried on the books of the Bank at \$13,750,010.

Statement of Assets and Liabilities as at September 30, 1981

(with comparative figures for 1980) (expressed in United States Dollars)

	1981	1980
Assets:		
Cash and due from banks	\$ 1,283,995	\$ 3,108,465
Loans	47,770,570	19,953,981
Premises, at cost less amounts written off	56,779	36,493
Other assets	47,732	56,090
	\$49,159,076	\$23,155,029
Liabilities:		
Deposits	\$11,496,049	\$ 4,339,040
Bank of British Columbia	34,656,163	15,547,939
Other liabilities	233,225	949,817
	46,385,437	20,836,796
Shareholder's Equity:		
Capital stock	2,000,000	2,000,000
Retained earnings	773,639	318,233
	2,773,639	2,318,233
	\$49,159,076	\$23,155,029

Note:

The Bank of British Columbia owns the entire capital stock of British Columbia Financial Corp. (H.K.) Limited which is carried on the books of the Bank at \$2,423,000 (Canadian).

On October 1, 1981 the outstanding capital stock issued to the Bank was increased to \$5,000,000 U.S.

Auditors' Report to the Shareholders of Bank of British Columbia

We have examined the statements of assets and liabilities of the foregoing controlled corporations as at the dates indicated. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of assets and liabilities present fairly the financial position of the corporations as at the dates indicated.

Vancouver, British Columbia, Canada November 23, 1981 Peat, Marwick, Mitchell & Co. Thorne Riddell Chartered Accountants

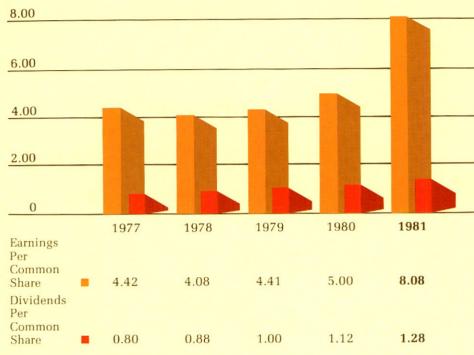
Canada's Western Bank Bank of British Columbia

Financial Review



Per Share Statistics

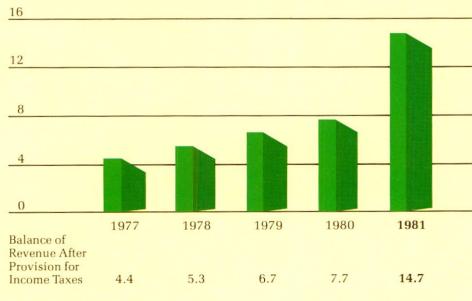
(Dollars)



Earnings per common share in 1981 rose to \$8.08, a 61.6% increase over the \$5.00 recorded in 1980. The earnings per common share figures reflect the recognition of the Bank's preferred share dividend obligation. The calculation is based on the daily weighted average of equivalent fully paid common shares; these were 1,735,536 shares for 1981 and 1,531,663 shares for 1980. The average for 1981 is lower than the year end figure of 1,786,940 shares as a result of the rights issue undertaken during 1981. Dividends per common share increased by 14.3% to \$1,28 in 1981. The first quarter 1982 common share dividend has been increased by 3¢ to 36¢ per share.

Balance of Revenue After Provision for Income Taxes

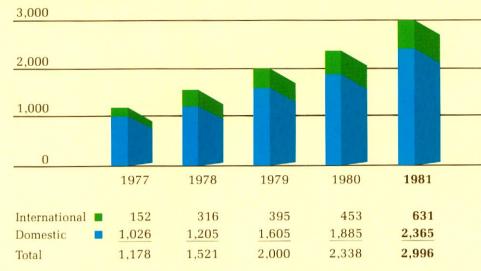
(Millions of Dollars)



For fiscal 1981, the Bank's balance of revenue after provision for income taxes rose to \$14.7 million, an increase of 91.9% over fiscal 1980. The three main factors responsible for this improvement were: significantly higher domestic spreads in the early part of the year, a 24.4% growth in average assets, and the effect of the Bank's continuing expense control program.

Total Asset Growth

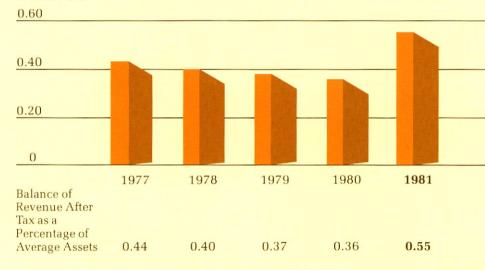
(Millions of Dollars)



Total assets at October 31, 1981 reached \$2,996 million, an increase of \$658 million or 28.1% over 1980. The higher percentage growth occurred in foreign currency assets which grew by 39.3% or \$178 million to \$631 million at the year end. The vast majority of this growth resulted from a \$131 million increase in commercial loan business. Canadian dollar assets increased by \$480 million or 25.4% to \$2,365 million at October 31, 1981.

Return on Average Assets

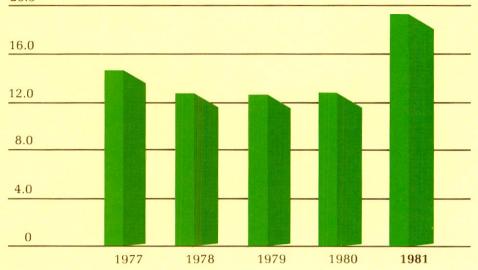
(Percentage)



Return on average assets relates the absolute level of profit (balance of revenue after taxes) to the volume of business. As such it is a widely used measure of Bank performance. In 1981 balance of revenue after tax per \$100 of average assets was 55¢ compared to 36¢ in 1980. This increase to 55¢ marked the reversal of a three year downward trend. The major reason for the improvement was improved domestic spreads, particularly in the first quarter of the year, which resulted in net interest earnings as a percentage of average assets increasing to 3.02% in 1981, 0.22% higher than in 1980. The Bank's continuing expense control program was also a contributor, as non-interest expenses as a percentage of average assets declined by 0.08% to 2.93% for the year.

Return on Shareholders' Equity and Accumulated Appropriations





Average Common Shareholders' Equity and Accumulated Appropriations (Millions of Dollars) 30.5 41.8 53.1 60.1 **73.2**

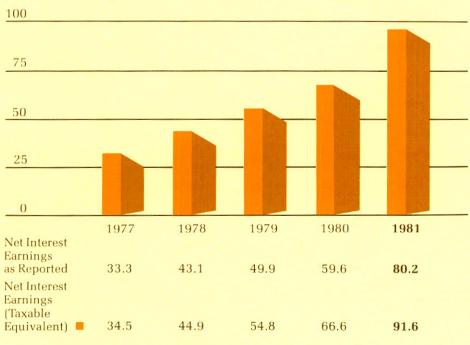
Balance of Revenue After Taxes and Preferred Dividends as a Percentage of Average Common Shareholders' Equity and Accumulated Appropriations

14.6 12.6 12.6

Average common shareholders' equity plus accumulated appropriations for losses increased by 21.9% to \$73.2 million for the year. The return on average common shareholders' equity plus accumulated appropriations for losses is a measure of the effectiveness with which the Bank has employed the shareholders' funds. In fiscal 1981 the return on average equity plus appropriations reached 19.2%. This rate of return was significantly greater than the 12.7% earned in 1980 and, in fact, represented the best performance in the Bank's history.

Net Interest Earnings

(Millions of Dollars)



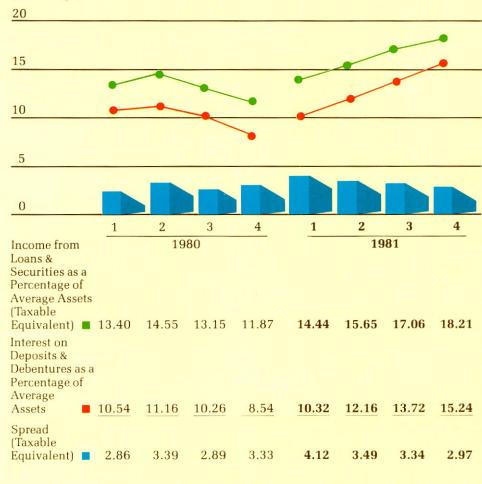
Net interest earnings is the difference between the interest and dividend revenue earned on loans and securities and the interest expense incurred on deposits and debentures. Certain income received by the Bank represents after-tax payments from Canadian corporations and, therefore, is not subject to additional tax. Due to its materiality, this non-taxable income from securities and investments in Canadian corporations has been adjusted to a taxable equivalent basis in order to provide meaningful comparisons. On this basis the Bank's net interest earnings increased by \$25.0 million or 37.5% to \$91.6 million in 1981. The major factors behind this increase were a 24.4% increase in average assets and a widening in domestic spreads largely due to improved funding spreads in the early part of the year.

12.7

19.2

Interest Rate Spread — Taxable Equivalent

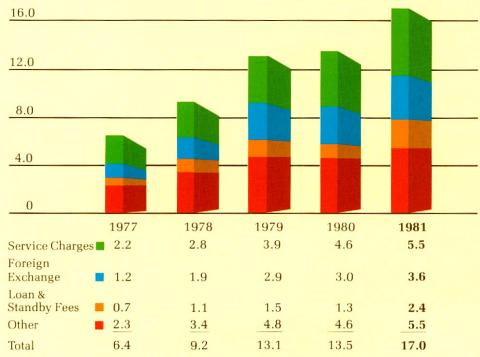
(Percentage)



As a percentage of annual average assets net interest earnings, on a taxable equivalent basis, increased from 3.12% in 1980 to 3.45% in 1981. The strong performance in the first quarter of 1981 reflected a significant improvement in the Bank's personal notice deposit portfolio mix as well as the benefits obtained from the lag effect on the cost of fixed rate deposits during a period of rapidly rising interest rates. As discussed in the Bank's first quarter interim report to shareholders, the first quarter spread levels were not expected to, and did not, continue. As interest rates rose to record high levels, depositors shifted into personal term deposits from lower cost deposit instruments, resulting in declining spreads during the second and third quarters. The fourth quarter reflects the added impact of a period of rapidly declining interest rates during which time the declines in deposit rates lagged behind the declines in the prime rate. This was exactly the reverse of what occurred in the first quarter and resulted in a major reduction in spreads.

Non-Interest Revenue

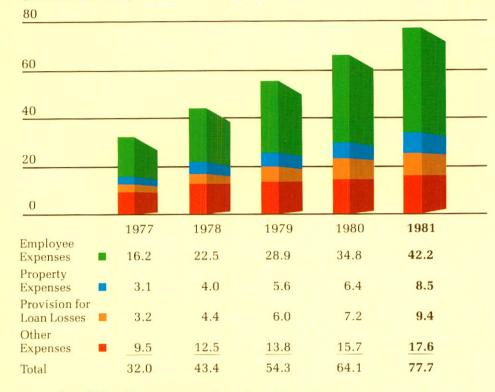
(Millions of Dollars)



Non-interest revenue is all revenue earned by the Bank other than the interest received from loans, investments and deposits with other banks. During fiscal 1981 non-interest revenue contributed \$17.0 million to the Bank's earnings, an increase of 26.0% from 1980. Good growth was shown in all the major categories; however, the largest percentage growth came in the loan and standby fees category.

Non-Interest Expenses

(Millions of Dollars)

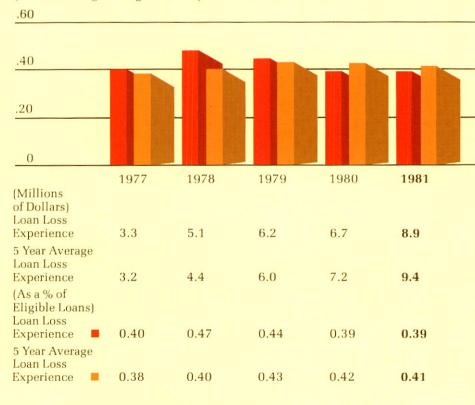


During fiscal 1981 non-interest expenses continued to grow at a rate slower than the rate of growth in average assets. As a result, for the third consecutive year non-interest expenses declined as a percentage of average total assets, dropping to 2.93% from 3.01% in 1980. Non-interest expenses grew by \$13.6 million or 21.2% to \$77.7 million for the year.

Employee expenses, which grew by \$7.4 million or 21.6% accounted for the majority of the increase in non-interest expense. This increase in personnel costs was the combined result of merit and promotional salary increases, a relatively high level of inflation and the increase in staff required to support organization growth.

Actual and Five-Year Average Loan Loss Experience

(As a Percentage of Eligible Loans)



Actual loan loss experience for the year represents the change in specific provisions for losses on loans outstanding less the amount of recoveries with respect to loans previously written off. The charge to earnings with respect to provision for loan losses is an amount determined by a formula established by regulations of the Minister of Finance. This five-year average loan loss provision is determined by calculating the ratio of the last five years of loan loss experience to the last five years of eligible loans and applying this ratio to the outstanding eligible loans at the end of the current year.

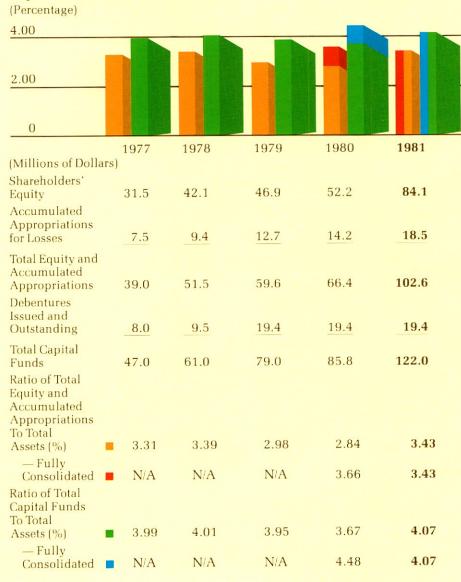
Actual loan loss experience expressed as a percentage of eligible loans was 0.39% in 1981, exactly the same as 1980. The result of the five-year averaging formula was a charge to earnings of \$9.4 million in 1981, a 30.6% increase from 1980. As a percentage of eligible loans the five-year average loss experience declined for the second consecutive year to 0.41% from 0.42% in 1980.

Provision for Income Taxes

Income Tax Provision As Per the Statement of Revenue & Expense	1977	1978	1979	1980	1981
As a Percentage of Pre-Tax Balance of Revenue	42.2	40.4	22.9	15.2	24.5
As a Percentage of Income Subject to Tax	50.4	50.3	50.2	51.7	52.1

The Bank's effective tax rate (provision for income taxes in the statement of Revenue, Expenses and Undivided Profits as a percentage of Balance of Revenue) increased from 15.2% in 1980 to 24.5% in 1981. This was partly the result of a higher marginal tax rate being applied to Bank earnings in 1981. The major factor, however, was the fact that earnings from tax-exempt securities represented a smaller proportion of pre-tax earnings than in fiscal 1980. This proportionate decrease resulted from a significant increase in taxable revenue rather than an absolute reduction in the amount of non-taxable income received.

Capital to Assets Ratio at October 31



The ratio of total equity and accumulated appropriations to total assets increased by 0.59% to a five year high of 3.43% at October 31, 1981. Total equity and accumulated appropriations reached \$102.6 million at year end, an increase of 54.6% from the previous October 31. Proceeds from the rights issue concluded in August accounted for \$8.2 million of the increase. The issuance of \$19.2 million of Bank preferred shares in exchange for an identical amount of preference shares of the Bank's wholly-owned subsidiary, BBC Mortgage Ltd., further increased the Bank's capitalization. This exchange of shares had no impact on the fully consolidated capitalization as the decline in the ratios on a full consolidation basis indicates.

The inclusion of the Bank's \$19.4 million of debentures outstanding at year end brings the Bank's total capital funds to \$122.0 million. This represents 4.07% of total assets, up from 3.67% at October 31, 1980.

Ten Year Statistical Review

(in thousands of dollars)

Assets and Liabilities			
Assets:	1981	1980	1979
Cash resources	\$ 259,165	\$ 286,150	\$ 284,268
Securities	283,357	217,520	206,088
Loans	2,195,121	1,641,949	1,410,902
Bank premises (net)	21,386	15,369	11,473
Other assets	236,803	177,557	86,818
Total	\$2,995,832	\$2,338,545	\$1,999,549
Liabilities:			
Deposits	\$2,730,327	\$2,130,724	\$1,862,896
Other liabilities	143,465	122,014	57,660
Capital funds:			
Debentures	19,402	19,420	19,440
Accumulated appropriations for losses	18,549	14,208	12,659
Shareholders' equity	84,089	52,179	46,894
Total equity and accumulated appropriations	102,638	66,387	59,553
Total capital funds	122,040	85,807	78,993
Total	\$2,995,832	\$2,338,545	\$1,999,549
Accumulated Appropriations for Losses			
Accumulated Appropriations at beginning of year	\$ 14,208	\$ 12,659	\$ 9,366
Additions (deductions) during year:			
Appropriations from current year's operations	10,300	4,600	4,000
Loss experience on loans less provision included			
in other operating expenses	477	533	(175)
Profits and losses on securities, etc.	(6,427)	(105)	(312)
Other profits, losses & non-recurring			
items (net)	401	(56)	_
Credit for income taxes	2,450	527	1,830
Transferred to undivided profits	(2,860)	(3,950)	(2,050)
	4,341	1,549	3,293
Accumulated Appropriations at end of year:			
General	17,330	13,635	12,248
Tax-paid	1,219	573	411
Total	\$ 18,549	\$ 14,208	\$ 12,659
Rest Account			
Balance at beginning of year	\$ 36,775	\$ 31,500	\$ 27,242
Premium on issue of capital stock	5,612	_	1,057
Transfer from undivided profits	4,559	5,275	3,201
Balance at end of year	\$ 46,946	\$ 36,775	\$ 31,500

1978	1977	1976	1975	1974	1973	1972	
\$ 245,1	13 \$ 161,100				\$ 61,81		
106,1	98 122,076				16,24		
1,101,7				The state of the s	235,06		
9,8					1,88		
58,0	76 44,932	2 31,158	3 24,336	18,858	2,85	9 3,15	0
\$1,520,9	\$1,178,179	9 \$ 844,443	\$ 625,006	\$ 481,791	\$ 317,86	6 \$ 244,17	6
					1118		
\$1,417,8	\$1,097,93	1 \$ 785,713	\$ 574,284		\$ 295,30		
42,2	33,302	2 21,74	1 19,879	15,152	2,77	4 3,18	1
9,4					5,00		
9,3					1,58		
42,0					13,20		
51,4				16,049	14,78		
60,9	14 46,946	6 36,989	30,843	21,049	19,78	7 19,37	9
\$1,520,9	\$1,178,179	9 \$ 844,443	\$ 625,006	\$ 481,791	\$ 317,86	6 \$ 244,17	6
\$ 7,4	37 \$ 5,35	1 \$ 4,020	\$ 2,774	\$ 1,582	\$ 1,33	3 \$ 93	6
3,1	2,67	5 1,875	5 1,750	549	25	0 13	0
	(10)	(0.	(0.5)	0.45	/05	0) 141	7
	38) (139				(25		
(17) 342	2 (50	0) 287	(282)	(6) 2	Ь
	_	<u> </u>		<u> </u>	_	<u> </u>	
1,2	933	3 683	501	580	25	5 9	4
(1,8			0) (1,225)	_	_	_	
1,8					24	9 39	7
1,0	2,10	2,00					
9,0	35 7,288	8 5,234	3,955	2,769	1,57	7 1,32	8
The state of the s	31 199						5
\$ 9,3					\$ 1,58		
φ 9,3	ου φ 7, 4 0,	/ φ 3,33.	φ 4,020	ψ 2,774	ψ 1,50	2 ψ 1,00	0
ф. 40.4	70 0 14.10	5 \$ 11,100	\$ 8,100	\$ 8,050	\$ 7,90	0 \$ 7,70	0
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5,0					 15	0 20	0
2,7 \$ 27,2					\$ 8,05		
	10 0 10 17	9 4 1/1/10		u 0 100		11 W 7 (1)	11

Ten Year Statistical Review

(in thousands of dollars)

Revenue, Expenses and Undivided Profits			
Revenue:	1981	1980	1979
Income from loans	\$395,598	\$254,962	\$191,889
Income from securities	29,478	19,757	14,204
Other operating revenue	16,976	13,478	13,051
Total revenue	\$442,052	\$288,197	\$219,144
Expenses:			
Interest on deposits and bank debentures	\$344,893	\$215,105	\$156,214
Salaries, pension contributions and			
other staff benefits	42,241	34,741	28,902
Property expenses, including depreciation	8,484	6,417	5,555
Other operating expenses	26,979	22,913	19,818
Total expenses	\$422,597	\$279,176	\$210,489
Balance of Revenue	19,455	9,021	8,655
Provision for income taxes relating thereto	4,775	1,370	1,980
Balance of revenue after provision for			
income taxes	14,680	7,651	6,675
Appropriations for losses	10,300	4,600	4,000
Balance of profits	4,380	3,051	2,675
Dividends — common	2,240	1,716	1,514
— preferred	437	_	_
Amount carried forward	1,703	1,335	1,161
Undivided profits at beginning of year	87	77	67
Transfer from accumulated appropriations			0.
for losses	2,860	3,950	2,050
	4,650	5,362	3,278
Transfer to rest account	4,559	5,275	3,201
Undivided Profits at End of Year	\$ 91	\$ 87	\$ 77
Share Information:			
Earnings per common share (1)	\$ 8.08	\$ 5.00	\$ 4.41
Dividends per common share	1.28	1.12	1.00
Share price (2) high	50.00	48.00	38.88
low	39.25	27.25	28.00
close	44.13	38.00	28.50
Book value per common share (3)	46.70	43.34	38.88
Price earnings ratio (4)	5.5	7.5	7.6
Other Information:			
Return on assets (5)	.55%	.36%	.37%
Return on common equity (6)	19.2%	12.7%	12.6%
Deposit to capital ratio (7)	22.4:1	24.8:1	23.6:1
Number of branches Valuation developes Describes 22, 1071, 222, 25	51	47	45
Valuation day value — December 22, 1971: \$22.25			

1978	1977	1976	1975	1974	1973	1972
\$119,336	\$ 88,388	\$ 67,421	\$ 48,628	\$ 39,014	\$ 18,518	\$ 11,480
7,665	6,518	4,456	3,394	2,142	1,263	1,360
9,177	6,357	4,778	3,792	2,392	1,434	815
\$136,178	\$101,263	\$ 76,655	\$ 55,814	\$ 43,548	\$ 21,215	\$ 13,655
\$ 83,941	\$ 61,571	\$ 47,611	\$ 33,077	\$ 29,095	\$ 11,957	\$ 7,766
22,539	16,237	12,650	9,085	7,129	4,256	2,713
4,026	3,088	2,438	1,891	1,519	1,012	817
16,844	12,655	8,077	5,937	3,962	2,676	1,555
\$127,350	\$93,551	\$70,776	\$49,990	\$41,705	\$19,901	\$12,851
8,828	7,712	5,879	5,824	1,843	1,314	804
3,570	3,255	2,750	3,000	969	650	370
5,258	4,457	3,129	2,824	874	664	424
						434
3,150	2,675	1,875	1,750	549	250	130
2,108	1,782	1,254	1,074	325	414	304
1,157	810	575	416	255	255	102
	_		_	_	_	
951	972	679	658	70	159	202
66	69	65	69	49	40	38
1,800	1,675	1,150	1,225	<u></u>		
2,817	2,716	1,894	1,952	119	199	240
2,750	2,650	1,825	1,887	50	150	200
\$ 67	\$ 66	\$ 69	\$ 65	\$ 69	\$ 49	\$ 40
		.	* 4.00			
\$ 4.08	\$ 4.42	\$ 4.05	\$ 4.08	\$ 1.71	\$ 1.30	\$.85
.88	.80	.75	.65	.50	.50	.20
39.50 27.00	30.63	23.88	21.00	23.50	25.50	27.50
38.00	20.88 28.88	18.88 20.00	15.00 18.50	16.50 18.00	21.00	21.00
35.10	32.96	30.91	29.83	31.43	25.00 28.96	22.50
8.2	5.8	5.3	4.4	11.7	17.9	28.16
0.2	5.0	3.3	4.4	11./	17.9	28.5
100/	.44%	.43%	.51%	.21%	.25%	.21%
.40%	70			an amount		
.40% 12.6%	14.6%	13.4%	15.1%	5.9%	4.6%	3.2%
		13.4% 21.2:1 33	15.1% 18.6:1 30	5.9% 21.2:1	4.6% 14.9:1	3.2% 11.4:1

Note: For the purposes of the Statistical Review, the amounts for 1972 have been restated where necessary to conform to 1973 and subsequent years' presentation.

(5) Balance of revenue after taxes divided by average assets for the fiscal year.

⁽¹⁾ Balance of revenue after tax less preferred dividend obligations divided by weighted average equivalent of fully paid common shares outstanding.

⁽²⁾ High and low price of shares traded on the Toronto Stock Exchange during the fiscal year and the closing price on the last day of trading in October.

⁽³⁾ Total equity and accumulated appropriations less preferred shares issued divided by the number of fully paid common shares outstanding at fiscal year end.

⁽⁴⁾ The average of the high and low share price for the year divided by earnings per share.

⁽⁶⁾ Balance of revenue after taxes less preferred dividend obligations divided by average total equity and accumulated appropriations less preferred shares issued.

⁽⁷⁾ Total deposits to total capital funds at fiscal year end.

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A. Fergusson
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