emerging

CANADIAN
WESTERN
BANK

TABLE OF CONTENTS

the emerging

acceptance...

of Canadian Western Bank as a strong, regional provider of financial services is a testament to our strategy. We balance the traditional banking relationships that our customers enjoy with a widening complement of services designed to meet the full scope of their financial needs.

highlights for the year

FINANCIAL

- total assets increased by 13% to $2.7 billion
- achieved record net earnings of $19.9 million, up 5% over last year
- assets under administration and management increased 13% to $959 million
- in accordance with industry-wide guidance provided by OSFI, the Bank increased its general allowance for credit risk by $11.7 million to $21.5 million via a one-time charge to retained earnings on April 30, 1999; our general allowance now represents over $2.00 per share
- loan growth was very strong, particularly in the fourth quarter when the annualized growth rate exceeded 20%
- changed to a semi-annual dividend policy in the third quarter; last annual dividend of $0.32 paid in January 1999 and first semi-annual dividend of $0.16 paid in July 1999
- Alberta and Saskatchewan announced reductions in capital tax rates effective fiscal 2000
- on November 30, 1999 the remaining $11.7 million of 6.75% convertible debentures converted to 925,200 shares, which strengthened our Tier 1 capital ratio and reduced the dilution of earnings per share going forward
- the number of shares outstanding increased by almost 8% in the year

OPERATIONAL

- launched sales of mutual funds in 8 branches
- relocated and expanded our branches in downtown Vancouver (to Park Place) and in Kelowna, British Columbia
- opened a new branch in Langley, British Columbia
- expanded our RSP product line with an equity-linked GIC
- enhanced service to merchant accounts by adding an automated flow process for credit card receipts
- Canadian Western Trust launched CWeb – a direct internet-based link to customer accounts for financial planners
- completed all Y2K preparations on schedule

FINANCIAL SUMMARY

Five Year Financial Summary
($ thousands, except per share amounts)

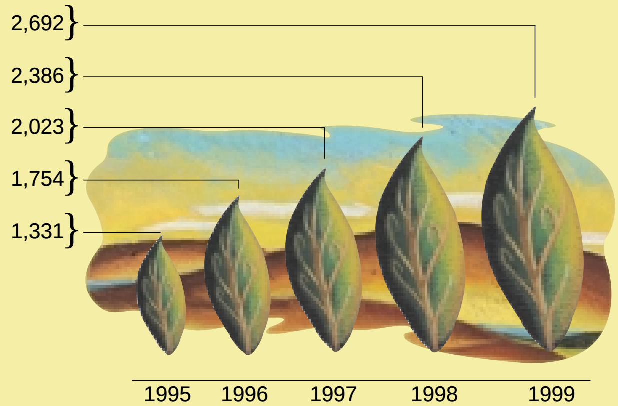
	1999	1998	1997	1996	1995
Results of Operations					
Total interest income	$ 177,504	$ 158,338	$ 131,917	$ 133,399	$ 113,413
Net interest income	62,436	56,266	45,414	40,731	33,973
Provision for credit losses	3,750	4,150	4,000	4,073	3,403
Other income	19,795	17,491	11,520	10,466	6,876
Net income	19,853	19,012	15,837	12,822	10,808
Return on common shareholders' equity	12.82%	13.97%	13.12%	13.27%	13.36%
Return on average total assets	0.81%	0.87%	0.85%	0.81%	0.88%
Per Common Share					
Average common shares outstanding (thousands)	10,153	9,421	9,322	8,116	7,420
Earnings per share					
basic	$ 1.96	$ 2.02	$ 1.70	$ 1.58	$ 1.46
fully diluted	1.79	1.77	1.55	1.45	1.33
Dividends*	0.48	0.30	0.25	0.15	0.10
Book value	15.68	15.39	13.70	12.61	11.37
Market Price					
High	$ 24.25	$ 27.00	$ 22.10	$ 13.00	$ 11.38
Low	17.30	14.75	12.20	9.25	9.13
Closing market value	17.60	17.15	20.25	12.80	10.13
Balance Sheet and Off-balance Sheet Summary					
Assets	$ 2,692,382	$ 2,386,478	$ 2,022,951	$ 1,754,072	$ 1,330,596
Cash resources and securities	375,182	320,405	271,883	247,614	174,670
Loans	2,253,598	1,989,656	1,710,007	1,478,392	1,135,173
Deposits	2,371,075	2,059,545	1,817,512	1,585,855	1,192,663
Debentures	78,691	87,091	37,116	26,000	8,000
Shareholders' equity	159,550	145,268	128,533	102,554	92,299
Assets under administration and management	959,262	845,614	395,486	371,798	–
Capital Adequacy Ratios					
Tier 1	7.4%	7.8%	8.4%	8.1%	10.3%
Total	11.8%	11.9%	11.0%	10.2%	11.1%
Other Information					
Net interest margin**	2.58%	2.60%	2.48%	2.59%	2.78%
Net impaired loans as a percentage of total loans	0.5%	0.7%	0.5%	1.0%	1.8%
Productivity ratio***	68.1%	66.7%	64.4%	64.8%	64.4%
Number of full time equivalent staff	555	522	388	359	314
Number of branches	24	23	22	20	20

* During the third quarter of 1999 the dividend policy was amended to be semi-annual instead of annual. Hence, the dividend rate for fiscal 1999 will appear unusually high as it includes a dividend of $0.32 paid annually in the first quarter (as in past years) and the first semi-annual dividend of $0.16 paid in the third quarter.

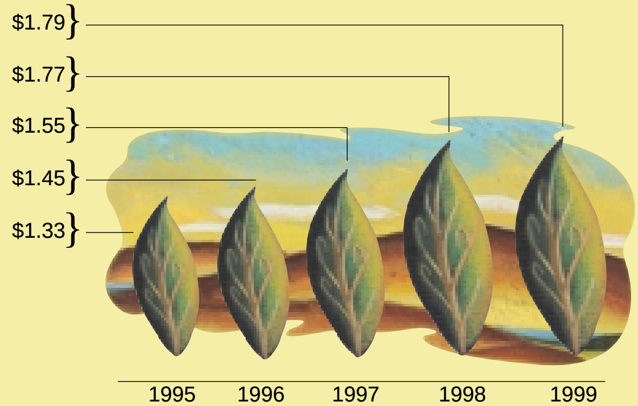
** Net interest income divided by average assets.

*** Non-interest expenses expressed as a percentage of net interest income and other income.

Total Assets ($millions)



Fully Diluted Earnings Per Common Share



our

MESSAGE TO SHAREHOLDERS

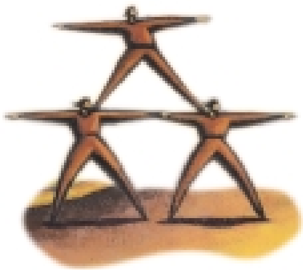
Your Bank earned record net profit for the year ended October 31, 1999 in the amount of $19.9 million compared to $19.0 million last year.

This is our 8th consecutive year of record earnings. Fully diluted earnings per share for the year stand at $1.79 compared to $1.77 last year. During the year, debenture conversions by holders increased the number of shares outstanding by almost 8% which gave rise to the decline in basic earnings per share to $1.96 compared to $2.02 last year. Total assets grew to approximately $2.7 billion, up 12.8% from the prior year end. Return on equity was 12.82% compared to 13.97% last year.

In 1998, we further extended our financial services product line into the wealth management area by becoming the majority shareholder in Canadian Western Capital Limited. It has gone through a substantial restructuring but has not achieved the financial results we had expected. On December 21, 1999, subsequent to our year end, we announced an intended sale of this operation which we expect will have closed by publication date of this report. Removing the negative impact of this subsidiary's operations (which amounted to $0.28 per share; $0.22 fully diluted compared to $0.17 per share; $0.12 fully diluted in 1998), income from our core banking operations (bank and trust) totalled $22.7 million, up 10% compared to $20.6 million last year. This is confirmation of the steady progress being made in our established operations. Further illustration comes in the fact that total assets grew 5% in the last quarter alone and our actual loan losses incurred have averaged .16% over the last 5 years – an enviably low ratio.

message

It is also in our core banking operation that we continue to see our longer term strategy affirmed by customer acceptance. We concentrate on a well defined geographic market and we provide professional and friendly personal service. It is our conviction that the competitive edge this strategy gives us will become more and more obvious as larger banks turn their attention to foreign markets and strive to improve earnings through cost cutting – and inevitably reductions in the levels of personal service. The opportunities for us include new customers, well-trained and qualified banking personnel seeking rewarding careers, and greater choice in prospective branch locations. Canadian Western Bank's branch business model and product mix have a different focus than the "big bank" retail branch and we expect our differences will benefit us even more going forward.



The regulatory environment for banks is also evolving and we are impacted by these changes. During the year, we responded to the industry-wide guidance provided by the Office of the Superintendent of Financial Institutions ("OSFI") to materially increase the levels of the general allowances for credit risk in the industry. As a result, our general allowance now stands at almost 1% of risk-weighted assets; the equivalent of over $2.00 per share. This year's operating results were not affected by this increase as it was taken as a one-time charge to retained earnings, the treatment OSFI specified when the change was significant (see Note 19 to the consolidated financial statements).

In June, the federal Finance Minister announced policy reforms to the financial services sector. Included in these proposals was the stated intention to change ownership rules and open the door to single ownership of smaller banks such as Canadian Western Bank. The status quo – calling for a maximum 10% ownership by any one entity – would remain in place unless your Board of Directors determined it would be in the best interests of the Bank and its stakeholders to consider a change. The good news is that this proposal would broaden our options for forming beneficial alliances in the future.

Another proposal in the Minister's package with possible implications for your Bank is the introduction of a holding company concept. While it is premature to predict how this might be brought into effect, it could provide more alternatives for effective structuring of future strategic initiatives.

Whether or not these proposals ultimately result in adjustments to your Bank's structure, it is important that we continue to expand and build on our proven model. This year we added a branch in Langley and we moved our main Vancouver business to the ground floor of one of that city's premiere downtown office towers – Park Place. We also took larger premises in Kelowna. These highly visible locations are expected to attract increased activity from both individuals and businesses. We augmented our service to retail merchants by putting into place arrangements for them to accept credit card receipts – and have the funds flow directly to their accounts with us. And our trust arm implemented an internet-based connection allowing financial planners to view their clients' accounts with us.

We have invested a considerable amount of time and effort in this fiscal year on computer-related issues. The most obvious of these is the Y2K project, but we have also been very involved in the selection of a more efficient platform on which to run our banking software. Both of these projects will be completed within the coming year making available more resources for further enhancement and development of products and services.

Our objective going forward is to concentrate on our business plan while striving for improvements to operating ratios through scale. Our expectation is for another record year ahead. We have well-trained people who are focused on success, the economic outlook is positive, and the environment is favorable for much greater acceptance of our brand of retail and commercial banking in western Canada.

We entered this past decade with approximately $300 million in assets and we will exit with $2.7 billion, a nine-fold increase. Our earnings have grown some fourteen times, staff positions are up 400% and market capitalization has increased twelve times from what it was. Through the nineties we accessed the public markets three times and in so doing contributed to the growth in our regulatory capital base from $40 million to over $250 million today. We have emerged from this decade well equipped and motivated to meet the challenges of the next century.

question answer

Q { How do you manage to achieve competitive rate spreads when your deposit rates are normally higher than others?

A { First of all, our loan losses are lower and have been for 10 years. We also target commercial loans as a heavier weighting in the portfolio and they have better yields overall. It is also noteworthy that we achieve comparable spreads while maintaining a very attractive productivity ratio – our costs of operating are low.

Q { What ever happened to the small American bank you invested in?

A { It is alive and well, growing in its market in Washington. The experience we have gained there is excellent.

Q { Do you plan to move further east with your branch network?

A { We have no plans to move east with bricks and mortar. We do accept deposits from many eastern Canadians through our deposit agent network.

Q { Can you explain the large drop in share price?

A { When you look at all of the banks in Canada, the drop in our share price has followed roughly the same pattern as theirs. For unknown reasons, the industry generally is less popular with investors right now.

Q { Is internet banking coming soon?

A { We provide CWBDirect® today – business customers can get information directly on their accounts, and we plan to extend that. But we want to make sure our systems efficiencies augment and not replace our high quality personal service.

expanding

Mission { To provide competitive full service commercial and consumer banking to western Canadians.

In doing so we aim to provide our shareholders with a sound and profitable return on their investment.

There are two principal lines of business within the Canadian Western organization.

Canadian Western Bank is the parent entity and the traditional banking operation. The only Schedule I bank headquartered in western Canada, it offers its services through 24 branches in all major centres across the four western provinces. The Bank is predominantly a commercial lender with specific expertise in commercial financing, energy lending, construction and real estate project financing, and industrial equipment financing. As well, a fully competitive range of deposit and retail services, residential mortgages and personal loans are offered.

Canadian Western Trust Company specializes in the provision of trust and administrative services to financial planners in western Canada. It is also a mortgage lender and is broadening its trust service capabilities.

our scope

A chronological summary of our growth follows:

1982 { Western & Pacific Bank of Canada chartered

1983 { Bank of Alberta chartered

1988 { The two aforementioned banks are amalgamated as Canadian Western Bank

1993 { Western Canadian branches of Metropolitan Trust acquired

1994 { Canadian Western Bank and North West Trust Company amalgamated as Canadian Western Bank

1996 { Aetna Trust Company purchased and renamed Canadian Western Trust Company


extending

CANADIAN WESTERN BANK

The steady growth at Canadian Western Bank ("CWB") is often attributed to its style of service.

Whether personal or business customers, each one is served the way they want to be served. The most common desire we find people have is to deal face to face, which is being lost in the increasingly impersonal banking service delivery promoted by our larger competitors.

There are exciting developments in banking technology and CWB provides automated services when requested to do so. The difference, though, is that innovative delivery methods and products are developed to react to customer needs. Even as these are brought on stream, our friendly people will continue to be in branches to tend to customers' needs face to face.

our reach

Western Canada continues to provide a positive and growing environment in which to grow our business along with our customers. And the Bank continues to present a positive image to its customers and prospective customers.

As our customer base has continued to evolve in both size and sophistication, we have added capability to meet their requirements. An example is Canadian Western Trust…

Jack Wright Vice President & Regional Manager

"Customers repeatedly comment on how refreshing it is to talk to a real person, and not to have to leave a voice mail."


building

CANADIAN WESTERN TRUST COMPANY

Canadian Western Trust ("CWT") serves a different element of our market while offering the same individualized service.

Since it joined the CWB family in 1996 it has emerged as one of only a few suppliers who provide trust products regionally to financial planners and companies in western Canada.

This year CWT launched its interactive internet-based connection system under the name CWeb. This enables financial planners to connect directly into our database and gain online access to the detailed records of their clients at any time. Financial planners often don't work regular hours; now they can still meet with their customers knowing they can answer any detailed question which may arise relating to their portfolio.

on strengths

We recognize that some of the Bank's customer base will be prospective users of the RSP and RIF trustee and administrative services provided by CWT and find this can complement the Bank's overall financial service package nicely.

An increased emphasis will begin in the upcoming year on corporate trust services. This will enable companies in western Canada to arrange for such services as escrow agent and bond trusteeship services through local people who are committed to the Specialty Service – Western Hospitality style of service.

Adrian Baker General Manager, Canadian Western Trust

"Consolidation in financial services has resulted in western Canada being underserved on the trust side. We're filling that gap."

combining

The specific markets served by the Bank and the Trust, while different, frequently overlap.

The thread that holds them together is the commitment to professional service delivered in a typical friendly western style.

A team which includes representatives from each has been brought together to ensure we are in fact taking advantage of the opportunities presented by the combination of our individual strengths.

our abilities

This initiative is not limited to the marketing opportunities each may find in the others' business spheres, but also the efficiencies that may be realized in consolidating resources in communications, computer technology, and marketing capability, to cite just a few examples.

A team of professionals whose style of business appeals to western Canadians is here now. More and more westerners are recognizing the benefits of our team's expanding capacity and focused approach to our chosen markets. As a result we are emerging as a credible alternative to larger institutions in the financial services industry.

Doug Dalgetty Executive Vice President

"Keeping up with technology advances doesn't have to mean abandoning good customer service practices"

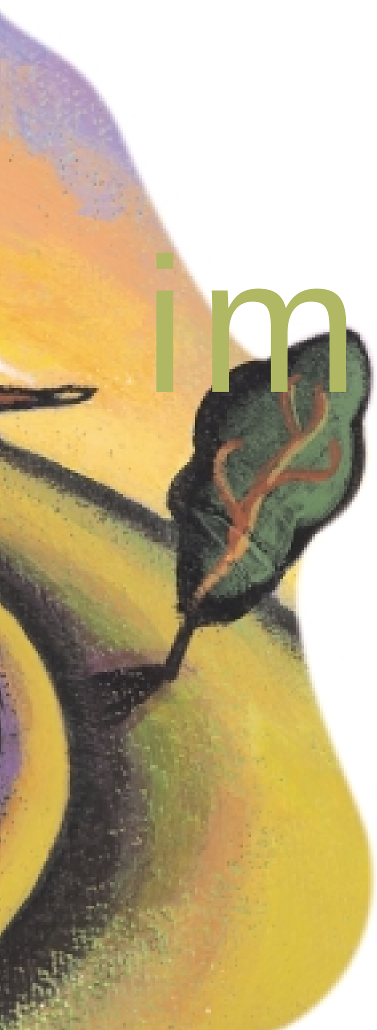

playing

ENCOURAGING GROWTH

Your Bank continues to be an integral part of the community through its support of care-giving, educational and artistic entities across western Canada.

An example of this is the creation this year, in partnership with the University of Alberta, of a 10 year, $100,000 scholarship aimed at encouraging and supporting aboriginal students who want to enter U of A's commerce faculty.

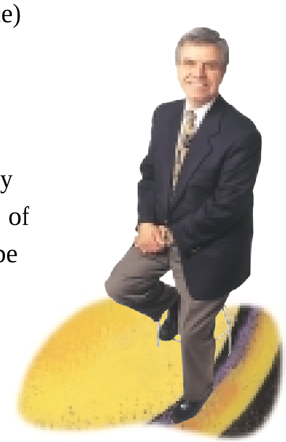
We don't see it as enough, though, to direct dollars alone to these various community needs. Our employees are consistently involved in such things as competing with other banks in a blood donor drive, organizing United Way participation by staff members, or volunteering their time to serve other various organizations. It is a further reinforcement that getting involved personally is an enriching and rewarding experience.



important roles

Our staff are also encouraged to put their personal knowledge and experience to work in improving the way the Bank operates. Our staff can make suggestions through our SPICE (Staff Participating In Creative Excellence) program. On an ongoing and regular basis suggestions are reviewed and implemented where appropriate.

Two examples of this program in action were adopted this year. Adele Carson of our Systems department developed a way to improve daily audit routines by isolating exceptions in reporting. And Yasmin Kassamali of our Finance department identified an area where our fee income could be significantly improved while remaining fully competitive.



Uve Knaak Senior AVP, Human Resources

"We're in a people business. Our people care about their customers and their communities."

INVITING INNOVATION

Some staff members go beyond our expectations in the way they approach their responsibilities. For many years now we have recognized these people through President's and Chairman's awards. Nominations for recognition are made by their peers. This year's award recipients are as follows:

Chairman's Awards

Marie Barwick, Edmonton Southside Branch

Esther Edwards, Corporate Office

Christine Spence, Canadian Western Trust

President's Awards

Gillian Bell, Chinook Branch, Calgary

Clara Ho, CAP Department, Vancouver

Marilyn Kruger, Main Branch, Calgary

Shirley Maglalang, Finance Department

Bret Pollard, Systems Department

Anita Smith, Nanaimo Branch

financial report

Key Performance Indicators

	1999	1998	1999/1998 Increase (decrease)
Net income ($ thousands)	$ 19,853	$ 19,012	$ 841
Net income per common share			
basic	$ 1.96	$ 2.02	$ (0.06)
fully diluted	$ 1.79	$ 1.77	$ 0.02
Productivity ratio(1) (expenses as a percentage of total revenue)	59.84%	60.65%	(0.81)%
Return on common shareholders' equity	12.82%	13.97%	(1.15)%
Return on average total assets	0.81%	0.87%	(0.06)%

(1) Excluding the operations of Canadian Western Capital due to its intended sale described below. The consolidated ratio was 68.09% (1998 – 66.72%). A decrease in the ratio reflects improved productivity.

OVERVIEW OF 1999

Consolidated net income for the year ended October 31, 1999 was $19.9 million, an increase of 5% from $19.0 million reported in 1998. Fully diluted earnings per share were $1.79 compared to $1.77. The average number of shares outstanding increased by 732,000 during the year, primarily as a result of debenture conversions by holders, which gave rise to the decline in basic earnings per share to $1.96 from $2.02 last year. Subsequent to year end, the remaining 6.75% debentures were converted to common shares (as discussed in the Capital Funds and Adequacy section). This will impact basic earnings per share in fiscal 2000, due to the increased number of shares, and further narrow the difference between basic and fully diluted earnings per share. Return on common shareholders' equity and return on assets for the year ended October 31, 1999 were 12.82% and 0.81% respectively, compared to 13.97% and 0.87% last year.

Total assets increased by 13% from one year ago to reach $2.69 billion. Loans increased by $264 million, providing 86% of the total asset growth. The total capital adequacy ratio at October 31, 1999 was 11.8% (1998 – 11.9%) with a Tier 1 component of 7.4% (1998 – 7.8%).

Net income for 1999 includes a loss (net of non-controlling interest) of $2.9 million (1998 – $1.6 million) related to Canadian Western Capital Limited ("CWC"), the Bank's investment dealer subsidiary, which has undergone major restructuring. Excluding the impact of CWC's results, growth in net income would have been 10% year over year and earnings per share would have been $0.28 greater ($0.22 fully diluted) in fiscal 1999 (1998 – $0.17 and $0.12 respectively). Return on equity and return on assets would have been 14.42% and 0.93% respectively compared to 15.09% and 0.95% last year. While CWC has contributed positively to expansion of non-interest revenues, the improvement in the net operating results anticipated subsequent to the restructuring completed earlier in the year has not materialized.

On December 21, 1999, subsequent to the 1999 fiscal year end, the Bank announced that, subject to due diligence, regulatory approvals, execution of a definitive agreement and minority shareholders' acceptance, it will sell CWC to Goepel McDermid Inc. of Vancouver. The Bank estimates a loss from discontinued operations of between $1.8 million and $3.8 million will be recorded in the first quarter ending January 31, 2000. A continuing relationship within the brokerage industry will be maintained by pursuing mutually advantageous business relationships and strategic alliances where appropriate.

NET INTEREST INCOME

Table 1 – Net Interest Income

($ thousands)

	1999				1998			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Assets								
Securities and deposits with regulated financial institutions	$ 262,432	11%	$ 13,069	4.98%	$ 240,009	11%	$ 11,213	4.67%
Loans								
Securities purchased under resale agreements and call loans	28,645	1	1,377	4.81	24,895	1	1,177	4.73
Residential mortgages	272,868	11	18,618	6.82	265,857	12	17,997	6.77
Other loans	1,795,917	74	144,440	8.04	1,569,589	73	127,951	8.15
Total loans	2,097,430	86	164,435	7.84	1,860,341	86	147,125	7.91
Total interest bearing assets	2,359,862	97	177,504	7.52	2,100,350	97	158,338	7.54
Other assets	63,246	3	–	0.00	60,225	3	–	0.00
Total Assets	$ 2,423,108	100%	$ 177,504	7.33%	$ 2,160,575	100%	$ 158,338	7.33%
Liabilities								
Deposits								
Demand	$ 35,447	2%	$ –	0.00%	$ 33,066	2%	$ –	0.00%
Notice	192,634	8	4,676	2.43	186,386	9	4,393	2.36
Fixed term	1,878,601	77	105,504	5.62	1,662,809	76	93,343	5.61
Total deposits	2,106,682	87	110,180	5.23	1,882,261	87	97,736	5.19
Other liabilities	81,867	3	–	0.00	76,697	4	–	0.00
Debentures	79,332	3	4,888	6.16	66,406	3	4,336	6.53
Shareholders' equity	155,227	7	–	0.00	135,211	6	–	0.00
Total Liabilities	$ 2,423,108	100%	$ 115,068	4.75%	$ 2,160,575	100%	$ 102,072	4.72%
Total Assets/Net Interest Income	$ 2,423,108		$ 62,436	2.58%	$ 2,160,575		$ 56,266	2.60%

Net interest income is the difference between interest and dividends earned on assets and interest expensed on deposits and other liabilities, including debentures. Net interest spread, or margin, is net interest income as a percentage of average total assets.

In 1999, net interest income increased by $6.2 million or 11%, primarily due to:

- increased average interest bearing assets of $260 million (12%).

Net interest spread was 2.58%, down slightly from 2.60% in 1998. The portfolio mix remained relatively constant year over year and the average prime rate also remained stable at 6.49% in fiscal 1999 compared to 6.44% last year.

In 2000 we expect:

- interest rates will remain relatively stable; and
- the yields on securities and net interest spread will be comparable to 1999.

As discussed in the Interest Rate Risk section, the portfolio has a positive gap with maturing assets exceeding maturing liabilities during the one year time frame. If market rates increase this would have a positive impact on spreads.

OTHER INCOME

Table 2 – Other Income

($ thousands)

	1999	1998	1999/1998 Increase (decrease) $	%
Credit related	$ 7,805	$ 6,729	$ 1,076	16%
Underwriting fees and commissions on securities transactions	6,778	5,326	1,452	27
Retail services	2,476	1,964	512	26
Trust services	1,485	1,165	320	27
Loan administration and other(1)	990	2,241	(1,251)	(56)
Net gains on securities sales	261	66	195	295
Total Other Income	$ 19,795	$ 17,491	$ 2,304	13%

(1) Other includes gains and losses on capital asset disposals, foreign exchange service fees and other miscellaneous non-interest revenues.

Other income, which includes all revenues not classified as net interest income, was $19.8 million, an increase of $2.3 million or 13% over 1998. As shown in table 2, almost all categories of other income showed solid growth in 1999.

Notable changes include:

- increased credit and retail fees of $1.6 million due to loan and deposit growth and increased activity in the retail branches;
- an increase of $1.5 million in underwriting fees and commissions on securities transactions reflecting a full year of CWC's operations and growth in their branch network;
- increased trust services fees in Canadian Western Trust ("CWT") due to substantial growth (32%) in the number of self-directed RRSP accounts; and
- decreased loan administration fees because 1998 included a $750,000 one-time contingency fee earned on the collection of an administered loan and also the administered portfolio and related contract fees have declined over the past year.

Other income as a percentage of total revenue (net interest income and other income) was 24% in 1999, the same as in 1998. In 2000 total other income is expected to show continued broad based growth (with the exception of underwriting fees and commissions due to the intended sale of CWC) with a focus on increasing other income as a percentage of total revenue.

NON-INTEREST EXPENSES

Table 3 – Non-interest Expenses and Productivity Ratio

($ thousands)

	1999	1998	1999/1998 Increase (decrease) $	%
Salaries and Employee Benefits				
Salaries	$ 26,717	$ 23,295	$ 3,422	14.7%
Employee benefits	3,565	3,057	508	16.6
Total	30,282	26,352	3,930	14.9
Premises				
Rent	4,443	3,471	972	28.0
Depreciation	950	818	132	16.1
Other	918	744	174	23.4
Total	6,311	5,033	1,278	25.4
Equipment and Furniture				
Depreciation	1,713	1,524	189	12.4
Other	2,088	1,969	119	6.0
Total	3,801	3,493	308	8.8
General				
Capital and business taxes	2,976	2,485	491	19.8
Deposit insurance premiums	1,695	2,452	(757)	(30.9)
Professional fees and services	3,446	3,016	430	14.3
Postage and stationery	1,579	1,389	190	13.7
Marketing and business development	1,239	1,092	147	13.5
Travel	826	755	71	9.4
Banking charges	842	737	105	14.2
Communications	932	783	149	19.0
Other	2,062	1,627	435	26.7
Total	15,597	14,336	1,261	8.8
Total Non-interest Expenses	$ 55,991	$ 49,214	$ 6,777	13.8%
Productivity Ratio				
Net interest income	$ 62,436	$ 56,266	$ 6,170	11.0%
Other income	19,795	17,491	2,304	13.2
Total revenue	$ 82,231	$ 73,757	$ 8,474	11.5%
Productivity Ratio (expenses as a percentage of total revenue)	68.1%	66.7%		
Productivity Ratio, excluding the wealth management segment	59.8%	60.7%		

Non-interest expenses increased $6.8 million to $56.0 million in 1999. The increase in non-interest expenses was limited to 4.2% if the following are excluded:

- increased expenses in CWC ($3.2 million) due to inclusion of a full year of expenses as well as costs related to restructuring and growth in its branch network; and
- incremental costs for new branch initiatives ($1.5 million).

These increases were partially offset by a significant reduction in deposit insurance premiums as a result of the new premium rates which took effect May 1, 1999.

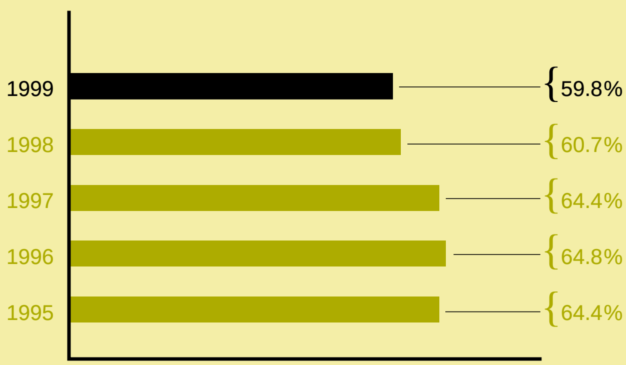
The productivity ratio increased to 68.1% from 66.7% in 1998 as revenue growth of 11.5% was more than offset by expense growth of 13.8%. CWC's wealth management operations have an inherently higher productivity ratio which together with the effect of restructuring and building its operations has resulted in the deterioration of the consolidated ratio year over year. Excluding the wealth management segment the productivity ratio improved to 59.8% from 60.7% in 1998. Non-interest expenses as a percentage of average assets was 2.27% in 1999, basically unchanged from 2.28% in 1998.

In 2000 we expect:

- the full time staff complement will increase by approximately 8% to accommodate growth in volumes and increased activity in branches; and
- other increases in non-interest expenses will be primarily attributable to volume increases from growth.

Capital expenditures of $4.9 million are budgeted for 2000 and will be funded from general operating revenues. Approximately 80% of this total relates to proposed expenditures on computer hardware and software with the majority allocated to the move of the banking software to a new operating environment. At year end there were specific commitments for approximately $500,000 of these capital expenditures. In November 1999 additional commitments totalling approximately $2.1 million were made regarding the banking software project.

Productivity Ratio*



*excluding the wealth management segment (see Table 3)

TAXES

As a result of the amalgamation with B.C. Bancorp ("BCB"), in fiscal 1997, the Bank assumed approximately $15.0 million in tax loss carryforwards, and $83.0 million in unclaimed tax deductions which are available for deduction in computing net income for tax purposes without time limitation. Of the consideration received by the BCB shareholders, $10.3 million was allocated to a deferred income tax asset which is being amortized to current income tax expense over the same period as the losses and unclaimed deductions are utilized.

The current income tax provision represents amortization of acquired unclaimed deductions and tax loss carryforwards of $2.7 million (1998 – $2.5 million) and large corporations tax of $552, 000 (1998 – $533,000).

Deferred income taxes arise from current year timing differences related to claiming deductions for income tax purposes on a basis different from accounting and relate primarily to the provision for credit losses. The Bank has reasonable assurance that its net deferred income tax asset will be realized through future reversals of timing differences.

Income taxes otherwise payable by the Bank for the year ended October 31, 1999 were eliminated by utilizing approximately $24.8 million (1998 – $23.7 million) of acquired unclaimed deductions and tax loss carryforwards.

At October 31, 1999, the Bank has approximately $44.7 million of unclaimed deductions which are available to reduce future years' income for tax purposes. The Bank's subsidiaries have $9.0 million of tax loss carryforwards, which expire up to 2006. The tax benefit of these losses has not been recognized in income.

Table 4 – Capital Taxes

($ thousands)

	Capital Tax Rate	Capital Allocation[2]	1999	1998	1999/1998 Increase (decrease) $	%
British Columbia	1.00%	41%	$ 787	$ 700	$ 87	12.4%
Alberta	2.00%[1]	51%	1,558	1,192	366	30.7
Saskatchewan	3.25%	5%	305	296	9	3.0
Manitoba	3.00%	3%	172	143	29	20.3
Total Capital Taxes			$ 2,822	$ 2,331	$ 491	21.1%

(1) Capital tax for financial institutions headquartered in Alberta is limited to 10% of pre-tax net income allocated to Alberta provided that value is less than Alberta capital taxes otherwise payable. This reduction decreases on a relative basis when a financial institution's capital base totals more than $100 million and is eliminated when its capital base reaches $200 million. The Bank's taxable capital base was approximately $166 million at October 31, 1999 (1998 – $140 million).

(2) These capital allocation percentages are for the Bank only although total capital tax includes capital taxes paid in British Columbia by subsidiaries.

Capital tax for 1999 totalled $2.8 million compared to $2.3 million in 1998. The increase is primarily attributable to:

- increased capital due to the retention of earnings;
- increased profitability, which increased the Alberta capital tax; and
- a reduction of $196,000 (1998 – $108,000) in the remission amount respecting Alberta capital tax.

In 2000 capital taxes will decrease due to changes introduced to the capital tax structure for financial institutions in the provinces of Alberta and Saskatchewan that take effect in fiscal 2000. In Alberta the capital tax base will now be harmonized with the federal capital base and the tax rate drops from 2.0% to 0.7% on the first $400 million of capital. The lower rate replaces the relief previously provided in the form of a remission calculation for financial institutions headquartered in Alberta.

In Saskatchewan the rate was lowered from 3.25% to 0.7% for financial institutions with capital of $400 million or less.

The goods and services tax (GST) carries with it a significant cost to the Bank as it does to all financial institutions to the extent that GST paid is not recoverable through increased service charges, increased loan costs or reduced deposit rates. This is because the majority of the Bank's activities, except leasing, loan administration and trust services, are exempt under GST legislation and thus GST cannot be charged and collected from customers as occurs in the majority of Canadian businesses. As a result, the ability to recover the GST paid on most purchased goods and services is lost. The estimated cost of unrecoverable GST during 1999 was $1.1 million compared to $872,000 in 1998.

LOANS

Table 5 – Outstanding Loans by Portfolio Type and by Provincial Location of Branch

($ millions)

October 31, 1999	British Columbia	Alberta	Saskatchewan	Manitoba	Total(1)	Composition %
Loans to Individuals						
Residential mortgages	$ 162	$ 91	$ 16	$ 3	$ 272	12%
Other	39	49	11	4	103	4
Total	201	140	27	7	375	16
Loans to Businesses						
Securities purchased under resale agreements and call loans	–	41	–	–	41	2
Commercial	295	243	13	13	564	25
Construction and real estate	469	279	44	65	857	38
Industrial	162	201	17	15	395	17
Energy	–	48	–	–	48	2
Total	926	812	74	93	1,905	84
Total Loans	$ 1,127	$ 952	$ 101	$ 100	$ 2,280	100%
Composition %	50%	42%	4%	4%	100%	
October 31, 1998						
Loans to Individuals						
Residential mortgages	$ 161	$ 89	$ 24	$ 3	$ 277	14%
Other	35	53	10	4	102	5
Total	196	142	34	7	379	19
Loans to Businesses						
Securities purchased under resale agreements and call loans	–	29	–	–	29	1
Commercial	257	191	8	15	471	24
Construction and real estate	408	219	26	49	702	35
Industrial	151	175	22	16	364	18
Energy	–	61	–	–	61	3
Total	816	675	56	80	1,627	81
Total Loans	$ 1,012	$ 817	$ 90	$ 87	$ 2,006	100%
Composition %	51%	41%	4%	4%	100%	

(1) This table does not include an allocation of the allowance for credit losses and deferred revenue and discounts.

Loans, as reported on the consolidated balance sheet, totalled $2.25 billion at the end of 1999 compared to $1.99 billion at the end of 1998, an increase of 13%. Highlights of the year over year changes are:

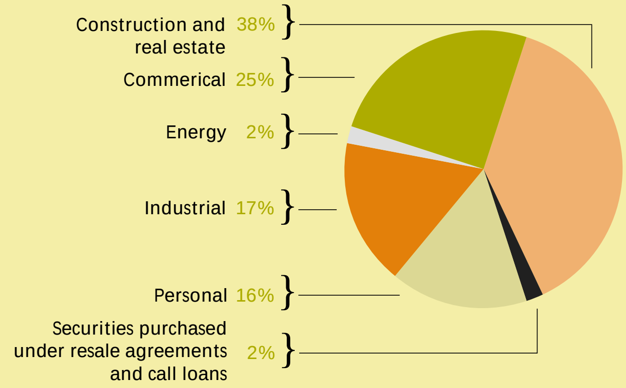
Portfolio

- growth in commercial loans of $93 million (20%) which represents 25% of the portfolio versus 24% one year ago;
- growth in construction and real estate loans of $155 million (22%) which represents 38% of the portfolio versus 35% a year earlier;
- an increase in the industrial portfolio of $31 million (9%);
- a reduction in the energy portfolio, a specialty in our Calgary market, of $13 million (21%); and
- a marginal decrease in loans to individuals of $4 million (1%) which represents 16% of the portfolio versus 19% a year ago.

Location

- loan growth of $115 million (11%) in British Columbia and $159 million (16%) in the prairie provinces; and
- a relatively constant overall percentage distribution by province.

Loans by Portfolio



In 2000 the Bank's business plan focuses on continued growth in all portfolios. Although the market remains competitive, significant overall loan growth is planned for 2000 as the Bank expands its activities.

DEPOSITS

Table 6 – Deposits
($ thousands)

	1999		1998	
	Amount	% of Total	Amount	% of Total
Canadian Currency				
Personal chequing and savings	$ 86,933	3.7%	$ 82,740	4.0%
Business demand and savings	172,734	7.3	168,270	8.2
Fixed term:				
Under $100,000	1,289,839	54.4	1,120,740	54.4
$100,000 and over	312,203	13.1	260,499	12.6
Registered retirement products	498,384	21.0	417,792	20.3
Total	2,360,093	99.5	2,050,041	99.5
Foreign Currency (Canadian equivalent)	10,982	0.5	9,504	0.5
Total Deposits	$ 2,371,075	100.0%	$ 2,059,545	100.0%

Deposits grew to $2.37 billion, an increase of 15%. The analysis of these deposits is presented in Table 6. Highlights of the year include:

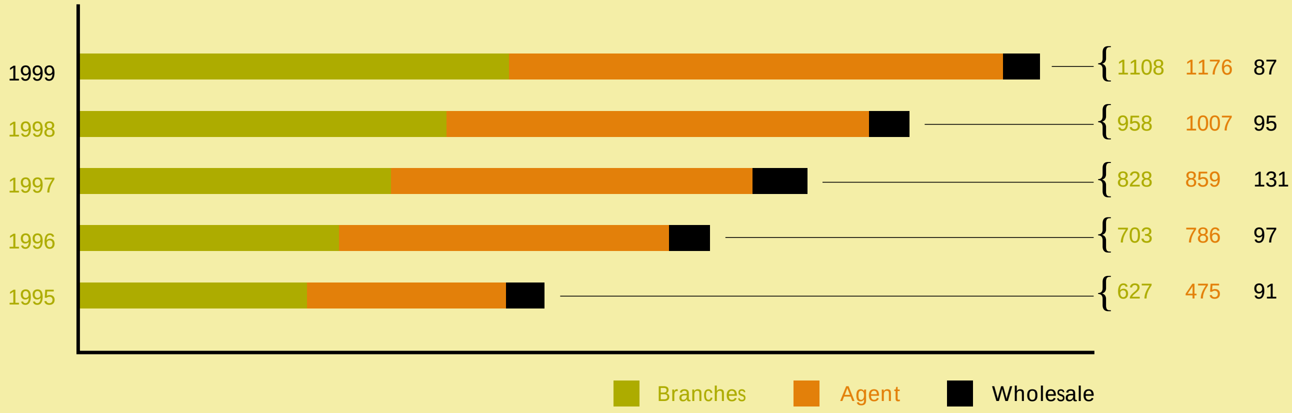
- a stable mix of deposit type for this year and anticipated going forward; and
- increased total deposits raised in our retail branches of almost 16%.

The mix of deposits by source remained relatively consistent with last year:

- branches – 47% (1998 – 45%)
- deposit agents – 49% (1998 – 50%)
- wholesale clients – 4% (1998 – 5%)

CWT, whose portfolio mix is included in the above numbers, does not have retail branches and so gathers most of its deposits through deposit agents, although $30.9 million (1998 – $20.7 million) of CWT's portfolio was generated through the Bank's retail branches. Retail branch deposits are generally considered to be more stable and our ongoing objective is to focus growth strategies on this source. Agent deposits are slightly more expensive because a commission is paid, but this added cost is countered by a reduced need for establishment of an extensive branch network.

Deposits by Source ($ millions)



CAPITAL FUNDS AND ADEQUACY

Table 7 – Capital Structure and Regulatory Ratios at Year End

($ thousands)

	1999	1998	1999/1998 Increase (decrease)
Tier 1 Capital			
Retained earnings	$ 61,066	$ 55,673	$ 5,393
Common shares	98,484	89,595	8,889
Non-controlling interest in subsidiary	234	331	(97)
Less unamortized goodwill	(448)	(520)	72
Total	159,336	145,079	14,257
Tier 2 Capital (gross)			
General allowance for credit losses (Tier A)(1)	15,996	2,767	13,229
Subordinated debentures (Tier B)	78,691	87,091	(8,400)
Total	94,687	89,858	4,829
Total	254,023	234,937	19,086
Less regulatory limitation on inclusion of debentures(2)	–	(14,716)	14,716
Total Regulatory Capital	$ 254,023	$ 220,221	$ 33,802
Regulatory Capital to Risk-weighted Assets			
Tier 1 capital	7.4%	7.8%	(0.4)%
Tier 2 capital	4.4%	4.1%	0.3 %
Total Regulatory Capital Adequacy Ratio	11.8%	11.9%	(0.1)%
Assets to Regulatory Capital Multiple(3)	10.8	11.0	(0.2)

(1) Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. The Bank has been granted an inclusion rate of 0.75% (1998 – 0.15%) of risk-weighted assets.

(2) The maximum amount of subordinated debentures that can be included in Tier 2B capital for regulatory purposes is 50% of Tier 1 capital. In 1999, there is no excess Tier 2B capital but in 1998 Tier 2B capital was reduced by $14,716 resulting in regulatory Tier 2 capital of $75,142.

(3) Total assets plus off-balance sheet credit instruments, such as letters of credit and guarantees, less goodwill divided by total regulatory capital.

Table 8 – Risk-weighted Assets
($ thousands)

	Balance	1999 Risk-weighted Balance	Balance	1998 Risk-weighted Balance
Balance Sheet Assets				
Cash resources	$ 169,990	$ 33,685	$ 159,538	$ 31,459
Securities	205,192	40,287	160,867	28,208
Loans	2,253,598	2,001,990	1,989,656	1,713,087
Other assets	63,602	54,709	76,417	56,063
Total	$ 2,692,382	$ 2,130,671	$ 2,386,478	$ 1,828,817
Credit Instruments(1) (contract amounts)				
Guarantees and standby letters of credit	$ 27,479	$ 17,659	$ 21,457	$ 18,231
Commitments to extend credit(2)	843	422	638	319
Total	$ 28,322	$ 18,081	$ 22,095	$ 18,550
Derivative Financial Instruments(3) (notional amounts)				
Interest rate contracts	$ 269,000	$ 49	$ 130,000	$ 112
Equity contracts	2,200	35	–	–
Total	$ 271,200	$ 84	$ 130,000	$ 112
Total Risk-weighted Assets		$ 2,148,836		$ 1,847,479

(1) See Note 11 to the Consolidated Financial Statements for further details.
(2) Greater than one year only.
(3) See Note 15 to the Consolidated Financial Statements for further details.

The Office of the Superintendent of Financial Institutions ("OSFI") requires banks to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the deemed credit risk of each type of asset a weighting of 0% to 100% is assigned. Published regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI strongly encourages Canadian banks to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. In the Bank, Tier 1 capital is comprised of common shareholders' equity and Tier 2 capital includes subordinated debentures (to the regulatory maximum amount of 50% of Tier 1 capital) and an inclusion of the general allowance for credit losses at a prescribed inclusion rate based on risk-weighted assets. In tandem with the one-time increase in the general allowance for credit risk (see Note 1(d) to the Consolidated Financial Statements), OSFI authorized the inclusion of the general allowance in Tier 2A capital at up to 75 basis points (0.75%) of risk-weighted assets. Previously the inclusion rate was 15 basis points (0.15%). The net effect of the one-time increase in the general was a decrease in the Tier 1 capital ratio (from the charge to retained earnings) but an increase in the total capital ratio (from the higher Tier 2A inclusion rate).

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and which take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to provide enough support for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, while still improving the return on equity through the most efficient capital mix.

At October 31, 1999 the total regulatory capital ratio coverage was 11.8% (1998 – 11.9%) of which 7.4% (1998 – 7.8%) was Tier 1 capital. Total regulatory capital increased $33.8 million over 1998 as a result of:

- earnings net of dividends, of $15.0 million;
- the increased inclusion rate of the general allowance for credit risk;
- share capital of $489,000 issued upon the exercise of 68,977 stock options, net of 10,300 shares purchased for cancellation under the normal course issuer bid; offset by charges to retained earnings of:
- $6.5 million which represents the increase in the general allowance for credit risk of $11.7 million, net of deferred income taxes of $5.2 million; and
- $3.1 million which represents the consideration paid by the Bank for the conversion option on a debenture redemption.

Subordinated debentures include both convertible ($65.6 million) and conventional ($13.1 million) debentures. Note 8 to the Consolidated Financial Statements details the terms of the debentures. During the year $8.4 million of the 6.75% convertible debentures were converted by debentureholders into 672,000 shares at a $12.50 per share conversion price which resulted in a transfer from Tier 2 to Tier 1 capital. On October 29, 1999 the Bank provided notice of its intention to convert all of the outstanding 6.75% convertible debentures to common shares on December 1, 1999. As a result of the notice the remaining $11.6 million debentures were converted by debentureholders on November 30, 1999 at a conversion price of $12.50 per share. Had the conversions occurred on October 31, 1999 the total capital ratio would not have been affected but the Tier 1 capital ratio would have strengthened to 8.0%.

In July, a $4.0 million 9% convertible debenture with a conversion price of $11.00 was redeemed for $7.1 million with the excess of total consideration paid over the face value of the debenture attributed to the conversion option and charged to retained earnings. A new $4.0 million ten year debenture, convertible at $25.00 was issued at a fixed interest rate of 5.70% for the first five years.

During the third quarter of 1999 the Bank's dividend policy was amended to be semi-annual instead of annual. In January 1999 the annual dividend of $0.32 per share was paid and in July the first semi-annual dividend of $0.16 was paid. Hence the dividend rate for fiscal 1999 appears unusually high.

The Bank has share option plans that are provided as an incentive to officers and employees who are in a position to materially impact the longer term financial success of the Bank as measured by shareholder wealth. Note 9 to the Consolidated Financial Statements details the number of shares under option outstanding, the weighted average exercise prices and the amounts exercisable.

On November 4, 1998 the Bank implemented a normal course issuer bid for a twelve-month period which allowed the Bank to purchase for cancellation up to 472,036 common shares, or 5% of its outstanding common shares. The bid was implemented because management considered the shares to be undervalued and viewed a repurchase program as an appropriate use of the Bank's funds. In October 1999 the Bank purchased 10,300 shares for cancellation, at $17.50 per share. The normal course issuer bid expired November 3, 1999.

RISK MANAGEMENT

Overview

The Bank's risk management policies continue to evolve and improve in order to accommodate the new challenges that come with growth, expansion and changes in the regulatory and public domain.

Effective risk management is central to the ability to remain strong and profitable and includes identifying, assessing, managing and monitoring all forms of risk. The Bank is primarily exposed to four basic types of risk:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

The most senior executives are responsible for identifying risks and establishing appropriate risk management policies and frameworks. The Board of Directors, either directly or through its committees, reviews and approves the key policies, and implements specific reporting procedures to enable them to monitor ongoing compliance over significant risk areas. At least annually a report on significant internal controls is presented to the Board and the Audit Committee.

The Loans Committee of the Board, which maintains a close working relationship with the credit risk management group, is responsible for:

- the review and approval of credit risk management policies;
- loans in excess of delegated limits;
- the review and monitor of impaired and other less than satisfactory loans; and
- the recommendation of the adequacy of the allowance for credit losses to the Audit Committee.

At the operational level, the Asset Liability Committee ("ALCO") plays a key role in the management of liquidity and market risk. ALCO is a management committee chaired by the Senior Vice President, Corporate & Strategic Operations with the President and CEO and other senior executives as members and is responsible for:

- the establishment and maintenance of policies and programs for liquidity management and control, funding sources, investments, foreign exchange risk, interest rate risk and derivatives; and
- regular meetings to review compliance and discuss strategy in this area.

Asset liability management policies are approved and reviewed at least annually by the Board with quarterly status reporting provided to the Board.

The Operations Committee meets regularly and is made up of experienced bank officers from all areas of operations and is chaired by a member of senior management. This committee is responsible for developing appropriate policies and procedures, including internal controls, respecting day-to-day, routine operations.

The internal audit group performs inspections in all areas of the Bank, including CWT and CWC, and reports the results directly to senior management, the President and CEO and the Audit Committee.

Credit Risk Management

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Bank. This risk can relate to balance sheet assets, such as loans, as well as off-balance sheet assets such as guarantees and letters of credit. To diversify the risk, the exposure to a single borrower or associated borrowers is limited to $15 million. In special circumstances, exposure can be increased to an amount not exceeding 10% of capital funds.

The Bank employs and is committed to a number of important principles to manage credit exposures which include:

- a Loans Committee of the Board whose duties include approval of lending policies, establishment of lending limits for the Bank, the delegation of lending limits and the review of larger credits as well as quarterly reports prepared by management on watch list loans, impaired loans, the adequacy of the allowance for credit losses, environmental risk and diversification of the portfolio;
- delegated lending authorities which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of limits and the review of larger credits by a senior management group prior to recommendation to the Loans Committee of the Board;
- credit policies, guidelines and directives which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;
- appointment of personnel engaged in credit granting who are qualified, experienced bankers;
- a standardized credit risk rating classification established for all credits and reviewed not less than annually;
- annual reviews of individual credit facilities (excepting consumer loans and residential mortgages);
- diversification of risk by client, geographic area, industry sectors and products;
- pricing of credits commensurate with risk to ensure appropriate compensation;
- management of growth within quality objectives;
- early recognition of problem accounts and immediate implementation of steps to protect the safety of Bank funds;
- independent annual reviews of credit valuation, risk classification and credit management procedures by the internal audit group which include reporting the results to senior management, the President and CEO and the Audit Committee; and
- detailed quarterly reviews of accounts rated less than satisfactory including a watch list report recording accounts with evidence of weakness, an impaired loan report covering loans which show impairment to the point where a loss is probable, and the establishment of an action plan for each account.

Environmental Risk

The operations conducted by the Bank do not impose a material effect on the environment. However, losses can be incurred if a borrower is unable to repay loans due to environmental clean up costs, or if the Bank becomes directly liable for clean up costs if it is deemed to have taken control or ownership of a contaminated property.

Risk assessment criteria and procedures are in place to manage environmental risks and these are communicated to lending personnel. Reports on environmental inspections and findings are reviewed by senior management and reported upon quarterly to the Board.

Portfolio Quality

The Bank's strategy is to continually improve and maintain a quality portfolio. Efforts are directed towards achieving a wide diversification, engaging experienced personnel who provide a hands on approach in credit granting, account management and quick action when problems develop. The lending focus is primarily directed to small and medium-sized businesses and individuals with operations conducted in the four western provinces. Relationship banking and "know your customers" are important tenets of account management. An appropriate financial return on the level of risk is fundamental.

Table 9 – Change in Gross Impaired Loans

($ thousands)

	1999	1998	1999/1998 Increase (decrease)
Gross impaired loans, beginning of year	$ 26,345	$ 21,534	$ 4,811
Net additions	14,158	8,841	5,317
Write-offs	(2,314)	(4,030)	1,716
Total	$ 38,189	$ 26,345	$ 11,844
Gross Impaired Loans as a Percentage of Total Loans	1.69%	1.32%	0.37%

Impaired Loans

Gross impaired loans increased $11.8 million in 1999 reflecting a general softening in the British Columbia economy. As shown in Table 9, gross impaired loans total $38.2 million representing 1.69% (1998 – 1.32%) of total outstanding loans.

Impaired loans net of the allowance for credit losses have decreased over the past year and represent 0.54% (1998 – 0.68%) of net loans outstanding. The impaired loan outlook going forward into 2000 is expected to be favourable as economic conditions are trending positively.

Table 10 shows the year over year change to the allocation of the allowance for credit losses to specific provisions by category of impaired loans and to the general allowance for credit risk.

Net Impaired Loans as a Percentage of Net Loans Outstanding

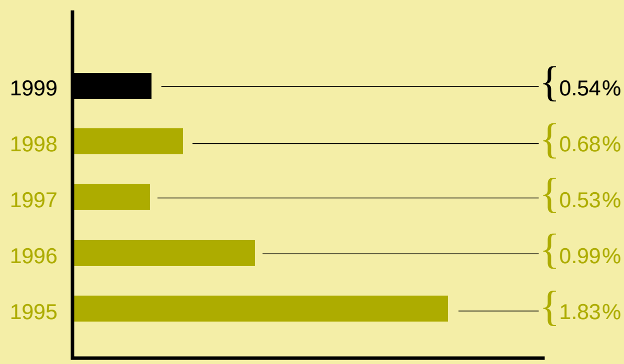


Table 10 – Allowance for Credit Losses

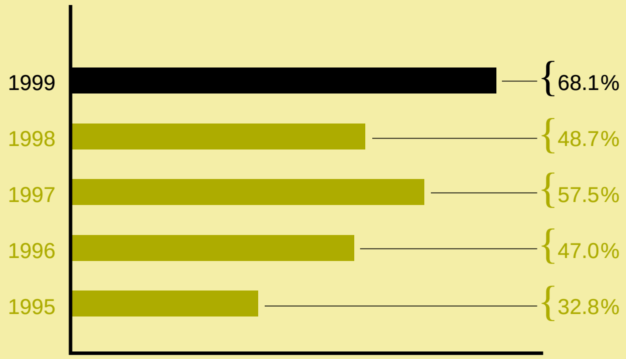
($ thousands)

	1998 Ending Balance	Adjustment to General Allowance for Credit Risk(1)	Write-offs, net of Recoveries(2)	Provision for Credit Losses	1999 Ending Balance
Specific Provisions					
Consumer and personal	$ 320	$ –	$ 447	$ 475	$ 348
Real estate	1,587	–	279	1,218	2,526
Industrial	165	–	151	1,224	1,238
Other	1,445	–	1,389	1,004	1,060
General Allowance	9,325	11,694	–	(171)	20,848
Total	$ 12,842	$ 11,694	$ 2,266	$ 3,750	$ 26,020

(1) In accordance with the guidance provided by OSFI, as described further below and in Note 1(d) to the Consolidated Financial Statements, the Bank increased its general allowance for credit risk by $11.7 million. Accordingly, retained earnings was reduced by $6.5 million, representing the increase in the general allowance, net of deferred income taxes of $5.2 million.

(2) Recoveries in 1999 totalled $48 (1998 – $334).

Allowance for Credit Losses as a Percentage of Gross Impaired Loans



Allowance For Credit Losses

The allowance for credit losses consists of $5.2 million in specific provisions and $20.8 million in the general allowance for credit risk with the latter now representing 0.93% of gross outstandings and 1.03% of risk-weighted credit assets. This compares favorably with the Bank's five year loan loss average of 0.25% which is based on the annual charges to the income statement. The five year loan loss average based only on net new specific provisions (i.e. excluding the annual increase or decrease in the general allowance for credit risk) is 0.16%. The general allowance is available to cover credit losses inherent in the portfolio which are not currently identifiable on an account by account basis. An assessment of the adequacy of the general allowance is conducted quarterly and measured against the Bank's five year loan loss average. In addition, a method of applying a progressive (increasing with higher risk) loss ratio range against groups of loans of a common risk rating is utilized to test the general allowance adequacy. The general allowance would be expected to increase in strong economic times and decrease in weaker economic times as provisions are allocated on specific credits.

In October 1998 OSFI provided guidance to all deposit-taking institutions on establishing general allowances for credit risk (unallocated loan loss provisions) in their ongoing program to strengthen general allowances and related methodologies. While OSFI did not believe that there was a systemic problem of asset quality in the Canadian system, they felt the need for higher general allowances was supported by, amongst other things, the current position in the economic cycle, growing potential off-balance sheet activity and associated credit risk, and the current levels of allowances of a number of Canadian institutions in relation to historical levels and compared to institutions in other jurisdictions.

OSFI's revised general allowance criteria were effective for 1999. In accordance with the guidance provided by OSFI, $11.7 million was added to the general allowance in the second quarter, bringing it to $21.5 million at April 30, 1999. Because the increase was significant, OSFI specified that the adjustment be charged to retained earnings with no restatement of prior periods. Consequently, an amount of $6.5 million, representing the $11.7 million adjustment less deferred income taxes of $5.2 million, was charged to retained earnings. At October 31, 1999 the general allowance for credit risk totalled $20.8 million. Considering the amount required to conform to the guidance as well as the accounting treatment specified by OSFI the accounting for the general allowance represents a departure from generally accepted accounting principles in Canada. However, the accounting policies for all other financial statement items do conform, in all material respects, to generally accepted accounting principles as specified in the Auditors' Report. The level of the general allowance was established by taking into consideration historical trends in the loss experience during a complete economic cycle, the current portfolio profile, estimated credit losses for the current phase of the economic cycle and historical experience in the industry. The impact of the departure from generally accepted accounting principles to conform to the guidance provided by OSFI is as follows.

Impact of the Adjustment on Specific Balance Sheet Items

- the increase in the general allowance for credit risk changed the following items on the balance sheet at April 30, 1999:

($ thousands)

	Increase (decrease)
Assets	
Loans (net of allowances)	$ (11,694)
Other assets – Deferred income taxes	$ 5,185
Shareholders' equity	
Retained earnings	$ (6,509)

Impact of the Adjustment on Book Value

- the adjustment of $6.5 million (i.e. $11.7 million less deferred income taxes) reduced book value by $0.64 per share.

Impact of the Adjustment on Return on Common Shareholders' Equity

- the adjustment to the general allowance decreased average shareholders' equity for the fiscal year ended October 31, 1999, since the adjustment was made in April, thereby increasing the return on common shareholder's equity by 0.28%; and
- in subsequent fiscal years, the impact on common shareholders' equity will be negligible.

Impact of the Adjustment on Capital Ratios

- the total capital adequacy ratio increased (Tier 1 decreased) as a result of the adjustment to the general allowance and taking into account the granting of Tier 2A capital treatment for general allowances up to a maximum of 0.75% of risk-weighted assets. The table below shows the impact of this adjustment:

($ thousands)

	Before adjustment	After adjustment
Tier 1 capital	$ 165,845	$ 159,336
Tier 2 capital	81,891	94,687
Total Capital	$ 247,736	$ 254,023
Risk-weighted assets	$ 2,142,185	$ 2,148,836
Ratios		
Tier 1 capital	7.7%	7.4%
Tier 2 capital	3.8%	4.4%
Total	11.5%	11.8%

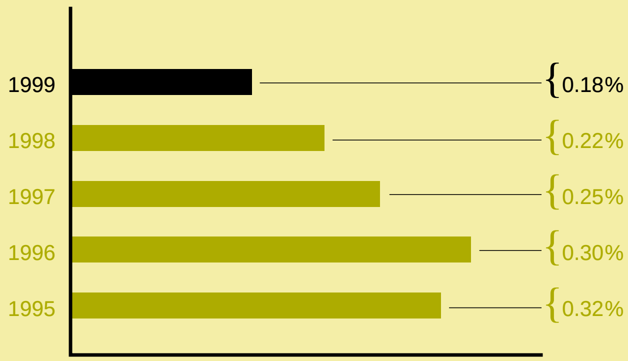
Impact of the Adjustment on the Consolidated Statement of Income

- the adjustment to the general allowance had no impact on the Consolidated Statement of Income.

Impact of the Adjustment on the Consolidated Statement of Cash Flow

- the adjustment to the general allowance had no impact on the cash flow presented in the Consolidated Statement of Cash Flow.

Provision for Credit Losses as a Percentage of Average Loans Outstanding



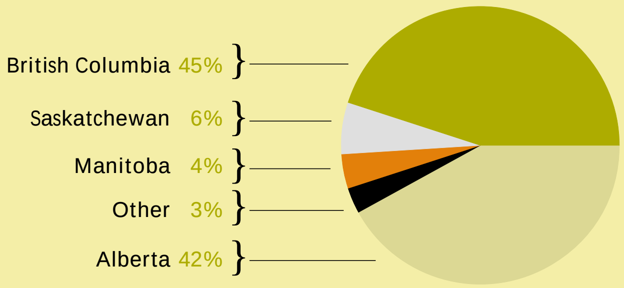
Provision for Credit Losses

For the year ended October 31, 1999, the provision for credit losses represented 0.18% of average loans. As reflected in the graph below the provision for credit losses is trending downward reflecting the strong credit quality of the portfolio.

Diversification of Portfolio

Total Advances Based on Location of Borrower (also see Table 5)

Geographical Distribution of Loans



The following table illustrates the diversification in our lending operations by industry sector.

Table 11 – Total Advances Based on Industry Sector

(%) October 31	1999	1998
Real estate operations	24.5%	22.6%
Construction	20.4	20.0
Consumer loans and residential mortgages	16.5	18.4
Transportation and storage	6.9	5.7
Manufacturing	4.1	4.3
Hotel/motel	4.0	3.8
Oil and gas (production)	2.5	3.6
Logging/forestry	3.0	3.2
Other services	2.7	3.0
Wholesale trade	2.5	2.9
Finance and insurance	3.0	2.8
Government guaranteed	1.1	2.3
Other	8.8	7.4
Total	100.0%	100.0%

Management of the loan portfolio includes the strategy of avoiding high concentrations in one geographic area or industry sector. The Bank's portfolio is well diversified with a mix of corporate and personal business. Industrial lending units are set up within branches or stand alone operations, while oil and gas lending is conducted by specialists in our Calgary market. In addition to these areas, we also have real estate divisions established in the major centres in which we operate.

Liquidity Risk

Liquidity risk is the risk that the Bank will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from lending, deposit taking, investing, and other activities. Effective liquidity management ensures that adequate cash is available to honour all cash outflow obligations. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and to react to other market opportunities.

The Bank's liquidity policy includes:

- measurement and forecast of cash flows;
- maintenance of a high quality pool of liquid assets;
- a stable base of core deposits from retail and commercial customers;
- limits on single deposits and sources of deposits;
- diversification of funding sources; and
- an approved contingency plan.

Key features of liquidity management are:

- daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position, including the flows from off-balance sheet items, on a weekly and forward three month rolling basis;
- consideration of the term structure of assets and liabilities, with emphasis on deposit maturities, as well as expected loan fundings and other commitments to provide funds when determining required levels of liquidity; and
- separate management of the liquidity position of the Bank and CWT to ensure compliance with related party and other regulatory tests.

A schedule outlining the consolidated securities portfolio at October 31, 1999 is provided in Note 2 to the Consolidated Financial Statements. A conservative policy is maintained in this area with:

- virtually all investments limited to high quality debt securities and short term money market instruments to meet objectives of liquidity management and to provide an appropriate return;
- specific investment criteria and procedures for purposes of management of the securities portfolio;
- regular review, monitoring and approval by ALCO of policies regarding these investments and annual review and approval by the Board of Directors; and
- quarterly reporting to the Board of Directors on the securities portfolio.

Table 12 – Liquid Assets

($ thousands)

	1999	1998	1999/1998 Increase (decrease)
Cash	$ 1,562	$ 2,246	$ (684)
Deposits with regulated financial institutions	136,456	133,888	2,568
Cheques in transit	31,972	23,404	8,568
Total Cash Resources	169,990	159,538	10,452
Securities purchased under resale agreements and call loans	41,017	28,493	12,524
Government of Canada treasury bills	63,928	58,896	5,032
Government of Canada and provincial bonds term to maturity 1 year or less	52,248	32,574	19,674
Government of Canada and provincial bonds term to maturity over 1 year	48,729	41,189	7,540
Other marketable securities	38,938	27,937	11,001
Total Securities Purchased Under Resale Agreements/Call Loans and Marketable Securities	244,860	189,089	55,771
Total Liquid Assets	$ 414,850	$ 348,627	$ 66,223
Total Assets	$ 2,692,382	$ 2,386,478	$ 305,904
Liquid assets as a percentage of total assets	15.4%	14.6%	0.8%
Total Deposit Liabilities	$ 2,371,075	$ 2,059,545	$ 311,530
Liquid assets as a percentage of total deposit liabilities	17.5%	16.9%	0.6%

As shown in Table 12, liquid assets comprised of cash, interbank deposits, items in transit, securities purchased under resale agreements/call loans and marketable securities, totalled $415 million at October 31, 1999, an increase of $66 million from October 31, 1998. Liquid assets represented 15.4% (1998 – 14.6%) of total assets and 17.5% (1998 – 16.9%) of total deposit liabilities at that date.

Highlights of the composition of liquid assets at October 31, 1999 follow:

- maturities within one year total 86% or $357 million;
- Government of Canada treasury bills made up 15% of the book value with other Government of Canada and provincial debt securities accounting for 24% of liquid assets;
- highly rated short term commercial paper totalling $30 million is included in other marketable securities; and
- deposits with regulated financial institutions including bankers acceptances were 33% of liquid assets.

Also included in liquid assets are securities purchased under resale agreements and call loans. These are short term advances, typically no more than several days in duration, to securities dealers and either require the dealer to repurchase the securities or are secured by treasury bills or other high quality liquid securities.

Short term credit facilities have been arranged with a number of financial institutions. The expansion of such facilities will continue to be pursued as an additional liquidity safeguard. The government insured/guaranteed mortgage and loan portfolios also represent a potential source of liquidity.

The primary source of new funding is the issuance of deposit instruments. A summary of the deposits by maturity is presented in Tables 13 and 14.

Table 13 – Deposit Maturities Within One Year

($ millions)

	Within 1 Month	1 to 3 Months	3 Months to 1 Year	Cumulative Within 1 Year
At October 31, 1999				
Demand deposits	$ 45	$ –	$ –	$ 45
Notice deposits	221	–	–	221
Deposits payable on a fixed date	255	152	806	1,213
Total	$ 521	$ 152	$ 806	$ 1,479
At October 31, 1998				
Total	$ 543	$ 179	$ 563	$ 1,285

Table 14 – Total Deposit Maturities

($ millions)

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Total
At October 31, 1999						
Demand deposits	$ 45	$ –	$ –	$ –	$ –	$ 45
Notice deposits	221	–	–	–	–	221
Deposits payable on a fixed date	1,213	353	229	158	152	2,105
Total	$ 1,479	$ 353	$ 229	$ 158	$ 152	$ 2,371
At October 31, 1998						
Total	$ 1,285	$ 256	$ 257	$ 125	$ 137	$ 2,060

A breakdown of deposits by source is provided under the heading Deposits. Target limits by source have been established as part of the Bank's overall liquidity policy and are monitored to ensure an acceptable level of diversification in sources of funding is maintained. The Bank continues to aggressively pursue retail deposits generated through its branch network as a core funding source. However, the total dollar value of agent generated deposits will likely continue to increase even though the goal is to decrease funding from this source as a percentage of total deposit liabilities. CWT continues to raise essentially all of its deposits through agents. The Bank distributes CWT's deposit products through the Bank's branch network and at October 31, 1999, $30.9 million (1998 – $20.7 million) of CWT deposits had been raised in this manner.

Market Risk

Market risk is the impact on earnings resulting from changes in financial market variables such as interest rates and foreign exchange rates. Market risk arises when making loans, taking deposits and making investments. The Bank itself does not undertake trading activities and, therefore, does not have risks related to such activities as market making, arbitrage or proprietary trading. Therefore, the Bank's material market risks are confined to interest rates and foreign exchange as discussed below.

Interest Rate Risk

Interest rate risk or sensitivity can be defined as the impact on net interest income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises when cash flows associated with interest sensitive assets and liabilities have different repricing dates. The differentials, or interest rate gaps, arise as a result of the financial intermediation process and reflect differences in term preferences on the part of borrowers and depositors.

A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific maturity or repricing period. A positive gap will tend to lead to an increase in net interest income when market interest rates rise since assets are repricing earlier than liabilities. The opposite impact will occur when market interest rates fall. A negative gap is the opposite of a positive gap.

To manage interest rate risk arising as a result of the financial intermediation process, ALCO establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's position and decide future strategy. The objective is to manage the interest rate risk within prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the Board of Directors with quarterly reporting provided to the Board as to the gap position.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured at least monthly.

Table 15 shows the consolidated gap position at October 31, 1999 for selected time intervals. Comparative summary figures are given at October 31, 1998. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

Table 15 – Asset Liability Gap Positions

($ millions)

	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	Over 5 Years	Non-interest Sensitive	Total
At October 31, 1999								
Assets								
Cash resources	$ 71	$ 41	$ 9	$ 121	$ –	$ –	$ 49	$ 170
Securities	39	31	77	147	49	9	–	205
Loans	972	72	327	1,371	905	–	(23)	2,253
Other assets	–	–	–	–	–	–	64	64
Off-balance sheet swaps	–	20	210	230	41	–	–	271
Total	1,082	164	623	1,869	995	9	90	2,963
Liabilities and Equity								
Deposits	521	152	806	1,479	892	–	–	2,371
Other liabilities	10	–	–	10	–	–	73	83
Debentures	12	–	–	12	67	–	–	79
Shareholders' equity	–	–	–	–	–	–	159	159
Off-balance sheet swaps	271	–	–	271	–	–	–	271
Total	814	152	806	1,772	959	–	232	2,963
Interest Rate Sensitive Gap	$ 268	$ 12	$ (183)	$ 97	$ 36	$ 9	$ (142)	$ –
Cumulative Gap	$ 268	$ 280	$ 97	$ 97	$ 133	$ 142	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	9.0%	9.4%	3.3%	3.3%	4.5%	4.8%	(4.8)%	–
At October 31, 1998								
Total assets	$ 941	$ 161	$ 424	$ 1,526	$ 899	$ 2	$ 89	$ 2,516
Total liabilities and equity	678	179	587	1,444	838	–	234	2,516
Interest Rate Sensitive Gap	$ 263	$ (18)	$ (163)	$ 82	$ 61	$ 2	$ (145)	$ –
Cumulative Gap	$ 263	$ 245	$ 82	$ 82	$ 143	$ 145	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	10.5%	9.7%	3.3%	3.3%	5.7%	5.8%	(5.8)%	–

Notes:

1. Accrued interest is excluded in calculating interest sensitive assets and liabilities.
2. Potential prepayments of fixed rate loans and early redemption of redeemable fixed term deposits have not been estimated. Redemptions of fixed term deposits where depositors have this option are not expected to be material. Deposits with a redemption option totalled approximately $34 million as at October 31, 1999. The majority of fixed rate loans, mortgages and leases are either closed or carry prepayment penalties.

The gap analysis in Table 15 is a static measurement of interest rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates as well as the size and maturity structure of the cumulative interest rate gap position and management of those positions over time.

During the year:

- the one year and under cumulative gap remained unchanged at 3.3%;
- the one month and under gap decreased from 10.5% to 9.0%; and
- the five year and under cumulative gap decreased from 5.7% to 4.5%.

Of the $1.21 billion in fixed term deposit liabilities maturing within one year from October 31, 1999, approximately $178 million (7.5% of total deposit liabilities) are fixed term registered retirement product deposits maturing between December 1, 1999 and April 30, 2000. The term in which these deposits and other maturing deposits are retained will have an impact on the future asset liability structure and hence interest rate sensitivity.

The effective interest rates for each class of financial asset and liability, including off-balance sheet instruments, are shown in Table 16.

Table 16 – Weighted Average Effective Interest Rates

(%)

	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	Over 5 Years	Total
At October 31, 1999							
Assets							
Cash resources	4.4%	5.0%	4.9%	4.7%	–%	–%	4.7%
Securities	4.8	4.8	5.2	5.0	5.5	5.5	5.1
Loans	7.2	7.8	7.9	7.4	7.7	–	7.5
Off-balance sheet swaps	–	5.1	5.3	5.3	5.6	–	5.3
Total	6.9	6.2	6.6	6.8	7.5	5.5	7.0
Liabilities							
Deposits	3.3	5.1	5.5	4.7	5.7	–	5.1
Debentures	6.8	–	–	6.8	5.7	–	5.9
Off-balance sheet swaps	4.7	–	–	4.7	–	–	4.7
Total	3.8	5.1	5.5	4.7	5.7	–	5.0
Interest Rate Sensitive Gap	3.1%	1.1%	1.1%	2.0%	1.9%	5.5%	2.0%
At October 31, 1998							
Total assets	7.6%	6.4%	7.0%	7.3%	7.7%	7.0%	7.4%
Total liabilities	4.1	5.0	5.5	4.8	6.0	–	5.2
Interest Rate Sensitive Gap	3.5%	1.4%	1.5%	2.5%	1.7%	7.0%	2.2%

The estimated sensitivity of net interest income to a change in interest rates is presented in Table 17. The amounts represent the estimated change in net interest income over the time period shown resulting from a one percentage point change in interest rates. If rates increase, the effect would be an increase in net interest income while the opposite would occur if rates decrease. The estimates are based on a number of assumptions/factors, which include:

- a constant structure in the asset liability portfolio;
- interest rate changes affect interest sensitive assets and liabilities by the same amount and are applied at the appropriate repricing dates; and
- no early redemptions.

The interest sensitivity of the portfolio increased in both absolute dollar terms and as a percentage of estimated future net interest income during the year, but remained well within policy guidelines.

Table 17 – Estimated Sensitivity of Net Interest Income As a Result of a One Percentage Point Change in Interest Rates

($ thousands)

Period	1999	1998
90 days	$ 601	$ 585
1 year	1,938	2,152
1 year percentage change	3.3%	3.5%

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract appropriate assets and liabilities as well as through the use of interest rate swaps or other appropriate hedging techniques (see discussion under Off-balance Sheet Financial Instruments Including Derivatives). Assets and liabilities having a term to maturity in excess of five years are subject to specific review and control and with the exception of debentures, as outlined in Note 8 to the Consolidated Financial Statements, such items were not material as at October 31, 1999.

Foreign Exchange Risk

In providing financial services to its customers, the Bank has assets and liabilities denominated in United States (U.S.) dollars. At October 31, 1999, assets denominated in U.S. dollars were 0.4% of total assets and U.S. dollar liabilities were 0.4% of total liabilities. The comparable percentages at October 31, 1998 were 0.4% and 0.4% for assets and liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific customer needs and therefore, the Bank has virtually no exposure to currencies other than U.S. dollars.

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in U.S. dollars. Policy is established setting a limit on the difference between U.S. dollar assets and liabilities. The difference is measured daily and managed by use of U.S. dollar contracts or other means. Policy respecting foreign exchange exposure is reviewed and approved at least annually by the Board of Directors, and deviations from policy are reported to the Board and ALCO.

Operational Risk

Operational risk is the potential for loss as a result of a failure in communication, information or transaction processing due to system or procedural failures, errors, natural disasters or fraudulent activities. The financial measure of operational risk is actual losses incurred. No material losses occurred in 1999 or 1998.

These risks can never be completely eliminated but the Bank's strategy to minimize operational risk includes:

- a knowledgeable and experienced management team that is committed to the Bank's risk management policies;
- regular meetings of the Operations Committee, a management committee made up of supervisory and management personnel from all operational areas and chaired by a member of senior management, which is responsible for the development and recommendation of policies and procedures regarding day to day, routine operations;
- communication of the importance of effective risk management to all levels of staff through training and policy implementation;
- regular inspections for compliance and the effectiveness of procedural controls by a strong, independent internal audit team;
- implementation of policies and procedural controls appropriate to address identified risks and which include segregation of duties and built-in checks and balances;
- use of technology via automated systems with built-in controls;
- continual review and upgrade of systems and procedures; and
- updated and tested procedures and contingency plans for disaster recovery and business continuity.

In addition, the external auditors report annually on the efficiency and effectiveness of internal controls over significant risk areas and provide their report to the Audit Committee. The Bank also maintains appropriate insurance coverage through a financial institution bond policy.

Year 2000 Update

The "Year 2000 issue" is a general term used to refer to certain business implications of the arrival of the new millenium. These implications arise primarily because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. Date sensitive computer and electronic systems may not interpret dates in the next century accurately, possibly resulting in calculation errors and/or system failures. Without appropriate modifications, the Bank's ability to carry out normal activities could be compromised.

The Bank adopted the Office of the Superintendent of Financial Institutions Canada Year 2000 Project – Best Practices guideline as the basis for managing the Year 2000 issue. A Year 2000 project team was established in 1997 to manage the overall process and includes representatives from CWT and CWC. A standard methodology was adopted by all companies within the Bank's corporate family. Participation in the Canadian Bankers Association Year 2000 Interbank Working Group was also undertaken.

Awareness of the Year 2000 issue is high within the Bank. Quarterly reporting has been provided by management to the Board, and Internal Audit has presented an independent quarterly report to the Audit Committee on the status of the project. In late 1998, an independent party was engaged to review progress toward becoming Year 2000 ready. Items identified by management for follow up have been completed.

Modifications, implementation and testing of all internal systems as well as testing wih critical external parties has been completed. Internal testing has included a roll-over from 1999 to 2000 and running in a Year 2000 timeframe where appropriate. A freeze on system modifications is in effect to ensure that systems remain Year 2000 compliant.

Third parties are relied on for important services such as telecommunications, payment system clearing services and switching access to Interac® and other electronic networks. Year 2000 readiness of these service providers is actively monitored, and it is believed the third party service providers are ready to continue to provide services to the Bank and its customers.

Certain steps have also been taken to review the Year 2000 readiness of major borrowers. Based on this review, no material credit risk concerns have been identified. However, due to the general uncertainty inherent in the Year 2000 issue, it is not possible at this time to estimate any provisions for credit losses that may be required in the future.

The business continuity plan has been reinforced with specific contingency plans for Year 2000 transition issues. These contingency plans cover operational capability in the event of systems failures, failures by third party service providers and potentially higher than usual customer activity toward the end of 1999 and into early 2000. However, while the Bank believes that it is taking all required and prudent actions, there can be no assurance that the contingency planning will fully mitigate the risks and uncertainties associated with the transition to the Year 2000.

The Bank has guaranteed that customers' money will be safe in their Canadian Western Bank and Canadian Western Trust accounts, and financial records will be fully protected before, on and after January 1, 2000.

Incremental Year 2000 related costs for the Year 2000 project to date have totalled approximately $584,000. Of this amount, approximately $382,000 has been expensed as incurred. The balance of the costs have been capitalized according to existing policies and would have been incurred over the next two years in any event as part of the Bank's normal ongoing systems maintenance and replacement program.

The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failures which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties will be fully resolved.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS INCLUDING DERIVATIVES

Table 18 – Off-balance Sheet Financial Instruments

($ thousands)

	1999	1998
Credit Instruments		
Guarantees and standby letters of credit(1)	$ 27,479	$ 21,457
Commitments to extend credit(2)	366,229	282,150
Total	$ 393,708	$ 303,607
Derivative Financial Instruments (notional amounts)		
Interest rate contracts(3)	$ 269,000	$ 130,000
Equity contracts(4)	2,200	–
Total	$ 271,200	$ 130,000
Assets Under Administration and Management		
Assets under administration	$ 559,978	$ 453,058
Assets under management	399,284	392,556
Total	$ 959,262	$ 845,614

(1) Letters of credit and guarantees are issued on behalf of clients to third party beneficiaries as part of normal business operations.

(2) Commitments to extend credit to customers arise in the normal course of business. Includes undrawn availability authorized under lines of credit and commercial operating loans of $150 million (1998 – $122 million) and recently authorized but unfunded loan commitments of $216 million (1998 – $122 million).

(3) Interest rate swaps are used as hedging devices to control interest rate risk. The outstanding swaps mature between January 2000 and July 2004. The total gross positive replacement cost of interest rate swaps was a positive $227 (1998 – $437). This market value represents an unrealized gain, or the payment the Bank would receive if these contracts were unwound and settled at that date.

(4) Equity contracts are used to offset the return paid to depositors on certain deposit products where the return is linked to a stock index. The two outstanding contracts mature in March and June 2004. The total gross positive replacement cost is $17.

(5) U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. At October 31, 1999 and 1998 there were no forward foreign exchange contracts outstanding.

More detailed information on the nature of the Bank's off-balance sheet financial instruments is shown in Notes 11, 12 and 15 to the Consolidated Financial Statements.

Continued use of interest rate swaps or other off-balance sheet hedging instruments is expected in the future for the purpose of asset liability structuring and management of interest rate risk. The Bank only enters into these off-balance sheet derivative financial instruments for its own account and does not act as an intermediary in this market. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review. Policies regarding the use of off-balance sheet financial instruments are approved, reviewed, and monitored on a regular basis by ALCO and reviewed and approved by the Board of Directors at least annually.

Trust assets under administration, administered by CWT, totalled approximately $560 million at October 31, 1999 (1998 – $453 million). These assets are primarily in self-directed RRSPs and RRIFs (registered retirement income fund). Assets under administration, and the related fee income, are expected to increase in 2000. Assets under management totalled approximately $399 million (1998 – $393 million) and are managed by CWC. Subsequent to year end, the Bank announced its intended sale of CWC.

INTRODUCTION

The Board of Directors and management of the Bank are committed to maintaining an effective corporate governance framework which is critical to the effective and efficient management of the Bank's operations.

The Corporate Governance & Human Resources Committee provides direction, monitors compliance and makes recommendations to the Board on the optimum approach to governance issues to enhance corporate performance.

THE BOARD AND BOARD COMMITTEES

The Bank is a federally regulated Schedule I bank. Pursuant to the Bank Act (the "Act"), no one shareholder, or shareholders acting in concert, can own more than ten percent of any class of shares of a Schedule I bank. Therefore, the Bank has no significant shareholders.

The Board is comprised of twelve members. The number of directors reflects the desire to have the members represent the geographical jurisdictions in which the Bank operates and the need to fill the memberships of the two required committees, the Audit and Conduct Review Committees, and the other board committees which are the Loans Committee and the Corporate Governance & Human Resources Committee. The Board has reviewed the status of each of its directors and determined if they are "affiliated" (as defined by the affiliation rules set forth in the Act) or "unrelated", as defined in the TSE guidelines on corporate governance. As a result of this review, the Board has determined that two of the directors are affiliated (the President and CEO and Executive Vice President); they are also the only inside directors. All other directors are "unrelated".

At the time of appointment to the Board, at least 75 percent of the board members must be resident Canadians and no more than four members may be employees of the Bank. The Chairman is an independent director and is appointed annually by the members of the Board. Responsibilities not delegated to senior management or to a committee of the Board remain those of the full Board. The Board expects all significant risks and internal controls to be identified and reported upon by senior management to the Board and/or its committees.

The Board holds four regular meetings each year, as well as additional meetings as required. Most committees meet quarterly and all meet annually at a minimum. A meeting agenda matrix is issued to ensure meetings of the Board and its committees are efficient and complete.

The Board of Directors as a whole has expressly assumed responsibility for developing the Bank's approach to governance issues although the Corporate Governance & Human Resources Committee plays a key role by recommending and reporting on governance issues to the Board. In addition, certain governance issues have been delegated to other committees of the Board.

The Act contains several sections dealing with the governance of a bank through its board of directors. These sections prescribe matters such as limitations on the number of directors who can be affiliated or non-resident, certain powers that must be transacted by the full Board, and requirements to establish both an audit committee and a conduct review committee. The Act also prescribes certain minimum benchmarks for board and committee membership, quorums and the transaction of business by the Board. The three encompassing duties in the Act that form the basis for the Board's mandate are:

- to manage or supervise the management of the business and affairs of the Bank;
- to act honestly and in good faith with a view to the best interests of the Bank and exercise the care, diligence and skill that a reasonably prudent person would exercise in similar circumstances; and
- to comply with the Act, the regulations, the Bank's incorporating instrument and its by-laws.

The mandate of the Board also includes references to compliance with the Canada Deposit Insurance Corporation's ("CDIC") Standards of Sound Business and Financial Practices. Generally speaking, these practices and related standards cover all major risk areas of a bank and call for the Board at least annually to approve the policies and review the management programs associated with:

- interest rate risk management;
- securities portfolio management;
- liquidity and funding management;
- foreign exchange risk management;
- capital management;
- internal organizational and procedural controls;
- real estate appraisals; and
- credit risk management.

The areas of real estate appraisals and credit risk management have been delegated to the Loans Committee of the Board.

The mandate of the Board also specifically includes other matters which are not necessarily stated in the Act or in the CDIC standards and they are summarized as follows:

- approve the annual statement and specified returns, prior to release to the public or submission to OSFI;
- review and approve the annual strategic business plan and accompanying capital plan and financial operating budget, including capital expenditures;
- declare dividends;
- outline the content and frequency of management reports on financial operations;
- review and ratify the employment, appointment, grade levels and compensation of the top five executive employees and approve all senior officer appointments;
- review succession plans;
- review any recommendations from regulators or external auditors respecting their assessment of the effectiveness of the internal controls that come to their attention in the conduct of their work;
- ensure an independent audit/inspection function is in place to monitor the effectiveness of organizational and procedural controls;
- review and accept reports from the Audit, Conduct Review and Corporate Governance & Human Resources Committees; and
- approve loan write-offs.

AUDIT COMMITTEE

This committee is comprised of four outside directors and its mandate is summarized as follows:

- review the annual statement and report thereon to the directors before approval is given;
- review such returns as required by OSFI and report thereon to the directors before approval is given;
- require management to implement and maintain appropriate internal control procedures and review, evaluate and approve those procedures;
- review such investments and transactions of the Bank, that could adversely affect its well-being, as are brought to the committee's attention by the auditors, or an officer of the Bank or other committee of the Board;
- review the annual statement and any specified return or other transactions with the Bank's auditors, ensuring any items of concern are duly considered;
- discuss the adequacy/effectiveness of the internal control procedures with the Vice President and Chief Inspector and review any significant findings with senior management;
- review the interim unaudited statements, as well as other related public information, before public disclosure;
- review a report from the Loans Committee of the Board, including recommendations on the adequacy of loan loss provisions and write-offs;
- review the CDIC Standards Assessment and Reporting Program (SARP) annually and report thereon to the directors before approval is given;
- review the terms of the auditors' engagement, their level of compensation, the audit plan, any proposed changes in accounting policies, their presentation and input concerning significant risks and key estimates and judgements of management; and
- meet regularly with the internal and external auditors without management present.

CONDUCT REVIEW COMMITTEE

This committee is comprised of four outside directors and its mandate is summarized as follows:

- establish procedures to ensure disclosure of transactions with specified related parties of the Bank and, further, to review any such transactions to ensure compliance with the Act, either approving or declining the transactions, as required;
- review and approve internal policies for credit arrangements and financial services available to employees of the Bank under the regulations concerning officers and associated parties;
- monitor aggregate transactions of the Bank with directors as well as officers and their interests to ensure continued compliance with the Act with excesses brought to the Board for consideration;
- review the conduct policy on an annual basis to ensure relevance and completeness in regard to legislative requirements;
- monitor procedures for conflicts of interest, confidential information, disclosure of information and handling of customer complaints, and be satisfied that the procedures are being adhered to;
- ensure every employee, officer and Board member agrees to comply, in writing, with annual acknowledgement, with the Bank's conduct policy; and
- after each meeting provide a report to the directors on all transactions and other matters reviewed by the committee.

CORPORATE GOVERNANCE & HUMAN RESOURCES COMMITTEE

This committee is comprised of five outside directors and its mandate is summarized as follows:

- recommend to the Board appropriate structure and process required to address governance issues and maintain compliance with all corporate governance guidelines;
- review and monitor compliance with corporate governance guidelines and follow any issues noted by the members or as reported to them by management or other directors from time to time;
- no less than annually, report to the Board on corporate governance issues and any instances of non-compliance, together with appropriate recommendations;
- hire appropriate consultants, or request management to perform studies and to furnish other information as required; to review such information and take such actions based thereon as appropriate;
- review and recommend to the Board the employment and appointment of the top five executive employees, to establish their grade levels and compensation, as well as to determine promotions and to make changes in the level of compensation and grade of incumbent executive employees and officers;
- review the position descriptions for the top five executive employees, ensuring they remain current and accurate and further, to also ensure position descriptions are in place for all other executive officers;
- establish an executive compensation structure to compensate all levels of executive employees and, within such compensation structure as may at that time be in effect, to make adjustments and annual revisions as necessary;
- ensure an annual performance appraisal is completed for the President and CEO and that it is reviewed with him by the Chairman of the Board;
- establish, amend and, where appropriate, terminate:
  - programs and other personal benefits granted to executive employees;
  - incentive compensation plans and other bonus arrangements, to administer such plans and to make appropriate interpretations and determinations as required;
  - share incentive plans and similar arrangements involving the grant of share options, or other benefits to employees attendant upon the issuance of securities, and, in addition, to make grants of options under any share incentive plan and generally to administer such plans, subject to necessary regulatory and shareholder approval; and
  - annuity, pension, and retirement programs for executive employees;
- review the human resource succession plan as prepared by senior management for all officers and any other senior position considered critical to operations;
- seek and recommend individuals to be considered for Board membership, as required by the Board, and forward their recommendations with written rationale, compared against published terms of reference, to the Board for their consideration;

- review, monitor, and make recommendations regarding new director orientation and the ongoing development of existing Board members;
- evaluate, at least bi-annually, Board membership (including composition and size) and the involvement/performance of the membership with concerns recorded, and brought to the attention of the committee chair, who, in conjunction with the committee, determines if further action is required;
- review and recommend to the Board the fees and other benefits to be paid to directors; and
- make recommendations to the Board regarding revisions or additions to the Board of Directors Manual.

LOANS COMMITTEE

This committee is comprised of eight directors, six of whom are unrelated. The President and CEO and the Executive Vice President, who are affiliated, inside directors, are also members. Its mandate is summarized as follows:

- review and approve a lending limit for the Bank and the President and CEO within the limits established by the Board and review such limits at least annually;
- review, approve and/or decline all credit applications for amounts in excess of delegated limits up to the limit established, not to exceed ten percent of capital;
- recommend for approval of the full Board, any loan proposals in excess of the Bank's limit;
- recommend for approval of the full Board loan proposals to directors, related entities and Bank subsidiaries;
- annually review and approve the credit risk management program and policies, including management's real estate appraisal policies and procedures, to ensure they are sound, prudent and in accordance with CDIC standards;
- review and recommend acceptance of management's recommendations for loan loss provisions and loan write-offs to the Audit Committee for their presentation to the Board; and
- review and approve action plans, as required, on loans reported by management to be less than satisfactory.

OTHER AREAS OF CONSIDERATION

The Bank has not adopted a formalized process of orientation for new Board members although all directors are provided with a Directors' Manual, outlining key governance information and reference material. It is worthy of note that seven out of the ten outside directors have served on the Board for ten years or more. There is also a Board and member review and assessment program whereby every second year directors complete a formal assessment of the operations and effectiveness of the Board and its committees. Every other year, directors may complete a formal assessment on individual directors' effectiveness.

In order to carry out its responsibilities the Board must have timely access to information which is available via discussions with the Bank's senior management and through a comprehensive information package sent out prior to each board meeting which includes the agenda, minutes of previous meetings and supporting documentation for specific agenda items.

The Bank is also committed to ensuring quality and timely information is available to all shareholders. Inquiries and requests for information from shareholders and potential investors receive prompt attention from an appropriate officer. The President and CEO and other members of senior management also meet periodically with financial analysts and institutional investors.

Also, the Board has put in place a policy providing for individual directors to engage outside advisors if the circumstances are warranted.

The Bank has engaged an independent Ombudsman to receive complaints from banking clients who are unable to obtain satisfaction from the Bank's internal complaint handling mechanism.

CONCLUSION

The Bank's corporate governance approach is in compliance with the TSE guidelines. It will continue to develop over time with the Corporate Governance & Human Resources Committee playing a key role in monitoring, developing and recommending to the Board on governance issues as warranted.

MANAGEMENT'S REPORT

The consolidated financial statements of Canadian Western Bank and related financial information presented elsewhere in this annual report have been prepared by management, who are responsible for the integrity, objectivity and reliability of the data presented. The consolidated financial statements were prepared in accordance with generally accepted accounting principles other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirements of the Superintendent of Financial Institutions Canada under the Bank Act, as described in Note 1. The consolidated financial statements and related financial information reflect amounts which must, of necessity, be based on informed estimates and judgements of management with appropriate consideration to materiality. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Bank's accounting system and related internal controls are designed, and supporting procedures are maintained, to provide reasonable assurance that financial records are complete and accurate, that assets are safeguarded and that the Bank is in compliance with all regulatory requirements. These supporting procedures include the careful selection and training of qualified staff, defined division of responsibilities and accountability for performance, and the written communication of policies and guidelines of business conduct and risk management throughout the Bank.

The system of internal controls is also supported by the internal audit division which carries out periodic inspections of all aspects of the Bank's operations. The Chief Inspector has full and free access to the Audit Committee and to the shareholders' auditors.

The Audit Committee, appointed by the Board of Directors, is composed of directors who are not officers or employees of the Bank. The committee is responsible for reviewing the financial statements and annual report and recommending them to the Board of Directors for approval. Their responsibilities also include meeting with management, the Chief Inspector and the shareholders' auditors to discuss the effectiveness of internal controls over the financial reporting process, and the planning and results of the external audit.

The Conduct Review Committee, appointed by the Board of Directors, is composed of directors who are not officers or employees of the Bank. Their responsibilities include reviewing related party transactions, and reporting to the Board of Directors, those transactions which may have a material impact on the Bank.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the Bank as he may deem necessary or expedient to satisfy himself that the provisions of the Bank Act, having reference to the safety of the creditors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Deloitte & Touche LLP, the shareholders' auditors, are appointed by the shareholders of the Bank. They have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.

"Larry M. Pollock"

Larry M. Pollock
President and Chief Executive Officer

"Tracey C. Ball"

Tracey C. Ball, C.A.
Vice President and Chief Financial Officer

December 3, 1999

AUDITORS' REPORT

To The Shareholders of Canadian Western Bank

We have audited the Consolidated Balance Sheet of Canadian Western Bank as at October 31, 1999 and 1998 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flow for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1999 and 1998 and the results of its operations and its cash flow for the years then ended in accordance with generally accepted accounting principles, other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirements of the Superintendent of Financial Institutions Canada under the Bank Act, as described in Note 1.

"Deloitte & Touche LLP"

Deloitte & Touche LLP
Chartered Accountants
Edmonton, Alberta

December 3, 1999

CONSOLIDATED BALANCE SHEET

As at October 31
($ thousands)

		1999	1998
Assets			
Cash Resources			
Cash		$ 1,562	$ 2,246
Deposits with regulated financial institutions		136,456	133,888
Cheques and other items in transit, net		31,972	23,404
		169,990	159,538
Securities	(Note 2)		
Issued or guaranteed by Canada		112,826	98,481
Issued or guaranteed by a province		52,079	34,178
Other securities		40,287	28,208
		205,192	160,867
Loans (net of allowance for credit losses)	(Notes 3 & 4)		
Securities purchased under resale agreements and call loans		41,017	28,493
Residential mortgages		272,428	277,415
Other		1,940,153	1,683,748
		2,253,598	1,989,656
Other			
Land, buildings and equipment	(Note 5)	13,218	12,760
Other assets	(Note 6)	50,384	63,657
		63,602	76,417
Total Assets		$ 2,692,382	$ 2,386,478
Liabilities and Shareholders' Equity			
Deposits			
Payable on demand		$ 45,043	$ 49,325
Payable after notice		221,456	208,551
Payable on a fixed date		2,104,576	1,801,669
		2,371,075	2,059,545
Other			
Other liabilities	(Note 7)	83,066	94,574
Subordinated Debentures	(Note 8)		
Conventional		13,126	13,126
Convertible		65,565	73,965
		78,691	87,091
Shareholders' Equity			
Capital stock	(Note 9)	98,484	89,595
Retained earnings		61,066	55,673
		159,550	145,268
Total Liabilities and Shareholders' Equity		$ 2,692,382	$ 2,386,478

"Jack C. Donald"

Jack C. Donald
Chairman

"Larry M. Pollock"

Larry M. Pollock
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31
($ thousands, except per share amounts)

		1999	1998
Interest Income			
Loans		$ 164,435	$ 147,125
Securities		9,543	7,718
Deposits with regulated financial institutions		3,526	3,495
		177,504	158,338
Interest Expense			
Deposits		110,180	97,736
Debentures		4,888	4,336
		115,068	102,072
Net Interest Income		62,436	56,266
Provision for credit losses	(Note 4)	3,750	4,150
Net Interest Income after Provision for Credit Losses		58,686	52,116
Other Income			
Credit related		7,805	6,729
Underwriting fees and commissions on securities transactions		6,778	5,326
Retail services		2,476	1,964
Trust services		1,485	1,165
Loan administration and other		990	2,241
Net gains on securities sales		261	66
		19,795	17,491
Net Interest and Other Income		78,481	69,607
Non-interest Expenses			
Salaries and employee benefits		30,282	26,352
Premises and equipment		10,112	8,526
Other expenses		12,775	11,989
Provincial capital taxes		2,822	2,347
		55,991	49,214
Net Income before Provision for Income Taxes		22,490	20,393
Provision for income taxes	(Note 10)	3,516	1,958
Net Income before Non-controlling Interest in Subsidiary		18,974	18,435
Non-controlling interest in net loss of subsidiary		879	577
Net Income		$ 19,853	$ 19,012
Average number of common shares outstanding		10,153,378	9,421,196
Earnings per common share	(Note 1(j))		
basic		$ 1.96	$ 2.02
fully diluted		$ 1.79	$ 1.77

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31
($ thousands)

		1999	1998
Capital Stock			
Balance at beginning of year		$ 89,595	$ 89,057
Common shares issued	(Note 9)	9,069	538
Common shares purchased for cancellation	(Note 9)	(180)	–
Balance at end of year		98,484	89,595
Retained Earnings			
Balance at beginning of year		55,673	39,476
Net income		19,853	19,012
Dividends		(4,860)	(2,815)
Adjustment to general allowance for credit risk, net of income taxes of $5,185	(Note 4)	(6,509)	–
Redemption of debenture	(Note 8)	(3,091)	–
Balance at end of year		61,066	55,673
Total Shareholders' Equity		$ 159,550	$ 145,268

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended October 31
($ thousands)

		1999	1998
Cash Flows from Operating Activities			
Net income		$ 19,853	$ 19,012
Adjustments to determine net cash flows:			
Provision for credit losses		3,750	4,150
Depreciation and amortization		2,753	2,613
Deferred income taxes, net		2,964	1,425
Gain on sale of securities, net		(261)	(66)
Change in accrued interest receivable and payable, net		5,714	6,135
Other items, net		(1,940)	2,990
		32,833	36,259
Cash Flows from Financing Activities			
Deposits, net		311,530	242,033
Dividends		(4,860)	(2,815)
Redemption of subordinated debentures	(Note 8)	(7,091)	–
Issue of subordinated debentures	(Note 8)	4,000	50,000
Common shares issued, net of issue costs	(Note 9)	669	513
Common shares purchased for cancellation	(Note 9)	(180)	–
		304,068	289,731
Cash Flows Used in Investing Activities			
Loans, net		(279,386)	(283,799)
Securities, net		(43,954)	(14,044)
Interest bearing deposits with regulated financial institutions, net		9,521	(22,740)
Land, buildings and equipment, net		(3,109)	(3,995)
Acquisition of controlling interest in Canadian Western Capital Limited	(Note 17)	–	(5,600)
		(316,928)	(330,178)
Increase (Decrease) in Cash and Cash Equivalents		19,973	(4,188)
Cash and Cash Equivalents at Beginning of Year		27,296	31,484
Cash and Cash Equivalents at End of Year*		$ 47,269	$ 27,296
* **Represented by:**			
Cash and cash equivalents per Consolidated Balance Sheet		$ 169,990	$ 159,538
Less non-operating, interest bearing deposits with regulated financial institutions		122,721	132,242
Cash and Cash Equivalents at End of Year		$ 47,269	$ 27,296
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year		$ 108, 703	$ 94,994
Amount of income taxes paid in the year		$ 751	$ 409

October 31, 1999
($ thousands, unless otherwise stated)

1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with subsection 308 (4) of the Bank Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), the financial statements are to be prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below.

Of necessity, management must make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the year. Actual results could differ from those estimates.

OSFI has specified an accounting treatment for the general allowance for credit risk which does not conform to generally accepted accounting principles. The accounting for all other financial statement items conform, in all material respects, to generally accepted accounting principles.

a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations whose operations are controlled by the Bank and are corporations in which the Bank owns more than 50 percent of the voting shares. One of the subsidiaries, Canadian Western Capital Limited, has a September 30 year end. See Note 20 for details of the subsidiaries.

Business acquisitions are accounted for using the purchase method. The difference between the acquisition cost of an investment and the fair value of the net identifiable assets acquired represents goodwill or other identifiable intangibles. This excess amount is deferred and amortized to income over the anticipated period of benefit, not to exceed 20 years. The unamortized balance is recorded in other assets. The carrying value of goodwill and other identifiable intangibles is evaluated regularly by reviewing the expected cash flows generated by the acquired subsidiary or asset. Any permanent impairment in value is written off to the Consolidated Statement of Income.

b) Securities

Securities are held in either the investment account or the trading account.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost or, if the value is permanently impaired, at net realizable value and debt securities at amortized cost. Gains and losses on disposal of securities and adjustments to record any permanent impairment in value are included in other income in the period of realization. Amortization of premiums and discounts are reported in interest income from securities in the Consolidated Statement of Income.

Trading account securities, which are purchased for resale over a short period of time, are carried at estimated current market value. Gains and losses realized on disposal and adjustments to market value are reported in other income in the Consolidated Statement of Income in the period during which they occur.

c) Loans

Loans are stated net of unearned income and an allowance for credit losses (Note 1(d)).

Interest income is recorded on the accrual basis except for loans classified as impaired. Loans are determined to be impaired when interest is contractually past due 90 days, or where the Bank has taken realization proceedings, or where the Bank's management is of the opinion that the loan should be regarded as impaired. An exception may be made where management determines that the loan is well secured and in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to a current status within 180 days from the date the payment went in arrears. All loans are classified as impaired when a payment is 180 days in arrears other than loans guaranteed or insured for both principal and interest by the Canadian government, the provinces or a Canadian government agency. These loans are classified as impaired when payment is 365 days in arrears.

Impairment is measured as the difference between the carrying value of the loan at the time it is classified as impaired and the present value of the expected cash flows (estimated realizable amount), using the interest rate inherent in the loan at the date the loan is classified as impaired. When the amounts and timing of future cash flows cannot be reliably estimated, either the fair value of the security underlying the loan, net of any expected realization costs, or the current market price for the loan may be used to measure the estimated realizable amount. At the time a loan is classified as impaired, interest income will cease to be recognized in accordance with the loan agreement, and any uncollected but accrued interest will be added to the carrying value of the loan together with any unamortized premiums, discounts or loan fees. Subsequent payments received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Impaired loans are returned to performing status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current and all charges for loan impairment have been reversed.

d) Allowance for Credit Losses

The Bank maintains an allowance for credit losses, the purpose of which is to keep an adequate balance sufficient to absorb credit related losses in its loan portfolio. The allowance for credit losses is deducted from the related asset category.

The balance in the account consists of specific provisions and the general allowance for credit risk. Specific provisions include all the accumulated provisions for losses on particular impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. In October 1998 OSFI provided guidance to all deposit-taking institutions on establishing general allowances for credit risk. The general allowance for credit risk should include provisions for losses relating to individual loans or groups of loans in the existing portfolio which are not yet specifically identified as impaired. The general allowance for credit risk was established by taking into consideration historical trends in the loss experience during an economic cycle, the current portfolio profile, estimated losses for the current phase of the economic cycle and historical experience in the industry. In compliance with the guidance provided by OSFI, any significant adjustment to the general allowance for credit risk, net of income taxes, was treated as a one-time charge to retained earnings, with no adjustment to opening retained earnings. (See Note 19)

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses in the Consolidated Statement of Income is charged with an amount sufficient to keep the balance in the allowance for credit losses adequate to absorb all credit related losses.

e) Land, Buildings and Equipment

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated primarily using the straight-line method over the estimated useful life of the asset as follows: buildings – 20 years, equipment and furniture – 3 to 5 years, and leasehold improvements – term of lease. Gains and losses on disposal are recorded in other income in the Consolidated Statement of Income in the year of disposal.

f) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. Revenues and expenses in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency positions are included in other income in the Consolidated Statement of Income.

g) Loan Fees

Loan fees, net of directly related costs, are amortized to interest income over the expected term of the loan when such fees are considered to be an integral part of the return earned on the particular loan. Loans are stated net of unamortized fees.

h) Income Taxes

The Bank follows the tax allocation method of accounting for income taxes whereby income taxes are based on transactions recognized for accounting purposes regardless of when they are recognized for tax purposes. The cumulative timing differences between tax calculated on this basis and taxes currently payable result in deferred income taxes which are recorded in other assets. Total income taxes include the provision for income taxes in the Consolidated Statement of Income and income taxes applicable to items charged or credited directly to retained earnings.

i) Derivative Financial Instruments

Interest rate, foreign exchange and equity contracts such as futures, options and swaps are entered into for asset/liability management purposes. These contracts are designated and function as hedges and are accounted for on the accrual basis. Net accrued interest receivable/payable and deferred gains/losses are recorded in other assets or other liabilities, as appropriate. Interest income/expense and gains/losses are recognized as interest income or interest expense, as appropriate, over the hedged period.

j) Earnings per Common Share

Basic earnings per common share is calculated based on the average number of common shares outstanding during the year. Fully diluted earnings per share includes the effect of all potential dilutive factors on earnings per common share.

k) Stock Option Plans

The Bank has stock option plans which are described in Note 9. No expense is recognized for these plans when the stock options are issued to the employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

2. Securities

The analysis of securities at carrying value, by type and maturity is as follows:

	Maturities					
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	1999 Total Book Value	1998 Total Book Value
Securities Issued or Guaranteed by:						
Canada	$ 88,720	$ 24,106	$ –	$ –	$ 112,826	$ 98,481
A province	27,455	14,903	9,721	–	52,079	34,178
Other Debt Securities						
Floating rate notes	–	–	–	1,000	1,000	1,000
Corporate debt	29,969	–	–	–	29,969	25,905
Equity Securities	–	–	–	9,318(2)	9,318	1,303
Total(1)	$ 146,144	$ 39,009	$ 9,721	$ 10,318	$ 205,192	$ 160,867

(1) All securities are held in the investment account.
(2) These securities have no specific maturity.

The analysis of unrealized gains and losses on investment securities is as follows:

	1999				1998			
	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Issued or Guaranteed by:								
Canada	$ 112,826	$ 1	$ 207	$ 112,620	$ 98,481	$ 290	$ 3	$ 98,768
A province	52,079	8	399	51,688	34,178	315	3	34,490
Other Debt Securities								
Floating rate notes	1,000	–	–	1,000	1,000	–	–	1,000
Corporate debt	29,969	–	1	29,968	25,905	1	1	25,905
Equity Securities	9,318	106	410	9,014	1,303	39	–	1,342
Total	$ 205,192	$ 115	$ 1,017	$ 204,290	$ 160,867	$ 645	$ 7	$ 161,505

3. Impaired Loans

Impaired loans and the related allowance for credit losses are as follows:

	Gross Amount	Specific Provisions	1999 Carrying Amount	1998 Carrying Amount
Consumer and personal	$ 3,209	$ 348	$ 2,861	$ 2,391
Real estate	22,862	2,526	20,336	12,392
Industrial	7,973	1,238	6,735	2,039
Other	4,145	1,060	3,085	6,006
	38,189	5,172	33,017	22,828
General allowance for credit risk(1)	–	20,848	(20,848)	(9,325)
Total(2)	$ 38,189	$ 26,020	$ 12,169	$ 13,503

(1) The general allowance for credit risk is available for the total loan portfolio.

(2) Impaired loans include foreclosed real estate assets held for sale with a gross carrying value of $6,866 (1998 – $5,257) and a related specific allowance of $1,606 (1998 – $1,577).

At October 31, 1999 other past due loans totalled $249 (1998 – $nil). Other past due loans are loans where payment of interest or principal is contractually 90-180 days in arrears but are not classified as impaired because they are well secured and considered fully collectible.

During the year interest recognized as income on impaired loans totalled $579 (1998 – $341).

4. Allowance for Credit Losses

The following table shows the changes in the allowance for credit losses during the year.

	1999			1998		
	Specific Provisions	General Allowance for Credit Risk	Total	Specific Provisions	General Allowance for Credit Risk	Total
Balance at beginning of year	$ 3,517	$ 9,325	$ 12,842	$ 4,911	$ 7,476	$ 12,387
Adjustment to general allowance for credit risk(1)	–	11,694	11,694	–	–	–
Provision for credit losses	3,921	(171)	3,750	2,301	1,849	4,150
Write-offs	(2,314)	–	(2,314)	(4,029)	–	(4,029)
Recoveries	48	–	48	334	–	334
Balance at end of year	$ 5,172	$ 20,848	$ 26,020	$ 3,517	$ 9,325	$ 12,842

(1) In accordance with the guidance provided by OSFI as described in Note 1(d), the Bank increased its general allowance for credit risk by $11,694. Accordingly, retained earnings was reduced by $6,509, representing the increase in the general allowance, net of deferred income taxes of $5,185.

The Bank has virtually no loans booked outside of Canada and therefore has no country risk provisions.

5. Land, Buildings and Equipment

	Cost	Accumulated Depreciation and Amortization	1999 Net Book Value	1998 Net Book Value
Land	$ 2,753	$ –	$ 2,753	$ 2,753
Buildings	3,099	1,571	1,528	1,689
Equipment and furniture	13,474	8,291	5,183	4,934
Leasehold improvements	6,222	2,468	3,754	3,384
Total	$ 25,548	$ 12,330	$ 13,218	$ 12,760

Depreciation and amortization for the year, in respect of the above buildings, equipment and furniture, and leasehold improvements amounted to $2,680 (1998 – $2,358).

6. Other Assets

		1999	1998
Due from clients and brokers		$ 14,670	$ 31,943
Deferred income tax asset	(Note 10)	12,335	9,827
Accrued interest receivable		10,822	10,170
Prepaid expenses		5,817	5,199
Goodwill and other identifiable intangibles(1)		2,031	2,584
Deferred financing costs(2)		1,861	2,111
Other		2,848	1,823
Total		$ 50,384	$ 63,657

(1) Amortization of goodwill and other identifiable intangibles included in other expenses in the Consolidated Statement of Income is $493 (1998 – $397).
(2) Amortization of deferred financing costs included in other expenses in the Consolidated Statement of Income is $250 (1998 – $182).

7. Other Liabilities

	1999	1998
Accrued interest payable	$ 47,430	$ 41,064
Due to clients and brokers	29,070	44,656
Accounts payable	4,961	6,034
Deferred revenue	628	1,119
Non-controlling interest in subsidiary	234	331
Other	743	1,370
Total	$ 83,066	$ 94,574

8. Subordinated Debentures

Each of the following qualifies as a bank debenture under the Bank Act and is subordinate in right of payment to all deposit liabilities. All redemptions are subject to the approval of OSFI. The convertible debentures are financial instruments which have both debt and equity components. The recommendation issued by the Canadian Institute of Chartered Accountants to account for these components separately was considered but the value assignable to the conversion option at the date of issue was deemed to be immaterial in each case.

	Interest Rate	Maturity Date	1999	1998
Conventional[1]				
The Province of Alberta	6.660%	March 31, 2007	$ 5,000	$ 5,000
CIC Industrial Interests Inc. (an agency of the Province of Saskatchewan)	6.590%	June 30, 2007	3,126	3,126
CLIC Investments (Canada) Inc.	6.415%	July 31, 2007	5,000	5,000
			13,126	13,126
Convertible				
5.50% convertible debentures[2]	5.500%	March 31, 2008	50,000	50,000
6.75% convertible debentures[3]	6.750%	April 15, 2006	11,565	19,965
Crown Life Insurance Company[4]	5.700%	July 31, 2009	4,000	–
Crown Life Insurance Company[5]	9.000%	July 31, 2004	–	4,000
			65,565	73,965
Total			$ 78,691	$ 87,091

(1) Each of the conventional debentures has a ten year term with a fixed interest rate for the first five years. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian Dollar CDOR 90 day Bankers Acceptance Rate plus 1%.

(2) These debentures are convertible into common shares at the option of the holder at any time prior to maturity, or the date specified for conversion by the Bank, whichever is earlier, at a conversion price of $30.50 per share. At any time after March 31, 2003 the debentures are convertible by the Bank.

(3) These debentures are convertible into common shares at the option of the holder at any time prior to maturity, or the date specified for conversion by the Bank, whichever is earlier, at a conversion price of $12.50 per share. The debentures were not convertible by the Bank prior to April 15, 1999. From April 15, 1999 to April 14, 2001, provided certain market conditions exist, the debentures are convertible by the Bank. In 1999, $8,400 (1998 – $25) of the debentures were converted by holders.
On October 29, 1999 the Bank provided notice of its intention to convert all of the outstanding 6.75% convertible debentures to common shares on December 1, 1999. As a result of the notice the remaining $11,565 of the original $20,000 issued were converted by debentureholders on November 30, 1999 at a conversion price of $12.50 per share.

(4) On July 28, 1999 the Bank issued a subordinated debenture to Crown Life Insurance Company for $4,000. This debenture is convertible into common shares, at the option of the holder, at any time prior to maturity. The Bank may redeem the debenture after July 31, 2004. The number of shares issued at conversion will be determined based on a $25.00 per share conversion price.

(5) On July 6, 1994 the Bank issued a $4,000 subordinated debenture to Crown Life Insurance Company. The debenture was convertible into common shares of the Bank, at the option of the holder, at a conversion price of $11.00 per share. On July 28, 1999, the Bank completed negotiations with the holder for the redemption of the debenture and the related conversion option for aggregate consideration of $7,091 based upon the current market value of the underlying common shares. The excess of the total consideration paid over the face value of the debenture has been attributed to the conversion option and charged to retained earnings. There was no income tax effect.

9. Capital Stock

Authorized:

An unlimited number of common shares without nominal or par value
33,964,324 Class A shares without nominal or par value
25,000,000 First Preferred shares without nominal or par value, issuable in series

Issued and fully paid:

	1999		1998	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Outstanding at beginning of year	9,441,520	$ 89,595	9,380,778	$ 89,057
Issued on exercise of options and conversion of debentures[1]	740,977	9,069	60,742	538
Shares purchased for cancellation	(10,300)	(180)	–	–
Outstanding at End of Year	10,172,197	$ 98,484	9,441,520	$ 89,595

(1) In 1999, 68,977 (1998 – 58,742) options were exercised, at a weighted average exercise price of $9.70 (1998 – $8.73) and $8,400 (1998 – $25) of the 6.75% debentures were converted into 672,000 (1998 – 2,000) shares.

On November 4, 1998 the Bank implemented a normal course issuer bid for a twelve month period which allowed the Bank to purchase for cancellation up to 472,036 common shares, or 5% of its outstanding common shares. The amounts and timing of repurchases were at the Bank's discretion and could be made up to November 3, 1999 at prevailing market prices. In October 1999 10,300 common shares were purchased for cancellation at $17.50 per share.

The Bank has subordinated debentures which are convertible to common shares of the Bank as more fully described in Note 8. Subsequent to year end the debentureholders converted all of the outstanding 6.75% convertible debentures, which totalled $11,565, to common shares resulting in the issuance of 925,200 common shares and a charge to retained earnings of $384 for share issue expenses, net of deferred income taxes.

The Bank also has authorized 1,226,831[1] common shares (1998 – 1,145,808) for issuance under option plans. Of the amount authorized, options exercisable into 1,177,096 shares are issued and outstanding (1998 – 1,101,723) and all expire within ten years of date of grant. The options are exercisable at a fixed price equal to the average of the market price on the day of and the four days preceding the grant. Outstanding options have exercise prices ranging from $8.73 to $20.31. Their weighted average remaining contractual life is 4.8 years and they expire on dates ranging from June 2000 to December 2007. The details of and changes in the issued and outstanding options follow:

	1999		1998	
Options	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of year	1,101,723	$ 13.02	894,965	$ 10.93
Granted	158,050[1]	18.83	268,200	19.11
Exercised	(68,977)	9.70	(58,742)	8.73
Forfeited	(13,700)	16.29	(2,700)	19.11
Balance at end of year	1,177,096	$ 13.96	1,101,723	$ 13.02
Exercisable at end of year	363,305	$ 14.13	157,312	$ 9.08

(1) Of this amount, 137,650 options granted (150,000 authorized) are subject to shareholder and Toronto Stock Exchange approval.

10. Income Taxes

The provision for income taxes consists of the following:

	1999	1998
Current	$ 3,260	$ 3,027
Deferred	256	(1,069)
Total	$ 3,516	$ 1,958

The effective income tax rate of the Bank is 45.2%. However, income taxes otherwise payable for the year have been eliminated by utilizing approximately $24, 801 (1998 – $23,660) of acquired unclaimed deductions and tax loss carryforwards.

The current income tax provision represents amortization of acquired unclaimed deductions and tax loss carryforwards of $2,708 (1998 – $2,494) and large corporations tax of $552 (1998 – $533).

The deferred income tax asset, included in other assets, primarily represents the net unamortized balance of the acquired unclaimed deductions plus accumulated timing differences relating to claiming deductions for income tax purposes on a basis different from accounting and relate mainly to the provision for credit losses. The Bank has reasonable assurance that its net deferred income tax asset will be realized through future operations and reversals of timing differences.

At October 31, 1999, the Bank has approximately $44,733 of unclaimed deductions which are available to reduce future years' income for tax purposes. The Bank's subsidiaries have approximately $8,990 in tax loss carryforwards which are available to reduce future years' income for tax purposes and expire up to 2006.

In addition, $6,966 (1998 – $6,315) of capital losses are available to apply against future capital gains and have no expiry date.

The tax benefit of these losses has not been recognized in income.

11. Contingent Liabilities and Commitments

a) Off-balance Sheet Instruments

In the normal course of business, the Bank enters into various commitments and has contingent liabilities which are not reflected in the Consolidated Balance Sheet. These items are reported below and are expressed in terms of the contractual amount of the related commitment.

	1999	1998
Credit Instruments		
Guarantees and standby letters of credit	$ 27,479	$ 21,457
Commitments to extend credit	366,229	282,150
Total	$ 393,708	$ 303,607

Guarantees and standby letters of credit are issued on behalf of clients to third party beneficiaries as part of normal business operations. In the event of a call on any of these instruments, the Bank has recourse against its client. Issuance of guarantees and standby letters of credit is subject to the same credit assessment, approval, monitoring and control procedures as the extension of direct loans. Losses, if any, resulting from these transactions are not expected to be material.

Commitments to extend credit to customers also arise in the normal course of business and include recently authorized credit facilities not yet drawn down or credit facilities available on a revolving basis. In the majority of instances, availability of undrawn commercial commitments is subject to the borrower meeting specified financial tests or other covenants regarding completion or satisfaction of certain conditions precedent. It is also usual practice to include the right to review and withhold funding in the event of a material adverse change in the financial condition of the borrower. Given that undrawn credit authorizations arise out of approvals granted through the normal credit assessment process, such commitments bear virtually the same credit risk as fully advanced loan assets. From a liquidity perspective, undrawn credit authorizations will be funded over time with draws in many cases extending over a period of months. In some instances authorizations are never advanced or may be reduced because of changing requirements. The balance of commitments to extend credit shown in the table above does not account for principal drawdowns or paybacks that occur in the normal course of operations. Revolving credit authorizations are subject to repayment which on a pooled basis also decreases liquidity risk.

b) Lease Commitments

The Bank has obligations under long-term non-cancellable leases for the rental of premises and office equipment. Minimum future lease commitments for each of the five succeeding years and thereafter are as follows:

2000	$ 3,377
2001	3,415
2002	3,358
2003	3,237
2004	2,915
2005 and thereafter	10,884
Total	$ 27,186

c) Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

12. Assets Under Administration and Management

These are assets administered and/or managed by subsidiaries of the Bank. The assets are beneficially owned by clients and are kept separate from the subsidiaries' own assets. Therefore they are not reported on the Consolidated Balance Sheet.

	1999	1998
Assets under administration	$ 559,978	$ 453,058
Assets under management	399,284	392,556
Total	$ 959,262	$ 845,614

13. Related Party Transactions

The Bank makes loans, primarily residential mortgages, to its officers and employees at various preferred rates and terms. The total amounts outstanding for these type of loans are $17,429 (1998 – $15,401).

14. Fair Value of Financial Instruments

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted market price. However, most of the Bank's financial instruments lack an available trading market as they are not typically exchanged. Therefore, these instruments have been valued assuming they will not be sold, using present value or other suitable techniques and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of the majority of the financial instruments is not adjusted to reflect increases or decreases in fair value due to interest rate changes as the Bank's intention is to realize their value over time by holding them to maturity. The carrying value of financial instruments held for trading purposes would be continually adjusted to reflect fair value. At October 31, 1999 and 1998 there were no financial instruments held for trading purposes.

The table below sets out the fair values of on-balance sheet financial instruments and derivative instruments using the valuation methods and assumptions referred to below the table.

	1999			1998		
	Book Value	Fair Value	Fair Value Over(Under) Book Value	Book Value	Fair Value	Fair Value Over(Under) Book Value
Assets						
Cash resources	$ 169,990	$ 169,990	$ –	$ 159,538	$ 159,538	$ –
Securities (Note 2)	205,192	204,290	(902)	160,867	161,505	638
Loans	2,253,598	2,232,876	(20,722)	1,989,656	1,992,486	2,830
Other assets(1)	37,601	37,601	–	52,677	52,677	–
Liabilities						
Deposits	2,371,075	2,353,937	(17,138)	2,059,545	2,087,722	28,177
Other liabilities	83,066	83,066	–	94,574	94,574	–
Subordinated debentures	78,691	77,548	(1,143)	87,091	88,737	1,646
Off-balance Sheet Derivative Financial Instruments						
Net asset (Note 15)			$ (569)			$ 333

The table does not include assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

(1) Other assets exclude goodwill and deferred income tax assets which are not financial instruments.

(2) For further commentary on interest rates associated with financial assets and liabilities, including off-balance sheet instruments, refer to the Market Risk section of Management's Analysis of Operations and Financial Condition which includes the asset liability gap position and effective interest rates.

The methods and assumptions used to estimate the fair values of on-balance sheet financial instruments are as follows:

- cash resources, other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature;
- securities are assumed to be equal to the estimated market value of securities provided in Note 2. These values are based on quoted market prices, if available. Where a quoted market price is not readily available, other valuation techniques are used to estimate fair value;
- loans reflect changes in the general level of interest rates which have occurred since the loans were originated and are net of the allowance for credit losses. For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. For all other loans, fair value is estimated by discounting the expected future cash flows of these loans at current market rates for loans with similar terms and risks;
- deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows at current market rates for deposits of similar original terms; and
- the fair values of subordinated debentures and liabilities of subsidiaries, other than deposits included in other liabilities are determined by reference to current market prices for debt with similar terms and risks.

Fair values are based on management's best estimates based on market conditions and pricing policies at a certain point in time. The estimates are subjective and involve particular assumptions and matters of judgement and as such may not be reflective of future fair values.

15. Derivative Financial Instruments

The Bank enters into derivative financial instruments for risk management purposes.

Interest rate swaps and interest rate floors (or caps) are used as hedging devices to control interest rate risk. The Bank only enters into these interest rate derivative instruments for its own account and does not act as an intermediary in this market. The credit risk is limited to the amount of any adverse change in interest rates applied on the notional contract amount should the counterparty default. Equity contracts are used to offset the return paid to depositors on certain deposit products where the return is linked to a stock index. The credit risk is limited to the average return on an equity index applied on the notional contract amount should the counterparty default. The principal amounts are not exchanged and hence are not at risk. Approved counterparties and maximum notional limits are established and monitored by the Asset Liability Committee of the Bank.

At the present time it is policy to undertake foreign exchange transactions only for the purposes of meeting needs of clients and of day to day business. Foreign exchange markets are not speculated in by taking a trading position in currencies. Maximum exposure limits are established and monitored by the Asset Liability Committee and are defined by allowable unhedged amounts. The position is managed within the allowable target range by spot and forward transactions or other hedging techniques. Exposure to foreign exchange risk is not material to the Bank's overall position.

The following table summarizes the off-balance sheet financial instrument portfolio and the related credit risk. Notional amounts represent the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded on the Consolidated Balance Sheet. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The future credit exposure represents the potential for future changes in value and is based on a formula prescribed by OSFI. The credit risk equivalent is the sum of the future credit exposure and the replacement cost. The risk-weighted balance represents the credit risk equivalent weighted according to the credit worthiness of the counterparty as prescribed by OSFI.

	1999					1998				
	Notional Amount	Replacement Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-weighted Balance	Notional Amount	Replacement Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-weighted Balance
Interest Rate Contracts										
Interest rate swaps	$ 269,000	$ 227	$ 170	$ 397	$ 49	$ 130,000	$ 437	$ 125	$ 562	$ 112
Equity Contracts	2,200	17	176	193	35	–	–	–	–	–
Total	$ 271,200	$ 244	$ 346	$ 590	$ 84	$ 130,000	$ 437	$ 125	$ 562	$ 112

The following table shows the off-balance sheet financial instruments split between those contracts that have a positive fair value (favourable contracts) and those that have a negative fair value (unfavourable contracts).

	1999				1998			
	Favourable Contracts (Assets)		Unfavourable Contracts (Liabilities)		Favourable Contracts (Assets)		Unfavourable Contracts (Liabilities)	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Contracts								
Interest rate swaps	$ 155,000	$ 227	$ 114,000	$ 735	$ 85,000	$ 437	$ 45,000	$ 104
Equity Contracts	1,200	17	1,000	78	–	–	–	–
Total	$ 156,200	$ 244	$ 115,000	$ 813	$ 85,000	$ 437	$ 45,000	$ 104

The aggregate contractual or notional amount of the off-balance sheet financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of these financial assets and liabilities can fluctuate significantly from time to time. The average fair values of the off-balance sheet financial instruments on hand during the year are set out in the following table.

	1999	1998
Favourable off-balance sheet financial instruments (assets)	$ 299	$ 131
Unfavourable off-balance sheet financial instruments (liabilities)	$ 338	$ 267

The following table summarizes maturities of off-balance sheet financial instruments and weighted average interest rates paid and received on interest rate contracts.

	1999				1998			
	Maturity				Maturity			
	1 year or less		Over 1 to 5 years		1 year or less		Over 1 to 5 years	
	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate
Interest Rate Contracts								
Interest rate (fixed/floating) swaps								
Receive fixed amounts(1)	$ 230,000	5.27%	$ 39,000	5.67%	$ 105,000	5.18%	$ 25,000	5.50%
Equity Contracts(1) (2)	–		2,200		–		–	
Total	$ 230,000		$ 41,200		$ 105,000		$ 25,000	

(1) The Bank pays (floating) interest amounts based on the one month (30 day) Canadian bankers' acceptance rate.
(2) The contractual interest rate is not meaningful for equity contracts. The Bank receives amounts based on the increase in an equity index.

16. Risk Management

As part of the Bank's risk management practices, the risks that are significant to our business are identified, monitored and controlled. These risks include credit risk, liquidity risk, market risk, and operational risk. Descriptions of the nature of these risks and how they are managed is provided in the commentary on pages 30 to 41 of Management's Analysis of Operations and Financial Condition.

Information on specific measures of risk included in the consolidated financial statements is included in these notes for the allowance for credit losses, derivative financial instruments and fair value of financial instruments. Additional information on interest rate sensitivity and the effective interest rates on financial instruments is provided on pages 37 to 40 of Management's Analysis of Operations and Financial Condition.

17. Acquisition of Canadian Western Capital Limited

On January 16, 1998 the Bank invested an additional $3,000 to acquire a 73% interest in the common shares of Canadian Western Capital Limited for a total cash investment of $3,724. The acquisition was accounted for using the purchase method.

At the effective date of acquisition there were assets and liabilities of:

Assets Acquired	
Cash and securities	$ 13,985
Other assets	25,022
	39,007
Liabilities Assumed	
Other liabilities	34,375
Net Assets	4,632
Less non-controlling interest	908
Net Assets Acquired	$ 3,724

Included in other assets is an allocation of $1,301 of the total cash investment which represents values assigned to regulatory licenses and tax loss carryforwards at the time of acquisition.

On October 31, 1998 the Bank invested an additional $2,600 as a result of a further recapitalization of the company which increased the Bank's interest to 80%. During the year ended October 31, 1999 the Bank's interest was reduced to 72% due to additional capital investment by subsidiary employees.

18. Segmented Information

The Bank operates principally in two industry segments – personal and commercial banking and wealth management. Previously the Bank's financial results were reported on the basis of one industry segment – the financial services industry. These two segments differ in products and services but are both within the same geographic region. Personal and commercial banking includes the operations of the Bank and its trust subsidiary which provides a wide range of banking and trust services to retail and personal clients and small to medium-size commercial business clients primarily in western Canada. The wealth management segment provides retail brokerage, wealth management and corporate finance services in western Canada through a subsidiary company.

Net income for each industry segment is detailed in the following table:

	Personal and Commercial Banking		Wealth Management		Total	
	1999	1998	1999	1998	1999	1998
Net interest income	$ 61,729	$ 55,751	$ 707	$ 515	$ 62,436	$ 56,266
Provision for credit losses	(3,750)	(4,150)	–	–	(3,750)	(4,150)
Other income	13,017	12,165	6,778	5,326	19,795	17,491
Non-interest expenses	(44,726)	(41,192)	(11,265)	(8,022)	(55,991)	(49,214)
Provision for income taxes	(3,516)	(1,958)	–	–	(3,516)	(1,958)
Non-controlling interest in net loss of subsidiary	–	–	879	577	879	577
Net Income (Loss)	$ 22,754	$ 20,616	$ (2,901)	$ (1,604)	$ 19,853	$ 19,012
Average Total Assets	$ 2,435,217	$ 2,159,044	$ 34,459	$ 38,881	$ 2,469,676	$ 2,197,925

19. Difference from Generally Accepted Accounting Principles

The consolidated financial statements of the Bank are prepared in accordance with generally accepted accounting principles ("GAAP"), other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirements of OSFI. The impact of the departure from GAAP to conform to the guidance provided by OSFI is described below.

Consolidated Balance Sheet

As described in Note 4, the Bank increased its general allowance for credit risk. In accordance with the guidance provided by OSFI, this one-time adjustment was applied to retained earnings. The adjustment does not comply with GAAP.

However, had the Bank not departed from GAAP to conform to the guidance provided by OSFI, loans would have increased by $11,694, deferred income taxes included in "Other assets" would have declined by $5,185 and retained earnings would have increased by $6,509. The comparative balances for 1998 were not affected.

Consolidated Statement of Income

There was no impact on the Consolidated Statement of Income as reported, compared with GAAP.

Consolidated Statement of Changes in Shareholders' Equity

Except for the decrease in shareholders' equity of $6,509, there was no impact on the Consolidated Statement of Changes in Shareholders' Equity as reported, compared with GAAP.

Consolidated Statement of Cash Flow

There was no impact on the Consolidated Statement of Cash Flow as reported, compared with GAAP.

20. Subsidiaries

Canadian Western Bank Subsidiaries

(annexed in accordance with subsection 308 (3) of the Bank Act)

October 31, 1999

	Address of Head Office	Carrying Value of Voting Shares Owned by the Bank[1]	Percentage of Issued and Outstanding Voting Shares Owned by the Bank
Canadian Western Trust Company	666 Burrard Street Vancouver, British Columbia	$ 18,633	100%
Canadian Western Capital Limited	666 Burrard Street Vancouver, British Columbia	$ 1,808	72%
CWB Canadian Western Financial Ltd.	10303 Jasper Avenue Edmonton, Alberta	$ –	100%
CWC Life Insurance Services Ltd.	666 Burrard Street Vancouver, British Columbia	$ 26	72%

(1) The carrying value of voting shares is stated at the Bank's equity in the investments.

21. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.

EXECUTIVE OFFICERS

CHAIRMAN

Jack C. Donald

OFFICE OF THE CHIEF EXECUTIVE OFFICER

Larry M. Pollock
President and
Chief Executive Officer

Douglas R. Dalgetty
Executive Vice President

CREDIT RISK MANAGEMENT

Donald C. Kemp
Vice President

Chris H. Fowler
Senior Assistant Vice President

Wally N. Streit
Senior Assistant Vice President

Dennis M. Crough
Assistant Vice President,
Retail Credit

A. Wayne MacInnes
Assistant Vice President

Ken W. Stewart
Assistant Vice President

CORPORATE & STRATEGIC OPERATIONS

William J. Addington
Senior Vice President

Erwin Granson
Assistant Vice President,
Asset Management

Ed E. Rudzitis
Assistant Vice President

TREASURY & OPERATIONS

Allister J. McPherson
Senior Vice President

Ricki L. Moffat
Senior Assistant Vice President,
Treasury and Agent Administration

Michael Vos
Senior Assistant Vice President,
Systems

M. Wayne Bond
Assistant Vice President,
Corporate Administration

Roger J. Pogue
Assistant Vice President,
Operations

FINANCE

Tracey C. Ball, C.A.
Vice President and
Chief Financial Officer

Diane M. Davies, C.A.
Senior Assistant Vice President
and Chief Accountant

Diane L. Kerley, C.M.A.
Assistant Vice President

HUMAN RESOURCES

Uve Knaak
Senior Assistant Vice President

INTERNAL AUDIT

David R. Gillespie
Vice President and Chief Inspector

Lars K. Christensen
Assistant Vice President

MARKETING AND PRODUCT DEVELOPMENT

R. Graham J. Gilbert
Vice President

COMMERCIAL BANKING PRAIRIE REGION

S. Wayne Bamford
Vice President and Regional Manager

Michael N. Halliwell
Senior Assistant Vice President
Main Branch, Calgary

Gus W. Itzek
Senior Assistant Vice President,
Energy Lending
Main Branch, Calgary

Robert H. Bean
Assistant Vice President
Winnipeg

Richard Brodeur
Assistant Vice President
Calgary N.E.

Ken R. MacDonald
Assistant Vice President
Regina

Donald J. Odell
Assistant Vice President
Red Deer

Dean F. Rhoden
Assistant Vice President
Saskatoon

Al Steingart
Assistant Vice President
Chinook Station, Calgary

COMMERCIAL BANKING NORTHERN ALBERTA REGION

Jack C. Wright
Vice President and Regional Manager

William A. Book
Senior Assistant Vice President
Main Branch, Edmonton

Ron S. Baker
Assistant Vice President
West Point, Edmonton

David M. Castell
Assistant Vice President
Main Branch, Edmonton

Wayne C. Dosman
Assistant Vice President,
Personal Banking
Main Branch, Edmonton

Keith F. Garbutt
Assistant Vice President
Southside, Edmonton

Gary R. Mitchell
Assistant Vice President
103rd Street, Edmonton

Jake G. Muntain
Assistant Vice President
103rd Street, Edmonton

Garnett J. Way
Assistant Vice President,
Real Estate Lending
Main Branch, Edmonton

COMMERCIAL BANKING BRITISH COLUMBIA REGION

Rod W. Sorbo
Vice President and Regional Manager

Richard C. Ward
Senior Assistant Vice President
Park Place, Vancouver

Robert G.P. Berzins
Assistant Vice President
Granville & 13th, Vancouver

Russ M. Burke
Assistant Vice President
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Ian G. Graham
Assistant Vice President
Kelowna

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Kelowna

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Nanaimo

CANADIAN WESTERN TRUST COMPANY – VANCOUVER

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General Manager

Paul W. Trapp
Vice President,
Marketing

Kenneth C. Tabor
Vice President,
Mortgage Lending

Mario V. Furlan
Assistant Vice President,
Real Estate Lending

Patrick F. Rennison
Assistant Vice President,
Real Estate Lending

OMBUDSMAN

W. Paul Lefaivre

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CANADIAN WESTERN BANK & TRUST

Charles R. Allard[2,3]
Chairman & Chief Executive Officer
WIC Premium Television Ltd.
Edmonton, Alberta

Albrecht W. A. Bellstedt[3,4]
Senior Vice President
Law & Chief Compliance Officer
TransCanada PipeLines
Calgary, Alberta

Douglas R. Dalgetty[2]
Executive Vice President
Canadian Western Bank
Vancouver, British Columbia

Jack C. Donald[2,4]
President
Parkland Industries Ltd.
Red Deer, Alberta

Jordan L. Golding[1]
Corporate Director and Consultant
Retired Partner
KPMG Peat Marwick
Boston, Massachusetts, USA

Allan W. Jackson[2,3,4]
President
ARCI Ltd.
Calgary, Alberta

Robert A. Manning[1,2,4]
President
Cathton Holdings Ltd.
Edmonton, Alberta

Gerald A.B. McGavin[1,2]
President
McGavin Properties Ltd.
Vancouver, British Columbia

Howard E. Pechet[2,4]
President
Mayfield Consulting Inc.
La Jolla, California, USA

Larry M. Pollock[2]
President and Chief Executive Officer
Canadian Western Bank
Edmonton, Alberta

Alan M. Rowe, C.A.[1]
Senior Vice President and
Chief Financial Officer
Crown Life Insurance Company
Regina, Saskatchewan

Arnold J. Shell[2,3]
President
Arnold J. Shell Consulting Inc.
Calgary, Alberta

1 Audit Committee Member
2 Loans Committee Member
3 Conduct Review Committee Member
4 Corporate Governance & Human Resources Committee Member

DIRECTORS EMERITUS

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Arthur G. Hiller
Peter M.S. Longcroft
Dr. Maurice W. Nicholson
Alma M. McConnell
Eugene I. Pechet
Dr. Maurice M. Pechet
Gordon V. Rasmussen
Fred Sparrow
Robert J. Turnbull

SHAREHOLDER INFORMATION

Head Office
Suite 2300,
Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423-8888
Fax: (780) 423-8897
Website: www.cwbank.com

Subsidiary Head Office
Canadian Western Trust Company
22nd Floor, 666 Burrard Street
Vancouver, B.C. V6C 2X8
Telephone: (604) 669-0081
Fax: (604) 685-9997
Website: www.cwt.ca

Stock Exchange Listing
The Toronto Stock Exchange
Share Symbol: CWB
Convertible Debenture Symbol: CWB.DB.A

Transfer Agent and Registrar Mailing Address
Montreal Trust
Concourse Level
10050 Jasper Avenue
Edmonton, Alberta T5J 1V7
Telephone: (780) 448-7598
Fax: (780) 426-4032

Corporate Secretary
Charles R. Allard
WIC Premium Television Ltd.
Edmonton, Alberta

Inquiries from Shareholders
Any notification regarding change of address or change in registration of shares should be directed to the Transfer Agent. Any inquiries other than change of address or change in registration may be directed to the President and Chief Executive Officer.

Annual Meeting
The annual meeting of the common shareholders of Canadian Western Bank will be held on March 9, 2000 at The Westin (Manitoba Room), 10135 - 100th Street, Edmonton, Alberta at 2:00 p.m. (MST).

BANKING OFFICES

ALBERTA

Edmonton

Edmonton Main Branch
11350 Jasper Avenue
Edmonton, Alberta T5K 0L8
(780) 424-4846
Branch Manager – Bill Book

103rd Street Branch
Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3N6
(780) 423-8801
Branch Manager – Jake Muntain

Southside Branch
7933 - 104 Street
Edmonton, Alberta T6E 4C9
(780) 433-4286
Branch Manager – Heinz Kleist

West Point Branch
17603 - 100 Avenue
Edmonton, Alberta T5S 2M1
(780) 484-7407
Branch Manager – Ron Baker

**RSP Administration/
Agent Processing Centre**
Suite 2200, 10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
(780) 423-8888
Branch Manager – Lina Langford

Calgary

Calgary Main Branch
606 - 4th Street S.W.
Calgary, Alberta T2P 1T1
(403) 262-8700
Branch Manager – Michael Halliwell

Calgary Northeast Branch
2810 - 32nd Avenue N.E.
Calgary, Alberta T1Y 5J4
(403) 250-8838
Branch Manager – Richard Brodeur

Chinook Station
6606 MacLeod Trail S.W.
Calgary, Alberta T2H 0K6
(403) 252-2299
Branch Manager – Al Steingart

Camrose

4895 - 50th Street
Camrose, Alberta T4V 1P6
(780) 672-7769
Branch Manager – Kevin MacMillen

Red Deer

5013 - 49 Avenue
Red Deer, Alberta T4N 3X1
(403) 341-4000
Branch Manager – Don Odell

Lethbridge

744 - 4th Avenue South
Lethbridge, Alberta T1J 0N8
(403) 328-9199
Branch Manager – Donald Grummett

Grande Prairie Industrial Lending Centre

5th Floor, 214 Place
9909 - 102 Street
Grande Prairie, Alberta T8V 2V4
(780) 831-1888
Branch Manager – Keith MacLellan

BRITISH COLUMBIA

Vancouver

Regional Office
22nd Floor, 666 Burrard Street
Vancouver, B.C. V6C 2X8
(604) 669-0081

Granville & 13th Branch
2899 Granville Street
Vancouver, B.C. V6H 3J4
(604) 730-8818
Branch Manager – Rob Berzins

Park Place Branch
Suite 100, 666 Burrard Street
Vancouver, B.C. V6C 2X8
(604) 688-8711
Branch Manager – Richard Ward

**RSP Administration/
Agent Processing Centre**
22nd Floor, 666 Burrard Street
Vancouver, B.C. V6C 2X8
(604) 443-5175
1-800-663-1000
Branch Manager – Huguette Holmes

Courtenay

470 Puntledge Road
Courtenay, B.C. V9N 3R1
(250) 334-8888
Branch Manager – Alan Dafoe

Kamloops Industrial Lending Centre

2155 Westsyde Road
Kamloops, B.C. V2B 7C3
(250) 554-8030
Account Manager – Harold Lavack

Kelowna

1674 Bertram Street
Kelowna, B.C. V1Y 9G4
(250) 862-8008
Branch Manager – Ian Graham

Langley

100, 19915 – 64th Avenue
Langley, B.C. V2Y 1G9
(604) 539-5088
Branch Manager – Craig Martin

Nanaimo

#101, 6475 Metral Drive
Nanaimo, B.C. V9T 2L9
(250) 390-0088
Branch Manager – Russ Burke

Victoria

1201 Douglas Street
Victoria, B.C. V8W 2E6
(250) 383-1206
Branch Manager – Gerry Laliberte

Guildford Industrial Lending Centre, Surrey

401, 15127 - 100 Avenue
Surrey, B.C. V3R 0N9
(604) 583-7500
Branch Manager – Dean Cudmore

SASKATCHEWAN

Regina

1881 Scarth Street
McCallum Hill Centre II
Regina, Saskatchewan S4P 4K9
(306) 757-8888
Branch Manager – Ken MacDonald

Saskatoon

244 - 2nd Avenue S.
Saskatoon, Saskatchewan S7K 1K9
(306) 477-8888
Branch Manager – Dean Rhoden

Yorkton

#45, 277 Broadway Street E.
Yorkton, Saskatchewan S3N 3G7
(306) 782-1002
Branch Manager – Barb Apps

MANITOBA

Winnipeg

234 Portage Avenue
Winnipeg, Manitoba R3C 0B1
(204) 956-4669
Branch Manager – Robert Bean

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