Fundamentals

{ principles for success }

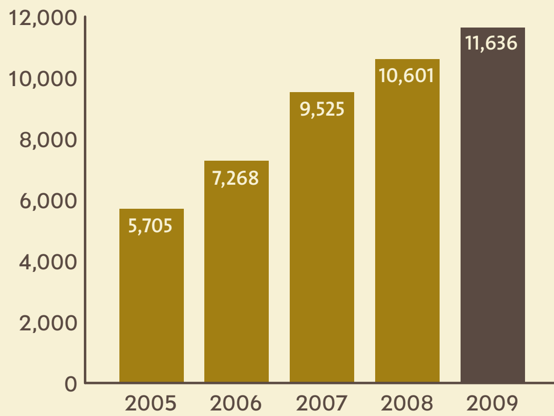
CANADIAN WESTERN BANK GROUP

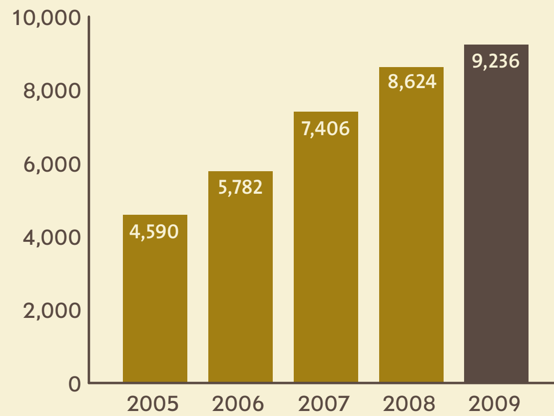
2009 ANNUAL REPORT

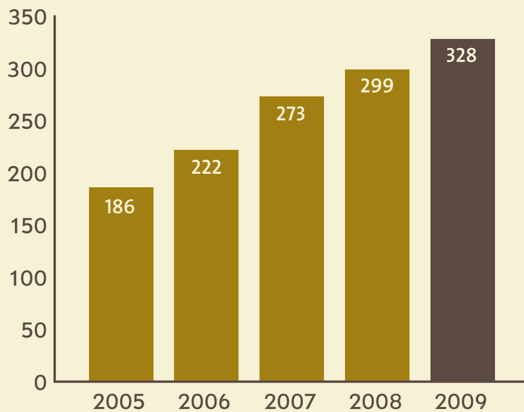
CWB CANADIAN WESTERN BANK GROUP

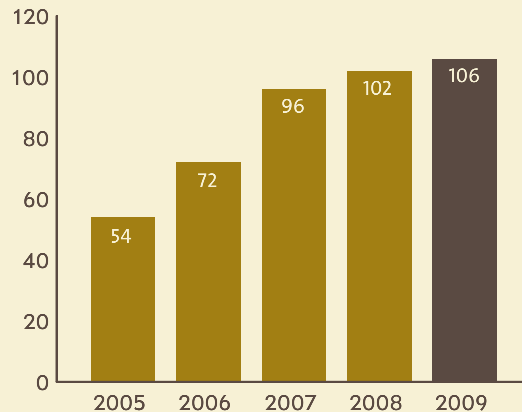
BANK • TRUST • INSURANCE • WEALTH MANAGEMENT

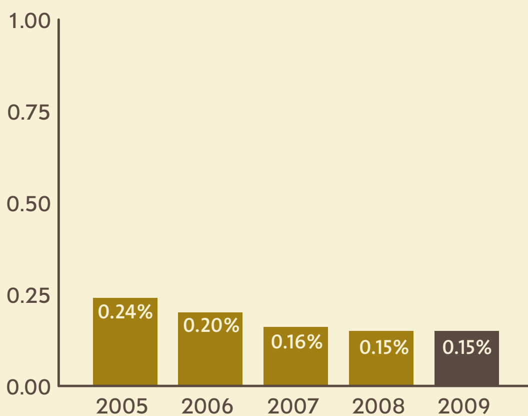
Our History of Financial Performance

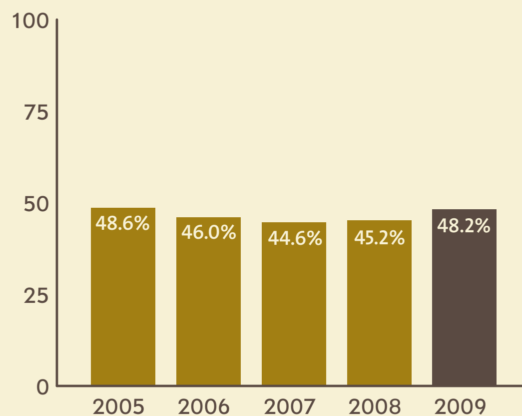












Five Year Financial Summary

($ thousands, except per share amounts)	2009	2008	2007	2006	2005
Results of Operations					
Net interest income (teb)(1)	$ 236,354	$ 228,617	$ 210,659	$ 168,684	$ 140,320
Less teb adjustment	7,847	5,671	5,410	4,078	3,975
Net interest income per financial statements	228,507	222,946	205,249	164,606	136,345
Other income	91,612	70,240	62,821	53,086	45,561
Total revenues (teb)	327,966	298,857	273,480	221,770	185,881
Total revenues	320,119	293,186	268,070	217,692	181,906
Net income	106,285	102,019	96,282	72,007	54,391
Return on common shareholders' equity(2)	13.2%	15.9%	17.4%	14.8%	12.7%
Return on average total assets(3)	0.86	1.03	1.18	1.12	1.03
Per Common Share(4)					
Average common shares outstanding (thousands)	63,613	63,214	62,354	61,514	60,394
Earnings per share					
Basic	$ 1.51	$ 1.61	$ 1.54	$ 1.17	$ 0.90
Diluted	1.47	1.58	1.50	1.13	0.87
Dividends	0.44	0.42	0.34	0.25	0.19
Book value	12.16	10.70	9.48	8.39	7.48
Market price					
High	23.00	32.20	30.86	22.78	20.35
Low	7.52	14.67	20.78	16.64	11.04
Close	21.38	18.44	30.77	21.15	17.60
Balance Sheet and Off-Balance Sheet Summary					
Assets	$ 11,635,872	$ 10,600,732	$ 9,525,040	$ 7,268,360	$ 5,705,028
Cash resources, securities and resale agreements	2,188,513	1,798,137	1,961,241	1,332,987	976,000
Loans	9,236,193	8,624,069	7,405,580	5,781,837	4,590,263
Deposits	9,617,238	9,245,719	8,256,918	6,297,007	4,913,307
Subordinated debentures	375,000	375,000	390,000	198,126	128,126
Shareholders' equity	986,499	679,148	595,493	519,530	457,990
Assets under administration	5,467,447	4,347,723	4,283,900	3,344,414	1,649,065
Assets under management	878,095	—	—	—	—
Capital Adequacy					
Tangible common equity to risk-weighted assets(5)	8.0%	7.7%	7.7%	8.6%	9.7%
Tier 1 ratio(6)	11.3	8.9	9.1	10.1	9.7
Total ratio(6)	15.4	13.5	13.7	13.7	12.4
Other Information					
Efficiency ratio (teb)(7)	48.2%	45.2%	44.6%	46.0%	48.6%
Efficiency ratio	49.4	46.1	45.5	46.9	49.7
Net interest margin (teb)(8)	2.10	2.30	2.58	2.62	2.66
Net interest margin	2.03	2.25	2.51	2.56	2.59
Provision for credit losses					
as a percentage of average loans	0.15	0.15	0.16	0.20	0.24
Net impaired loans as a percentage of total loans	0.68	0.19	(0.57)	(0.75)	(0.68)
Number of full-time equivalent staff	1,339	1,284	1,185	1,097	999
Number of bank branches	37	36	35	33	31

(1) Most banks analyze revenue on a taxable equivalent basis (teb) to permit uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statement of income) includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividend received is significantly lower than would apply to a loan or security of the same amount. The adjustment to taxable equivalent basis increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. The taxable equivalent basis does not have a standardized meaning prescribed by generally accepted accounting principles (GAAP) and, therefore, may not be comparable to similar measures presented by other banks.

(2) Return on common shareholders' equity is calculated as net income after preferred share dividends divided by average common shareholders' equity.

(3) Return on assets is calculated as net income after preferred share dividends divided by average total assets.

(4) Stock dividends effecting a two-for-one split of the Bank's common shares were paid in 2005 and 2007. All prior period common share and per common share information has been restated to reflect these effective splits.

(5) Tangible common equity to risk-weighted assets is calculated as shareholders' equity less subsidiary goodwill divided by risk-weighted assets, calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI). As of November 1, 2007, OSFI adopted a new capital management framework called Basel II and capital is managed and reported in accordance with those requirements. Prior year ratios have been calculated using the previous framework.

(6) Tier 1 and total capital adequacy ratios are calculated in accordance with guidelines issued by OSFI. As of November 1, 2007, OSFI adopted a new capital management framework called Basel II and capital is managed and reported in accordance with those requirements. Prior year ratios have been calculated using the previous framework.

(7) Efficiency ratio is calculated as non-interest expenses divided by total revenues.

(8) Net interest margin is calculated as net interest income divided by average total assets.

Performance Targets

When this past fiscal year began, everyone in the financial services industry – including Canadian Western Bank Group – was braced for a downturn. While the extent of the downturn was unknown, we knew challenging market and economic conditions would have an ongoing impact, and that related issues such as lower interest rates and a higher level of impaired loans would be reflected in our overall performance.

We are pleased to report that Canadian Western Bank Group achieved or surpassed four out of seven of our 2009 performance target ranges despite the foregoing uncertainty. Annual performance highlights included record earnings and revenues, and an industry-best provision for credit losses measured as a percentage of average loans.

In the coming year, while we are still uncertain about the timing and strength of an economic recovery, our minimum performance targets reflect ongoing confidence in our business strategies and the strength of our core western Canadian markets.

	2009 Target Ranges	**2009 Performance**	2010 Minimum Targets
Net income growth	2 to 5%	**4%**	12%
Total revenue (teb) growth	5 to 8%	**10%**	12%
Loan growth	10%	**7%**	10%
Provision for credit losses as a percentage of average loans	0.15 to 0.18%	**0.15%**	0.15 to 0.20%
Efficiency ratio (teb)	46 to 49%	**48.2%**	48%
Return on common shareholders' equity	14 to 16%	**13.2%**	13%
Return on assets	0.90 to 1.05%	**0.86%**	0.90%

Fundamentals

It all begins with the fundamentals. Defining what you do, why you do it, and the best way to get it done is essential to business success. It helps you chart growth, explore new opportunities and adapt to changing customer needs. It also helps you stay focused when challenges arise.

At Canadian Western Bank Group, we've built our reputation and success on our fundamental commitment to providing superior customer experiences. We listen to our customers and endeavor to create products and services focused on their needs, while maintaining our commitment to sensible and prudent business practices. Sticking to what we know is key to our success, as is our common sense approach to growing our businesses. We work constantly to build long-lasting relationships with our clients, employees and other stakeholders.

These fundamentals have guided our development for more than a quarter century and will help us emerge from current challenges poised for continued growth. In the following pages, you'll learn more about the fundamentals that guide Canadian Western Bank Group – our strategies, our business lines and our priorities – and how those fundamentals shape both who we are and who we will become.

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LONG TERM FOCUS

www.cwbankgroup.com

Canadian Western Bank Group

We've come a long way from our humble beginnings in 1984, when we started with our first employee and the goal of creating a bank that would invest its expertise and resources in the West. Today, more than 25 years later, Canadian Western Bank (CWB) is the largest Canadian bank headquartered in Western Canada. CWB and its subsidiaries, which, together comprise Canadian Western Bank Group (CWB Group) now includes 37 banking branches, eight trust locations, two insurance service centres and one wealth management location. We have combined balance sheet assets of nearly $12 billion, trust assets under administration of more than $5 billion and assets under management approaching $1 billion. We employ more than 1,400 people in nearly 50 communities. And, our first employee is still with us today.

FIG. 1.0

The corporate headquarters of the Canadian Western Bank Group is located in Edmonton, Alberta.

Principles for success

Although we've grown significantly, the main principles for our success have not changed: we focus on the needs of Western Canada, offer exceptional customer service and adhere to a common sense approach to doing business. We maintain our commitment to local decision making and continue to build on our disciplined strategies for ongoing growth and diversification. CWB's subsidiaries include Canadian Western Trust Company, Valiant Trust Company, Canadian Direct Insurance Incorporated, Adroit Investment Management Ltd. and Canadian Western Financial Ltd. Canadian Direct Financial is a division of CWB, while Optimum Mortgage is a division of Canadian Western Trust Company.

At Canadian Western Bank Group, we are proud of what we've accomplished and of our ability to stay true to our fundamentals, both in the best of times and in very challenging times such as this past year. We continued to grow and support our customers, achieved record annual earnings and revenues, and marked our 86th consecutive profitable quarter, all amidst the most uncertain operating and economic environment in decades, particularly for financial institutions. Both our employees and clients rose to the challenges that were presented this past year, and Canadian Western Bank Group has emerged much stronger for the experience.

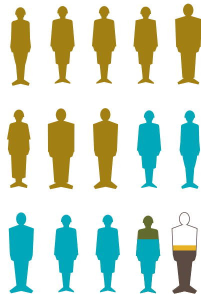


FIG. 1.1

Each figure represents 100 employees of the Canadian Western Bank Group.

"Canadian Western Bank has built a very impressive balance sheet over the years, but people by far represent our most valued asset. It's the tremendous commitment and talent of our staff that really underpin CWB Group's ongoing success and growth."

Tracey Ball
Executive Vice President and Chief Financial Officer
Canadian Western Bank Group

 Number of new CWB branches opened in 2009

Canadian Western Bank, along with its subsidiaries and operating divisions, together comprises Canadian Western Bank Group

Subsidiary Company

Operating Division

† Includes both full and part time employees

Canadian Western Bank Group

Employees†: 1,400+
Clients: 500,000+
Total Assets: $11.6 billion+
President & CEO: Larry M. Pollock
Chairman: Jack C. Donald

Canadian Western Bank

Employees†: 1,005
Consecutive Profitable Quarters: 86
Total Branches: 37

Canadian Direct Insurance

Employees†: 272
Insurance Policies Outstanding (#): 175,000+
Gross Written Premiums: $116 million+

Valiant Trust

Employees†: 42
Appointments in 2009 (#): 468
Number of Clients: 260+

Canadian Western Trust

Employees†: 79
Investment Accounts (#): 42,000+
Total Assets Under Administration: $5,400 million+

Optimum Mortgage

Employees†: 34
Total Mortgages: $561 million
Client Mortgages (#): 2,200+

Adroit Investment Management

Employees†: 12
Total Assets Under Management: $878 million+
Number of Client Relationships: 312

Canadian Direct Financial

Established: 2008
Deposits: $60 million+
Provinces in Canada Where CDF Products Are Offered (#): 9

Canadian Western Financial

Mutual Fund Representatives (#): 95
Client Mutual Funds: $95 million

An Interview with Larry M. Pollock, President and CEO

FIG. 1.2

Larry M. Pollock, President and CEO of Canadian Western Bank

Q: How did CWB Group perform in fiscal 2009?

A: Under normal conditions, I would have considered our performance good, but considering the market turmoil and recessionary environment we were up against, I think we performed very well. Of course, none of us knew exactly what to expect at the beginning of the year, but we put strategies in place to help mitigate most of the issues we could foresee – lack of liquidity in the markets, ongoing margin compression and higher impaired loans. Although we were braced for difficult operating conditions, it turned out to be a much more challenging environment than we initially expected. But at the end of the day, we achieved our best year ever for earnings and revenues, and marked our 86th consecutive profitable quarter.

Q: How did CWB Group avoid the pitfalls so many other financial institutions experienced?

A: One of the problems that contributed to the global crisis in the first place is that many financial institutions became very aggressive in their lending practices. We never did that. We maintained our credit discipline, even if we did less business because of it. We have a practice of not investing in things we don't understand, which meant we were never as vulnerable as some financial institutions. We had no exposure to troubled asset-backed commercial paper, collateralized debt obligations, or any of the other toxic assets that became headlines over the past couple of years.

Our geographic position in Western Canada also helped us. Western Canada's entrepreneurial spirit and resiliency in the face of economic challenges is very much in sync with our own corporate culture. Looking forward, we also believe Western Canada is poised to realize a solid economic recovery once major global economies begin to grow.

Q: What specific things were done at CWB Group to help mitigate the impact of the financial crisis and the recessionary environment that followed?

A: We decided from the start that it would be business as usual, because we have the view that if you tear your organization apart to reduce costs, it's simply not a sustainable business model. We decided to keep things intact, including expenditures tied to our longer-term growth and development plans, even if it meant we would report lower earnings for a period of time.

We also made a concerted effort to maintain good communication with our employees, keeping them up-to-date on what we were doing and what we weren't doing. Our employees could go home at night knowing that their jobs were safe; it gave them security, and helped them become even more committed to CWB Group.

In the fall of 2008, we saw that markets were becoming very tight, so we decided to carry much more liquidity than we normally would. We took a proactive stance and raised additional deposits at the end of fiscal 2008 and early in fiscal 2009 to ensure we would continue to meet the needs of our customers.

We also increased our capital base by completing preferred unit offerings in March 2009. We already had solid capital ratios and some questioned our intent for doing this, but being perceived as having too much capital during the most uncertain economic environment in decades is a pretty good problem to have. We expect the preferred unit capital will benefit all CWB shareholders in the future, as the Bank is very well positioned to capitalize on new growth opportunities.

Q: What were you particularly proud of during the year?

A: By far, it was the dedication of our employees. I thought with everything that was going on they might get overly concerned and worry about what comes next. But they didn't. In fact, many of our employees were angry, angry that the market had brought the value of a CWB share down from $31 to $7 in just one year. We posted very good financial results despite the challenges, and continued to grow and develop – something we were really proud of. To see our share price drop, it felt like the market was punishing us for doing things right. That motivated us to work even harder. We said now's a great opportunity, while everyone else is looking over their shoulder, we'll look ahead and see how to better our organization. And that's what we did.

I was also very proud of how well Canada's banking industry as a whole performed during the crisis. Compared to the rest of the world, our regulatory system and *Bank Act* have all sorts of checks and balances to prevent banks from becoming overly aggressive during the good times. Imposing constraints on how much leverage banks can carry on their balance sheets is an effective way to control against undue risk-taking, and our regulators in Canada figured this out long before the financial crisis began.

"Western Canada's entrepreneurial spirit and resiliency in the face of economic challenges is very much in sync with our own corporate culture. Looking forward, we also believe Western Canada is poised to realize a solid economic recovery once major global economies begin to grow."

MITIGATING RISKS

Q: With the benefit of hindsight, is there anything you would have done differently?

A: Not a lot. We have strong discipline embedded in our business model and a lot of experience among our senior people; it's just a fundamental part of who we are. I knew if we continued to do what we've always done, we'd come through it. And we have.

Sometimes we're criticized for the way we do things, but we don't manage our businesses to satisfy the flavour of the week. We've never done that. In the past, some people have underestimated us, and I expect some will underestimate our future potential as well. We are building our businesses for the long-term, not attempting to push each quarter so we look good temporarily.

Q: What are your thoughts on the economic environment going forward?

A: We're starting to see some real activity. Although we're not completely out of the woods from an economic standpoint, things are moving again, and that's good. Real estate markets in Canada have shown surprising resilience, and we expect employment levels will start to pick up again in 2010. There are still some storm clouds ahead, but we definitely see light on the horizon.

EXPANDING MARKET PRESENCE

We also think that Western Canada, with its strong resource base, is likely to experience a strong recovery once global demand starts to pick up. And we'll be here to help that recovery along, just like we were here in the midst of the crisis.

Q: Have any new opportunities arisen over the past year?

A: One of the biggest problems we experienced during the past year was compression of our net interest margin. Half of our loans are prime-based, and when the benchmark rate went from almost six per cent in 2008 to two and a quarter per cent this year, our profit margins fell significantly. The opportunity now is to build back reasonable margins, which includes negotiating fair lending rates that are satisfactory for both our clients and our shareholders. Overall deposit costs have come down quite a bit now too, which we expect will provide a further significant boost for margins going forward.

We've also seen a reduction in the number of foreign competitors in our markets. It appears a number of them are licking their wounds and going home. This has provided a real opportunity for us to increase our market presence, and we plan to take advantage of this. The benefits of this should be amplified once the economic recovery kicks in.

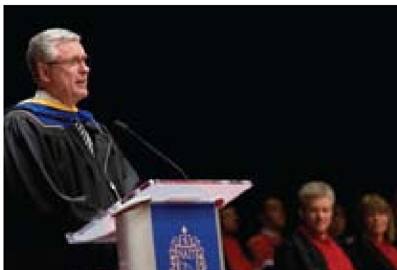


FIG. 1.3

Larry M. Pollock receiving an honorary degree from the Northern Alberta Institute of Technology (NAIT) this year.

"I'm still as fired up and optimistic about where we can take Canadian Western Bank Group as I ever was. I really enjoy what I'm doing... so I expect to be around for awhile yet."

Q: What are the main factors that have contributed to CWB Group's history of success?

A: I would say there are five factors that have contributed to our history of success. First of all, we're conservative; second, we're well capitalized; and third, we surround ourselves with good people that work well as a team. The remaining two factors relate to our culture. We're not greedy, so if we see an opportunity we try to be fair – we always remain mindful of the tradeoff between potential returns and corresponding risks. And finally, we communicate, listen and work hard. I've said for years that "I might not outsmart you, but I'll probably outwork you." In the end, hard work is what gets it done.

You can also never underestimate how much integrity is worth. I worked for someone once who said "out of trust, out of business," and by that he meant that you should never work with anyone you didn't trust. I think the personality of our executive group permeates throughout the organization, and integrity really defines who we are. Our clients know they can trust us, and in the end that's what relationships are built on.

Q: You've been President and CEO for almost 20 years; how long do you plan to continue leading CWB Group?

A: I'm still as fired up and optimistic about where we can take Canadian Western Bank Group as I ever was. I really enjoy what I'm doing and once you go through a firestorm like we did this past year, is that the time you want to say goodbye? Not a chance. My employment agreement was recently extended, so I expect to be around for awhile yet.

That being said, we have a very strong and experienced executive team and any one of our five executive vice presidents would be capable of taking the reins in my absence. We have lots of internal talent and plenty of people who share my commitment to CWB Group.

Q: What are CWB Group's top priorities for 2010?

A: We're looking to continue our organic growth strategy for the Bank. There are still lots of opportunities to further build and develop in our western Canadian markets. We opened two new full service branches in 2009, and expect to open two additional branches in 2010. Our objective is to grow across all of our lending areas, with perhaps an increased emphasis on building our residential mortgage and equipment financing portfolios. We will also continue to develop our deposit gathering capabilities with a focus on diversification and increasing our base of lower cost retail deposits.

All of our subsidiaries have very strong growth potential. We're aiming to double our net income in each of these businesses over the next five years, which I don't think is too much of a stretch. Canadian Western Trust showed great performance this past year and is starting to gain some real momentum. Valiant Trust also shows excellent potential despite a difficult year in 2009 due to challenging capital market conditions. Both of our trust businesses now have offices in Toronto, and there are lots of opportunities to increase our presence in that market. Canadian Direct Insurance just came off a record year in 2009, and we expect ongoing development in this business as well. We are exceptionally good at underwriting auto and home insurance and will continue to concentrate on further enhancing our distribution capabilities. We acquired Adroit Investment Management in the first quarter of fiscal 2009, and it's a good complement to our existing businesses. We will look to increase our presence in wealth management services moving forward.

As far as making new acquisitions, on December 9th, subsequent to year end, we were very pleased to announce our intent to acquire National Leasing Group Inc. Based out of Winnipeg, Manitoba, we believe this to be the premier small ticket leasing company in Canada, and expect the acquisition will provide significant future growth and diversification. We also remain well positioned to move on other opportunities if they meet our criteria of being both strategic and accretive.

STRATEGIC ACQUISITION!

Q: What about further ahead – what might CWB Group look like five years from now?

A: Simply put, we expect to become larger, better diversified and more profitable. Our five-year strategic vision is to reach $20 billion in total assets and surpass $200 million in net income. These targets are admittedly aggressive, and it will be challenging to reach them within our stated timeframe, but we've done it before. Some people have already questioned our capacity to achieve these objectives, but like always, we thrive on proving the doubters wrong.

Fig. 1.4

5 FACTORS IN THE HISTORY OF OUR SUCCESS

1. We're conservative
2. We're well capitalized
3. We have a team of great people
4. We're not greedy
5. We communicate, listen and work hard

"We expect to become larger, better diversified and more profitable. Our five-year strategic vision is to reach $20 billion in total assets and surpass $200 million in net income."

A Message from Jack C. Donald, Chairman of the Board

Fig. 1.5

Chairman of Canadian Western Bank, Jack C. Donald

"As always, our Board remained committed to sound corporate governance and to provide CWB Group's management team with advice and insight."

Success in a difficult year

I'm very proud to report that Canadian Western Bank Group had a remarkably successful year, in the midst of very difficult conditions. Over the course of the past year, we saw unprecedented volatility in commodity prices and real estate values, and witnessed a global financial crisis that hampered virtually every sector of the economy. And through it all, Canadian Western Bank Group continued to grow and succeed, a true testament to its strength of culture and strategy.

Working with our customers

CWB Group works to support people in our own communities. And at the same time, we protect the interests of our depositors and shareholders by maintaining common sense business practices. We work and invest where we live, and this is a very important principle for our success, both in the past and as we look to the future.

The right leadership

Much of our success is because of Canadian Western Bank Group's management team. They do a superb job managing the growth and development of CWB's businesses, while also ensuring they stay true to the fundamentals that have guided the Bank from the start.

Canadian Western Bank Group is very fortunate to have Larry Pollock, who has an incredible ability to read people. The Bank has come a very long way, and much of that growth and success is because of Larry and the great team of people he's surrounded himself with. Our entire executive team and all our staff have risen to the challenge of growing a small financial institution into what CWB Group is today. CWB has made history as the first truly successful bank from Western Canada.

Changes to the Board of Directors (Board)

Although most members of our Board have been with us for many years, there were some important changes this year. We were very pleased to add Raymond Protti – who was previously President and CEO of the Canadian Bankers Association – and welcome his experience and guidance. At the same time, we bid farewell to a long time Board member, Charles Allard, whose father was one of our founding members. Charles made the decision to focus on other business interests and we wish him well, and thank him for his invaluable contributions through more than 20 years of service with our Board.

Corporate Governance

As always, our Board remained committed to sound corporate governance and to provide CWB Group's management team with advice and insight. We're fortunate to have a very strong Board of Directors that has expertise in the fields in which we operate. I believe the experience of our Board was particularly helpful in dealing with increased challenges over the past year.

We continually evaluate changing standards and best practices of corporate governance, and we remain committed to making the best business decisions for the Bank within this framework. A primary goal of our Board of Directors, along with the Bank's senior management, is to implement strategies that are in the collective best interests of all CWB stakeholders. In line with our commitment to current practices, we will be transitioning to independent voting for our Board beginning in 2010.

Looking ahead

With my own view towards retirement, this annual report represents my twentieth and final year as Chairman of the Board for CWB. When I look back on where we began, I am truly amazed at what we've done. The growth we've achieved, the team we've built, the support we've given to western Canadian businesses, the ability to solicit deposits and make sensible loans, the jobs we've created and the fact that we've kept our head office right here in Western Canada are each tremendous accomplishments and represent great sources of pride for me.

My deepest thanks to the Board, which is one of the finest I've ever worked with in terms of knowledge, strength and teamwork. Over the years, I've learned more than I've given and I'm a better person for it. Thanks also to Larry Pollock and the entire CWB Group team for their unwavering commitment and integrity. Most importantly, I would like to thank our shareholders and clients for their ongoing faith in us.

As I prepare to hand the reigns over to our incoming chairman, Allan Jackson, I know Canadian Western Bank Group will continue to grow and prosper. Western Canada is a great place to do business and there are still an incredible amount of opportunities for entrepreneurs who are willing to work hard. Canadian Western Bank Group will be right there beside them to help them achieve their goals.

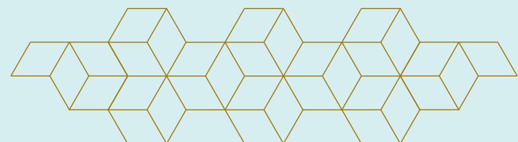
Jack C. Donald
Chairman

THANK YOU

In March 2010, at the Bank's 26th annual shareholders' meeting, our Chairman, Jack Donald, will retire from the Board of Directors after 26 years of strong stewardship and unfailing commitment to CWB Group. Jack first demonstrated his support as a founding shareholder and director, several months before the Bank obtained its charter on March 22, 1984. In 1990, he was appointed Chairman when the Bank separated the roles of Chairman and Chief Executive Officer for the first time.

Jack, please accept our highest praise for your many years of dedication and service – your "Tone at the Top" exemplifies everything an organization could hope for. Your guidance will be missed, but your spirit is forever embedded in our culture; for that, we are truly thankful.

Jack, together with his wife Joan, are very proud but humble Albertans who have made the City of Red Deer their home since the mid-sixties. In 2007, the Donald School of Business was founded at Red Deer College. In honour of Jack's services as a CWB director and our Chairman, we recently established two scholarships in his name to further the Donalds' legacy at the College and in their community.



www.cwbank.com

Canadian Western Bank

Canadian Western Bank is the largest Canadian bank headquartered in Western Canada, and the seventh largest Schedule I bank in Canada, measured by market capitalization. With 37 client focused branches located across the four western provinces, business and personal banking continue to comprise the bulk of CWB Group's operations. In 2009, net interest income, or spread income, accounted for approximately 71 per cent of consolidated total revenues.

Business banking is our focus

Business banking is at the core of what we do, and CWB is the only Canadian bank that primarily focuses on the unique needs of small to medium-sized western Canadian businesses. About 84 per cent of our loan portfolio is comprised of business loans, and we specialize in commercial real estate and construction financing, energy lending, and large-scale equipment financing and leasing. We work hard to understand the unique opportunities and challenges our customers face and are able to make tailored lending decisions quickly, efficiently and locally. We also offer a complete range of personal banking services that meet the needs of business owners and their employees, as well as individual savers/investors.

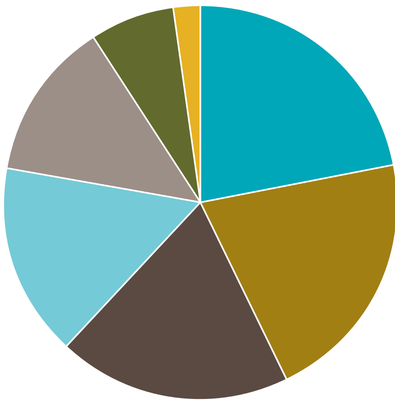


Fig. 1.6

Loan portfolio by lending sector
(as of Oct. 31, 2009)

- COMMERCIAL MORTGAGES - 22%
- GENERAL COMMERCIAL - 21%
- REAL ESTATE PROJECT LOANS - 19%
- PERSONAL LOANS & MORTGAGES - 16%
- EQUIPMENT FINANCING - 13%
- CORPORATE LOANS - 7%
- OIL & GAS PRODUCTION - 2%

Challenges and successes

The challenges we faced this past year due to difficult operating conditions were not unique, but our strategy for mitigating them was – in fact, we took a largely "business as usual" approach. We focused on our commitment to superior customer service and our sensible lending strategies. We mitigated elevated market and economic uncertainties by strengthening our capital position and increasing our liquidity. We worked closely with our customers to introduce interest floors on floating rate loans that helped offset CWB's compressed net interest margins created by quickly falling interest rates. We protected the interests of our clients and shareholders by maintaining strong credit discipline and increasing our resources dedicated to managing impaired loans. These strategies also positioned us to take advantage of opportunities that arose, giving us flexibility to grow our business, particularly as many other lenders exited our markets. And through it all, we worked to increase communication with our employees to clarify our approach, our optimism and our plans for the future.

What we didn't do was equally important. We never got involved in any of the risky products or ventures that contributed to market problems in the first place, because we stick with what we know and what we're good at. When the crisis hit, we didn't panic. We continued to make sensible loans to our customers and offer them competitive deposit products. We continued to provide outstanding personal service and to focus on the needs of western Canadians. And we never forgot that our success is built on the efforts of our employees and the ongoing confidence and trust of our clients and investors.

"We are a business bank and proud of it. I believe it's our passion and expertise in this area that really sets us apart from many of our competitors."

Randy Garvey
Executive Vice President
Canadian Western Bank

 ≻ CWB's total revenue growth percentage in fiscal 2009

VIEW TO THE FUTURE

The results speak for themselves

Our strategy worked. CWB continued to develop and grow and posted record annual earnings and revenues. It's clear that what could have been a dismal year was anything but. We finished the year with better results than most people expected, and emerged ready to pursue new opportunities. This past year has proven that our focus on Western Canada and our commitment to customer service is a winning strategy, even in the most challenging of environments.

{ Provisions for Credit Loss (as a % of average loans) }

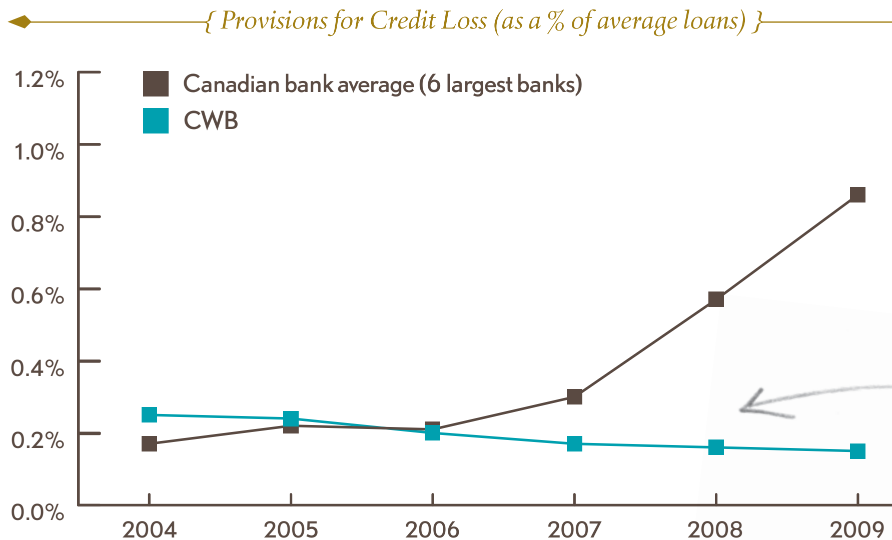


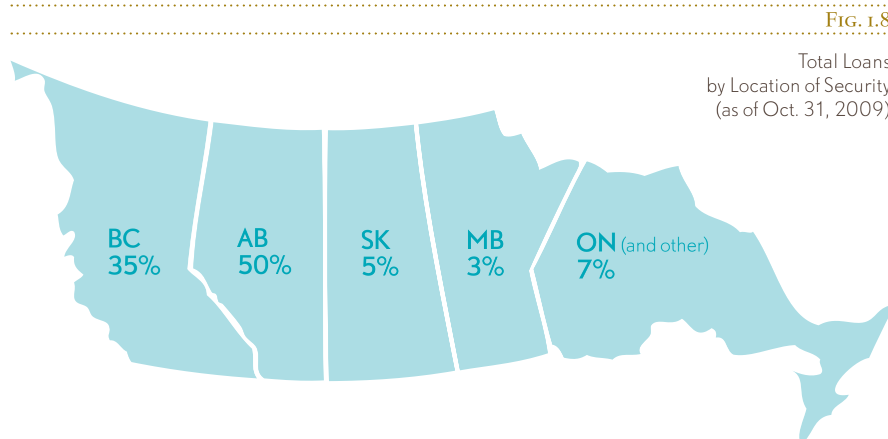
FIG. 1.7

CWB's new branch in Saskatoon. This Saskatoon branch is our second in that city and one of two new branches opened this fiscal year.

STRONG CREDIT DISCIPLINE

FIG. 1.8

Total Loans by Location of Security (as of Oct. 31, 2009)



"Western Canada is where we live and where we do business. We work hard to understand the needs of our customers, and we appreciate both the unique opportunities and challenges of doing business in the West."

Chris Fowler
Executive Vice President
Canadian Western Bank

![Canadian Direct Financial logo]

Canadian Direct Financial

www.canadiandirectfinancial.com

"CDF gives people more saving and investment options, and makes it easier for all Canadians to enjoy a piece of what CWB has to offer."

Peter Morrison
Vice President, Marketing
Canadian Western Bank

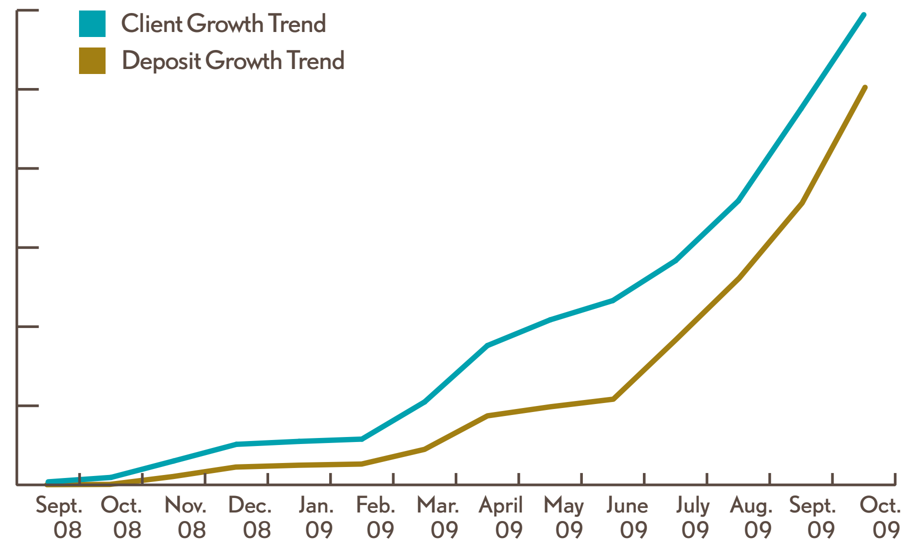
FIG. 1.9

CDF offers Internet-based deposit accounts to customers who don't have access to a branch

Canadian Direct Financial

Canadian Direct Financial (CDF), a division of CWB, is a relatively new addition to the CWB Group. Launched in September 2008, CDF offers Internet-based accounts to customers who do not have convenient access to an existing CWB branch, or those who choose to do their banking online. CDF allows CWB to reach beyond its branch network, in an efficient, cost-effective way, while giving all Canadians the opportunity to take advantage of our high interest savings accounts, chequing accounts and competitive Guaranteed Investment Certificates (GICs).

{ Client & Deposit Growth Trends }



Meeting a need

On the surface, launching a new Internet-based banking division in the midst of an uncertain environment may seem strange. But CWB doesn't do anything without a plan or a purpose, and CDF was very much a part of the Bank's overall strategy to diversify and build deposits, while providing customers with new service options. At a time when interest rates dropped to record lows, CDF's high interest savings account and competitively priced GICs offered customers a way to earn more money on their deposits, while having the confidence and security that comes from dealing with a federally regulated Canadian bank.

Looking ahead

In developing CDF, it was critical to ensure that customers would receive outstanding service, online or on the phone. The solution was to create a scalable technology platform that included an intuitive, easy-to-navigate website, and pair it with a dedicated customer support team ready to personally assist clients when required. CDF is now working to expand its online banking services to include Registered Retirement Savings Plans (RRSP) and Tax-Free Savings Accounts (TFSA).

Canadian Western Financial

CANADIAN WESTERN FINANCIAL
Canadian Western Bank Group
MUTUAL FUND SERVICES

www.canadianwesternfinancial.com

Canadian Western Financial Ltd. (CWF) was established in 1999 to offer CWB customers access to third-party mutual funds. Today, CWF offers customers a wide-range of mutual fund investment choices through CWB branches across Western Canada.

Giving customers more options

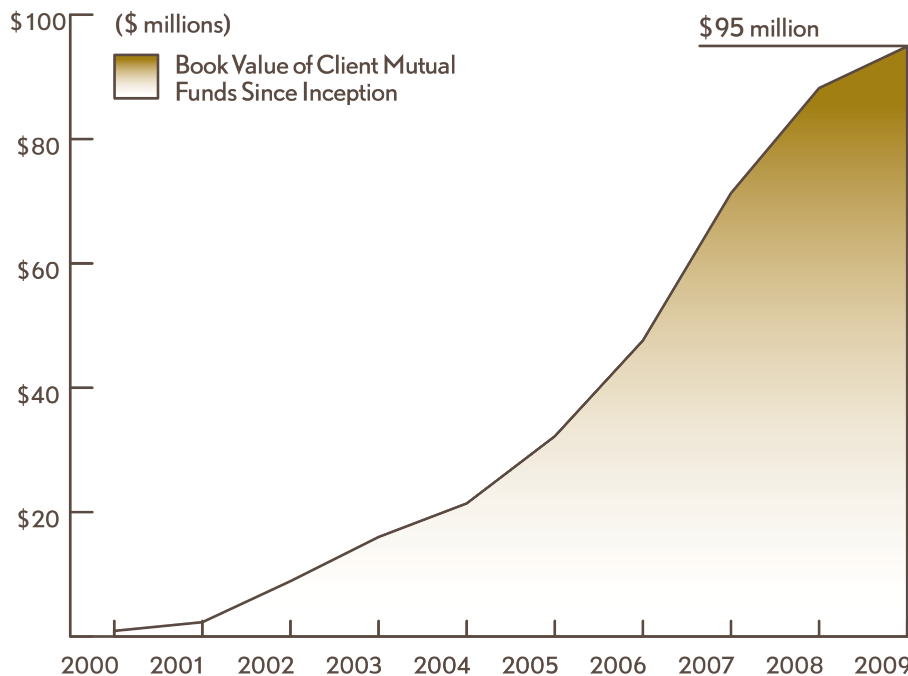
CWF was created specifically to give existing CWB customers more investment options with access to licensed mutual fund advisors through our branch network. CWB clients often require investment choices beyond the Bank's typical GIC and deposit products, and CWF advisors are able to help them find the right mix of mutual funds for their needs.

CHOICE IMPORTANT FOR CUSTOMERS

Challenges and successes

CWF showed positive growth in 2009 and continued to demonstrate its value as part of the Bank's retail investment services. In general, investment returns were very volatile over the past year and CWF's success during this period was largely due to relatively conservative investment strategies. We strive to recommend investments that will meet our clients' long-term goals with the least amount of risk possible. While most investments lost value when the stock markets dropped, we didn't lose clients because we hadn't advised them to take unnecessary chances. As the markets begin to recover, we're poised to acquire new clients who are looking for the levels of service, products and advice that CWF can deliver.

{ Growth Since Inception }



"CWF advisors don't work on commission, so we are entirely focused on helping our clients make the right investment choices to meet their own specific needs and objectives."

Erwin Granson
Director, Operations
Canadian Western Financial

CANADIAN WESTERN TRUST
Canadian Western Bank Group
Service you can trust.®

www.cwt.ca

FIG. 2.0

Providing highly personalized service is one of our points of differentiation.

"Our size and the backing of CWB Group is a competitive advantage. It allows us to be flexible, innovative and responsive to our niche market of small to medium-sized clients that are underserved by today's large custodial providers."

Scott Scobie
General Manager
Canadian Western Trust

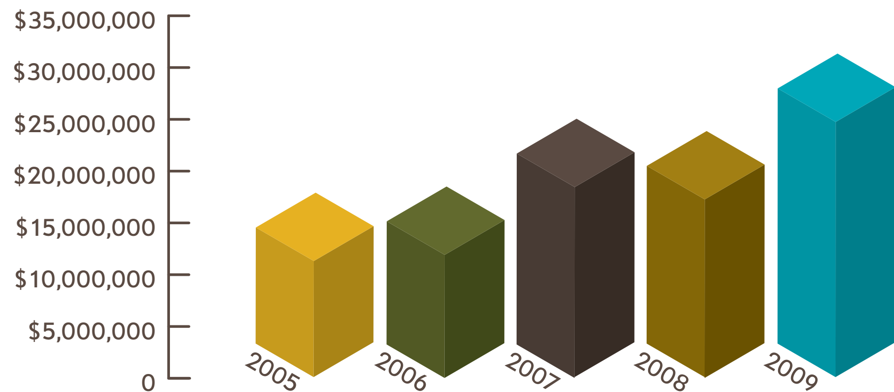
Canadian Western Trust

Canadian Western Trust Company (CWT) first became part of CWB Group in 1996 and has been in business for more than 20 years. Today, CWT offers retirement, trustee and custodial solutions to financial advisors, corporations and individuals. CWT operates two distinct business units – Individual Retirement and Investment Services (IRIS) and Corporate and Group Services (CGS).

IRIS provides independent financial advisors, mortgage brokers, individuals, and investment counsel and portfolio managers with a full range of trustee, custody and record keeping services. IRIS has 42,900 accounts and nearly $3.0 billion in assets under administration.

CGS provides those same services to pension plans, custody operations, and group RRSPs, along with high-end tax deferred products for small business owners or senior executives of larger corporations. CGS has 1,250 direct clients representing over 130,000 employees/individuals and more than $2.4 billion in assets under administration.

{ CWT Total Revenues, Including Optimum Mortgage }



Challenges and successes

Traditionally, trust companies have grown their business by enticing potential clients to move their business from their existing trustee. But often clients hesitate to make changes, particularly in an uncertain economic environment. In order to grow, CWT must consistently demonstrate its ability to deliver superior quality service to our niche market of small and medium-sized plans, and businesses or individuals that have trust and custody needs. We differentiate ourselves by providing highly personalized service and innovative products that are developed to meet the needs of our customers.

We had numerous successes in 2009 despite increased economic challenges. We opened our first trust office in Toronto, Ontario and were very pleased to report that a major Canadian investment dealer moved its trustee services to CWT in August 2009, our largest single win to-date. We realized our third consecutive year of income growth in excess of 30 per cent, and will be partnering with CWF to develop a group RRSP service that will help facilitate additional business from CWB's commercial clients.

Optimum Mortgage

www.optimummortgage.ca

Optimum Mortgage, a division of CWT, was established in 2004 to provide mortgage brokers with an alternative mortgage product for their clients. Today, Optimum Mortgage originates and funds residential mortgages through a network of mortgage brokers located throughout Western Canada and within targeted regions of southern Ontario. We operate without a storefront, working directly with our mortgage broker clients to help them find the best mortgage products for their customers. In just five years, the Optimum Mortgage team has expanded to include more than 30 people who manage over 2,200 client mortgages with a collective book value in excess of $560 million.

Beyond "traditional" mortgages

Alternative mortgages, or Alt-A mortgages, are mortgages offered to certain types of borrowers (for example, entrepreneurs or small business owners) who may find it difficult to conform to the specific – and often rigid – requirements established by many large financial institutions that prefer to standardize their mortgage products for increased efficiencies. Canadian Western Bank was built on meeting the needs of small to medium-sized businesses, and this expertise helped us recognize the tremendous opportunity to offer mortgage products to this segment of the market. The solution is "Sensible Lending®," where each customer and credit application is considered on its own specific merit and circumstances.

Sensible Lending®

We developed our Sensible Lending® philosophy on the concept that we're willing to look at more than just credit ratings or debt ratios. We consider the value of the property, the borrower's job or vocation and evaluate every application by looking at the complete picture. We make sensible decisions based on our extensive experience. When brokers submit an application to Optimum Mortgage, they receive a response within 24 hours. This level of efficiency and absolute commitment to customer service has combined to help Optimum Mortgage build an exceptionally strong network of broker clients.

Challenges and successes

Real estate values were hit particularly hard during fiscal 2009, significantly reducing the demand for residential mortgage products. While some mortgage lenders experienced considerable difficulties, Optimum Mortgage continued to perform well primarily due to CWB Group's strong financial position, an exceptional commitment to customer service, and our Sensible Lending® strategy. In fact, Optimum Mortgage expanded our service offerings this year to include an insured high-ratio mortgage product that will help us further build our competitive position.

Q: What are mortgage brokers?

A: The prime function of mortgage brokers is to bring together borrowers and lenders. Mortgage brokers deal directly with lenders to secure mortgage financing on behalf of their clients.

"We've succeeded because we use a common sense approach to doing business. We provide sensible and timely solutions for our network of mortgage broker clients."

Les Shore
Senior Assistant Vice President
Optimum Mortgage

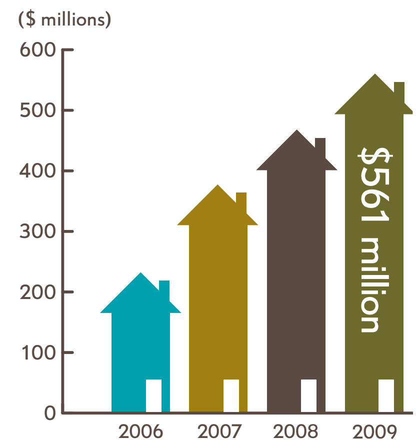


FIG. 2.1

Total Optimum Mortgage loans ($ millions)

www.valianttrust.com

Valiant Trust

Valiant Trust Company (Valiant) provides stock transfer, registrar and corporate trust services to public and private companies. When CWB acquired Valiant Trust in 2004, it was a private company located in Calgary with just 12 employees and 50 clients. Today, Valiant is a federally registered trust services company that has grown to serve more than 260 clients through four separate locations, including offices in Vancouver, Edmonton, Calgary and, most recently, Toronto. Valiant's knowledgeable professionals are committed to providing outstanding levels of personal service. Valiant has earned "A reputation for getting things done.®"

{ Five Year Client Summary }

"Being a part of CWB Group opens doors with prospective clients across Canada – competitors can't offer what we do: we're owned by a bank that's extremely well regarded and consistently profitable. That creates real confidence."

Matt Colpitts
General Manager
Valiant Trust

Year	# of Client Appointments
2005	314
2006	390
2007	433
2008	440
2009	468

Fig. 2.2

The number of client appointments is a primary source of revenues and confirms Valiant's increased market presence.

Whatever clients need

As part of our services for corporate clients, we do everything from issuing and transferring ownership of securities and assisting with annual shareholder meetings, to paying dividends and distributions on behalf of our clients. We also provide corporate trustee services, act as a depositary for mergers and acquisitions, and provide recordkeeping and administrative services for employee share purchase, employee stock option, and other employee incentive plans. Valiant was recently approved as a deposit–taking trust company and will provide CWB Group with a new channel to raise additional retail deposits through either the Bank's branch network or other means.

Challenges and successes

Although reductions in capital market activity and poor economic conditions created significant challenges, we realized several successes during the year. For our existing clients, we found ways to offer additional value including the launch of web services that allow our issuers to access common shareholder reports online, 24 hours a day, seven days a week. Despite limited initial public offering (IPO) activity, we continued to grow our business by transitioning existing companies from our competitors. During 2009, more than one third of our new appointments came from existing public companies who were attracted by our expertise and experience. We signed a number of significant new client accounts this year – clients who chose Valiant because of our commitment to customer service and our unique value proposition.

Better insurance. Less money.®

www.canadiandirect.com

Canadian Direct Insurance

Canadian Direct Insurance Inc. (CDI) provides auto and home insurance to customers throughout Alberta and BC. Launched in 1996, CDI initially began by offering British Columbians a price and customer service alternative to government auto insurance. CDI was acquired by CWB Group in 2004, and today offers a full range of home, auto and travel insurance products at competitive prices.

A winning customer strategy

CDI has earned a reputation for providing well-priced insurance products and excellent customer service. Like all CWB Group businesses, our commitment to service means that you can pick up a phone and talk to a customer service representative directly. And when you talk to us, our trained insurance professionals know how to help you.

CDI serves customers by phone, Internet and through a select network of auto insurance brokers in BC. We consistently receive very high customer satisfaction ratings; this is reflected in our impressive claims satisfaction rate in 2009 of 98 per cent. Our customers appreciate these efforts and our policy retention rates are among the top in our industry.

Challenges and successes

Although the insurance industry is somewhat recession proof, as people will always need to purchase home and auto insurance, CDI has faced other challenges in recent years. Increasing competition from government auto insurance has slowed market growth in BC, while home and auto repair costs have risen significantly. Despite this, we've been very successful at growing our business and properly selecting risk. In fact, we sold over 30,000 new policies, realized double-digit growth in written premiums and exceeded $116 million in gross written premiums in 2009.

Looking ahead

We are confident that our combination of competitive rates and excellent customer service will continue to drive our future growth in Western Canada. Many customers have been surprised to find how easy it is to buy and renew their auto insurance policies on-line. We aim to use technology to get closer to our customers and we'll continue to develop our e-business platform with this goal in mind. Many of our new sales are generated by "word of mouth" referrals.

{ CDI Highlights }

	2005	2006	2007	2008	2009
Policies Outstanding	149,947	159,965	164,263	168,071	175,662
Gross Written Premiums (000's)	$93,101	$100,227	$104,829	$107,054	$116,828
Net Income (000's)	$5,122	$6,940	$7,773	$8,372	$9,111

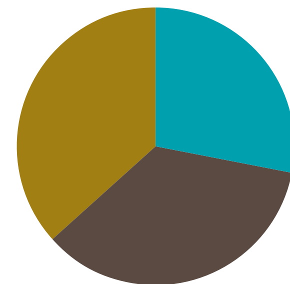


FIG. 2.3

2009 Gross Written Premium by Product Line

- ALBERTA AUTO - 38%
- BRITISH COLUMBIA AUTO - 35%
- PERSONAL PROPERTY (BC + AB) - 27%

"I tell prospective customers that you'll like us when you hear our rates but you'll love us if you have a claim. We are here for you when you need us."

Brian Young
President and CEO
Canadian Direct Insurance

www.adroitinvestments.ca

IMPORTANT FOR COMMUNITY DEVELOPMENT! *

"Our returns have historically been much better than our benchmarks. We have consistently demonstrated the value of our proven strategies and strong investment discipline, in even the most difficult financial markets."

Maria Holowinsky
Vice President
Adroit Investment Management

Adroit Investment Management

Adroit Investment Management Ltd. (Adroit) is the newest member of the CWB Group and was acquired in December 2008. Established in 1993, Adroit is a successful Edmonton-based investment counselling firm that specializes in wealth and portfolio management for high net worth individuals, corporations, non-profit associations, colleges, foundations and endowment funds. Our team of investment professionals works closely with clients across Western Canada to structure portfolios that best meet their specific needs and risk tolerances. Our clients are free to do what they wish without worrying about their investments, but we stay very close with regular meetings, phone calls and updates. Today, we have almost $1 billion in assets under management.

Integrity and trust

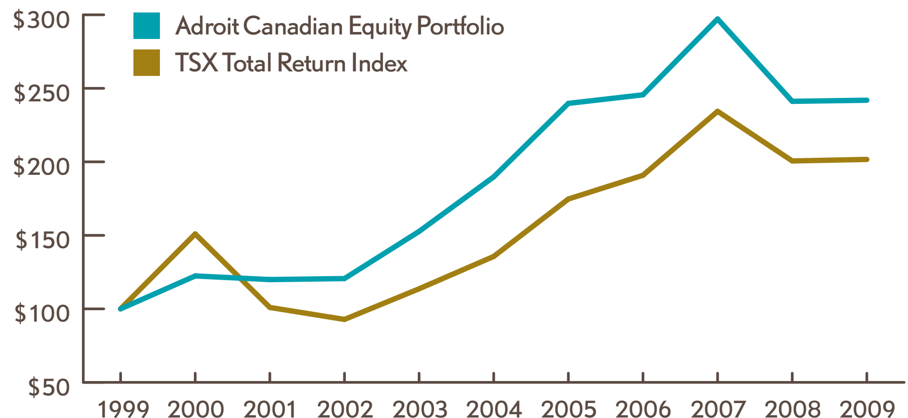
Adroit's clients find us through referrals from existing clients, accountants, lawyers and other professionals who know they can count on us to maintain the highest ethical standards, conservative growth strategies and strong investment performance. Like all CWB Group businesses, we are responsive, conservative in our approach and pride ourselves on having investment professionals who can address each client's questions and needs.

Challenges and successes

Although Adroit was not immune to adverse market conditions, our conservative investment strategies cushioned clients from more severe losses. Even at the height of the global financial crisis, we received few, if any, panicked calls from clients. They knew they could trust us to make the right decisions for their investment portfolios. By far our biggest success over the past year was our ability to retain clients and help them understand the impact of market events on their investments.

While we can't tell our clients exactly what return they will get from their investments, we can promise them that we will always be responsible in managing their money. As we look ahead, many investors who are unhappy with their current investment managers may be looking for a fresh, proven alternative; we look forward to welcoming them.

{ Cumulative Value of $100 Invested on Sept. 30, 1999 }



 ≻ CWB's percentage of average assets held in cash and securities in 2009

Corporate Social Responsibility

Giving back to the communities where we live and work has always been a guiding principle for CWB Group. We focus our efforts and resources to help enrich our communities today, while building stronger tomorrows. We're equally committed to supporting our employees, and to being environmentally responsible in both our processes and our practices. This Corporate Social Responsibility (CSR) report spans all our operations, and is a fundamental part of who we are, much like our common sense approach to business and our commitment to deliver superior customer experiences.

Economic Impact

CWB Group impacts our local economies in numerous ways. Our investment in Western Canada drives economic development, helping small and medium-sized businesses secure funding to purchase equipment, hire employees and keep our economy moving. Right now, CWB Group has many thousands of business clients who view us as partners in supporting their future growth. At the same time, CWB Group helps individuals buy and insure the homes they need to raise their families, and offers investment products and services to assist with their financial and retirement goals.

CWB Group's role as an employer also impacts the communities where we live and work. CWB Group employs over 1,400 employees in nearly 50 communities throughout Western Canada. We also currently have 7 employees who are based out of Ontario. In 2009 alone, we paid a combined total of more than $104 million in salaries and benefits to our employees, money that they in turn reinvest in their communities.

Even our day-to-day operations impact the economy. Over the past five years CWB Group has paid more than $185 million in municipal, provincial and federal taxes, money that helps support infrastructure and programs within our communities. Annually, we spend more than $1.3 million on office supplies, more than $14 million on office leasing and maintenance, and more than $1.3 million on travel. These purchases help keep our suppliers in business while driving local, provincial and national economic activity.

Marketplace

CWB Group has always sought to create responsible products and services that not only meet our customers' needs, but also strengthen and enhance our communities. Although a large part of our focus is on helping business, we also offer a comprehensive range of products and services for individuals.

We recognize the importance of helping low income families manage their finances by offering affordable bank accounts, and home and auto insurance policies. We also know that our customers span all ages, and have created specialized products and services for seniors such as sit down banking counters, no fee bank accounts, automatic GIC renewals, and comprehensive retirement planning investment options. We offer youth accounts to help kids manage their money and student accounts to meet the specific needs of those pursuing post-secondary study.

To ensure accessibility, all CWB branches and corporate offices are wheelchair accessible. CDI offers services to its insurance clients in nine different languages.

CWB also looks for creative ways to invest in our communities that go beyond traditional sponsorships and donations. Our Western Spirit employee volunteer grant program allows employees to support programs that are close to their hearts by applying for a $250 grant to be made to a charity of their choice.

FIG. 2.4

Canadian Western Bank has been a proud supporter of the Easter Seals Regatta in Vancouver, BC since 1996.

FIG. 2.5

Since 2007, CWB has been selected 4 times for the list of 50 Best Employers in Canada

Employees helped CWB raise more than $216,000 for the United Way, of which more than 65 per cent was from employee donations and fundraisers. These same employees also dedicated more than 3,000 hours to volunteering with charities and organizations in need.

SEE INSIDE BACK COVER

Community

CWB has always looked for ways to strengthen and support our communities. We have identified three target areas on which to concentrate our efforts:

- Education
- Community and Civic Service
- Health, Wellness and Care-giving

In 2009 alone, CWB directed more than $1 million in cash and in-kind donations and sponsorship to our priority areas, supporting everything from post-secondary scholarships and awards, and homelessness awareness, to at-risk youth and children with special medical needs.

CWB also looks for creative ways to invest in our communities that go beyond traditional sponsorships and donations. Our Western Spirit employee volunteer grant program allows employees to support programs that are close to their hearts by applying for a $250 grant to be made to a charity of their choice. As part of this, CWB invested $14,750 in the charities our employees support. These same employees also dedicated more than 3,000 hours to volunteering with charities and organizations in need. Additionally, employees helped CWB raise more than $216,000 for the United Way last year, of which, more than 65 per cent was from employee donations and fundraisers.

Our commitment to strengthening communities led us to develop The Greater Interest GIC®. For every dollar CWB clients invested in The Greater Interest GIC®, CWB made a donation of 1/8% back to the community in which the deposits were raised. In Edmonton, St. Albert and Leduc, those dollars were directed to the Youth Emergency Shelter Society, while in other communities the funds went to support local chapters of Big Brothers Big Sisters. In 2009 alone, The Greater Interest GIC® invested over $300,000 to help youth in our communities.

GREAT IDEA!

Environment

CWB Group is sensitive to climate change issues and takes its responsibility to the environment – including our lending practices – very seriously.

CWB's lending includes a due diligence process that assesses the potential environmental impact of a business, its operations, products or services. We strive to make sure our clients are managing their environmental commitments and responsibilities before we lend to them. Many of our business lines offer customers the choice of paperless statements, online services and paperless record keeping. We also make a concerted effort to minimize our carbon footprint by utilizing tele-conferencing and web-conferencing wherever possible to reduce the need for air travel.

Reducing our carbon footprint is also the goal behind the way we manage our branches and offices. We program heating and air-conditioning to turn off when buildings are unoccupied and encourage staff to use window blinds to minimize heat gain during the day. We have also begun replacing our exterior fluorescent signage with LEDs and are considering green products and practices whenever feasible during new construction.

Our environmental commitment is also evident in many of our products, services and the customers we work with. CDI was the first insurance company to offer a discount for hybrid cars, Smart cars and flex-fuel vehicles. At CDI's head office in BC, all claims are administered using imaging technology creating a "paperless" office environment. We also provide financial services to a number of companies that are involved in such businesses as alternative energy generation, energy management, and the development and production of more environmentally friendly products for the oil and gas industry.

Whenever possible, CWB Group looks to make environmentally smart purchases, including FSC certified paper, green-friendly cleaning products and the installation of recyclable carpet for our branches. We recycle fax, copier and printer toner cartridges and donate them to local food banks for their ThINK Food program. Cans and bottles are also recycled with the proceeds donated to worthwhile causes, such as Child Find Alberta.

People

CWB Group recognized from the very start that our people are our greatest asset. We set out to build a bank that would not only serve the needs of our customers, but also give our employees opportunities to grow and flourish, and create the kind of loyalty that would inspire them to spend their careers with us. Today, we have more than 1,400 employees and what we believe to be one of the lowest employee turnover rates in the banking industry.

Our compensation, benefits and professional development opportunities are among the best in Canada, and led to our employee program being named one of Benefit Canada magazine's 30 Best Employee Pension and Benefit Plans. We have also been recognized for four years in a row as one of Canada's 50 Best Employers by the *Globe and Mail's Report on Business Magazine*.

In 2007 we introduced our CWBalance® program, which encourages a strong work/life balance while cultivating a healthy workplace and nurturing positive morale. The program, which includes such things as an extra paid day off for each employee every year, is one of the many things that makes CWB Group a great place to work. In fact, CWB Group is such a great place to work that we use our employees to identify and recruit new hires through our Referral Incentive Program. To date, we've received almost 1,200 referrals and made 525 hires from those referrals.

In addition to our high employee retention rate, participation in our employee share purchase plan is another important indicator of the loyalty our employees have to CWB Group. Over 90 per cent of our employees participate in the plan, which features a 50 per cent matching CWB contribution. They invest in us, we invest in them, and together we're investing in Western Canada.

FIG. 2.6

Edmonton CWB Group employees annually participate in building homes with Habitat for Humanity.

We set out to build a bank that would not only serve the needs of our customers, but also give our employees opportunities to grow and flourish, and create the kind of loyalty that would inspire them to spend their careers with us. Today, we have more than 1,400 employees and what we believe to be one of the lowest turnover rates in the banking industry.

Corporate Governance

Corporate Governance Highlights

1. The Board is led by a non-executive chairman.
2. 11 out of the 12 current directors are independent.
3. The independent directors set aside time for discussion with no management present at each Board meeting and at each meeting of the Audit Committee, Corporate Governance & Human Resources Committee and Conduct Review Committee.
4. Shareholders vote for individual directors.
5. The Bank has adopted a minimum share ownership requirement for directors and executive management, to align their interests with those of the shareholders.
6. The Board evaluates, in alternating years, the effectiveness of each director and the Board as a whole through a written assessment and feedback process.
7. There are written mandates for the Board and each Board Committee, together with mandates for the Chairman of the Board and the Chairs of the Board Committees, each of which is reviewed annually.
8. The Bank maintains a whistleblower procedure through which complaints or concerns regarding questionable audit or accounting matters may be made.

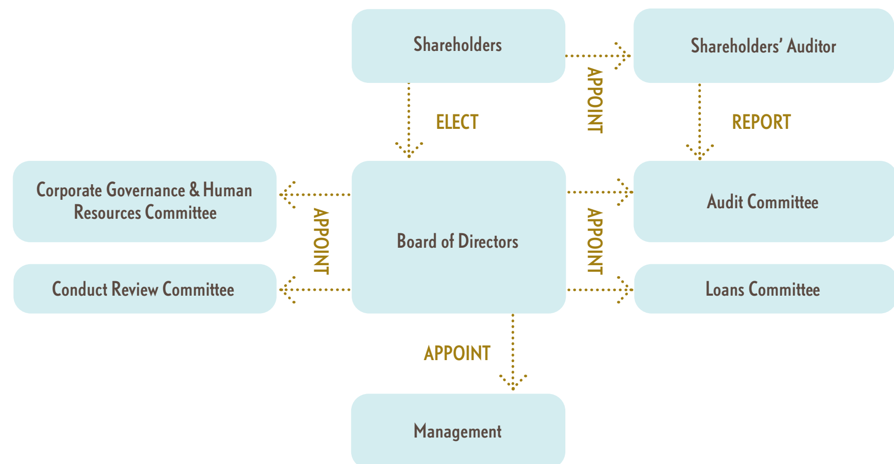
Sound and effective corporate governance has always been a priority for CWB Group. The Board and management are committed to govern and maintain CWB Group's operations effectively and efficiently within its regulatory environment. Corporate Governance policies are reviewed regularly for improvement and are designed to strengthen the ability of the Board to effectively supervise management and enhance long-term shareholder value.

The Board monitors corporate governance best practices which are continuously evolving. During fiscal 2009, the Board adopted a director election policy in which shareholders will vote for individual directors commencing at the shareholders meeting on March 4, 2010. A director who receives more votes "withheld" than "for" in an uncontested election, will be required to tender his/her resignation for consideration by the Board.

The role of the Board is essentially to supervise the management of the business. The Board has responsibility for stewardship of CWB Group, which includes satisfying itself that the officers create a culture of integrity throughout the organization. The CWB Group has written codes of conduct for its directors, officers and employees. The Board monitors compliance with the codes by requiring each director, officer and employee to annually sign a certificate confirming his/her compliance with the applicable code.

The Board is responsible for adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business. The Board is also responsible for the identification of the principal risks of CWB Group's business, and ensuring the implementation of appropriate systems to manage these risks.

{ Overview of Corporate Governance Structure }



 ≻ Date in March 1984 that CWB, then the Bank of Alberta, became a Schedule I bank

For More Information

Additional information about CWB's corporate governance may be obtained through:

Proxy Circular

The annual proxy circular contains information on each director and a detailed discussion of the responsibilities of the Board and each Board Committee as well as a description of CWB's corporate governance practices.

CWB Group Website (www.cwbankgroup.com)

The Corporate Governance section of the CWB Group website contains information on its corporate governance practices, including the mandate of the Board, the mandates of each of the Board Committees, the Personal and Business Conduct Policy for the officers and employees and the Personal and Business Conduct Policy for directors.

Annual Meeting

Shareholders are invited to attend the annual meeting of shareholders on March 4, 2010 in Edmonton, Alberta.

{ Board Committees }

COMMITTEE	MEMBERS	RESPONSIBILITIES
Audit Committee	Robert A. Manning (Chair) Wendy A. Leaney Gerald A.B. McGavin Robert L. Phillips Alan M. Rowe	• Oversees the integrity of the CWB Group's financial reporting, internal controls, disclosure controls and internal audit function. • Recommends the appointment of the external auditors, reviews the code of conduct for senior financial officers and oversees the whistleblower procedures.
Corporate Governance & Human Resources Committee	Jack C. Donald (Chair) Albrecht W.A. Bellstedt Allan W. Jackson Robert A. Manning Howard E. Pechet Robert L. Phillips Raymond J. Protti Arnold J. Shell	• Reviews and monitors corporate governance trends and best practices on an ongoing basis. • Recommends director compensation and director succession. • Oversees executive compensation and incentive compensation plans, CEO performance assessment and senior management succession.
Loans Committee	Allan W. Jackson (Chair) Albrecht W.A. Bellstedt Jack C. Donald Wendy A. Leaney Gerald A.B. McGavin Howard E. Pechet Robert L. Phillips Larry M. Pollock Raymond J. Protti Alan M. Rowe	• Oversees the documentation, measurement and management of credit risk. • Approves, declines or recommends approval to the Board of all credit applications in excess of the CEO's lending limit.
Conduct Review Committee	Albrecht W.A. Bellstedt (Chair) Allan W. Jackson Arnold J. Shell	• Monitors procedures regarding related party transactions, conflicts of interest, standards of business conduct and the handling of customer complaints.

Management's Discussion and Analysis

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BUSINESS PROFILE AND STRATEGY

Canadian Western Bank (CWB or the Bank) offers a diversified range of financial services and is the largest publicly traded Canadian bank headquartered in Western Canada. The Bank, along with its subsidiaries, Canadian Western Financial Ltd. (CWF), Adroit Investment Management Ltd. (Adroit), Canadian Western Trust Company (CWT), Valiant Trust Company (Valiant) and Canadian Direct Insurance Incorporated (Canadian Direct or CDI), currently operate in all four pillars of the financial services industry. The Bank remains primarily focused on its core business lending and retail banking services in Western Canada. Third party mutual funds are offered through CWF, the Bank's mutual fund dealer subsidiary. Adroit specializes in wealth management for individuals, corporations and institutional clients. CWT provides trust services, including self-directed RRSPs and RRIFs, as well as corporate and group trust services to independent financial advisors, corporations and individuals. Valiant's operations include stock transfer and trustee services to public companies and income trusts. CDI provides personal auto and home insurance to customers in British Columbia (BC) and Alberta.

CWB's mission is to be known and respected as Canada's business bank, providing western Canadians and other select markets with a preferred source of both commercial and individual financial services. The fundamental objectives are to provide shareholders with a sound and profitable return, clients with value, service and stability, and employees with a positive and rewarding work environment, while contributing to the communities in which CWB operates. CWB plans to achieve its mission through the following strategic priorities:

- maintain a conservative risk profile while ensuring growth is focused, strategic and accretive for shareholders;
- reinforce leadership in cost efficiency and low credit losses by enhancing service delivery capabilities and maintaining strong discipline in managing the Bank's lending portfolio;
- leverage core profitability and further diversify funding sources with ongoing generation of internal deposits raised through the branch network, CWT, Valiant and over the Internet;
- improve CWB's revenue diversification by further developing non-interest revenue sources in banking, trust, wealth management and insurance operations through internal growth as well as strategic acquisitions;
- increase the return on common shareholders' equity by maintaining strong operating performance, an efficient capital structure, and continued diversification into businesses with lower capital requirements, including residential mortgages, insurance, trust services and wealth management. Organic growth and resulting benefits to ROE may be accelerated by acquisitions that are both accretive and a good strategic fit with current operations;
- develop and recruit high quality employees who embrace the Bank's culture by offering a rewarding work environment that includes comprehensive employee benefits, career growth opportunities, strong work/life balance and competitive compensation packages. CWB believes that such employees are critical to build brand recognition through personal, responsive and friendly customer service; and
- further build and reinforce CWB's reputation and public confidence through continued stakeholder communication, diligence in corporate governance practices and high standards in corporate reporting and accountability.

CWB's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

The following pages contain management's discussion of the financial performance of CWB, as well as a discussion of the performance of each operating segment and a summary of quarterly results. Additional information relating to the Bank, including the Annual Information Form, is available on SEDAR at www.sedar.com and on the Bank's website at www.cwbankgroup.com.

Forward-Looking Statements

From time to time, Canadian Western Bank (the Bank) makes written and verbal forward-looking statements. Statements of this type are included in the Annual Report and reports to shareholders and may be included in filings with Canadian securities regulators or in other communications such as press releases and corporate presentations. Forward-looking statements include, but are not limited to, statements about the Bank's objectives and strategies, targeted and expected financial results and the outlook for the Bank's businesses or for the Canadian economy. Forward-looking statements are typically identified by the words "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may impact" and other similar expressions, or future or conditional verbs such as "will," "should," "would" and "could."

By their very nature, forward-looking statements involve numerous assumptions. A variety of factors, many of which are beyond the Bank's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, general business and economic conditions in Canada, including the volatility and lack of liquidity in financial markets, fluctuations in interest rates and currency values, changes in monetary policy, changes in economic and political conditions, regulatory and legal developments, the level of competition in the Bank's markets, the occurrence of weather-related and other natural catastrophes, changes in accounting standards and policies, the accuracy of and completeness of information the Bank receives about customers and counterparties, the ability to attract and retain key personnel, the ability to complete and integrate acquisitions, reliance on third parties to provide components of the Bank's business infrastructure, changes in tax laws, technological developments, unexpected changes in consumer spending and saving habits, timely development and introduction of new products, and management's ability to anticipate and manage the risks associated with these factors. It is important to note that the preceding list is not exhaustive of possible factors.

These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause the Bank's actual results to differ materially from the expectations expressed in such forward-looking statements. Unless required by securities law, the Bank does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by it or on its behalf.

Assumptions about the performance of the Canadian economy in 2010 and how it will affect CWB's businesses are material factors the Bank considers when setting its objectives. In setting minimum performance targets for fiscal 2010, management's expectations assume the following:

- moderate economic growth in Canada aided by positive relative performance in the four western provinces;
- stable or slightly higher energy and commodity prices;
- sound credit quality with actual losses remaining within the Bank's range of acceptable levels;
- modest inflationary pressures; and,
- an improved net interest margin resulting from lower deposit costs, a stable prime lending interest rate, favourable yields on both new lending facilities and renewal accounts and relatively stable investment returns reflecting high quality assets held in the securities portfolio, partially offset by a reduction in the level of gains on sale of securities compared to fiscal 2009.

Taxable Equivalent Basis (teb)

Most banks analyze revenue on a taxable equivalent basis to permit uniform measurement and comparison of net interest income.
Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividends received is significantly lower than would apply to a loan or security of the same amount. The adjustment to taxable equivalent basis of $7.8 million (2008 – $5.7 million) increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. The taxable equivalent basis does not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other banks. Total revenues, net interest income and income taxes are discussed on a taxable equivalent basis throughout this Management's Discussion and Analysis (MD&A).

Non-GAAP Measures

Taxable equivalent basis, return on common shareholders' equity, return on assets, efficiency ratio, net interest margin, tangible common equity to risk-weighted assets, Tier 1 and total capital adequacy ratios, average balances, claims loss ratio, expense ratio and combined ratio do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other financial institutions. The non-GAAP measures used in this MD&A are calculated as follows:

- taxable equivalent basis – described above;
- return on common shareholders' equity – net income after preferred share dividends divided by average common shareholders' equity;
- return on assets – net income after preferred share dividends divided by average total assets;
- efficiency ratio – non-interest expenses divided by total revenues (net interest income plus other income);
- net interest margin – net interest income divided by average total assets;
- tangible common equity to risk-weighted assets – shareholders' equity less subsidiary goodwill divided by risk-weighted assets, calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI);
- Tier 1 and total capital adequacy ratios – in accordance with guidelines issued by OSFI;
- average balances – average daily balances;
- claims loss ratio – net insurance claims and adjustment expenses as a percentage of net earned premiums;
- expense ratio – policy acquisition costs and non-interest expenses net of commissions and processing fees as a percentage of net earned premiums; and
- combined ratio – sum of the claims loss and expense ratios.

GROUP FINANCIAL PERFORMANCE

Overview

Highlights of 2009

- Record net income of $106.3 million, an increase of 4%. Diluted earnings per share of $1.47, down 7% reflecting the net impact from the preferred units issued in March 2009.
- Record total revenues (teb) of $328.0 million, up 10%.
- Net interest margin (teb) of 2.10%, down 20 basis points resulting in constrained growth in total revenues and lower overall profitability.
- Marked 86 consecutive quarters of profitability.
- Completed offerings of preferred share units for gross proceeds of $209.8 million. Tier 1 capital ratio of 11.3% and total capital ratio of 15.4%; up from 8.9% and 13.5%, respectively, a year earlier.
- Loan growth of 7%, reflecting reduced demand in a recessionary environment.
- Sound credit quality with the provision for credit losses as a percentage of average loans of 15 basis points, an industry best among Canadian banks.
- Achieved record net income in the insurance segment.
- Opened new full-service commercial and retail banking centres in Saskatoon, Saskatchewan and Kamloops, BC.
- Celebrated the Bank's 25th anniversary.
- Opened a CWT office in Toronto.
- Received federal approval for Valiant to become a deposit-taking institution.
- Acquired 72.5% ownership position in Adroit.
- Cash dividends paid to common shareholders of $0.44 increased 5%.

Impact of the Global Financial Crisis

Fiscal 2009 was marked by unprecedented turmoil in global financial and credit markets that impacted economies across the world. Management's expectations at the outset of fiscal 2009 were that market and economic uncertainty would adversely affect the Bank's performance with moderated economic activity in Western Canada, declining interest rates, lower commodity prices and a compressed net interest margin. While each of these factors affected performance, the spin-off effects from the global market turmoil had a more far-reaching impact on CWB's operations than management initially expected. Rapidly falling interest rates reached all-time lows reflecting the exceptional actions taken by governments and central bankers worldwide to help alleviate the credit crisis and economic stress. The combination of elevated deposit costs early in fiscal 2009 due to global credit fears, which included the repatriation of off-balance sheet funding structures, and historic low prime lending rates had a significant negative impact on the net interest margin and led to constrained growth in total revenues and profitability. While these adverse market conditions negatively impacted the net interest margin, wider credit spreads and a steeper yield curve provided the Bank with opportunities to realize unusually high levels of gains on the sale of securities without significantly altering the yields or the conservative risk profile of the Bank's investment portfolio. Implementing key investment strategies helped offset the performance impact from compressed margins, particularly in the first six months of the fiscal year. Other proactive measures taken by the Bank to help offset margin pressures included the repricing of new and renewal loan accounts to reflect current market conditions and the introduction of interest rate floors on many floating rate loans. Global market turmoil led to a confirmed recessionary environment within CWB's markets that had a material impact both on the level of lending activity and the performance of the existing loan portfolio. During the second quarter, near the height of market uncertainty, the Bank also completed preferred unit offerings to further increase its capital in line with the rest of the Canadian banking industry. While the warrants issued with preferred units will be materially dilutive to existing shareholders, the increased capital significantly augmented CWB's flexibility to capitalize on strategic opportunities and management continues to actively evaluate alternatives in this regard.

TABLE 1 – SELECT ANNUAL FINANCIAL INFORMATION[1]

($ thousands, except per share amounts)

	2009	2008	2007	Change from 2008 $	Change from 2008 %
Key Performance Indicators					
Net income	$ 106,285	$ 102,019	$ 96,282	$ 4,266	4%
Earnings per share					
Basic	1.51	1.61	1.54	(0.10)	(6)
Diluted	1.47	1.58	1.50	(0.11)	(7)
Provision for credit losses as a percentage of average loans	0.15%	0.15%	0.16%		–bp[2]
Net interest margin (teb)[1]	2.10	2.30	2.58		(20)
Net interest margin	2.03	2.25	2.51		(22)
Efficiency ratio[3] (expenses to revenues) (teb)	48.2	45.2	44.6		300
Efficiency ratio	49.4	46.1	45.5		330
Return on common shareholders' equity	13.2	15.9	17.4		(270)
Return on average total assets	0.86	1.03	1.18		(17)
Other Financial Information					
Total revenues (teb)	$ 327,966	$ 298,857	$ 273,480	$ 29,109	10%
Total revenues	320,119	293,186	268,070	26,933	9
Total assets	11,635,872	10,600,732	9,525,040	1,035,140	10
Subordinated debentures	375,000	375,000	390,000	–	–
Dividends	0.44	0.42	0.34	0.02	5

(1) See page 25 and page 26 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) A decrease in the ratio reflects improved efficiency, while an increase reflects deterioration.

Net income surpassed the $100 million milestone for the second consecutive year to reach a record $106.3 million, a 4% ($4.3 million) increase over 2008 despite the impacts of a recessionary economic environment and very difficult market conditions in Canada and globally. Reflecting the net impact from the preferred units issued in March 2009, diluted earnings per common share for the year were $1.47 ($1.51 basic), down 7% from $1.58 ($1.61 basic) in the prior year. Record total revenues (teb) grew 10% to reach $328.0 million driven by 7% ($612 million) growth in total loans and a 30% ($21.4 million) increase in other income, including $20.5 million higher gains on sale of securities, and offset the significant impact of a 20 basis point decline in net interest margin (teb) to 2.10%. Higher realized gains on sale of securities primarily resulted from transactions related to favourable pricing on certain investment grade, short-term debt investments. Margin compression for the year was mainly due to consecutive reductions in the prime lending interest rate to a historic low of 2.25% reached in April 2009, coupled with the significant cost of deposits, relative to benchmark bond rates, associated with the global demand for increased liquidity that reached unprecedented levels in the Fall of 2008. In the last half of the year, margin compression was partially offset by lower deposit costs, more favourable spreads on both new and renewal loans and an improved mix in the securities portfolio. The Bank's success in negotiating interest rate floors on floating rate loans further alleviated net interest margin pressures associated with the reduction in the prime lending interest rate. Credit quality remained satisfactory and the provision for credit losses as a percentage of average loans was unchanged from 2008 at 15 basis points. The efficiency ratio (teb), which measures non-interest expense as a percentage of total revenues (teb), deteriorated 300 basis points from last year to 48.2%. The deterioration in the efficiency ratio (teb) reflects constrained growth in net interest income due to margin compression and a 17% ($23.0 million) increase in non-interest expenses mainly resulting from salary and benefit costs, including additional staff complement, and investment in future development initiatives, partially offset by the positive earnings impact of loan growth and higher other income. Return on common shareholders' equity of 13.2% was down 270 basis points compared to 2008 while return on assets decreased 17 basis points to 0.86%. Margin compression coupled with dividends paid on preferred shares issued in March 2009 contributed to the year-over-year reduction in key profitability ratios, although this was partially offset by strong growth in other income. Total cash dividends paid to common shareholders of $0.44 per share were up 5% over the prior year.

Total assets increased 10% to reach $11,636 million. While all lending sectors recorded positive growth in the year, lending activity in general was constrained by both a recessionary environment and expected repayments of existing accounts resulting in overall loan growth of 7%. Loan growth was achieved across each of the Bank's geographic regions. Activity in BC provided the strongest annual contributions in dollar terms while Saskatchewan showed the best percentage growth for the year. Loans in the Bank's residential mortgage business, Optimum Mortgage, increased 20% and comprised approximately 6% of total loans at fiscal year end.

Total branch-generated deposits increased 5% compared to the previous year, while the demand and notice component within branch-raised deposits was up 31%. The demand and notice component comprised 33% of total deposits at October 31, 2009, compared to 26% a year earlier. The significant growth in demand and notice deposits reflects CWT's appointment during the year as trustee for a major Canadian

investment dealer and ongoing execution of strategies to further enhance and diversify the Bank's core funding sources. Customer awareness continued to build for the Internet-based division of the Bank named Canadian Direct Financial™ and management is optimistic about its potential as a valued new funding source. Total branch deposits measured as a percentage of total deposits were 64% at October 31, 2009, compared to 63% a year earlier with the increase reflecting the above-noted very strong growth in the demand and notice component that more than offset increased fixed rate term deposits raised through the deposit broker network and a reduction in larger commercial and wholesale term deposits raised through the branch network, due in large part to the impact of the financial crisis.

As noted above, CWB completed offerings in March 2009 for a total of 8,390,000 preferred share units for gross proceeds of $209.8 million. The offerings, which included both a public and private placement, significantly augmented the Bank's regulatory capital position. These offerings were completed in very volatile financial markets, which was consistent with both the Bank's objective to maintain a strong and efficient capital base and with the industry's response to the financial crisis. The Bank's strong Tier 1 and total capital ratios at October 31, 2009 of 11.3% and 15.4%, respectively, remained well above regulatory minimums. This capital position provides flexibility to pursue strategic growth opportunities and management continues to develop strategies to deploy capital for the long-term benefit of all CWB shareholders. On November 20, 2009, subsequent to year end, the Bank redeemed $60.0 million of subordinated debentures.

TABLE 2 – PERFORMANCE TARGETS

The performance target ranges established for the 2009 fiscal year, together with actual performance, and new minimum target ranges for fiscal 2010 are presented below:

	2009 Target Ranges	2009 Performance	2010 Minimum Targets
Net income growth[1]	2 – 5%	4%	12%
Total revenue (teb) growth	5 – 8%	10%	12%
Loan growth	10%	7%	10%
Provision for credit losses as a percentage of average loans	0.15 – 0.18%	0.15%	0.15 – 0.20%
Efficiency ratio (teb)	46 – 49%	48.2%	48%
Return on common shareholders' equity[2]	14 – 16%	13.2%	13%
Return on assets[3]	0.90 – 1.05%	0.86%	0.90%

(1) Net income, before preferred share dividends.
(2) Return on common shareholders' equity calculated as net income after preferred share dividends divided by average common shareholders' equity.
(3) Return on assets calculated as net income after preferred share dividends divided by average total assets.

Minimum Performance Targets and Outlook

CWB met or exceeded four out of seven of its fiscal 2009 performance target ranges, despite very challenging market conditions and a recessionary environment that was much more pronounced than anticipated when the target ranges were established. Total revenue (teb) growth exceeded expectations while net income growth, the efficiency ratio (teb) and provision for credit losses as a percentage of average loans were all within the respective target ranges. Realized gains on the sale of securities during the year helped offset the significant financial impact of a reduced net interest margin. Management expects that margin improvement in fiscal 2010 will offset reduced securities gains going forward, as such gains are not expected to be sustainable at the levels achieved in 2009. While the return on common shareholders' equity and return on assets ratios were both below the respective targets, the net impact from the preferred unit offerings completed in March 2009 was not considered when these ranges were established. Impacts from the recessionary environment, repayments of existing loans, particularly in the interim construction and equipment financing portfolios, and uncertainty regarding both the strength and timing of an economic recovery led to slower than anticipated loan growth for the year.

Expectations for 2010 include a return to double-digit loan growth, strong overall performance aided by improved market conditions, and a more positive economic outlook compared to 2009. Economic fundamentals in Western Canada are expected to remain favourable relative to the rest of Canada, notwithstanding continued challenges in certain areas, particularly those related to natural gas in Alberta. The Bank will maintain its focus on high quality, secured loans that offer a fair and profitable return and management believes there will be good lending opportunities that fit these parameters. Credit quality is within expectations in consideration of the current environment and future loan losses are expected to remain within an acceptable range. Maintaining responsible cost control while also ensuring CWB continues to build on its platform for sustained, high quality growth remains a priority. Strategies for the ongoing development of trust, insurance, wealth management and other complementary businesses supports objectives to increase the proportion of non-interest income to total revenues over time. Another key goal for 2010 is to leverage the Bank's strong capital position and management continues to evaluate potential strategic acquisitions of loan portfolios and/or other businesses that fit its growth and diversification objectives. Overall, CWB is well positioned to capitalize on market opportunities and management will maintain its focus on creating value and growth for shareholders over the long-term.

Net Interest Income

Highlights of 2009

- Net interest income (teb) was a record $236.4 million, up 3%, reflecting 13% growth in average assets.
- Net interest margin (teb) was 2.10%, down 20 basis points from 2.30% in 2008 and down 48 basis points from 2.58% in 2007.

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 margin is net interest income as a percentage of average total assets.

TABLE 3 – NET INTEREST INCOME (teb)[1]
($ thousands)

	2009				2008			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Assets								
Cash, securities and deposits with regulated financial institutions	$ 2,007,126	18%	$ 64,335	3.21%	$ 1,684,982	17%	$ 70,485	4.18%
Securities purchased under resale agreements	47,315	–	524	1.11	172,347	2	5,961	3.46
Loans								
Residential mortgages	2,211,716	20	107,896	4.88	1,924,444	20	115,168	5.98
Other loans	6,794,806	60	347,517	5.11	5,985,897	60	376,824	6.30
	9,006,522	80	455,413	5.06	7,910,341	80	491,992	6.22
Total interest bearing assets	11,060,963	98	520,272	4.70	9,767,670	99	568,438	5.82
Other assets	191,783	2	–	0.00	163,093	1	–	0.00
Total Assets	$ 11,252,746	100%	$ 520,272	4.62%	$ 9,930,763	100%	$ 568,438	5.72%
Liabilities								
Deposits								
Demand	$ 371,288	3%	$ –	0.00%	$ 369,276	4%	$ –	0.00%
Notice	2,236,527	20	18,873	0.84	2,033,863	20	53,593	2.64
Fixed term	6,924,320	62	237,248	3.43	6,090,668	61	257,210	4.22
Deposit from CWB Capital Trust	105,000	1	6,745	6.42	105,000	1	6,751	6.43
	9,637,135	86	262,866	2.73	8,598,807	86	317,554	3.69
Other liabilities	512,476	5	151	0.03	291,533	3	–	0.00
Subordinated debentures	375,000	3	20,901	5.57	396,953	4	22,267	5.61
Shareholders' equity	728,135	6	–	0.00	643,470	7	–	0.00
Total Liabilities and Equity	$ 11,252,746	100%	$ 283,918	2.52%	$ 9,930,763	100%	$ 339,821	3.42%
Total Assets/Net Interest Income	$ 11,252,746		$ 236,354	2.10%	$ 9,930,763		$ 228,617	2.30%

(1) See page 25 and page 26 for a discussion of teb and other non-GAAP measures.

Net interest income (teb) increased 3% ($7.7 million) in the year, driven by 13% growth in average interest bearing assets, largely offset by the significant negative impact of a 20 basis point decline in net interest margin (teb) to 2.10%. The decrease in net interest margin mainly resulted from consecutive reductions in the prime lending interest rate to a historic low, coupled with the significant cost of deposits, relative to benchmark bond rates, associated with the global demand for increased liquidity. As the year progressed, margin compression was partially offset by lower deposit costs, more favourable spreads on both new and renewal loans, an improved mix in the securities portfolio and the positive impact from interest rate floors negotiated on many lending accounts. Generally, reductions in the prime interest rate negatively impact net interest margin because deposits do not reprice as quickly as prime-based loans, which subsequently compresses the interest spread earned on the Bank's assets. Also, the marginal benefit attributed to the Bank's lower cost demand and notice deposits is significantly reduced as interest rates approach zero. Downward pressures on margin were most prevalent through the first half of the fiscal year; however, net interest margin (teb) maintained a positive upward trend since March when it reached a monthly low of 1.88%. Illustrating the significant impact of margin pressures on CWB's overall financial performance, based on average total assets at year end, it is estimated that every one basis point

improvement in net interest margin (teb) would increase annual net interest income (teb) by approximately $1.1 million, all else being equal; the opposite effect would occur on annual net interest income (teb) when net interest margin declines by one basis point. CWB's net interest margin (teb) in fiscal 2008 was 2.30% and was 2.58% in fiscal 2007. The Bank's average net interest margin (teb) over the past ten years, including fiscal 2009, was 2.54%.

The prime rate averaged 2.70%, compared to 5.21% last year. The prime rate as at October 31, 2009 was 2.25%, unchanged from its historic low that was established in April 2009.

Outlook for Net Interest Income

Fiscal 2010 net interest income should increase with the targeted 10% loan growth and expectations for an improved net interest margin that is consistent with lower deposit costs, a stable prime lending interest rate, improved loan spreads and relatively stable investment returns. Reduced liquidity levels compared to 2009, net of securities purchased under reverse resale agreements, should have a further positive impact on net interest margin in 2010. The foregoing factors support management's current expectations that net interest margin (teb) will move closer toward the Bank's historic ten year average of 2.54% as the fiscal year progresses. Growth in net interest income due to improved margins and asset growth should more than offset the impact on total revenues (teb) resulting from an expected decline in the level of gains on sale of securities compared to 2009.

Other Income

Highlights of 2009

- Other income increased 30% ($21.4 million), including a $20.5 million increase in gains on sale of securities.
- Other income represented 28% of total revenues (teb), compared to 24% in 2008, reflecting an unusually high level of gains on sale of securities and comparatively slower growth in net interest income resulting from a compressed net interest margin and moderated loan growth.

TABLE 4 – OTHER INCOME
($ thousands)

			Change from 2008	
	2009	2008	$	%
Insurance				
Net earned premiums	$ 104,062	$ 97,943	$ 6,119	6%
Commissions and processing fees	2,852	2,876	(24)	(1)
Net claims and adjustment expenses	(68,996)	(64,380)	(4,616)	7
Policy acquisition costs	(20,802)	(20,573)	(229)	1
Net insurance revenues	17,116	15,866	1,250	8
Credit related	23,369	26,998	(3,629)	(13)
Trust and wealth management services	15,478	13,299	2,179	16
Retail services	7,403	7,689	(286)	(4)
Gains on sale of securities, net	25,225	4,725	20,500	434
Foreign exchange	2,745	1,225	1,520	124
Other[1]	276	438	(162)	(37)
Total Other Income	$ 91,612	$ 70,240	$ 21,372	30%

(1) Includes changes in fair value related to derivative financial instruments not accounted for as hedges, gains/losses on land, buildings and equipment disposals, and other miscellaneous non-interest revenues.

Other income of $91.6 million was up 30% ($21.4 million) over 2008 and included a $20.5 million increase in gains on sale of securities, 16% ($2.2 million) higher trust and wealth management fee income, an 8% ($1.3 million) increase in net insurance revenues and a combined $1.1 million improvement in foreign exchange gains and other categories, offset by 13% ($3.6 million) lower credit related fee income. Gains on sale of securities reflect abnormal market conditions and investment strategies that allowed the Bank to capitalize on opportunities to realize gains while maintaining relatively comparable yields on reinvestment in other high quality investment grade securities. Strong growth in trust and wealth management fee income reflects revenue contributions from Adroit, acquired in early fiscal 2009, and very strong performance from CWT, partially offset by a decline in Valiant's revenues reflecting the considerable slowdown in capital markets activity. Net insurance revenues were a record $17.1 million, mainly driven by 6% growth in net earned premiums due to continued business growth. Foreign exchange gains of $2.7 million represented a $1.5 million increase over the prior year reflecting higher transaction volume and improved spreads.

The year-over-year decline in credit related fee income was consistent with decreased loan volumes. A lower volume of commercial account transaction fees compared to the prior year also contributed to a $0.3 million decline in retail service fees, partially offset by growth in mutual fund fees and commissions.

Other income as a percentage of total revenues (net interest income and other income) increased to 28%, compared to 24% in the prior year. This change was mainly attributed to the unusually high level of gains on sale of securities and comparatively slower growth in net interest income due to a compressed net interest margin and moderated loan growth.

Outlook for Other Income

While shifts in the interest rate curve and market spread fluctuations will likely provide further opportunities to realize gains on sale of securities, such gains are not expected to be sustainable at the levels realized in fiscal 2009 given the return of more typical credit spreads and the expectation of a stable interest rate environment. Growth is expected across each other category of other income reflecting a return to double-digit loan growth and the Bank's continued focus on enhancing transactional services and other sources of fee income. CWB's medium-term objective is to grow non-interest revenues to comprise 30% of total revenues (based on a more normalized net interest margin) through ongoing generation of new business, an enhanced market presence and expanded product offerings. While this objective is supported by plans for continued expansion of CWB's branch network, the ongoing development of insurance, trust services, wealth management and other complementary fee-based businesses will be the largest contributor toward the ultimate achievement of this goal. Trust services, including Optimum Mortgage, expects solid growth in 2010 resulting from increased market share and ongoing business development in both core western markets and select areas in Ontario. Net insurance revenues should benefit from continued policy growth supported by Canadian Direct's enhanced distribution capabilities, which will include ongoing development of its Internet channel and an expanded broker network. Management also expects to evaluate opportunities to expand sources of other income via acquisition.

Non-Interest Expenses and Efficiency

Highlights of 2009

- The efficiency ratio (teb) of 48.2% represented a 300 basis point deterioration compared to 2008 reflecting constrained growth in net interest income due to margin compression and a 17% ($23.0 million) increase in non-interest expenses mainly resulting from ongoing investments to support future growth and changes to the long-term employee compensation program.

TABLE 5 – NON-INTEREST EXPENSES AND EFFICIENCY RATIO
($ thousands)

			Change from 2008	
	2009	2008	$	%
Salaries and Employee Benefits				
Salaries	$ 87,381	$ 72,558	$ 14,823	20%
Employee benefits	16,724	15,102	1,622	11
	104,105	87,660	16,445	19
Premises				
Rent	12,431	10,402	2,029	20
Depreciation	2,869	2,279	590	26
Other	1,997	1,698	299	18
	17,297	14,379	2,918	20
Equipment and Furniture				
Depreciation	4,634	4,069	565	14
Other	4,099	3,912	187	5
	8,733	7,981	752	9
General				
Professional fees and services	5,481	4,386	1,095	25
Marketing and business development	4,424	3,285	1,139	35
Postage and stationery	2,486	2,633	(147)	(6)
Capital and business taxes	2,230	2,280	(50)	(2)
Banking charges	2,224	2,143	81	4
Regulatory costs	1,466	1,066	400	38
Travel	1,360	1,441	(81)	(6)
Communications	1,155	1,090	65	6
General insurance	1,066	1,081	(15)	(1)
Other	6,155	5,741	414	7
	28,047	25,146	2,901	12
Total Non-Interest Expenses	$ 158,182	$ 135,166	$ 23,016	17%
Efficiency Ratio (teb)(1)	48.2%	45.2%		300bp(2)

(1) Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income). See page 26 for a discussion of non-GAAP measures.
(2) bp – basis points.

Total non-interest expenses of $158.2 million increased 17% ($23.0 million) and included 19% higher salary and benefit costs, largely reflecting stock-based compensation charges, increased staff complement and annual salary increments. Total stock-based compensation charges of $10.7 million represented a $4.9 million increase over fiscal 2008 and included $4.0 million of expense recognized for Restricted Share Units (RSU) and $1.7 million of additional non-cash, stock-based compensation expense reflecting required accounting treatment for stock options voluntarily forfeited by certain CWB management. During the year, certain management irrevocably released their collective right, title and interest in 1.3 million stock options, without consideration, to facilitate a revised long-term employee compensation program. The Board of Directors, in consultation with external consultants and senior management, enacted enhancements to the Bank's previous long-term employee compensation program to add a RSU component and reduce the future component of stock options. The objective of the new program was to increase overall employee retention for the Bank and to better align CWB's long-term compensation with industry practices. The number of full-time equivalent employees grew 4% from October 31, 2008 with the increase mostly reflecting staffing requirements for additional bank branches and other business expansion. Premises and equipment expenses, including depreciation, increased 16% ($3.7 million) mainly resulting from ongoing business growth and capital

investment, while advertising expense increased $1.1 million. Annual non-interest expenses related to Adroit were $2.7 million, including amortization of intangible assets. Other increases in non-interest expenses mainly reflect costs to manage the ongoing growth and development of CWB's businesses.

Growth in non-interest expenses, including certain one-time items, surpassed growth in total revenues (teb), leading to an efficiency ratio (teb) of 48.2%, a 300 basis point deterioration compared to the prior year. Non-interest expenses as a percentage of average assets of 1.4% remained comparable to 2008.

Outlook for Non-Interest Expenses and Efficiency

While growth in total revenues (teb) is expected to have a modest positive impact on the efficiency ratio (teb) in 2010, the improvement will be tempered by increased spending in certain areas to allow for effective execution of CWB's strategic plan. Expenses related to additional staff complement, expanded premises, technology upgrades and process improvements are an integral part of management's commitment to effectively support growth and maximize shareholder value over the long-term. Building on CWB's position as an employer of choice is a priority, and annual salary increments and further enhancements to the employees' benefit programs are anticipated. In the fourth quarter of 2009 CWB opened new full service branches in Saskatoon, Saskatchewan and Kamloops, BC. Two additional branches are expected to open late in 2010. Investments in technology, such as those being made for the introduction of a new loan origination system, systems infrastructure and business applications, including an integrated general ledger and budget system, will also contribute to the level of non-interest expenses in 2010, but are expected to provide significant operating efficiencies. Announced reductions in capital tax rates, as well as expectations for modest inflationary pressures in 2010 will moderate non-interest expenses. Overall, CWB expects to achieve an efficiency ratio (teb) of 48% or better in fiscal 2010.

Income and Capital Taxes

The provision for income taxes (teb) was 31.8%, down from 32.7% in the prior year. The prior year's provision includes $1.0 million of additional tax expense resulting from the write-down of future tax assets to reflect lower future federal corporate income tax rates. The provision before the teb adjustment was 28.2%, compared to 30.1% in the previous year. The federal corporate income tax rate was reduced from 19.5% to 19.0%, effective January 1, 2009. Effective July 1, 2009, the corporate provincial income tax rate in Manitoba decreased 100 basis points to 12%. On April 1, 2009, the capital tax rate in BC applicable to CWB decreased to 0.33%, down from 0.67%, and is expected to be eliminated completely by April 1, 2010.

Future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes. The future income tax asset relates primarily to the general allowance for credit losses. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period of the tax rate change.

Capital losses of $11.1 million (2008 – $11.1 million) are available to apply against future capital gains and have no expiry date. The tax benefit of these capital losses has not been recognized.

TABLE 6 – CAPITAL TAXES
($ thousands)

	Capital Tax Rate	Capital Allocation	2009	2008	Change from 2008 $	Change from 2008 %
British Columbia	0.47%(1)	26%	$ 1,149	$ 1,469	$ (320)	(22)%
Alberta	n/a	69%	–	–	–	–
Saskatchewan	0.70%	4%	375	283	92	33
Manitoba	3.00%	1%	408	249	159	64
Total Capital Taxes			$ 1,932	$ 2,001	$ (69)	(3)%

(1) The BC capital tax rate decreased from 0.67% to 0.33% effective April 1, 2009. The above table reflects the blended rate for 2009.

Capital taxes for 2009 totaled $1.9 million, representing a 3% decline from 2008. Lower capital taxes are mainly attributed to a 2009 decrease in the capital tax rate in BC, partially offset by increased capital associated with the retention of earnings and the preferred unit offerings.

Outlook

Based on current expectations, CWB's budgeted income tax rate (teb) for fiscal 2010 is 28.8%, or 30.3% before the teb adjustment. Provincially levied capital taxes are expected to decline in conjunction with the above-mentioned rate reduction, partially offset by the ongoing retention of earnings and the impact of new capital issues, if material.

Comprehensive Income

Comprehensive income is composed of net income and other comprehensive income (OCI) all net of income taxes. CWB's OCI includes unrealized gains and losses on available-for-sale cash and securities, and derivative instruments designated as cash flow hedges.

Comprehensive income totaled $130.6 million for the year, compared to $102.7 million in the same period last year. As previously noted, net income was up 4% ($4.3 million) compared to one year ago. Higher OCI reflects $47.2 million of unrealized gains on available-for-sale securities compared to $2.6 million of unrealized losses during the same period last year. These increases were partially offset by higher reclassifications to other income related to available-for-sale securities and higher reclassifications to net interest income and other liabilities related to derivative instruments designated as cash flow hedges.

TABLE 7 – COMPREHENSIVE INCOME
($ thousands)

	2009	2008
Net Income	$ 106,285	$ 102,019
Other Comprehensive Income		
Available-for-sale securities		
Gains (losses) from change in fair value, net of tax	47,214	(2,631)
Reclassification to other income, net of tax	(17,556)	(3,271)
	29,658	(5,902)
Derivatives designated as cash flow hedges		
Gains from change in fair value, net of tax	9,453	9,341
Reclassification to net interest income, net of tax	(9,379)	(1,773)
Reclassification to other liabilities for derivatives terminated prior to maturity, net of tax	(5,410)	(938)
	(5,336)	6,630
	24,322	728
Total Comprehensive Income	$ 130,607	$ 102,747

Cash and Securities

Cash, securities and securities purchased under resale agreements totaled $2,189 million at October 31, 2009, compared to $1,798 million one year ago. The unrealized gain recorded on the balance sheet at October 31, 2009 was $24.8 million, compared to an unrealized loss of $17.8 million as at October 31, 2008. The change in unrealized gains and losses is primarily attributed to a market value improvement in the preferred share portfolio; unrealized gains in this portfolio totaled $5.8 million at October 31, 2009, compared to unrealized losses of $17.8 million a year earlier. The cash and securities portfolio is mainly comprised of high quality debt instruments and a much smaller component of preferred equities, primarily those of the major Canadian banks, which are not held for trading purposes and, where applicable, are typically held until maturity. Fluctuations in fair value for these portfolios are generally attributed to changes in interest rates, market credit spreads and shifts in the interest rate curve. In fiscal 2009, the Bank elected to introduce a relatively small equity investment portfolio to be managed by Adroit. Adroit's investment mandate for this portfolio is to invest in common shares of Canadian large market capitalization firms with a goal to achieve reasonable long-term capital appreciation with a preference toward dividend income. While the combined value of investments in preferred and common equity is relatively small in relation to total liquid assets, it does increase the potential for comparatively larger fluctuations in OCI.

Reflecting the Bank's investment strategies and abnormal markets attributed to the global financial crisis, including rapidly falling interest rates and unprecedented market demand for short-term government-grade investments, realized gains on sale of securities in 2009 were $25.2 million, a $20.5 million increase compared to the prior year. The Bank was able to capitalize on opportunities to realize gains in 2009 while maintaining relatively comparable yields on reinvestment in other high quality, investment-grade securities. The Bank has no direct exposure to any troubled asset backed commercial paper, collateralized debt obligations, credit default swaps, U.S. subprime lending or monoline insurers.

See Table 27 – Valuation of Financial Instruments on page 56 of this MD&A for additional information.

Cash and securities are managed in conjunction with CWB's overall liquidity and additional information is included in the Liquidity Management discussion beginning on page 43 of this MD&A.

Loans

Highlights of 2009

- Total loan growth of 7%, led by 17% growth in commercial mortgages, 13% growth in personal loans and mortgages, including Optimum Mortgage, and 11% growth in corporate loans.
- A decline in real estate project loans and no growth in the equipment financing portfolio reflecting both expected loan repayments due to these portfolios' relatively short durations and a marked reduction in lending opportunities reflective of a recessionary environment.

TABLE 8 – OUTSTANDING LOANS BY PORTFOLIO
($ millions)

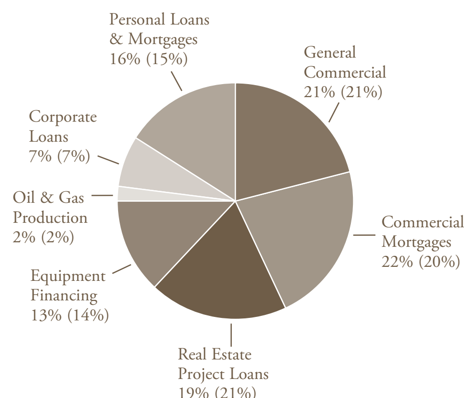
			Change from 2008	
	2009	2008	$	%
Commercial mortgages	$ 2,051	$ 1,759	$ 292	17%
General commercial	1,992	1,889	103	5
Real estate project loans	1,803	1,819	(16)	(1)
Personal loans and mortgages	1,451	1,288	163	13
Equipment financing	1,186	1,186	–	–
Corporate loans	672	604	68	11
Oil & gas production	157	155	2	1
Total Outstanding Loans	$ 9,312	$ 8,700	$ 612	7%

Total loans, excluding the allowance for credit losses, increased 7% ($612 million) to total $9,312 million at year end. Measured by loan type as shown in Table 8, commercial mortgages represented the strongest source of loan growth in 2009, measured in both dollar and percentage terms. Personal loans and mortgages, which include the Bank's alternative residential mortgage business, Optimum Mortgage (Optimum), showed the next best performance with 13% growth. General commercial loans grew 5% over 2008 and include categories based on industry sector (see Table 12 on page 40) such as manufacturing, finance and insurance, wholesale and retail trade, and others. Corporate loans were up 11% with the increase mainly reflecting reduced foreign-based competition due to the global financial crisis and increased demand for additional syndicate partners by the major Canadian banks. Corporate loans represent a diversified portfolio that is centrally sourced and administered through a designated lending group located in Edmonton. These loans include participation in select syndications structured and led primarily by the major Canadian banks, but exclude participation in various other syndicated facilities sourced through relationships developed at CWB branches. Syndicated facilities that are sourced in branches are primarily real estate project loans and oil and gas production loans and are included under the appropriate classifications in Table 8. The only year-over-year decline by loan type was in real estate project loans which reflects both significant loan repayments due to this portfolio's relatively short duration and reduced new lending opportunities in this area. The equipment financing portfolio also has a short duration with loans fully repaid over a period of three to five years. As shown, new equipment financing loans were offset by repayments in the year resulting in nil growth for 2009. Oil and gas production loans increased marginally and represent a very small component of the overall portfolio. Constrained growth for both equipment financing and oil and gas production loans was largely attributed to ongoing softness in the oil and natural gas services industries. Growth in the equipment financing portfolio was further impacted by systemic weakness in the forestry industry.

Loans in Optimum, the Bank's alternative mortgage business, increased 20% over October 31, 2008 to reach $561 million at year end. Real estate values stabilized during the latter half of fiscal 2009 and the overall level of residential sales activity in Western Canada continued to show surprising resilience. Improved residential sales activity also positively impacted marketing time for homes in foreclosure and had a favourable effect on the overall level of delinquent loans, which first began to trend higher in the third quarter of fiscal 2008. During the year, Optimum began offering higher ratio mortgages insured by either the Canada Mortgage and Housing Corporation or Genworth Financial Canada. Management expects insured mortgages will become a larger component of this portfolio going forward. In late 2008, Optimum began underwriting residential mortgages in certain targeted regions of Ontario in an effort to further grow and diversify this portfolio. Uninsured mortgages, secured via conventional residential first mortgages currently represent approximately 81% of Optimum's total portfolio. These mortgages carry a weighted average underwritten loan-to-value ratio at origination of approximately 70%. The vast majority of all Optimum mortgages carry a fixed interest rate with the principal amortized over 25 years or less. Management remains committed to grow this business over time as it continues to produce strong returns while maintaining an acceptable risk profile.

The mix of the portfolio shifted during the year (see Figure 1 below), with comparatively stronger growth in commercial mortgages and in personal loans and mortgages offsetting constrained growth in equipment financing and the decrease in real estate project loans. The geographic distribution of loans (see Figure 3 on page 40) also changed slightly year-over-year reflecting stronger lending activity in BC and increased loans outstanding in Ontario, mainly from corporate syndications. Based on the location of security, Alberta and BC represented 50% and 35% of total loans at year end, respectively.

FIGURE 1 – OUTSTANDING LOANS BY PORTFOLIO
(October 31, 2008 in brackets)



Outlook for Loans

Management expects the Bank will return to double-digit loan growth and has set its fiscal 2010 loan growth target at 10%. This reflects the belief that CWB will continue to gain market share due to a combination of its expanded market presence, the implementation of enhanced loan origination and brand awareness strategies, and fewer foreign-based competitors in some lending areas. Management also believes Western Canada will be poised for a comparatively faster recovery than the rest of Canada once major global economies commence a sustained period of growth. While challenging economic conditions are expected to persist, particularly in areas related to natural gas, the current outlook for new loans is encouraging. Paybacks on existing real estate project loans, equipment financing and other accounts will moderate the overall level of loan growth and this circumstance is expected to continue until there is increased certainty regarding both the strength and timing of an economic recovery.

Credit Quality

Highlights of 2009

- Credit quality remained satisfactory despite a recessionary environment.
- Provision for credit losses was $13.5 million and represented 15 basis points of average loans, consistent with the fiscal 2009 target range.
- Gross impaired loans increased as expected in view of the ongoing economic challenges and represented 149 basis points of total loans at October 31, 2009, compared to 105 basis points at the end of fiscal 2008.

Impaired Loans

As shown in Table 9 on page 38, gross impaired loans totaled $137.9 million and represented 149 basis points of outstanding loans. Fluctuations in the level of impaired loans are expected as loans become impaired and are subsequently resolved. The dollar level of gross impaired loans does not directly reflect the dollar value of expected write-offs given the tangible security held against the Bank's lending positions. The global economic recession has impacted virtually all industries represented in the Bank's loan portfolio. Recessionary effects have had the most pronounced impact on the construction and real estate industries and have resulted in an oversupply of residential product and the retraction of purchase agreements in a number of markets. The overall level of residential sales activity has improved and Canada's economic recovery and a continued low interest rate environment will have a further positive impact on demand in this area. The substantial reduction in natural gas prices has had a significant negative impact on exploration activity and continues to adversely affect cash flows for companies involved in oil and gas services, particularly in Alberta. Crude oil prices have rebounded and exploration and production companies appear to be increasing their capital budgets tied to conventional oil exploration. There is also clear evidence supporting increased capital investment in both the Alberta oil sands and the shale gas deposits in BC. These areas should have a positive impact on the overall level of activity in fiscal 2010. Systemic softness in the forestry industry is expected to continue, but this currently represents less than 2% of the Bank's overall portfolio.

TABLE 9 – CHANGE IN GROSS IMPAIRED LOANS

($ thousands)

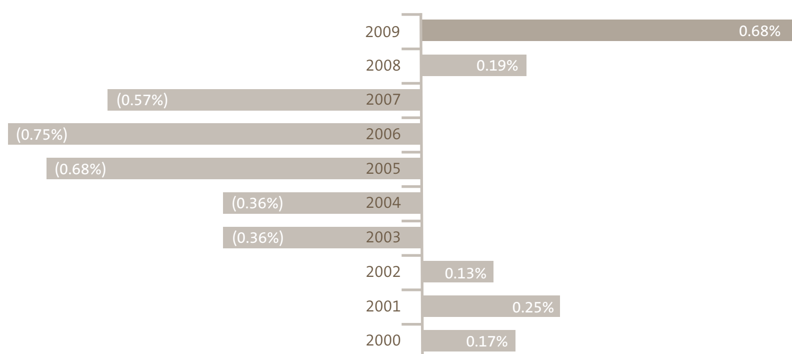
	2009	2008	2007	Change from 2008 $	Change from 2008 %
Gross impaired loans, beginning of period	$ 91,636	$ 21,104	$ 10,403	$ 70,532	334%
New formations	158,129	99,078	21,185	59,051	60
Reductions, impaired accounts paid down or returned to performing status	(97,979)	(25,968)	(9,698)	(72,011)	277
Write-offs	(13,842)	(2,578)	(786)	(11,264)	437
Total, end of period	137,944	91,636	21,104	46,308	51
Balance of the ten largest impaired accounts	76,101	56,797	13,735	19,304	34
Total number of accounts classified as impaired	224	161	85	63	39
Total number of accounts classified as impaired under $1 million	199	142	78	57	40
Gross impaired loans as a percentage of total loans(1)	1.49%	1.05%	0.28%	–	44bp(2)

(1) Total loans do not include an allocation for credit losses or deferred revenue and premiums.
(2) bp – basis point change.

Although the level of gross impaired loans increased substantially compared to prior years, the ongoing resolution of impaired accounts with relatively low loss experience demonstrates the benefits of CWB's secured lending practices, as well as the ongoing success of loan realization efforts and work out programs. The current estimates of expected write-offs for existing loans classified as impaired are reflected in the specific provisions for credit losses. The Bank establishes its current estimates of expected write-offs through detailed analyses of both the overall quality and ultimate marketability of the security held against impaired accounts. The ten largest accounts classified as impaired measured by dollars outstanding represented approximately 55% of the total gross impaired loans at year end, compared to 62% a year earlier. While new formations of impaired loans exceeded reductions in the year by $60.1 million, more than half of the net increase compared to 2008 was represented by two large accounts that were classified as impaired during the fourth quarter.

The 2009 provision for credit losses of $13.5 million increased $1.5 million over the previous year and represented 15 basis points of average loans, unchanged from 2008. At October 31, 2009, gross impaired loans exceeded the total allowance for credit losses by $62.5 million, representing 68 basis points (2008 – 19 basis points) of net loans outstanding (see Figure 2). In the five years prior to fiscal 2008, relatively consistent dollar provisions for credit losses together with an exceptionally low level of impaired loans had resulted in the total allowance for credit losses exceeding gross impaired loans, which is also reflected in Figure 2. The general allowance represented 65 basis points of risk-weighted assets at year end (2008 – 70 basis points). Continued fluctuations are expected as the economic cycle runs its course and as specific weaknesses in the portfolio become evident. The allowance for credit losses as a percentage of gross impaired loans (coverage ratio) decreased to 55% (2008 – 82%).

FIGURE 2 – NET IMPAIRED LOANS AS A PERCENTAGE OF NET LOANS OUTSTANDING



The overall loan portfolio is reviewed regularly with credit decisions undertaken on a case-by-case basis to provide early identification of possible adverse trends. Loans that have become impaired are monitored closely with regular quarterly, or more frequent, review of each loan and its realization plan.

Outlook for Impaired Loans

Overall credit quality is expected to remain satisfactory and actual losses should be within CWB's range of acceptable levels. The level of gross impaired loans will continue to fluctuate up and down from current levels until realization objectives are attained and the credit cycle runs its course. Gross impaired loans will return to more normal levels over time as an economic recovery is confirmed. Overall lending exposures will continue to be closely monitored and management remains confident in the strength, diversity and the underwriting structure of the loan portfolio.

Allowance for Credit Losses

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

TABLE 10 – ALLOWANCE FOR CREDIT LOSSES

($ thousands)

	2009 Opening Balance	Write-Offs, net of Recoveries[1]	Provision for Credit Losses	2009 Ending Balance
Specific Allowance				
Commercial	$ 6,111	$ 4,877	$ 58	$ 1,292
Real estate	2,948	5,158	7,821	5,611
Equipment financing	5,647	2,786	3,335	6,196
Consumer and personal	305	758	1,660	1,207
	15,011	13,579	12,874	14,306
General Allowance	60,527	–	626	61,153
Total	$ 75,538	$ 13,579	$ 13,500	$ 75,459

(1) Recoveries in 2009 totaled $263 (2008 – $3,093).

The allowance for credit losses is maintained to absorb both identified and unidentified losses in the loan portfolio and, at October 31, 2009, consisted of $14.3 million in specific allowances and $61.2 million in the general allowance for credit losses. Specific allowances include the accumulated allowances for losses on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit risk includes allowances for losses inherent in the portfolio that are not presently identifiable on an account-by-account basis. The general allowance represented 66 basis points of gross outstanding loans (2008 – 70 basis points) and 65 basis points of risk-weighted assets (2008 – 70 basis points). An assessment of the adequacy of the general allowance is conducted quarterly and measured against the five- and 10-year loan loss averages. 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 adequacy of the general allowance. The general allowance is expected to increase in strong economic times and decrease in weaker economic times as impaired accounts are identified and allowances are allocated to specific credits.

Policies and methodology governing the management of the general allowance are in place. The loan portfolio is delineated through the assignment of internal risk ratings to each borrower. The rating is based on assessments of key evaluation factors for the nature of the exposure applied on a consistent basis across the portfolio. The rating system has 12 levels of risk and ratings are updated at least annually for all loans, with the exception of consumer loans and single-unit residential mortgages. Development of additional methodology to support the testing of the adequacy of the general allowance will continue.

Outlook for Allowance for Credit Losses

Specific allowances will continue to be determined on an account-by-account basis and reviewed quarterly. The general allowance is expected to vary from quarter to quarter to account for portfolio growth, lower levels of specific allowances in strong economic times and higher levels of specific allowances in weaker economic times, such as the current period. Based on management's current outlook for credit performance, actual historic loss experience and results from stress testing of the portfolio, the existing level of the general allowance is deemed sufficient to mitigate losses inherent in the portfolio that are not presently identifiable.

Provision for Credit Losses

The provision for credit losses represented 15 basis points of average loans in 2009 (see Table 11), a decrease from the five- and ten-year averages of 18 basis points and 21 basis points, respectively. The decrease in the provision as a percentage of average loans reflects relatively consistent dollar provisions coupled with asset growth. Net new specific provisions represented 14 basis points of average loans in 2009. These results compare to the five- and ten-year trend when the net new specific provision for credit losses averaged six basis points and 13 basis points of average loans, respectively. The credit quality of the portfolio resulted in 5% of the current year's provision for credit losses being allocated to the general allowance for credit losses. The Bank has a long history of strong credit quality and low loan losses, both of which compare very favourably to the Canadian banking industry. External factors that may impact Western Canada and the sectors in which the Bank's customers operate are continually analyzed.

TABLE 11 – PROVISION FOR CREDIT LOSSES

($ thousands)

	2009	2008	2007	2006	2005
Provision for credit losses[1]	0.15%	0.15%	0.16%	0.20%	0.24%
Net new specific provisions (net recovery)[2]	0.14	0.09	0.04	(0.03)	0.06
General allowance	$ 61,153	$ 60,527	$ 55,608	$ 48,037	$ 36,462
Coverage ratio[3]	55%	82%	299%	514%	370%

(1) As a percentage of average loans.
(2) Portion of the year's provision for credit losses allocated to specific provisions as a percentage of average loans.
(3) Allowance for credit losses as a percentage of gross impaired loans.

Outlook for Provision for Credit Losses

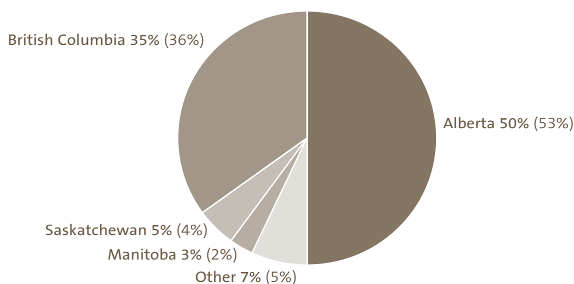
The provision for credit losses in 2010 is expected to be between 15 to 20 basis points of average loans, up modestly from the target range established for fiscal 2009. The expected provision reflects the Bank's current assessment based on reasonable assumptions about the economic outlook, expected growth, the overall quality of the portfolio and its underlying security, as well as the adequacy of the general allowance for credit losses. This assessment is ongoing and management's expectations are communicated no less than quarterly.

Diversification of Portfolio

Total Advances Based on Location of Security

FIGURE 3 – GEOGRAPHICAL DISTRIBUTION OF LOANS[1]

(October 31, 2008 in brackets)



(1) Includes letters of credit.

The following table illustrates the diversification in lending operations by standard industry sectors.

TABLE 12 – TOTAL ADVANCES BASED ON INDUSTRY SECTOR[1]

% at October 31

	2009	2008
Construction	22%	24%
Real estate operations	22	22
Consumer loans and residential mortgages[2]	14	13
Transportation and storage	6	6
Health and social services	4	4
Hotel/motel	4	4
Finance and insurance	4	3
Oil and gas (service)	3	4
Oil and gas (production)	3	3
Manufacturing	3	3
Other services	3	3
Retail trade	3	2
Logging/forestry	2	2
Wholesale trade	1	2
All other	6	5
Total	100%	100%

(1) Table is based on the Standard Industrial Classification (SIC) codes.
(2) Residential mortgages in this table include only single-family properties.

The loan portfolio is focused on areas of demonstrated lending expertise, while concentrations measured by geographic area and industry sector are managed within specified tolerance levels. The portfolio is well diversified with a mix of commercial and personal business. Equipment financing is sourced within branches or through stand-alone equipment financing centres, while oil and gas production lending is conducted by specialists located in Calgary. In addition to these areas, real estate divisions are established in each major centre in which the Bank operates. A specialized group manages the alternative residential mortgage business, Optimum, with centralized administration based in Edmonton.

Outlook for Diversification of Portfolio

Portfolio diversification by geography is expected to remain relatively consistent with prior years. Interim construction accounts (real estate project loans) are expected to show modest or slightly negative growth in 2010, reflecting a combination of loan repayments due to this portfolio's relatively short duration and moderated lending opportunities compared to other lending areas. An enhanced emphasis on generating residential mortgages, mainly through Optimum Mortgage, should result in a further increase in the proportion of consumer loans and residential mortgages in fiscal 2010.

Deposits

Highlights of 2009

- Personal deposits, which include the Bank's lowest cost source of funding, increased 20%.
- Business and government deposits decreased 18% largely reflecting impacts from the global financial crisis.
- Branch and trust generated demand and notice deposits increased 31% to comprise 33% of total deposits at year end.
- Branch and trust generated deposits were 64% of total deposits, up from 63% a year earlier.

TABLE 13 – DEPOSITS

($ thousands)

	Demand	Notice	Term	2009 Total	% of Total
Personal	$ 20,028	$ 1,660,715	$ 4,717,146	$ 6,397,889	67%
Business and government	339,148	1,117,886	1,655,315	3,112,349	32
Deposit taking institutions	–	–	2,000	2,000	–
Deposit from CWB Capital Trust[1]	–	–	105,000	105,000	1
Total Deposits	$ 359,176	$ 2,778,601	$ 6,479,461	$ 9,617,238	100%
% of Total	4%	29%	67%	100%	

	Demand	Notice	Term	2008 Total	% of Total
Personal	$ 16,071	$ 732,630	$ 4,601,439	$ 5,350,140	58%
Business and government	367,012	1,277,409	2,136,158	3,780,579	41
Deposit taking institutions	–	–	10,000	10,000	–
Deposit from CWB Capital Trust[1]	–	–	105,000	105,000	1
Total Deposits	$ 383,083	$ 2,010,039	$ 6,852,597	$ 9,245,719	100%
% of Total	4%	22%	74%	100%	

(1) The senior deposit note of $105 million issued to Canadian Western Bank Capital Trust (CWB Capital Trust) is reflected as a deposit payable on a fixed date. This senior deposit note bears interest at an annual rate of 6.199% until December 31, 2016 and, thereafter, at the CDOR 180-day Bankers' Acceptance Rate plus 2.55%. This note is redeemable at the Bank's option, in whole or in part, on and after December 31, 2011, or earlier in certain specified circumstances, both subject to the approval of OSFI. Each one thousand dollars of WesTS note principal is convertible at any time into 40 non-cumulative redeemable CWB First Preferred Shares Series 1 of the Bank at the option of CWB Capital Trust. CWB Capital Trust will exercise this conversion right in circumstances in which holders of WesTS exercise their holder exchange right. See the Capital Management discussion on page 46 of this MD&A or Note 14 to the consolidated financial statements for more information on WesTS and CWB Capital Trust.

Total deposits at year end of $9,617 million increased 4% ($372 million) over 2008 as very strong 20% ($1,048 million) growth in personal deposits more than offset an 18% ($668 million) decline in business and government deposits. Reflecting the Bank's commercial focus, a considerable portion of branch deposits are generated from corporate clients that tend to hold larger balances compared to personal retail clients (See the Liquidity Management section on page 43 of this MD&A). The considerable change in deposit mix compared to 2008 was due in part to a strategic effort to both diversify the Bank's overall funding mix by targeting a broader customer base and to not meet competitive pricing pressures for wholesale deposits. Pricing pressures were particularly evident during the first half of fiscal 2009 when there was a significant increase in the demand for liquidity by financial institutions in Canada and globally. Some business customers also prudently chose to direct their excess cash balances toward the repayment of debt until the economic outlook was more certain.

TABLE 14 – DEPOSITS BY SOURCE
(as a percentage of total deposits at October 31)

	2009	2008	2007	2006	2005
Branches	64%	63%	64%	66%	67%
Deposit brokers	34	34	33	30	32
Corporate wholesale	1	2	2	2	1
Deposit from CWB Capital Trust	1	1	1	2	–
Total	100%	100%	100%	100%	100%

Deposits are primarily generated from the branch network (including CWT) and a deposit broker network. Increasing the level of retail deposits is an ongoing focus as success in this area provides the most reliable and stable source of funding. CWB's high-interest Summit Savings Account® continued to be well received, with the total dollar value of deposits from this source growing $110 million in the year to reach $571 million. An Internet-based division of the Bank named *Canadian Direct Financial*™ was introduced in September 2008 to offer retail deposit products primarily to customers who do not have convenient access to CWB's branch network. Although it was launched as a pilot initiative, *Canadian Direct Financial*™ has shown good results to date and management is optimistic about its potential to provide a valued and diversified source of funding. Insured deposits raised through deposit brokers also remain a valued funding source. Although these funds are subject to commissions, this cost is countered by a reduced dependence on a more extensive branch network and the benefit of generating insured fixed term retail deposits over a wide geographic base. Corporate wholesale deposits represent larger deposits raised through CWB's corporate office rather than the branch network. Growth in total branch and trust generated deposits was 5%. The demand and notice component within branch-raised deposits increased 31% to comprise 33% of total deposits at year end, up from 26% in the previous year. At October 31, 2009, branch and trust generated deposits comprised 64% of total deposits, compared to 63% in the previous year. The increase in branch-raised deposits as a percentage of total deposits compared to October 31, 2008 reflects very strong growth in the demand and notice component that more than offset a 4% ($130 million) increase in fixed rate term deposits raised through the deposit broker network and a reduction in larger commercial term deposits raised in the branches. The significant growth in demand and notice deposits compared to 2008 reflects CWT's appointment during the year as trustee for a major Canadian investment dealer and ongoing execution of strategies to further enhance and diversify the Bank's core funding sources.

Outlook for Deposits

A strategic focus on increasing branch-raised deposits (including CWT) will continue in 2010, with particular emphasis on the demand and notice component, which is often lower cost and provides associated transactional fee income. CWB's expanded market presence also supports objectives to generate branch-raised deposits. Further diversifying the deposit base via new and/or enhanced product offerings and through *Canadian Direct Financial*™ are ongoing initiatives. Valiant received federal approval to become a deposit–taking trust company in 2009 and this will provide an additional channel to generate deposits in the future. The Bank's deposit broker network also remains a valued source for raising insured fixed-term retail deposits and has proven to be an extremely effective and efficient way to access liquidity over a wide geographic base.

Other Assets and Other Liabilities

At October 31, 2009 other assets totaled $211 million (2008 – $179 million). Insurance related other assets were $56 million (2008 – $53 million) and consisted primarily of instalment premiums receivable as well as the reinsurers' share of unpaid claims. Other assets at October 31, 2009 also include goodwill and intangible assets of $9.4 million and $6.5 million, respectively.

Other liabilities totaled $657 million at October 31, 2009 (2008 – $301 million) and included $300 million of securities purchased under reverse resale agreements (2008 – $nil). Reverse resale agreements are used for short-term cash management purposes. Insurance related other liabilities were $146 million (2008 – $135 million) and consisted primarily of provisions for unpaid claims and adjustment expenses and unearned premiums.

Liquidity Management

Highlights of 2009

- Strong liquidity position and conservative investment profile.
- Implemented improved methodologies for measuring and monitoring liquidity.
- Enhanced deposit monitoring capabilities.
- No direct exposure to troubled asset classes.

A schedule outlining the consolidated securities portfolio at October 31, 2009 is provided in Note 4 to the consolidated financial statements. A conservative investment profile is maintained by ensuring:

- all investments, other than preferred shares and those securities categorized as "other marketable securities", are limited to high quality debt securities and short-term money market instruments;
- specific investment criteria and procedures are in place to manage the securities portfolio;
- regular review, monitoring and approval of investment policies by the Asset Liability Committee (ALCO); and
- quarterly reporting to the Board of Directors on the composition of the securities portfolio supported by an annual review and approval by the Board of Directors.

The Bank has no direct exposure to any troubled non-bank sponsored asset-backed commercial paper, collateralized debt obligations, credit default swaps, U.S. subprime mortgages or monoline insurers. The Bank's liquidity management is a comprehensive process that includes, but is not limited to:

- monitoring of liquidity reserve levels;
- operating micro and macro scenario stress testing;
- maintenance of a short duration liquidity portfolio;
- monitoring the credit profile of the liquidity portfolio;
- monitoring deposit behaviour; and
- ongoing market surveillance.

TABLE 15 – LIQUID ASSETS
($ thousands)

	2009	2008	Change from 2008
Cash	$ 4,069	$ 8,988	$ (4,919)
Deposits with regulated financial institutions	280,358	464,193	(183,835)
Cheques and other items in transit	12,677	18,992	(6,315)
Total Cash Resources	297,104	492,173	(195,069)
Securities purchased (sold) under resale agreements (net)	(300,242)	77,000	(377,242)
Government of Canada treasury bills	156,677	214,482	(57,805)
Government of Canada, provincial and municipal bonds, term to maturity 1 year or less	130,510	167,683	(37,173)
Government of Canada, provincial and municipal bonds, term to maturity more than 1 year	820,413	417,657	402,756
Preferred shares	434,361	256,232	178,129
Other marketable securities	349,448	171,671	177,777
Total Securities Purchased or Sold Under Resale Agreements and Marketable Securities	1,591,167	1,304,725	286,442
Total Liquid Assets	$ 1,888,271	$ 1,796,898	$ 91,373
Total Assets	$ 11,635,872	$ 10,600,732	$ 1,035,140
Liquid Assets as a Percentage of Total Assets	16%	17%	(1)%
Total Deposit Liabilities	$ 9,617,238	$ 9,245,719	$ 371,519
Liquid Assets as a Percentage of Total Deposit Liabilities	20%	19%	1%

As shown in Table 15, liquid assets comprised of cash, interbank deposits, securities purchased under resale agreements and marketable securities totaled $1,888 million at October 31, 2009, an increase of $91 million compared to a year earlier. The Bank continues to carry more liquidity than it would in more normal market conditions and a stable economic environment. Liquid assets represented 16% (2008 – 17%) of total assets and 20% (2008 – 19%) of total deposit liabilities at year end.

Highlights of the composition of liquid assets at October 31, 2009 are as follows:

- maturities within one year decreased to 9% (2008 – 47%) of liquid assets, or $162 million (2008 – $836 million);
- Government of Canada, provincial and municipal debt securities increased to 59% (2008 – 45%) of liquid assets;
- deposits with regulated financial institutions, including Bankers' Acceptances, decreased to 15% (2008 – 26%) of liquid assets;
- preferred shares increased to 23% of liquid assets (2008 – 14%); and
- other marketable securities increased to 18% of liquid assets (2008 – 10%).

Securities purchased under reverse resale agreements totaled $300 million at October 31, 2009. This compares to October 31, 2008 when securities purchased under resale agreements totaled $77 million. These agreements are used for cash flow management purposes.

Securities purchased under reverse resale agreements are included in other liabilities. These represent short-term borrowings from securities dealers that require subsequent repurchase of the securities given as collateral, typically within a few days. CWB may enter into resale agreements which are included in liquid assets. These are short-term advances, typically no more than a few days in duration, to securities dealers and require the dealer to repurchase the securities, which are comprised of government securities or other high quality liquid securities. Short-term uncommitted and committed facilities have been arranged with a number of financial institutions. The government insured/guaranteed mortgage portfolios held by the Bank also represent a potential source of liquidity.

A significant portion of branch-generated deposits are generated from corporate clients that tend to hold larger balances and are subject to more volatility compared to deposits generated from personal retail clients.

The primary source of new funding is the issuance of deposit instruments. A summary of outstanding deposits by contractual maturity date is presented in Tables 16 and 17.

TABLE 16 – DEPOSIT MATURITIES WITHIN ONE YEAR

($ millions)

October 31, 2009	Within 1 Month	1 to 3 Months	3 Months to 1 Year	Cumulative Within 1 Year
Demand deposits	$ 359	$ –	$ –	$ 359
Notice deposits	2,779	–	–	2,779
Deposits payable on a fixed date	944	816	1,514	3,274
Total	$ 4,082	$ 816	$ 1,514	$ 6,412
October 31, 2008 Total	$ 3,695	$ 870	$ 1,916	$ 6,481

TABLE 17 – TOTAL DEPOSIT MATURITIES

($ millions)

October 31, 2009	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	More than 5 Years	Total
Demand deposits	$ 359	$ –	$ –	$ –	$ –	$ –	$ 359
Notice deposits	2,779	–	–	–	–	–	2,779
Deposits payable on a fixed date	3,274	1,693	773	394	240	–	6,374
Note to CWB Capital Trust	–	–	–	–	–	105	105
Total	$ 6,412	$ 1,693	$ 773	$ 394	$ 240	$ 105	$ 9,617
October 31, 2008 Total	$ 6,481	$ 1,205	$ 663	$ 520	$ 272	$ 105	$ 9,246

A breakdown of deposits by source is provided in Table 14 on page 42. Target limits by source have been established as part of the overall liquidity policy and are monitored to ensure an acceptable level of funding diversification is maintained. The Bank continues to aggressively pursue deposits through the branch network as its core funding source. At the same time, the total dollar value of deposit broker-generated deposits could increase, particularly in times of elevated market uncertainty when higher levels of liquidity are maintained. CWT raises deposits

through notice accounts (comprised primarily of cash balances held in self-directed registered accounts), corporate trust deposits and the Bank's branch network, in addition to deposits generated through the deposit broker network. At October 31, 2009, CWT's notice account balances totaled $931 million (2008 – $429 million) reflecting its 2009 appointment as trustee for a major Canadian investment dealer and ongoing business and client growth. Also, as noted earlier, Valiant received federal approval in 2009 to become a deposit-taking institution which provides an additional channel to raise deposits in the future.

In addition to deposit liabilities, CWB has subordinated debentures outstanding that are presented in the table below.

TABLE 18 – SUBORDINATED DEBENTURES OUTSTANDING

($ thousands)

Interest Rate	Maturity Date	Earliest Date Redeemable by CWB at Par	2009	2008
5.550%[1]	November 19, 2014	November 20, 2009	$ 60,000	$ 60,000
5.426%[2]	November 21, 2015	November 22, 2010	70,000	70,000
5.070%[3]	March 21, 2017	March 22, 2012	120,000	120,000
5.571%[4]	March 21, 2022	March 22, 2017	75,000	75,000
5.950%[5]	June 27, 2018	June 27, 2013	50,000	50,000
Total			$ 375,000	$ 375,000

(1) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 160 basis points. On November 20, 2009, these conventional debentures were redeemed by the Bank.

(2) Subsequent to year end, these conventional debentures were redeemed by the Bank.

(3) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points.

(4) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 155 basis points. Of the $125,000 debentures issued, $5,000 were acquired by Canadian Direct Insurance Incorporated, a wholly owned subsidiary, and have been eliminated on consolidation.

(5) These conventional debentures have a 15-year term with a fixed interest rate for the first ten years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points.

(6) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 302 basis points.

Outlook for Liquidity Management

The Bank has implemented improved methodologies for measuring and monitoring liquidity and has also enhanced its deposit monitoring capabilities. This has enabled management to better assess risks under various scenarios and provides flexibility to decrease the level of liquid asset coverage on a general basis. Overall liquidity is expected to decrease in future periods, although elevated levels will be maintained compared to what would be held under more normal market conditions. Management intends to maintain this strategy until economic uncertainties subside further.

Contractual Obligations

In addition to the obligations related to deposits and subordinated debentures discussed in the Deposits and Liquidity Management sections on pages 41 and 43 of this MD&A, as well as Notes 13, 17 and 28 of the consolidated financial statements, the following contractual obligations are outstanding at October 31, 2009:

TABLE 19 – CONTRACTUAL OBLIGATIONS

($ thousands)

	Within 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Lease commitments	$ 8,625	$ 16,471	$ 15,646	$ 27,124	$ 67,866
Purchase obligations for capital expenditures	250	10	–	–	260
October 31, 2009	$ 8,875	$ 16,481	$ 15,646	$ 27,124	$ 68,126
October 31, 2008	$ 8,316	$ 15,609	$ 14,689	$ 28,873	$ 67,487

Capital Management

Highlights of 2009

- Achieved very strong Total and Tier 1 capital adequacy ratios of 15.4% and 11.3%, respectively.
- Completed offerings of preferred units for gross proceeds of $209.8 million.
- Introduced a dividend reinvestment plan.

Subsequent Highlights

- In December 2009, the Board of Directors declared a quarterly cash dividend of $0.11 per common share, unchanged from both the previous quarterly cash dividend and the quarterly cash dividend declared one year earlier. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share.

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. Under normal market conditions, the goal is to maintain adequate regulatory capital to be considered well capitalized, protect customer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all while providing a satisfactory return for common shareholders. In 2009, the global financial crisis led to significant demand for increased capital levels, particularly from investors. The Canadian financial industry responded with numerous issues of capital raised during periods of heightened market uncertainty.

In March 2009, the Bank issued 8.3 million preferred units for total proceeds of $209.8 million reflecting management's decision to respond to the overall market while providing capital flexibility to take advantage of potential acquisitions that could become available in a disrupted market. The opportunity to establish a market for preferred shares issued by CWB was an additional consideration, as accessing this type of Tier 1 capital for the Bank had previously proven very challenging. The preferred unit offerings consisted of both a public offering and a private placement to institutional investors. The preferred units issued via the public offering each consisted of one Non-Cumulative 5-Year Rate Reset Preferred Share, Series 3 (the "Series 3 Preferred Shares") in the capital of the Bank with an issue price of $25.00 per share and 1.78 common share purchase warrants (each whole warrant a "Warrant"). Each Warrant is exercisable at a price of $14.00 to purchase one common share in the capital of the Bank until March 3, 2014. The preferred units issued by way of a private placement to institutional investors consisted of one Series 3 Preferred Share and 1.7857 Warrants. The Warrants have the same terms as those issued under the public offering.

Based on a $25.00 issue price, the Series 3 Preferred Shares yield a 7.25% dividend annually, payable quarterly, as and when declared by the Board of Directors of CWB for an initial period ending April 30, 2014. Thereafter, the dividend rate will reset every five years at a level of 500 basis points over the then current five-year Government of Canada bond yield. Holders of Series 3 Preferred Shares will, subject to certain conditions, have the option to convert their shares to Non-Cumulative Floating Rate Preferred Shares, Series 4 (the "Series 4 Preferred Shares") on April 30, 2014 and on April 30 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to a floating quarterly dividend rate equal to the then current 90-day Canadian Treasury Bill Rate plus 500 basis points, as and when declared by the Board of Directors of CWB. The Series 3 Preferred Shares and Series 4 Preferred Shares are redeemable at the option of CWB on April 30, 2014, and every fifth anniversary thereafter at a price of $25.00 per share. In addition, the Series 4 Preferred Shares are redeemable at the option of CWB at any other time, on or after April 30, 2014, at a price of $25.50 per share.

The Series 3 Preferred Shares and the Series 4 Preferred Shares qualify as Tier 1 capital for the Bank. Both the Series 3 Preferred Shares and the Warrants commenced trading on the Toronto Stock Exchange on March 2, 2009 under the trading symbols CWB.PR.A and CWB.WT, respectively.

The Bank has a share incentive plan that is provided to officers and employees who are in a position to materially impact the longer term financial success of the Bank as measured by share price appreciation and dividends. Note 19 to the consolidated financial statements details the number of options outstanding, the weighted average exercise price and the amounts exercisable at year-end. Note 19 to the consolidated financial statements also includes details of the RSU component of the Bank's long-term incentive plan which was introduced in fiscal 2009. During the year, CWB introduced a dividend reinvestment plan to provide holders of CWB's common shares and holders of any other class of shares deemed eligible by the Bank's Board of Directors with the opportunity to direct cash dividends paid toward the purchase of common shares. Further details regarding the Bank's dividend reinvestment plan are available at www.cwbankgroup.com/investor_relations/drip.htm.

Basel II Capital Adequacy Accord

OSFI requires banks to measure capital adequacy in accordance with guidelines for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments, which are commonly referred to as Basel II. CWB uses the standardized approach to calculate risk-weighted assets for both credit and operational risk. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. As an example, a loan that is fully insured by the Canada Mortgage and Housing Corporation (CMHC) is applied a risk weighting of 0% as the Bank's risk of loss is nil, while typical uninsured commercial loans are assigned a risk weighting of 100% to reflect the higher level of risk associated with this type of asset. The ratio of regulatory capital to risk-weighted assets is calculated and compared to OSFI's standards for Canadian financial institutions. Off-balance sheet assets, such as the notional amount of derivatives and some credit commitments, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk-weighted calculations are prescribed by OSFI. As Canadian Direct is subject to separate OSFI capital requirements specific to insurance companies, the Bank's investment in CDI is deducted from total capital and CDI's assets are excluded from the calculation of risk-weighted assets.

Current 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 has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. CWB's Tier 1 capital is primarily comprised of common shareholders' equity, preferred shares and innovative capital (to a regulatory maximum of 15% of net Tier 1 capital) while Tier 2 capital primarily includes subordinated debentures (to the regulatory maximum amount of 50% of net Tier 1 capital) and the inclusion of the general allowance for credit losses (to a prescribed regulatory maximum).

Consistent with Basel II guidelines, CWB has now implemented an internal capital adequacy assessment process (ICAAP) aimed at ensuring that capital levels remain adequate in relation to current and future risks.

During the year the Bank complied with all internal and external capital requirements.

TABLE 20 – CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR END

($ thousands)

	2009	2008	Change from 2008
Tier 1 Capital			
Retained earnings	$ 511,784	$ 448,203	$ 63,581
Accumulated unrealized losses on available-for-sale securities, net of tax(1)	–	(6,973)	6,973
Common shares	226,480	221,914	4,566
Preferred shares	209,750	–	209,750
Contributed surplus	19,366	14,234	5,132
Innovative capital instrument(2)	105,000	105,000	–
Non-controlling interest in subsidiary	267	–	267
Less goodwill of subsidiaries	(9,360)	(6,933)	(2,427)
Total	1,063,287	775,445	287,842
Tier 2 Capital			
General allowance for credit losses (Tier A)(3)	61,153	60,527	626
Accumulated unrealized gains on available-for-sale securities, net of tax(1)	2,118	–	2,118
Subordinated debentures (Tier B)(4)	380,000	380,000	–
Total	443,271	440,527	2,744
Less investment in insurance subsidiary	(56,768)	(47,700)	(9,068)
Total Regulatory Capital	$ 1,449,790	$ 1,168,272	$ 281,518
Regulatory Capital to Risk-Weighted Assets			
Tier 1 capital	11.3%	8.9%	2.4%
Tier 2 capital	4.7	5.1	(0.4)
Less investment in insurance subsidiary	(0.6)	(0.5)	(0.1)
Total Regulatory Capital Adequacy Ratio	15.4%	13.5%	1.9%
Assets to Regulatory Capital Multiple(5)	8.1	9.2	(1.1)

(1) Accumulated other comprehensive income related to unrealized losses on certain available-for-sale equity securities, net of tax, reduces Tier 1 capital, while unrealized gains on certain available-for-sale equity securities, net of tax, increases Tier 2 capital.

(2) Innovative capital may be included in Tier 1 capital to a maximum of 15% of net Tier 1 capital. Any excess innovative capital outstanding is included in Tier 2B capital.

(3) Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. At October 31, 2009, the Bank's general allowance represented 0.65% (2008 – 0.70%) of risk-weighted assets.

(4) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital. Any excess Tier 2B capital is included in capital as net Tier 1 capital increases. At October 31, 2009 and October 31, 2008 all subordinated debentures are included in Tier 2B capital.

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

TABLE 21 – RISK-WEIGHTED ASSETS

($ thousands)

	Cash, Securities and Resale Agreements	Loans	Other Items	2009 Total	2009 Risk-Weighted Assets
Corporate	$ 180,925	$ 7,039,728	$ –	$ 7,220,653	$ 7,162,496
Sovereign	1,093,957	2,393	–	1,096,350	6,173
Bank	786,253	40,777	–	827,030	233,650
Retail residential mortgages	–	1,298,949	–	1,298,949	455,382
Other retail					
Excluding small business entities	–	165,210	–	165,210	122,402
Small business entities	–	774,501	–	774,501	596,198
Equity	10,169	–	–	10,169	10,169
Undrawn commitments	–	165,613	–	165,613	163,044
Operational risk	–	–	40,755	40,755	509,443
Other	–	43,484	179,505	222,989	136,722
As at October 31, 2009	**$ 2,071,304**	**$ 9,530,655**	**$ 220,260**	**$ 11,822,219**	**$ 9,395,679**
As at October 31, 2008	$ 1,689,497	$ 8,841,784	$ 194,694	$ 10,725,975	$ 8,679,176

TABLE 22 – RISK-WEIGHTED CATEGORY

($ thousands)

	0%	20%	35%	50%	75%	100%	150% and greater	2009 Balance	2009 Risk-Weighted
Corporate	$ 35,147	$ 17,009	$ –	$ 104,703	$ –	$6,977,898	$ 85,896	$ 7,220,653	$7,162,496
Sovereign	1,065,486	30,864	–	–	–	–	–	1,096,350	6,173
Bank	1,962	693,966	–	72,501	–	58,601	–	827,030	233,650
Retail residential mortgages	264,273	–	812,211	–	205,429	17,036	–	1,298,949	455,382
Other retail									
Excluding small business entities	1,287	2,405	–	–	160,474	–	1,044	165,210	122,402
Small business entities	2,205	3,127	–	–	719,270	37,456	12,443	774,501	596,198
Equity	–	–	–	–	–	10,169	–	10,169	10,169
Undrawn commitments	–	–	–	–	10,280	155,333	–	165,613	163,044
Operational risk	–	–	–	–	–	–	40,755	40,755	509,443
Other	72,531	15,123	–	–	6,464	128,871	–	222,989	136,722
As at October 31, 2009	**$1,442,891**	**$ 762,494**	**$ 812,211**	**$ 177,204**	**$1,101,917**	**$7,385,364**	**$ 140,138**	**$ 11,822,219**	**$9,395,679**
As at October 31, 2008	$ 948,334	$ 824,162	$ 830,118	$ 148,312	$1,009,422	$6,895,662	$ 69,965	$ 10,725,975	$8,679,176

At October 31, 2009, the total capital adequacy ratio was 15.4% (2008 – 13.5%), of which 11.3% (2008 – 8.9%) was Tier 1 capital. Total regulatory capital increased $281.5 million over 2008, primarily from the combination of:

- the issue of 8,390,000 preferred units for gross proceeds of $209.8 million;
- earnings, net of dividends, of $68.2 million;
- a net change related to accumulated unrealized gains/(losses) on available-for-sale securities of $9.1 million;
- an increase in the general allowance for credit losses of $0.7 million; partially offset by
- an increase of $2.4 million in the deduction for goodwill of subsidiaries; and
- an increase of $9.1 million in the investment in insurance subsidiary.

On November 20, 2009, subsequent to year end, the Bank redeemed $60.0 million of subordinated debentures.

Outlook for Capital Management

CWB expects to remain very well capitalized with both the Tier 1 and total capital ratios staying well above the regulatory minimums of 7% and 10% respectively. The ongoing retention of earnings should support capital requirements associated with the anticipated achievement of the 2010 minimum performance targets. Assuming a normal operating environment, the Bank's very strong capital ratios are currently above management's targeted thresholds and provide considerable flexibility to pursue strategic growth opportunities. Management continues to evaluate alternatives to deploy capital for the long-term benefit of CWB shareholders, which includes the potential for strategic acquisitions. OSFI has indicated to the Canadian financial institution industry that amendments will be forthcoming to the capital adequacy guidelines as a result of a global review of the adequacy of capital levels during the global financial crisis. It is unknown what the impact to Canadian banks will be, however, the industry in Canada is already very well capitalized.

Financial Instruments and Other Instruments

As a financial institution, most of CWB's balance sheet is comprised of financial instruments and the majority of net income results from gains, losses, income and expenses related to the same.

Financial instrument assets include cash resources, securities, securities purchased under resale agreements, loans and derivative financial instruments. Financial instrument liabilities include deposits, securities purchased under reverse resale agreements, derivative financial instruments and subordinated debentures.

The use of financial instruments exposes the Bank to credit, liquidity and market risk. A discussion of how these and other risks are managed can be found in the Risk Management section on pages 59 to 65 of this MD&A.

Further information on how the fair value of financial instruments is determined is included in the Financial Instruments Measured at Fair Value discussion in the Critical Accounting Estimates section of this MD&A on page 55.

Income and expenses are classified as to source, either securities or loans for income, and deposits or borrower funds for expense. Gains on the sale of securities, net, are shown separately in other income.

Derivative Financial Instruments

More detailed information on the nature of derivative financial instruments is shown in Note 11 to CWB's consolidated financial statements. The notional amounts of derivative financial instruments are not reflected on the consolidated balance sheets.

TABLE 23 – DERIVATIVE FINANCIAL INSTRUMENTS

($ thousands)

	2009	2008
Notional Amounts		
Interest rate contracts(1)	$ 235,000	$ 593,000
Equity contracts(2)	2,000	4,400
Foreign exchange contracts(3)	2,496	2,600
Total	$ 239,496	$ 600,000

(1) Interest rate contracts are used as hedging devices to manage interest rate risk. The outstanding contracts mature between November 2009 and June 2010. The total gross positive replacement cost of interest rate contracts was $2,265 (2008 – $9,827). This market value represents an unrealized gain, or the approximate payment the Bank would receive if these contracts were unwound and settled.

(2) 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 outstanding contracts mature between March 2010 and March 2011. The total gross positive replacement cost was $nil (2008 – $nil).

(3) 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, 2009, there were $2,233 U.S. (2008 – $2,424 U.S.) of forward foreign exchange contracts outstanding that mature between November 2009 and April 2010.

The active use of interest rate contracts continues to be an integral component in managing the Bank's short-term gap position. Derivative financial instruments are entered into only for the Bank's own account and CWB 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, including an assessment of the credit worthiness of the counterparty. Policies regarding the use of derivative 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. Given that interest rates appeared to have reached the bottom of the cycle during 2009, certain interest rate contracts were unwound to maximize returns when rates begin to trend upwards.

Acquisitions

On December 1, 2008 CWB finalized a transaction to acquire for cash, 72.5% ownership of Adroit Investment Management Ltd. (Adroit), an Edmonton-based firm specializing in wealth management for individuals, corporations and institutional clients. Adroit's financial products and services are an excellent strategic fit with CWB's existing banking and trust operations and provided a modest positive earnings impact for fiscal 2009. The acquisition supported a key strategic objective to enhance the Bank's revenue diversification and sources of fee income. Adroit's financial results are reported on a consolidated basis under the banking and trust segment.

On December 9, 2009, the Bank signed an agreement to acquire 100% of the common shares of National Leasing Group Inc. (National Leasing) in exchange for cash and common shares of the Bank (based on a price of approximately $22.42 per CWB common share). The vendors may retain a participating interest in National Leasing for up to 25 per cent of the agreed upon enterprise value of $130 million. The enterprise value of $130 million represents a multiple of approximately 9.8 times the National Leasing's fiscal 2009 operating net income or an 84% premium over book value. The acquisition is subject to regulatory and other approvals, and is expected to close at the beginning of February 2010.

National Leasing is a privately held commercial equipment leasing company for small to mid-size transactions. National Leasing is headquartered in Winnipeg, Manitoba and has over 58,000 lease agreements with a collective book value of approximately $650 million, including securitized leases which comprise approximately one half of the portfolio. The acquisition is expected to be modestly accretive to the Bank's consolidated earnings per diluted common share in fiscal 2010. As the acquisition will be funded with the issuance of additional CWB common shares, it should initially have only moderate negative impact on the Bank's regulatory capital ratios.

Off-Balance Sheet Arrangements

In the normal course of business, CWB is involved in off-balance sheet arrangements, which are primarily guarantees.

Guarantees

Significant guarantees provided by CWB in the ordinary course of business include guarantees and standby letters of credit provided to third parties and commitments to extend credit to customers. CWB also issues business credit cards through an agreement with a third party card issuer and indemnifies the card issuer from loss if there is a default on the issuer's collection of the business credit card balances. More detailed information on guarantees is available in Note 20 to CWB's consolidated financial statements for 2009.

OPERATING SEGMENT REVIEW

CWB operates in two business segments: 1) banking and trust, and 2) insurance. Segmented information is also provided in Note 32 of the audited consolidated financial statements.

Banking and Trust

Highlights of 2009

- Realized record net income of $97.2 million, an increase of 4% ($3.5 million).
- Constrained revenue and earnings growth due to compression of net interest margin.
- Maintained satisfactory credit quality and a provision for credit losses measured as a percentage of average loans of 15 basis points, an industry best among all Canadian banks.
- Grew branch and trust generated deposits 5%, with the demand and notice component up 33%.
- Opened new full service branches in Saskatoon, Saskatchewan and Kamloops, BC.
- Acquired 72.5% ownership of Adroit Investment Management Ltd.
- Appointment of CWT as trustee for a major Canadian investment dealer.
- Opened a CWT trust services office in Toronto, Ontario.
- Received federal approval for Valiant to become a deposit-taking institution.

The operations of the banking and trust segment include business and retail banking services, including the offering of third party mutual funds through CWF, personal and corporate trust services provided through CWT and Valiant, and wealth management services offered through Adroit. With a focus on mid-market commercial banking, real estate financing, equipment financing and energy lending, CWB's proven strategy is based on building strong customer relationships and providing value-added services to businesses and individuals across Western Canada. The Bank delivers a wide variety of retail financial products and services, including personal loans and mortgages, deposit accounts, investment products and other banking services.

Customer accessibility is provided through a network of 37 client-focused branches in select locations across the four western provinces. Internet and telephone banking services are also offered. *Canadian Direct Financial*™ is an Internet-based division of the Bank that offers a high-interest savings account, chequing account and term deposits directly to customers who are not served by the branch network. CWT provides a varied range of products and services, including self-directed RRSPs and RRIFs, and corporate and group trust services to independent financial advisors, corporations and individuals. Valiant offers stock transfer and corporate trustee services to public companies and income trusts. Adroit is an Edmonton-based firm that specializes in wealth management for individuals, corporations and institutional clients.

TABLE 24 - BANKING AND TRUST HIGHLIGHTS[1]
($ thousands)

	2009	2008	Change from 2008
Net interest income (teb)	$ 230,227	$ 222,837	3%
Other income	74,013	54,338	36
Total revenues (teb)	304,240	277,175	10
Provision for credit losses	13,500	12,000	13
Non-interest expenses	147,571	125,748	17
Provision for income taxes (teb)	45,763	45,780	–
Non-controlling interest in subsidiary	232	–	nm[2]
Net Income	$ 97,174	$ 93,647	4%
Efficiency ratio (teb)	48.5%	45.4%	310bp[3]
Efficiency ratio	49.7	46.2	350
Net interest margin (teb)	2.08	2.29	(21)
Net interest margin	2.02	2.23	(21)
Average loans ($ millions)[4]	$ 9,007	$ 7,910	14%
Average assets ($ millions)[4]	11,055	9,747	13

(1) See page 25 and page 26 for a discussion of teb and non-GAAP measures.
(2) nm – not meaningful.
(3) bp – basis points.
(4) Loans and assets are disclosed on an average daily balance basis as this measure is most relevant to a financial institution and is the measure reviewed by management.

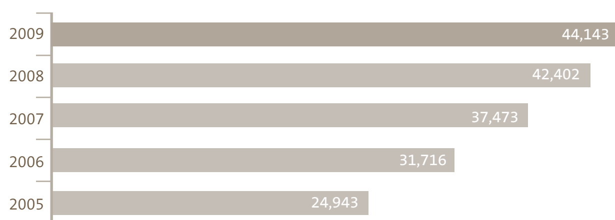
Record banking and trust net income of $97.2 million was up 4% ($3.5 million) over 2008 on 10% ($27.1 million) growth in total revenues (teb). Growth in total revenues (teb) reflects net interest income (teb) that was 3% ($7.4 million) higher compared to the prior year as the positive contribution from 7% loan growth was largely offset by the significant impact of a 21 basis point decline in net interest margin to 2.08%. The significant decrease in net interest margin was mainly the result of consecutive reductions in the prime lending interest rate and lower yields on investments held in the securities portfolio, partially offset by more favourable spreads on both new and renewal loans and an improved mix in the securities portfolio. Margin pressures were most prevalent through the first half of the fiscal year, but net interest margin maintained a positive upward trend since March when it reached its monthly low. Other income increased 36% ($19.7 million) and included $20.5 million of additional gains on sale of securities primarily resulting from transactions related to favourable pricing on certain short-term debt investments. Other income also included 16% ($2.2 million) higher trust and wealth management fee income and a combined $1.1 million improvement in foreign exchange gains and other categories, offset by 13% ($3.6 million) lower credit related fee income, consistent with decreased loan volumes. Non-interest expenses increased 17% ($21.8 million) mainly reflecting salary and benefit costs related to changes in the Bank's long-term employee incentive program, increased staff complement and annual salary increments, as well as premises and equipment expenses to facilitate business growth. Although partially offset by very strong other income, constrained growth in net interest income (teb) due to margin compression and higher non-interest expenses led to a 310 basis point deterioration in the efficiency ratio (teb) to 48.5%.

Growth in total branch and trust deposits increased 5%, while the demand and notice component of branch and trust deposits was up 33%. Growth in branch and trust generated deposits mainly reflect CWT's appointment during the year as trustee for a major Canadian investment dealer and ongoing execution of strategies to further enhance and diversify the Bank's core funding sources.

Significant infrastructure initiatives completed in 2009 included additional full-service branches in Saskatoon, Saskatchewan, and in Kamloops, BC, the opening of a CWT office in Toronto, Ontario and further upgrades and expansions to existing premises.

Combined assets under administration in CWT and Valiant grew 26% ($1,120 million) in the year to total $5,467 million at October 31, 2009. A portion of assets under administration are held in investment accounts, including self-directed RRSP and RRIF accounts, which numbered 44,143 (2008 – 42,402), an increase of 4% from one year ago. Assets under management were $878 million at October 31, 2009, compared to nil one year ago reflecting the acquisition of Adroit which was effective November 1, 2008. Assets under administration and assets under management are not reflected in the consolidated balance sheets (see Note 26 to the consolidated financial statements).

FIGURE 4 – NUMBER OF CWT INVESTMENT ACCOUNTS



Outlook for Banking and Trust

This segment will continue to be the primary driver of the Bank's earnings, and the outlook is for strong performance consistent with an improved net interest margin (teb) and a cautious outlook for the timing and strength of an economic recovery. While economic challenges are expected to persist, particularly in areas related to natural gas in Alberta, fundamentals in Western Canada are expected to be positive relative to the rest of Canada. CWB's expanding market presence, a strong commitment to relationship-based banking and reduced foreign-based competition in certain lending areas should also support a continued flow of quality lending opportunities. Management expects the Bank will return to double-digit loan growth and has established its fiscal 2010 target at 10%. The Bank will maintain its focus on disciplined credit underwriting and direct appropriate resources towards continued realization efforts and the ongoing resolution of problem accounts. While the level of gross impaired loans is expected to fluctuate up and down as the economic cycle runs its course, based on the current view of credit quality, actual losses should remain within CWB's range of acceptable levels. Gains on the sale of securities are expected to be lower in fiscal 2010, but the associated reduction in revenues should be more than offset by the positive impact from an improved net interest margin. Credit and retail services fee income is expected to increase in line with increased lending activity and an expanded branch network. CWT, including Optimum, expects continued strong results for 2010 and should make solid contributions toward consolidated earnings. Valiant's business continues to develop and improved capital markets activity will have a positive impact on its performance. Adroit is also expected to make positive contributions as the Bank further builds its presence in wealth management services. While strong fiscal responsibility will be maintained, effective execution of CWB's strategic plan will require continued spending in areas mainly correlated with enhancements to the Bank's growth platform. These areas include ongoing investment in technology and infrastructure, including plans for further expansion of the branch network. The efficiency ratio (teb) should show modest improvements compared to fiscal 2009 as expected revenue growth should more than offset the impact of higher non-interest expenses.

Insurance

Highlights of 2009

- Record net income of $9.1 million, representing a 9% increase.
- Net earned premiums reached $116.8 million, also up 9%.
- Claims loss ratio of 67% and a combined ratio of 94%.
- Growth in policies outstanding of 5% and a customer retention rate of 87%.

Canadian Direct provides auto and home insurance products in BC and Alberta and has more than 175,000 policies outstanding. Policy distribution channels include two dedicated call centres, the Internet and, for customers in BC, the option to purchase auto insurance through select broker networks. Offering enhanced electronic fulfilment of CDI's products and services is an important part of the overall business strategy, and continued development of this technology will remain a priority.

Canadian Direct's mission is to provide customers with attractively priced products and a high level of customer service – "better insurance for less money." The core strategy includes the use of sophisticated underwriting techniques to offer more competitively priced insurance to better risk customers. The "Canadian Direct Insurance" brand is marketed through several media channels, including television, radio, newspapers and over the Internet. It has established a very high level of awareness in the BC market and the level of awareness in Alberta continues to grow. All claims are administered by Canadian Direct's head office in BC using imaging technology and effective workflow management to maintain a "paperless office" environment. This has enabled CDI to maintain a low claims expense ratio without compromising customer satisfaction. CDI currently retains a high percentage of its business on renewal, a measure that helps confirm its success in providing customers with quality service at competitive prices.

TABLE 25 – INSURANCE HIGHLIGHTS[1]

($ thousands)

	2009	2008	Change from 2008
Net interest income (teb)	$ 6,127	$ 5,780	6%
Other income			
Net earned premiums	104,062	97,943	6
Commissions and processing fees	2,852	2,876	(1)
Net claims and adjustment expenses	(68,996)	(64,380)	7
Policy acquisition costs	(20,802)	(20,573)	1
	17,116	15,866	8
Gains on sale of securities	483	36	nm[2]
Total revenues (teb)	23,726	21,682	9
Non-interest expenses	10,611	9,418	13
Provision for income taxes (teb)	4,004	3,892	3
Net income	$ 9,111	$ 8,372	9%
Policies outstanding at October 31	175,662	168,071	5%
Gross written premiums	$ 116,828	$ 107,054	9
Claims loss ratio	67%	66%	100bp[3]
Expense ratio	27	27	–
Combined ratio	94	93	100
Alberta automobile insurance Risk Sharing Pools impact on net income before tax	$ (292)	$ (973)	70%
Average total assets[4]	197,845	183,892	8

(1) See page 25 and 26 for a discussion of teb and non-GAAP measures.
(2) nm – not meaningful.
(3) bp – basis points.
(4) Average total assets are disclosed on an average daily balance basis as this measure is most relevant to a financial institution and is the measure reviewed by management.

Canadian Direct reported record net income of $9.1 million, up 9% over 2008, reflecting continued policy growth and a 6% increase in net earned premiums. Net claims expense was $4.6 million higher than 2008 due largely to claims in the home product line which was impacted by severe weather and a few large fire losses. Improved profitability in the auto lines of business due to strong underwriting results more than offset the impact of increased claims in the home product line. Canadian Direct's share of the Alberta auto risk sharing Pools (the Pools) was a before tax loss of $0.3 million, which was a $0.7 million improvement from 2008. The Pools' results for 2008 included a large unfavourable adjustment to unpaid claims reserves specifically attributed to the impact of a ruling on the Minor Injury Regulation (MIR) by the Court of Queen's Bench of Alberta. That ruling struck down the cap on the amount a claimant may receive in respect of minor injuries suffered in an automobile accident. In 2009, the Alberta Court of Appeal overturned the lower court ruling on the MIR, thereby reinstating the cap. A leave to appeal this ruling has been filed with the Supreme Court of Canada. No specific adjustment to the unpaid claims reserves has been made based on the Alberta Court of Appeal's decision. Canadian Direct's claims ratio and combined ratio each rose by 1% from last year to 67% and 94%, respectively. Policies outstanding grew by 5%, while the overall policy retention rate increased 1% to 87%.

Outlook for Insurance Operations

The outlook for 2010 reflects expectations for modest growth in both policies outstanding and premiums written, while costs are controlled and kept in line with revenue growth. Canadian Direct continues to manage ongoing challenges brought about by the pricing strategies of the Insurance Corporation of British Columbia. In Alberta, ongoing challenges include the regulatory environment and income volatility added by the Pools' unpredictable results.

The 2010 claims loss ratio is expected to be within a range of 65% – 67%, which is consistent with 2009 claims experience. However, the loss ratio can be negatively impacted by seasonal storm activity, particularly in the winter months. The target for the combined ratio is 93%. Canadian Direct will continue to enhance its Internet-based technology platform, which will facilitate new growth opportunities, including the ability to sell its home product online. CDI's expanded broker distribution network for BC auto is expected to be the primary driver for growth in that line.

SUMMARY OF QUARTERLY RESULTS

Quarterly Results

The financial results for each of the last eight quarters are summarized in the following table. In general, CWB's performance reflects a consistent growth trend, although the second quarter contains three fewer revenue-earning days, or two fewer days in a leap year such as 2008.

The Bank's quarterly financial results are subject to some fluctuation due to its exposure to property and casualty insurance. Insurance operations, which are primarily reflected in other income (refer to Operating Segment Review – Insurance on page 52), are subject to seasonal weather conditions, including higher claims experience during winter driving months, cyclical patterns of the industry and natural catastrophes. Mandatory participation in the Alberta auto risk sharing pools can also result in unpredictable quarterly fluctuations.

Quarterly results can also fluctuate due to the recognition of periodic income tax items. Net income in the first quarter of 2008 included $1.0 million ($0.01 per diluted share) of tax expense resulting from the write-down of future tax assets to reflect lower future federal corporate income tax rates.

During the fourth quarter of 2008 and throughout fiscal 2009 the Bank's quarterly net interest income was negatively impacted by compression of the net interest margin mainly resulting from consecutive reductions in the prime lending interest rate coupled with significantly higher deposit costs and other spin-off effects of the global financial crisis. Gains on sale of securities, which are reflected in other income, were unusually high in fiscal 2009 also mainly due to factors associated with the financial crisis, including wide credit spreads and a steeper interest rate curve that allowed the Bank to capitalize on investment strategies.

Comprehensive management's discussion and analysis along with unaudited interim consolidated financial statements for each quarter, including the fourth quarter of fiscal 2009, are available for review on SEDAR at www.sedar.com and on the Bank's website at www.cwbankgroup.com. Copies of the quarterly reports to shareholders can also be obtained, free of charge, by contacting the Bank's Investor Relations department via email at InvestorRelations@cwbank.com.

TABLE 26 – QUARTERLY FINANCIAL HIGHLIGHTS[1]

($ thousands, except per share amounts)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (teb)	$ 68,012	$ 60,934	$ 52,812	$ 54,596	$ 58,622	$ 57,290	$ 55,659	$ 57,046
Less teb adjustment	2,397	2,189	1,675	1,586	1,540	1,442	1,352	1,337
Net interest income per financial statements	65,615	58,745	51,137	53,010	57,082	55,848	54,307	55,709
Other income	22,087	24,604	22,570	22,351	15,437	19,085	18,095	17,623
Total revenues (teb)	90,099	85,538	75,382	76,947	74,059	76,375	73,754	74,669
Total revenues	87,702	83,349	73,707	75,361	72,519	74,933	72,402	73,332
Net income	30,357	28,729	21,580	25,619	24,485	26,327	25,302	25,905
Earnings per common share								
Basic	$ 0.42	$ 0.39	$ 0.30	$ 0.40	$ 0.39	$ 0.42	$ 0.40	$ 0.41
Diluted	0.39	0.38	0.30	0.40	0.38	0.41	0.39	0.40
Return on common shareholders' equity (ROE)	13.7%	13.4%	11.0%	14.7%	14.4%	16.0%	16.1%	16.9%
Return on average total assets (ROA)	0.91	0.87	0.70	0.93	0.96	1.03	1.04	1.07
Efficiency ratio (teb)	46.1	47.0	53.1	47.3	47.7	45.2	45.4	42.6
Efficiency ratio	47.4	48.2	54.3	48.3	48.8	46.1	46.2	43.4
Net interest margin (teb)	2.34	2.13	1.93	1.99	2.30	2.25	2.28	2.36
Net interest margin	2.25	2.05	1.87	1.93	2.24	2.19	2.22	2.30
Provision for credit losses as a percentage of average loans	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15

(1) See page 25 and page 26 for a discussion of teb and non-GAAP measures.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Estimates

CWB's significant accounting policies are outlined in Note 1 and with related financial note disclosures by major caption in the consolidated financial statements. The policies discussed below are considered particularly important, as they require management to make significant estimates or judgments, some of which may relate to matters that are inherently uncertain.

Allowance for Credit Losses
An allowance for credit losses is maintained to absorb probable credit related losses in the loan portfolio. This allowance reflects management's estimate of probable losses in the loan portfolio at the balance sheet date. In assessing existing credit losses, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These matters include economic factors, developments affecting particular industries and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be significantly different than current assessments and may require an increase or decrease in the allowance for credit losses. Establishing a range for the allowance for credit losses is difficult due to the number of uncertainties involved. The general allowance for credit losses is intended to address this uncertainty. At October 31, 2009, the Bank's total allowance for credit losses was $75.5 million (2008 – $75.5 million), which included a specific allowance of $14.3 million (2008 – $15.0 million) and a general allowance of $61.2 million (2008 – $60.5 million). Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of credit quality on page 37 of this MD&A and Note 7 to the consolidated financial statements. This critical accounting estimate relates to CWB's banking and trust segment.

Provision for Unpaid Claims and Adjustment Expenses
A provision for unpaid claims is maintained, with the provision representing the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. A provision for adjustment expenses is also maintained, which represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions. The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. Changes in circumstances may cause future assessments of unpaid claims and adjustment expenses to be significantly different than current assessments and may require an increase or decrease in the provision. In estimating the provision for unpaid claims and adjustment expenses, a number of uncertainties are taken into account and assumptions made, which makes it difficult to estimate a range for the provision. Further, as noted above, the provision includes a margin for adverse deviations in assumptions. At October 31, 2009, the provision for unpaid claims and adjustment expenses totaled $81.0 million (2008 – $76.2 million). Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Note 21 to the consolidated financial statements. This critical estimate relates to CWB's insurance segment, Canadian Direct.

Financial Instruments Measured at Fair Value
Cash resources, securities, securities purchased under resale agreements and sold under reverse resale agreements, and derivative financial instruments are reported on the consolidated balance sheets at fair value.

The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial instruments measured at fair value that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. For derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The following table summarizes the significant financial assets and liabilities reported at fair value at October 31, 2009.

TABLE 27 – VALUATION OF FINANCIAL INSTRUMENTS
($ thousands)

		Valuation Technique	
	Fair Value	Quoted Market Prices	Model with Observable Market Data
Financial assets			
Cash resources	$ 297,104	$ 297,104	$ –
Securities	1,891,409	1,884,918	6,491
Derivative related	2,334	–	2,334
October 31, 2009	$ 2,190,847	$ 2,182,022	$ 8,825
October 31, 2008	$ 1,808,117	$ 1,665,237	$ 142,880
Financial Liabilities			
Securities purchased under reverse resale agreements	$ 300,242	$ –	$ 300,242
Derivative related	74	–	74
October 31, 2009	$ 300,316	$ –	$ 300,316
October 31, 2008	$ 163	$ –	$ 163

Notes 3, 4, 5, 11 and 29 to the consolidated financial statements provide additional information regarding these financial instruments. This critical accounting estimate relates to both operating segments.

CWB has no direct exposure to any troubled non-bank sponsored asset-backed commercial paper, collateralized debt obligation, credit default swaps, U.S. subprime mortgages or monoline insurers.

Changes in Accounting Policies, Including Initial Adoption

Goodwill and Intangible Assets
Effective November 1, 2008, the Bank adopted the Canadian Institute of Chartered Accountants (CICA) new accounting standard, Section 3064, Goodwill and Intangible Assets. Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The new guidance did not have a material effect on the financial position or earnings of the Bank.

Credit Risk and Fair Value
Effective November 1, 2008, the Bank adopted EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Bank's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Bank.

Financial Instruments – Disclosures
Effective October 31, 2009, the Bank adopted CICA amendments to Section 3862, Financial Instruments – Disclosures. These amendments require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional disclosures over fair value measurements include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market to those fair value measurements that are based on inputs that are not based on observable market data. The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as maturity analysis for derivative financial liabilities.

Future Changes in Accounting Policies

International Financial Reporting Standards
The CICA will transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS) for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for the prior year. As a result, the Bank's consolidated financial statements will be prepared in accordance with IFRS for its 2012 fiscal year commencing November 1, 2011 and will include comparative information for its 2011 fiscal year. The objective of this transition is to improve financial reporting through the use of one single set of accounting standards that are comparable with other entities on an international basis.

The information provided below will allow investors and others to obtain a better understanding of our IFRS transition plan and the resulting possible effects on such things as the Bank's financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. The information provided reflects our most recent assumptions and expectations, and there will likely be significant changes in the standards as issued by the International Accounting Standards Board (IASB). Of the IASB's Work Plan, the Financial Instruments project may impact CWB significantly, and therefore, management will monitor the developments of this project closely.

The Bank commenced its IFRS conversion project during 2008 and established a formal project governance structure, including an IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. The Steering Committee consists of senior levels of management from Finance, Credit Risk Management and Information Services. An external advisor has been engaged to work with the Bank's project staff on certain IFRS topics. Regular reporting is provided by the project team to the Steering Committee and the Audit Committee.

IFRS Transition Plan

The Bank has established a four-phase project to identify and evaluate the impact of the transition to IFRS on the consolidated financial statements and develop a plan to complete the transition. The project plan includes the following phases:

1. Diagnostic phase – This phase involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS. As a result of these procedures, the potentially affected areas were ranked as high, medium or low priority.
2. Design and planning phase – In this phase, each area identified from the diagnostic phase was addressed through a detailed impact assessment. This phase involved specification of changes required to existing accounting policies and/or disclosures, information systems and business processes. In addition, preliminary internal communication and training occurred during this phase.
3. Solution development phase – This phase includes the execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes, development of draft IFRS financial statements, and delivery of training programs for the Finance staff and other groups, as necessary.
4. Implementation phase – The final phase will involve the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS in business processes, and Audit Committee approval of IFRS financial statements.

Progress Towards Transition Plan

The Bank completed the diagnostic phase in October 2008 and the design and planning phase in October 2009. Management's detailed impact assessment has identified a number of differences between IFRS and Canadian GAAP that impact our financial statements. Many of the differences identified are not expected to have a material impact on the reported results and financial position, and the Bank has determined that our accounting policies are largely aligned with IFRS requirements in many key areas.

The solution development phase will commence in fiscal 2010, and CWB will begin designing solutions to address the differences, focusing

initially on those differences that may require changes to the Bank's financial systems or that are more complex or time-consuming to resolve.

The following table is a summary of our progress towards completion of selected key activities of our IFRS transition plan as of October 31, 2009. At this time, the Bank cannot quantify the impact that the future adoption of IFRS will have on the Bank's financial statements and operating performance measures; however, such impact may be material. Additional information will be provided as the changeover date draws nearer.

	KEY ACTIVITY	KEY MILESTONES	STATUS
FINANCIAL STATEMENT PREPARATION	Identify applicable differences in Canadian GAAP/IFRS accounting policies and practices and design and implement solutions Select IFRS 1 choices Develop financial statement and related note disclosure format Quantify effects of transition	Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur during the third quarter of 2010 Development of draft financial statement format to occur during the latter part of 2010	Completed the Diagnostic phase and Design & Planning phase, which involved a detailed impact assessment of the differences between Canadian GAAP and IFRS In-depth analysis of accounting policy choices and solution development will occur during 2010
TRAINING	Define and introduce appropriate level of IFRS expertise for each of the following: · Finance group · CWB lenders · Audit Committee & Board of Directors	Timely training provided to align with work under transition – all training completed by mid-2011 Communicate effects of transition in time for 2012 financial planning process, by mid-2011	Participation in industry IFRS specialist groups Finance group, Audit Committee and Board of Directors formal training occurred during Q3 2009. Periodic status reports on-going Engaged a third-party subject matter expert to assist in the training of CWB lenders
INFORMATION SYSTEMS	Identify and address IFRS differences that require changes to financial systems Evaluate and select methods to address need for dual record-keeping during 2011 (i.e., IFRS and Canadian GAAP) for comparatives	Confirm that business processes and systems are IFRS compliant throughout the project Confirm that systems can address 2011 dual record-keeping processing requirements by the first quarter of 2009	Diagnostic analysis regarding current systems completed; solution development to occur in 2010 Dual record-keeping process determined during first quarter of 2009
CONTROL ENVIRONMENT	Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2011 Design and implement internal controls with respect to one-time transition adjustments and related communications	All key control and design effectiveness implications will be assessed throughout 2010 Changes completed by the first quarter of 2011	Analysis of control issues will occur concurrently during the Solution Development phase

RISK MANAGEMENT

The shaded areas of this MD&A represent a discussion of risk management policies and procedures relating to credit, market and liquidity risks as required under the CICA Handbook section 3862, Financial Instruments – Disclosures and Presentation which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented on pages 59 to 63 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2009.

Overview

Effective risk management is central to the ability to remain financially sound and profitable and includes identifying, assessing, managing and monitoring all forms of risk. CWB, like other financial institutions, is exposed to several factors that could adversely affect its business, financial condition or operating results, which may also influence an investor to buy, sell or hold CWB shares. Many of the risk factors are beyond CWB's direct control.

Senior management is responsible for establishing the framework for identifying risks and developing 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 risks and risk management policies is presented to the Board and/or Board committees for review and assessment.

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

The Asset Liability Committee (ALCO) meets monthly and provides management oversight related to the risks of banking and trust operations, other than credit risk. ALCO is a senior management committee chaired by the executive with responsibility for Treasury, with the President and Chief Executive Officer (CEO) and other senior executives as members. ALCO is responsible for:

- ensuring that risks other than credit risk are identified and assessed and that appropriate policies are in place and effective;
- 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 trust services risk; and
- overseeing compliance and strategy respecting diversification of product offerings and management of risks.

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

The Operations Committee meets regularly, is comprised of supervisory and management personnel from all areas of banking 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 banking operations.

The internal audit department performs audits in all areas of the Bank, including all subsidiaries, and reports the results directly to senior management, as well as the Bank's CEO and Audit Committee. For CDI, internal audit results are also reported directly to CDI's Audit Committee.

Credit Risk

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 CWB. 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, unless approved by the Board of Directors, to not more than 10% of the Bank's shareholders' equity and is presently set at $50 million ($60 million if the amount in excess of $50 million is cash secured or CMHC insured). Customers with larger borrowing requirements are accommodated through loan syndications with other financial institutions.

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 approval 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 those 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 (except consumer loans and single-unit residential mortgages);
- quarterly review of risk diversification by geographic area, industry sector and product measured against assigned portfolio limits;
- pricing of credits commensurate with risk to ensure an appropriate financial return;
- management of growth within quality objectives;
- early recognition of problem accounts and immediate implementation of steps to protect the safety of Bank funds;
- independent reviews of credit valuation, risk classification and credit management procedures by the internal audit group, which includes reporting the results to senior management, the CEO and the Audit Committee;
- detailed quarterly reviews of accounts rated less than satisfactory, including establishment of an action plan for each account; and
- completion of a watch list report recording accounts with evidence of weakness and an impaired loan report covering loans that show impairment to the point where a loss is possible.

Environmental Risk

The operations of the Bank do not have a material effect on the environment. However, a risk of default may occur if a borrower is unable to repay loans due to environmental cleanup costs. The Bank may become directly liable for cleanup costs when 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 maintain a quality portfolio. Efforts are directed toward 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 to individuals with operations conducted in the four western provinces. Relationship banking and "know your customer" are important tenets of account management. An appropriate financial return on the level of risk is fundamental.

Liquidity Risk

Liquidity risk relates to financial liabilities that are settled by delivering cash or another financial asset. 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 while limiting the opportunity cost of holding short-term assets. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Liquidity policies include:

- measurement and forecast of cash flows;
- maintenance of a pool of high quality liquid assets;
- a stable base of core deposits from retail and commercial customers;
- limits on single deposits and sources of deposits;
- monitoring of wholesale demand and term deposits;
- scenario testing in the operating, micro, and macro environments;
- diversification of funding sources; and
- an approved contingency plan.

Key features of liquidity management are:

- daily monitoring of expected cash inflows and outflows;
- tracking and forecasting the liquidity position, including the flows from off-balance sheet items, on a forward four-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 regulatory guidelines.

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. CWB itself does not undertake trading activities and, therefore, does not have risks related to such activities as market making, arbitrage or proprietary trading. CWB's material market risks are confined to interest rates and foreign exchange as discussed below.

Interest Rate Risk

Interest rate risk, or sensitivity, is 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 primarily 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. Generally, a positive gap will result in an increase in net interest income when market interest rates rise since assets reprice earlier than liabilities. The opposite impact will generally occur when market interest rates fall. However, the directness of the correlation may be disrupted when interest rates approach zero.

CWB's earnings are affected by the monetary policies of the Bank of Canada. Monetary policy decisions have an impact on the level of interest rates, which can have an impact on earnings.

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, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured at least monthly. Note 28 to the consolidated financial statements shows the gap position at October 31, 2009 for select time intervals.

The gap analysis in Note 28 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 decreased to 1.8% from 2.1% at October 31, 2008, while the one-month and under gap decreased to 4.1% from 9.5% a year earlier. To the extent possible within the Bank's acceptable parameters for risk, the asset/liability position will continue to be managed such that changing interest rates would generally be neutral to net interest income.

> Interest-sensitive assets matched against interest-sensitive liabilities are managed on a relatively risk neutral duration basis. Non-interest rate sensitive assets, liabilities and shareholders' equity are managed at a target duration of between two and three years.

Of the $3,274 million in fixed term deposit liabilities maturing within one year from October 31, 2009, approximately $2,404 million (25% of total deposit liabilities) mature by April 30, 2010. The term in which maturing deposits are retained will have an impact on the future asset liability structure and, hence, interest rate sensitivity. Approximately $212 million of the fixed term deposit liabilities maturing within one month are deposits redeemable without penalty at any time.

The estimated sensitivity of net interest income to a change in interest rates is presented in Table 28. 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. The estimates are based on a number of assumptions and factors, which include:

- a constant structure in the interest sensitive asset liability portfolio;
- floor levels for various deposit liabilities;
- prime rate decreases limited to 0.25% at October 31, 2009 due to the historic low levels of interest rates;
- interest rate changes affecting interest sensitive assets and liabilities by proportionally the same amount and applied at the appropriate repricing dates; and
- no early redemptions.

At October 31, 2009, a 1% increase in interest rates would decrease net interest income by 2.5% over the following 12 months; this compares to October 31, 2008 when a 1% increase in interest rates would have increased net interest income by 4.8% over the following 12 months. During 2009, to better manage interest rate sensitivity against falling interest rates, many prime related loans were negotiated with a floor rate and a corresponding minimum interest rate level. Should prime rate decrease, the rate on these loans would remain fixed, however when prime rates increase, the rates on these loans only begin to increase once the floor rate is passed. Hence, when modelling the effects of a 1% increase in interest rates at October 31, 2009, not all loans would increase by the full 1%, whereas it is assumed that all liabilities increase by the full amount. The result is a decrease in net income when interest rates rise by 1%, however, this effect is diminished on further increases in interest rates. Notwithstanding the movement of interest rates, net interest margin is expected to improve in fiscal 2010 due to the re-pricing of high cost fixed term deposits raised in prior periods. When modelling a 1% decrease in rates, the rates on the above negotiated prime rate loans do not decrease, whereas the balance of prime related loans decrease only by 0.25%. Many liabilities, though, decrease by the full 1% causing net interest income to rise on a decrease in rates. At October 31, 2009, a 1% decrease in interest rates would increase net interest income by 3.8% over the following 12 months; this compares to October 31, 2008 when a 1% decrease in interest rates would have decreased net interest income by 4.8% over the following 12 months.

TABLE 28 – ESTIMATED SENSITIVITY OF NET INTEREST INCOME AS A RESULT OF A ONE PERCENTAGE POINT CHANGE IN INTEREST RATES

($ thousands)

Impact of 1% increase in interest rates

Period	2009	2008
90 days	$ (1,394)	$ 3,180
1 year	(6,574)	10,324
1 year percentage change	(2.5)%	4.8%

Impact of 1% decrease in interest rates

Period	2009	2008
90 days	$ 2,394	$ (3,188)
1 year	10,241	(10,356)
1 year percentage change	3.8%	(4.8)%

Based on the current interest rate gap position, it is estimated that a 1% increase in all interest rates would decrease annual other comprehensive income by $21.4 million, net of tax (2008 – $20.0 million). A one-percentage point decrease in all interest rates would increase other comprehensive income by a similar amount.

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 Derivative Financial Instruments on page 49). 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 subordinated debentures and the deposit from CWB Capital Trust, were not material. The subordinated debentures, which are typically redeemed (subject to OSFI approval) after five years, and the deposit from CWB Capital Trust are discussed in Notes 14 and 17 to the consolidated financial statements.

Foreign Exchange Risk

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in a foreign currency. In providing financial services to its customers, the Bank has assets and liabilities denominated in U.S. dollars. At October 31, 2009, assets denominated in U.S. dollars were 1.4% (2008 – 1.2%) of total assets and U.S. dollar liabilities were 1.4% (2008 – 1.3%) of total 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.

Policies have been established that include limits on the maximum allowable differences between U.S. dollar assets and liabilities. The difference is measured daily and managed by use of U.S. dollar forward 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.

Insurance Risk

The Bank is exposed to insurance risk through its wholly owned subsidiary, CDI, which offers home and auto insurance to consumers in BC and Alberta. Accordingly, CDI's operations are subject to the elements of risk associated with these lines of business, which can cause fluctuations and uncertainties in earnings. These elements include cyclical patterns in the industry and unpredictable developments, including weather-related and other natural catastrophes. CDI carries reinsurance coverage as part of its strategy to manage these risks. The industry is also impacted by political, regulatory, legal and economic influences. The insurance business involves various types of insurance related risk; in particular, underwriting risk, pricing risk, claims risk, reinsurance risk and regulatory risk. Policies and procedures have been established to manage insurance related risk, as well as other categories of risk to which CDI is exposed. CDI's Board of Directors, either directly or through a Board committee, is responsible for reviewing and approving key policies and implementing reporting requirements to monitor compliance over significant areas.

Underwriting risk is the risk of financial loss due to inappropriate selection of customers and is reduced through controls built into CDI's rating and underwriting system. These controls include eligibility audits and a review by senior staff of exceptions. Pricing risk is the risk that products may be inappropriately priced due to actual experience not matching the assumptions made at the time pricing is determined. This is mitigated by regular underwriting reviews of product rate adequacy. Regulatory intervention may also impact rate adequacy.

Claims risk includes the risk of financial loss due to adverse deviation in the amount, frequency or timing of claims. Policies and procedures are in place to ensure that trained staff handle claims. However, the process for establishing the provision for unpaid claims may reflect significant judgment and uncertainty, especially with respect to liability claims. Factors such as inflation, claims settlement patterns, legislative activity and litigation trends may impact the actual claims amount as the claims are adjusted over time.

The risk that CDI might be exposed to large claims or to an accumulation of claims resulting from a natural catastrophe, such as a weather-related or seismic event, is mitigated by reinsurance treaties that protect CDI from such risks. Reinsurance risk includes the risk that reinsurance counterparties are not financially strong and that underwriting strategies are inappropriately matched with reinsurance programs. CDI's reinsurance is only purchased from reinsurers meeting a certain minimum security rating and these ratings are monitored on a regular basis. CDI's reinsurance treaties are matched to underwriting strategies through participation of senior underwriting staff in the process. CDI is dependent on the availability and pricing of its external reinsurance arrangements and this availability and global markets may impact pricing. If CDI is unable to renew such arrangements at favourable rates and to adequate limits, then CDI may need to modify its underwriting practices or commitments.

In addition, as the insurance business is heavily regulated, CDI is exposed to regulatory risk. This is evidenced by the provincial government mandated reforms to auto insurance in Alberta. This risk is managed mainly by monitoring current developments and by actively participating in relevant bodies and associations in order to contribute CDI's perspective.

Operational Risk

Operational risk is inherent in all business activities, including banking, trust, wealth management and insurance operations. It is the potential for loss as a result of external events, human error or inadequacy, or failure of processes, procedures or controls. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory penalties. CWB is exposed to operational risk from internal business activities, external threats and activities that are outsourced. While operational risk cannot be completely eliminated, proactive operational management is a key strategy to mitigate this risk. The financial measure of operational risk is actual losses incurred. No material losses occurred in 2009 or 2008.

The Basel II framework includes capital requirements related to operational risk in the banking and trust operating segment. Under Basel II, CWB uses the Standardized approach for operational risk. CWB continues to evolve and enhance our approach to operational risk management.

Strategies to minimize and manage operational risk include:

Management:

- a knowledgeable and experienced management team that is committed to sound management and promotes an ethical culture;
- clear communication of "Tone at the Top", which supports effective risk management reporting;
- a flat organization structure with management close to their operations, which facilitates effective internal communication;
- communication of the importance of effective risk management to all levels of staff through training and policy implementation; and
- a management team that is well versed on the Bank's operational risk tolerance and appetite.

Framework and supporting policies:

- a group-wide Operational Risk Framework that encompasses a common language of risk coupled with enterprise-wide programs and methodologies for identification, measurement, control and management of operational risk;
- implementation of policies and procedural controls appropriate to address identified risks and which include segregation of duties and built-in checks and balances;
- the adoption of the COSO for Smaller Business framework for internal control assessment;
- regular meetings of ALCO, CDI's Operational Risk Committee and the risk committees of CWT and Valiant;
- regular meetings of the Operations Committee, a management committee made up of supervisory and management personnel from all banking 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 banking operations;
- established "whistleblower" process and an employee code of conduct;
- operational risk assessments conducted by business managers closest to the identified risks;
- regular internal audits for compliance and the effectiveness of procedural controls by a strong, independent internal audit team;
- centralized reporting of operating losses for risk assessment to senior management and the Board;
- maintenance of a group-wide outsourcing risk management program;
- use of technology via automated systems with built-in controls;
- an effective change management process supported by a Project Steering Committee;
- continual review and upgrade of systems and procedures; and
- updated and tested procedures and contingency plans for disaster recovery, business continuity, including pandemic planning.

In addition, the external auditors provide management and the Audit Committee with any recommendations for improvements to internal controls or procedures identified during their annual examination of the consolidated financial statements. CWB also maintains appropriate insurance coverage through a financial institution bond policy.

General Business and Economic Conditions

CWB primarily operates in Western Canada. As a result, its earnings are impacted by the general business and economic conditions of the four western provinces. The conditions include short-term and long-term interest rates, resource commodity prices, inflation, exchange rates, consumer, business and government spending, fluctuations in debt and capital markets, as well as the strength of the economies in which CWB and its customers operate.

Level of Competition

CWB's performance is impacted by the level of competition in the markets in which it operates. Each of CWB's businesses operates in highly competitive markets. Customer retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and actions taken by competitors.

Regulatory and Legal Risk

The businesses operated by CWB and its subsidiaries are highly regulated through laws and regulations that have been put in place by various federal and provincial governments and regulators. Changes to laws and regulations, including changes in their interpretation or implementation, could adversely affect CWB. CWB's failure to comply with applicable laws, regulations, industry codes or regulatory expectations could result in sanctions, financial penalties and costs associated with litigation that could adversely impact its earnings and damage its reputation. Although it is not possible to completely eliminate regulatory and legal risk, CWB takes what it believes to be reasonable and prudent measures designed to ensure compliance with governing laws and regulations, including its legislative compliance framework.

Accuracy and Completeness of Information on Customers and Counterparties

CWB depends on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions with customers and counterparties, CWB may rely on information furnished by them, including financial statements, appraisals and other financial information. CWB may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on the reports of auditors. CWB's financial condition and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP, that

are materially misleading, or that do not fairly present, in all material respects, the financial condition and results of operations of the customers and counterparties.

Ability to Attract and Retain Key Personnel

CWB's future performance depends to a large extent on its ability to attract and retain key employees. There is strong competition for the best people in the western Canadian markets as well as in the financial services sector. Although human resources risk is actively managed, there is no assurance that CWB will be able to continue to attract and retain key personnel.

Ability to Execute Growth Initiatives

As part of its long-term corporate strategy, CWB intends to continue growing its business through a combination of organic growth and strategic acquisitions. The ability to successfully grow its business will be dependent on a number of factors, including identification of accretive new business or acquisition opportunities, negotiation of purchase agreements on satisfactory terms and prices, approval of acquisitions by regulatory authorities, securing satisfactory regulatory capital and financing arrangements and integration of newly acquired operations into the existing business. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity and divert management's attention away from established or ongoing business activities. Any failure to manage acquisition strategies successfully could have a material adverse impact on CWB's business, financial condition and results of operations.

Information Systems and Technology

CWB and its subsidiaries' businesses are highly dependent upon information technology systems. Third parties provide key components of infrastructure, such as Internet connections and access to external networks. Disruptions in the Bank's information technology systems, whether through internal or external factors, as well as disruptions in Internet, network access or other voice or data communication services provided by these third parties could adversely affect CWB's ability to deliver products and services to customers and otherwise conduct business.

Reputation Risk

Reputation risk is the risk to earnings and capital from negative public opinion. Negative public opinion can result from actual or alleged conduct in any number of activities, but often involves questions about business ethics and integrity, competence, corporate governance practices, quality and accuracy of financial reporting disclosures, or quality of products and service. Negative public opinion could adversely affect the ability to keep and attract customers and could expose CWB to litigation or regulatory action.

Other Factors

CWB cautions that the above discussion of risk factors is not exhaustive. Other factors beyond CWB's control that may affect future results include changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits, timely development and introduction of new products, and the anticipation of and success in managing the associated risks.

UPDATED SHARE INFORMATION

As at November 30, 2009, there were 63,908,660 common shares outstanding and employee stock options, which are or will be exercisable for up to 4,386,555 common shares for maximum proceeds of $81.9 million. Also outstanding were 14,961,156 warrants that are each exercisable at a price of $14.00 to purchase one common share in the Bank until March 3, 2014.

On December 2, 2009, the Board of Directors declared a quarterly cash dividend of $0.11 per common share payable on January 8, 2010 to shareholders of record on December 24, 2009. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share payable on January 31, 2010 to shareholders of record on January 21, 2010.

CONTROLS AND PROCEDURES

As of October 31, 2009, an evaluation was carried out of the effectiveness of the Bank's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also at October 31, 2009, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that the design and operating effectiveness of internal controls over financial reporting were effective.

These evaluations were conducted in accordance with the standards of COSO (Committee of Sponsoring Organizations of the Treadway Commission) for Smaller Business, a recognized control model, and the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators. A Disclosure Committee, comprised of members of senior management, assists the Chief Executive Officer and Chief Financial Officer in their responsibilities. Management's evaluation of controls can only provide reasonable, not absolute assurance that all control issues that may result in material misstatement, if any, have been detected.

There were no changes in the Bank's internal controls over financial reporting that occurred during the year ended October 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

This Management's Discussion and Analysis is dated December 3, 2009, except as to the agreement to acquire National Leasing presented on page 50 of this MD&A, which is as of December 9, 2009.

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Canadian Western Bank and related financial information presented in this annual report have been prepared by management, who are responsible for the integrity and fair presentation of the information presented, which includes the consolidated financial statements, Management's Discussion and Analysis (MD&A) and other information. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the requirements of the Bank Act and related rules and regulations issued by the Office of the Superintendent of Financial Institutions Canada. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators (CSA).

The consolidated financial statements, MD&A and related financial information reflect amounts which must, of necessity, be based on informed estimates and judgments of management with appropriate consideration to materiality. The financial information presented elsewhere in this annual report is fairly presented and consistent with that in the consolidated financial statements.

Management has designed the accounting system and related internal controls, and supporting procedures are maintained to provide reasonable assurance that financial records are complete and accurate, assets are safeguarded and 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.

We, as the Bank's Chief Executive Officer and Chief Financial Officer, will certify Canadian Western Bank's annual filings with the CSA as required by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings).

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

The Audit Committee, appointed by the Board of Directors, is comprised entirely of independent directors who are not officers or employees of the Bank. The Committee is responsible for reviewing the financial statements and annual report, including management's discussion and analysis of operations and financial condition, and recommending them to the Board of Directors for approval. Other key responsibilities of the Audit Committee include meeting with management, the Chief Internal Auditor and the external auditors to discuss the effectiveness of certain internal controls over the financial reporting process and the planning and results of the external audit. The Committee also meets regularly with the Chief Internal Auditor and the external auditors without management present.

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 Office of the Superintendent of Financial Institutions Canada, at least once a year, makes such examination and inquiry into the affairs of the Bank and its federally regulated subsidiaries as is deemed necessary or expedient to satisfy that the provisions of the relevant Acts, having reference to the safety of the depositors and policyholders, are being duly observed and that the Bank is in a sound financial condition.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, have performed an audit of the consolidated financial statements and their report follows. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.

Larry M. Pollock
President and Chief Executive Officer

Tracey C. Ball, FCA
Executive Vice President and Chief Financial Officer

November 25, 2009, except as to Note 35, which is as of December 9, 2009

Auditors' Report

TO THE SHAREHOLDERS OF CANADIAN WESTERN BANK

We have audited the Consolidated Balance Sheets of Canadian Western Bank as at October 31, 2009 and 2008 and the Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flow for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian 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, 2009 and 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Edmonton, Alberta

November 25, 2009 except as to Note 35,
which is as of December 9, 2009

CONSOLIDATED BALANCE SHEETS

AS AT OCTOBER 31

($ thousands)

		2009	2008
Assets			
Cash Resources			
Cash and non-interest bearing deposits with financial institutions		$ 17,447	$ 8,988
Deposits with regulated financial institutions	(Note 3)	266,980	464,193
Cheques and other items in transit		12,677	18,992
		297,104	492,173
Securities	(Note 4)		
Issued or guaranteed by Canada		854,457	347,777
Issued or guaranteed by a province or municipality		253,143	452,045
Other securities		783,809	429,142
		1,891,409	1,228,964
Securities Purchased Under Resale Agreements	(Note 5)	–	77,000
Loans	(Note 6)		
Residential mortgages		2,282,475	2,134,327
Other loans		7,029,177	6,565,280
		9,311,652	8,699,607
Allowance for credit losses	(Note 7)	(75,459)	(75,538)
		9,236,193	8,624,069
Other			
Land, buildings and equipment	(Note 8)	39,252	31,893
Goodwill	(Note 9)	9,360	6,933
Intangible assets	(Note 9)	6,465	2,155
Insurance related	(Note 10)	55,932	52,943
Derivative related	(Note 11)	2,334	9,980
Other assets	(Note 12)	97,823	74,622
		211,166	178,526
Total Assets		$ 11,635,872	$ 10,600,732
Liabilities and Shareholders' Equity			
Deposits	(Note 13)		
Payable on demand		$ 359,176	$ 383,083
Payable after notice		2,778,601	2,010,039
Payable on a fixed date		6,374,461	6,747,597
Deposit from Canadian Western Bank Capital Trust	(Note 14)	105,000	105,000
		9,617,238	9,245,719
Other			
Cheques and other items in transit		41,964	29,036
Insurance related	(Note 15)	145,509	134,769
Derivative related	(Note 11)	74	163
Securities purchased under reverse resale agreements	(Note 5)	300,242	–
Other liabilities	(Note 16)	169,346	136,897
		657,135	300,865
Subordinated Debentures			
Conventional	(Note 17)	375,000	375,000
Shareholders' Equity			
Preferred shares	(Note 18)	209,750	–
Common shares	(Note 18)	226,480	221,914
Contributed surplus		19,366	14,234
Retained earnings		511,784	448,203
Accumulated other comprehensive income (loss)		19,119	(5,203)
		986,499	679,148
Total Liabilities and Shareholders' Equity		$ 11,635,872	$ 10,600,732
Contingent Liabilities and Commitments	(Note 20)		

Jack C. Donald
Chairman

Larry M. Pollock
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED OCTOBER 31

($ thousands, except per share amounts)

		2009	2008
Interest Income			
Loans		$ 455,413	$ 491,991
Securities		44,209	52,929
Deposits with regulated financial institutions		12,803	17,847
		512,425	562,767
Interest Expense			
Deposits		263,017	317,554
Subordinated debentures		20,901	22,267
		283,918	339,821
Net Interest Income		228,507	222,946
Provision for Credit Losses	(Note 7)	13,500	12,000
Net Interest Income after Provision for Credit Losses		215,007	210,946
Other Income			
Credit related		23,369	26,998
Insurance, net	(Note 21)	17,116	15,866
Trust and wealth management services		15,478	13,299
Retail services		7,403	7,689
Gains on sale of securities		25,225	4,725
Foreign exchange gains		2,745	1,225
Other		276	438
		91,612	70,240
Net Interest and Other Income		306,619	281,186
Non-Interest Expenses			
Salaries and employee benefits		104,105	87,660
Premises and equipment		26,030	22,360
Other expenses		26,115	23,145
Provincial capital taxes		1,932	2,001
		158,182	135,166
Net Income before Income Taxes and Non-Controlling Interest in Subsidiary		148,437	146,020
Income Taxes	(Note 24)	41,920	44,001
		106,517	102,019
Non-Controlling Interest in Subsidiary		232	–
Net Income		$ 106,285	$ 102,019
Preferred Share Dividends		10,062	–
Net Income Available to Common Shareholders		$ 96,223	$ 102,019
Average number of common shares (in thousands)		63,613	63,214
Average number of diluted common shares (in thousands)		65,335	64,441
Earnings Per Common Share	(Note 25)		
Basic		$ 1.51	$ 1.61
Diluted		1.47	1.58

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31
($ thousands)

		2009	2008
Retained Earnings			
Balance at beginning of year		$ 448,203	$ 372,739
Net income		106,285	102,019
Dividends – Preferred shares		(10,061)	–
– Common shares		(27,992)	(26,555)
Issuance costs on preferred units		(4,651)	–
Balance at end of year		511,784	448,203
Accumulated Other Comprehensive Income (Loss)			
Balance at beginning of year		(5,203)	(5,931)
Other comprehensive income		24,322	728
Balance at end of year		19,119	(5,203)
Total retained earnings and accumulated other comprehensive income (loss)		530,903	443,000
Preferred Shares	(Note 18)		
Balance at beginning of year		–	–
Issued		209,750	–
Balance at end of year		209,750	–
Common Shares	(Note 18)		
Balance at beginning of year		221,914	219,004
Issued on exercise of options		2,200	1,646
Transferred from contributed surplus on the exercise or exchange of options		1,613	1,264
Issued on exercise of warrants		9	–
Issued under dividend reinvestment plan		744	–
Balance at end of year		226,480	221,914
Contributed Surplus			
Balance at beginning of year		14,234	9,681
Amortization of fair value of options	(Note 19)	6,745	5,817
Transferred to capital stock on the exercise or exchange of options		(1,613)	(1,264)
Balance at end of year		19,366	14,234
Total Shareholders' Equity		$ 986,499	$ 679,148

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31
($ thousands)

	2009	2008
Net Income	$ 106,285	$ 102,019
Other Comprehensive Income, net of tax		
Available-for-sale securities		
Gains (losses) from change in fair value(1)	47,214	(2,631)
Reclassification to other income(2)	(17,556)	(3,271)
	29,658	(5,902)
Derivatives designated as cash flow hedges		
Gains from change in fair value(3)	9,453	9,341
Reclassification to net interest income(4)	(9,379)	(1,773)
Reclassification to other liabilities for derivatives terminated prior to maturity(5)	(5,410)	(938)
	(5,336)	6,630
	24,322	728
Comprehensive Income for the Year	$ 130,607	$ 102,747

(1) Net of income tax expense of $20,094 (2008 – tax benefit of $1,170).
(2) Net of income tax benefit of $7,669 (2008 – $1,454).
(3) Net of income tax expense of $4,066 (2008 – $4,104).
(4) Net of income tax benefit of $4,035 (2008 – $775).
(5) Net of income tax benefit of $2,264 (2008 – $429).

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED OCTOBER 31

($ thousands)

		2009	2008
Cash Flows from Operating Activities			
Net income		$ 106,285	$ 102,019
Adjustments to determine net cash flows:			
Provision for credit losses		13,500	12,000
Depreciation and amortization		8,773	6,896
Amortization of fair value of employee stock options		6,745	5,817
Future income taxes, net		(13,633)	276
Gain on sale of securities, net		(25,225)	(4,725)
Accrued interest receivable and payable, net		1,032	2,719
Current income taxes payable, net		11,694	(454)
Other items, net		5,595	(5,164)
		114,766	119,384
Cash Flows from Financing Activities			
Deposits, net		371,519	988,801
Securities purchased under reverse resale agreements, net		300,242	–
Debentures issued		–	50,000
Debentures redeemed		–	(65,000)
Common shares issued	(Note 18)	2,953	1,646
Preferred units issued	(Note 18)	209,750	–
Issuance costs on preferred units		(4,651)	–
Dividends		(38,053)	(26,555)
		841,760	948,892
Cash Flows from Investing Activities			
Interest bearing deposits with regulated financial institutions, net		203,663	(57,057)
Securities, purchased		(3,253,024)	(2,609,432)
Securities, sales proceeds		2,302,967	1,303,698
Securities, matured		348,998	1,421,159
Securities purchased under resale agreements, net		77,000	129,925
Loans, net		(625,624)	(1,230,489)
Land, buildings and equipment		(14,809)	(12,527)
Business acquisition	(Note 33)	(6,481)	–
		(967,310)	(1,054,723)
Change in Cash and Cash Equivalents		(10,784)	13,553
Cash and Cash Equivalents at Beginning of Year		(1,056)	(14,609)
Cash and Cash Equivalents at End of Year *		$ (11,840)	$ (1,056)
***Represented by:**			
Cash and non-interest bearing deposits with financial institutions		$ 17,447	$ 8,988
Cheques and other items in transit (included in Cash Resources)		12,677	18,992
Cheques and other items in transit (included in Other Liabilities)		(41,964)	(29,036)
Cash and Cash Equivalents at End of Year		$ (11,840)	$ (1,056)
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year		$ 275,943	$ 336,106
Amount of income taxes paid in the year		44,198	44,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

($ thousands, except per share amounts)

1. BASIS OF PRESENTATION

These consolidated financial statements of Canadian Western Bank (CWB or the Bank) 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 Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below and in the following notes. These accounting policies conform, in all material respects, to Canadian GAAP.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the year. Key areas of estimation where management has made subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, fair value of financial instruments, goodwill and intangible assets, provision for unpaid claims and adjustment expenses, future income tax asset and liability, other than temporary impairment of securities and fair value of employee stock options. Therefore, actual results could differ from these estimates.

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 entities whose operations are controlled by the Bank and are corporations in which the Bank is the beneficial owner. See Note 34 for details of the subsidiaries and affiliate.

b) Business Combinations

Business acquisitions are accounted for using the purchase method.

c) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. 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, except for unrealized foreign exchange gains and losses on available-for-sale securities that are included in other comprehensive income.

d) Specific Accounting Policies

To facilitate a better understanding of the Bank's consolidated financial statements, the significant accounting policies are disclosed in the notes, where applicable, with related financial disclosures by major caption:

Note	Topic
2	Financial instruments
3	Cash resources
4	Securities
5	Securities purchased under resale agreements and securities purchased under reverse resale agreements
6	Loans
7	Allowance for credit losses
8	Land, buildings and equipment
9	Goodwill and intangible assets
10	Insurance related other assets
11	Derivative financial instruments
12	Other assets
13	Deposits
14	Trust capital securities
15	Insurance related other liabilities
16	Other liabilities
17	Subordinated debentures
18	Capital stock
19	Stock-based compensation
20	Contingent liabilities and commitments
21	Insurance operations
22	Disclosures on rate regulation
23	Employee future benefits
24	Income taxes
25	Earnings per common share
26	Assets under administration and management
27	Related party transactions
28	Interest rate sensitivity
29	Fair value of financial instruments
30	Risk management
31	Capital management
32	Segmented information
33	Business acquisition
34	Subsidiaries and affiliate
35	Subsequent event
36	Comparative figures

e) **Change in Accounting Policies**

Goodwill and Intangible Assets

Effective November 1, 2008, the Bank adopted the Canadian Institute of Chartered Accountants (CICA) new accounting standard, Section 3064, Goodwill and Intangible Assets. Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The new guidance did not have a material effect on the financial position or earnings of the Bank.

Credit Risk and Fair Value

Effective November 1, 2008, the Bank adopted EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Bank's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Bank.

Financial Instruments – Disclosures

Effective October 31, 2009, the Bank adopted CICA amendments to Section 3862, Financial Instruments – Disclosures. These amendments require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional disclosures over fair value measurements include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market to those fair value measurements that are based on inputs that are not based on observable market data. The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as maturity analysis for derivative financial liabilities.

f) **Future Accounting Changes**

International Financial Reporting Standards

The CICA will transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS). The Bank's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing November 1, 2011 and will include comparative information for the prior year.

During 2008, the Bank commenced a four stage conversion project to identify and evaluate the impact of the transition to IFRS on the consolidated financial statements and develop a plan to complete the transition. The project plan includes the following phases – diagnostic, design and planning, solution development, and implementation. The diagnostic and the design and planning phases are complete, and the solution development phase will be completed in the fourth quarter of fiscal 2010.

The impact of the transition to IFRS on the Bank's consolidated financial statements for current standards is not yet determinable. CWB continues to monitor the International Accounting Standards Board's proposed changes to standards during Canada's transition to IFRS. These proposed changes may have a significant impact on our implementation plan and future financial statements.

2. FINANCIAL INSTRUMENTS

As a financial institution, most of the Bank's balance sheet is comprised of financial instruments and the majority of net income results from gains, losses, income and expenses related to the same.

Financial instrument assets include cash resources, securities, securities purchased under resale agreements, loans and derivative financial instruments. Financial instrument liabilities include deposits, securities purchased under reverse resale agreements, derivative financial instruments and subordinated debentures.

The use of financial instruments exposes the Bank to credit, liquidity and market risks. A discussion of how these are managed can be found in the Risk Management section of the 2009 Annual Report beginning on page 59.

Income and expenses are classified as to source, either securities or loans for income, and deposits or subordinated debentures for expense. Gains on the sale of securities, net, are shown separately in other income.

3. CASH RESOURCES

Cash resources have been designated as available-for-sale and are reported on the balance sheets at fair value with changes in fair value reported in other comprehensive income, net of income taxes.

Included in deposits with regulated financial institutions are available-for-sale financial instruments reported on the consolidated balance sheets at the fair value of $266,980 (2008 – $464,193), which is $7,390 (2008 – $940) higher than amortized cost.

4. SECURITIES

Securities have been designated as available-for-sale, are accounted for at settlement date and reported on the balance sheet at fair value with changes in fair value reported in other comprehensive income, net of income taxes.

Securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. If an impairment in value is other than temporary, any write-down to net realizable value is reported in the consolidated statements of income. Gains and losses realized on disposal of securities and adjustments to record any other than temporary impairment in value are included in other income. Amortization of premiums and discounts are reported in interest income from securities in the consolidated statements of income.

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

	Maturities				2009 Total Carrying Value	2008 Total Carrying Value
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years		
Securities issued or guaranteed by						
Canada	$ 184,536	$ 665,875	$ 4,046	$ –	$ 854,457	$ 347,777
A province or municipality	102,652	108,430	39,936	2,125	253,143	452,045
Other debt securities	74,725	167,706	77,906	12,255	332,592	168,707
Equity securities						
Preferred shares	29,895	80,023	272,372	52,071	434,361	256,232
Common shares	–	–	–	16,856	16,856	4,203
Total[(1)]	$ 391,808	$ 1,022,034	$ 394,260	$ 83,307	$ 1,891,409	$ 1,228,964

(1) All securities have been designated as available-for-sale.

The analysis of unrealized gains and losses on securities reflected on the balance sheet is as follows:

	2009				2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities issued or guaranteed by								
Canada	$ 852,863	$ 1,602	$ 8	$ 854,457	$ 346,360	$ 1,417	$ –	$ 347,777
A province or municipality	250,596	2,682	135	253,143	450,831	1,442	228	452,045
Other debt securities	325,694	7,279	381	332,592	170,665	686	2,644	168,707
Equity securities								
Preferred shares	428,551	14,108	8,298	434,361	274,061	–	17,829	256,232
Common shares	16,298	1,244	686	16,856	5,802	49	1,648	4,203
Total	$ 1,874,002	$ 26,915	$ 9,508	$ 1,891,409	$ 1,247,719	$ 3,594	$ 22,349	$ 1,228,964

The securities portfolio is primarily comprised of high quality debt instruments, preferred shares and common shares that are not held for trading purposes and, where applicable, are typically held until maturity. Fluctuations in value are generally attributed to changes in interest rates, market spreads and shifts in the interest rate curve. Unrealized losses at year-end are considered to be temporary in nature.

5. SECURITIES PURCHASED UNDER RESALE AGREEMENTS AND SECURITIES PURCHASED UNDER REVERSE RESALE AGREEMENTS

Securities purchased under resale agreements represent a purchase of Government of Canada securities by the Bank effected with a simultaneous agreement to sell them back at a specified price on a future date, which is generally short term. The difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement is recorded as securities interest income. There were no such agreements outstanding as at October 31, 2009.

Securities purchased under reverse resale agreements represent a sale of Government of Canada securities by the Bank effected with a simultaneous agreement to buy them back at a specified price on a future date, which is generally short term. The difference between the proceeds of the sale and the predetermined cost to be paid on a resale agreement is recorded as deposit interest expense.

Securities purchased under resale agreements have been designated as available-for-sale and are reported on the consolidated balance sheets at fair value with changes in fair value reported in other comprehensive income, net of income taxes.

Interest earned or paid is recorded in interest income or expense as earned.

6. LOANS

Loans are recorded at amortized cost and are stated net of unearned income, unamortized premiums and an allowance for credit losses (Note 7).

Interest income is recorded using the effective interest method, except for loans classified as impaired. Loans are determined to be impaired when payments are contractually past due 90 days, or where the Bank has taken realization proceedings, or where the Bank 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.

Loan fees, net of directly related costs, are amortized to interest income over the expected term of the loan. Premiums paid on the acquisition of loan portfolios are amortized to interest income over the expected term of the loans.

Outstanding gross loans and impaired loans, net of allowances for credit losses, by loan type, are as follows:

	2009				2008			
	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Consumer and personal	$ 1,452,682	$ 14,805	$ 1,207	$ 13,598	$ 1,288,160	$ 11,462	$ 305	$ 11,157
Real estate[1]	3,909,991	76,643	5,611	71,032	3,673,158	51,909	2,948	48,961
Equipment financing	1,412,344	26,408	6,196	20,212	1,391,287	20,456	5,647	14,809
Commercial	2,536,635	20,088	1,292	18,796	2,347,002	7,809	6,111	1,698
Total[3]	$ 9,311,652	$ 137,944	$ 14,306	123,638	$ 8,699,607	$ 91,636	$ 15,011	76,625
General allowance[2]				(61,153)				(60,527)
Net impaired loans after general allowance				$ 62,485				$ 16,098

(1) Multi-family residential mortgages are presented as real estate loans in this table.
(2) The general allowance for credit risk is not allocated by loan type.
(3) Gross impaired loans includes foreclosed assets with a carrying value of nil (2008 – $901) which are held for sale.

Outstanding impaired loans, net of allowance for credit losses, by provincial location of security, are as follows:

	2009			2008		
	Gross Impaired Amount	Specific Allowance	Net Impaired Loans	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Alberta	$ 74,847	$ 7,651	$ 67,196	$ 48,133	$ 9,005	$ 39,128
British Columbia	37,655	5,000	32,655	40,656	4,626	36,030
Saskatchewan	1,632	609	1,023	2,155	792	1,363
Manitoba	337	23	314	389	389	–
Other[2]	23,473	1,023	22,450	303	199	104
Total	$ 137,944	$ 14,306	123,638	$ 91,636	$ 15,011	76,625
General allowance[1]			(61,153)			(60,527)
Net impaired loans after general allowance			$ 62,485			$ 16,098

(1) The general allowance for credit risk is not allocated by province.
(2) Included in Other is a corporate loan with security that is not identifiable to a specific province.

During the year, interest recognized as income on impaired loans totaled $1,726 (2008 – $360).

Gross impaired loans exclude certain past due loans where payment of interest or principal is contractually in arrears, which are not classified as impaired. Details of such past due loans that have not been included in the gross impaired amount are as follows:

As at October 31, 2009	1 - 30 days	31 - 60 days	61 - 90 days	More than 90 days	Total
Residential mortgages	$ 5,002	$ 11,102	$ 1,828	$ –	$ 17,932
Other loans	22,531	18,170	2,866	–	43,567
	$ 27,533	$ 29,272	$ 4,694	$ –	$ 61,499
Total as at October 31, 2008	$ 18,949	$ 12,560	$ 689	$ –	$ 32,198

The composition of the Bank's loan portfolio by geographic region and industry sector follow:

October 31, 2009 ($ millions)	British Columbia	Alberta	Saskatchewan	Manitoba	Other	Total[1]	Composition Percentage
Loans to Individuals							
Residential mortgages[2]	$ 1,005	$ 1,006	$ 120	$ 89	$ 62	$ 2,282	25%
Other loans	62	102	15	3	1	183	2
	1,067	1,108	135	92	63	2,465	27
Loans to Businesses							
Commercial	752	1,258	120	85	321	2,536	27
Construction and real estate[3]	1,126	1,361	154	61	194	2,896	31
Equipment financing	324	744	50	14	125	1,257	13
Energy	–	158	–	–	–	158	2
	2,202	3,521	324	160	640	6,847	73
Total Loans	$ 3,269	$ 4,629	$ 459	$ 252	$ 703	$ 9,312	100%
Composition Percentage	35%	50%	5%	3%	7%	100%	

October 31, 2008	British Columbia	Alberta	Saskatchewan	Manitoba	Other	Total[1]	Composition Percentage
Loans to Individuals							
Residential mortgages[2]	$ 1,034	$ 868	$ 115	$ 62	$ 51	$ 2,130	24%
Other loans	110	205	24	3	1	343	4
	1,144	1,073	139	65	52	2,473	28
Loans to Businesses							
Commercial	710	1,201	86	83	220	2,300	27
Construction and real estate[3]	911	1,344	73	62	144	2,534	29
Equipment financing	338	815	39	13	32	1,237	14
Energy	–	156	–	–	–	156	2
	1,959	3,516	198	158	396	6,227	72
Total Loans	$ 3,103	$ 4,589	$ 337	$ 223	$ 448	$ 8,700	100%
Composition Percentage	36%	53%	4%	2%	5%	100%	

(1) This table does not include an allocation of the allowance for credit losses or deferred revenue and premiums.
(2) Includes single- and multi-unit residential mortgages and project (interim) mortgages on residential property.
(3) Includes commercial term mortgages and project (interim) mortgages for non-residential property.

7. ALLOWANCE FOR CREDIT LOSSES

An allowance for credit losses is maintained which, in the Bank's opinion, is adequate to absorb credit related losses in its loan portfolio. The adequacy of the allowance for credit losses is reviewed at least quarterly. The allowance for credit losses is deducted from the outstanding loan balance.

The allowance for credit losses consists of specific provisions and the general allowance for credit risk. Specific provisions include all the accumulated provisions for losses on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit risk includes provisions for losses inherent in the portfolio that are not presently identifiable by management of the Bank on an account-by-account basis. The general allowance for credit risk is established by taking into consideration historical trends in the loss experience during economic cycles, the current portfolio profile, estimated losses for the current phase of the economic cycle and historical experience in the industry.

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses in the consolidated statements 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.

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

	2009			2008		
	Specific Allowance	General Allowance for Credit Losses	Total	Specific Allowance	General Allowance for Credit Losses	Total
Balance at beginning of year	$ 15,011	$ 60,527	$ 75,538	$ 7,414	$ 55,608	$ 63,022
Provision for credit losses	12,874	626	13,500	7,081	4,919	12,000
Write-offs	(13,842)	–	(13,842)	(2,577)	–	(2,577)
Recoveries	263	–	263	3,093	–	3,093
Balance at end of year	$ 14,306	$ 61,153	$ 75,459	$ 15,011	$ 60,527	$ 75,538

8. 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 – three to five years, and leasehold improvements – term of the lease. Gains and losses on disposal are recorded in other income in the year of disposal. Land, building and equipment, if no longer in use or considered impaired, are written down to the fair value.

Operating leases primarily comprise branch and office premises and are not capitalized. Total costs, including free rent periods and step-rent increases, are expensed on a straight-line basis over the lease term.

	Cost	Accumulated Depreciation and Amortization	2009 Net Book Value	2008 Net Book Value
Land	$ 2,783	$ –	$ 2,783	$ 2,783
Buildings	5,318	3,333	1,985	2,247
Computer equipment	27,658	21,160	6,498	5,593
Office equipment and furniture	19,224	12,120	7,104	5,326
Leasehold improvements	35,538	14,656	20,882	15,944
Total	$ 90,521	$ 51,269	$ 39,252	$ 31,893

Depreciation and amortization for the year amounted to $7,503 (2008 – $6,370).

9. GOODWILL AND INTANGIBLE ASSETS

Goodwill is the excess of the purchase price paid for the acquisition of a subsidiary over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill and other intangibles with an indefinite life are not amortized, but are subject to a fair value impairment test at least annually. Other intangibles with a finite life are amortized to the statement of income over their expected lives not exceeding 10 years. These intangible assets are tested for impairment whenever circumstances indicate that the carrying amount may not be recoverable. Any impairment of goodwill or other intangible assets will be charged to the consolidated statement of income in the period of impairment.

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Goodwill	$ 9,360	$ –	$ 9,360	$ 6,933
Identifiable intangible assets				
Customer relationships	6,750	2,865	3,885	1,835
Non-competition agreements	2,630	630	2,000	–
Trademarks	580	–	580	300
Others	200	200	–	20
	10,160	3,695	6,465	2,155
Total	$ 19,520	$ 3,695	$ 15,825	$ 9,088

Amortization of customer relationships and other intangible assets for the year amounted to $1,270 (2008 – $526). The trademarks have an indefinite life and are not subject to amortization. Goodwill includes $6,106 related to the banking and trust segment and $3,254 related to the insurance segment. There were no writedowns of goodwill or intangible assets due to impairment.

10. INSURANCE RELATED OTHER ASSETS

	2009	2008
Instalment premiums receivable	$ 27,620	$ 24,333
Reinsurers' share of unpaid claims and adjustment expenses	10,441	11,561
Deferred policy acquisition costs	9,808	8,924
Recoverable on unpaid claims	7,303	6,939
Due from reinsurers	760	1,186
Total	$ 55,932	$ 52,943

11. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate, foreign exchange and equity contracts such as futures, options, swaps, floors and rate locks are entered into for risk management purposes in accordance with the Bank's asset liability management policies. It is the Bank's policy not to utilize derivative financial instruments for trading or speculative purposes. Interest rate swaps and floors are primarily used to reduce the impact of fluctuating interest rates. Equity contracts are used to economically offset the return paid to depositors on certain deposit products that are linked to a stock index. Foreign exchange contracts are only used for the purposes of meeting needs of clients or day-to-day business.

The Bank designates certain derivative financial instruments as either a hedge of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), or a hedge of highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges). The Bank has designated all interest rate swaps as cash flow hedges. On an ongoing basis, the Bank assesses whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

Certain derivatives embedded in other financial instruments, such as the return on fixed term deposits that are linked to a stock index, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the combined contract is not carried at fair value. Embedded derivatives identified in contracts entered into after November 1, 2002 have been separated from the host contract and are recorded at fair value.

Interest income received or interest expense paid on derivative financial instruments is accounted for on the accrual basis and recognized as interest income or expense, as appropriate, over the term of the hedge contract. Premiums on purchased contracts are amortized to interest expense over the term of the contract. Accrued interest receivable and payable and deferred gains and losses for these contracts are recorded in other assets or liabilities as appropriate. Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other assets or other liabilities, as appropriate, and amortized into income over the original hedged period. In the event a designated hedged item is terminated or eliminated prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in other income.

Derivative financial instruments are recorded on the balance sheet at fair value as either other assets or other liabilities with changes in fair value related to the effective portion of cash flow interest rate hedges recorded in other comprehensive income, net of income taxes. Changes in fair value related to the ineffective portion of cash flow hedges and all other derivative financial instruments are reported in other income on the consolidated statement of income.

The Bank enters into derivative financial instruments for risk management purposes. Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative financial instruments primarily used by the Bank include:

- interest rate swaps, which are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount;
- equity swap contracts, which are agreements where one counterparty agrees to pay or receive from the other cash flows based on changes in the value of an equity index as well as a designated interest rate applied to a notional amount; and
- foreign exchange forwards and futures, which are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date.

Interest rate swaps and other instruments are used as hedging devices to control interest rate risk. The Bank enters into these interest rate derivative instruments only 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. The Asset Liability Committee (ALCO) of the Bank establishes and monitors approved counterparties (including an assessment of credit worthiness) and maximum notional limits. Approved counterparties are limited to rated financial institutions or their associated parent/affiliate with a minimum rating of A high or equivalent.

Foreign exchange transactions are undertaken only for the purposes of meeting the 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 ALCO 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 financial position.

The following table summarizes the derivative 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 sheets. 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. Additional discussion of OSFI's capital adequacy requirements is provided on page 46 of Management's Discussion and Analysis.

	2009					2008				
	Notional Amount	Replace-ment Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-Weighted Balance	Notional Amount	Replace-ment Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-Weighted Balance
Interest rate swaps	$ 235,000	$ 2,265	$ –	$ 2,265	$ 453	$ 593,000	$ 9,827	$ 1,825	$ 11,652	$ 2,361
Equity contracts	2,000	–	130	130	26	4,400	–	304	304	61
Foreign exchange contracts	2,496	44	22	66	22	2,600	2	26	28	14
Total	$ 239,496	$ 2,309	$ 152	$ 2,461	$ 501	$ 600,000	$ 9,829	$ 2,155	$ 11,984	$ 2,436

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

	2009				2008			
	Favourable Contracts		Unfavourable Contracts		Favourable Contracts		Unfavourable Contracts	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps	$ 235,000	$ 2,265	$ –	$ –	$ 593,000	$ 9,827	$ –	$ –
Equity contracts	–	–	2,000	(33)	–	–	4,400	(139)
Foreign exchange contracts	1,248	44	1,248	(41)	1,300	2	1,300	(24)
Embedded derivatives in equity linked deposits	n/a	25	n/a	–	n/a	151	n/a	–
Other forecasted transactions	–	–	–	–	–	–	–	–
Total	$ 236,248	$ 2,334	$ 3,248	$ (74)	$ 594,300	$ 9,980	$ 5,700	$ (163)

The aggregate contractual or notional amount of the derivative 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 derivative financial instruments on hand during the year are set out in the following table.

	2009	2008
Favourable derivative financial instruments (assets)	$ 7,547	$ 4,094
Unfavourable derivative financial instruments (liabilities)	$ 287	$ 322

The following table summarizes maturities of derivative financial instruments and weighted average interest rates paid and received on contracts.

	2009				2008			
	Maturity				Maturity			
	1 Year or Less		More than 1 Year		1 Year or Less		More than 1 Year	
	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 swaps - receive fixed amounts[1]	$ 235,000	3.33%	$ –	n/a	$ 228,000	3.83%	$ 365,000	3.46%
Equity Contracts[2]	1,500		500		2,400		2,000	
Foreign Exchange Contracts [3]	2,496		–		2,600		–	
Total	$ 238,996		$ 500		$ 233,000		$ 367,000	

(1) The Bank pays floating interest amounts based on the one-month (30-day) Canadian Bankers' Acceptance rate. Interest rate swaps mature between November 2009 and June 2010.
(2) The Bank receives amounts based on the specified equity index and pays amounts based on the one-month (30-day) Canadian Bankers' Acceptance rate. Equity contracts mature between March 2010 and March 2011.
(3) The contractual interest rate is not meaningful for foreign exchange contracts. Foreign exchange contracts mature between November 2009 and April 2010.

During the year, a net unrealized after tax gain of $9,453 (2008 – $9,341) was recorded in other comprehensive income for changes in fair value of the effective portion of derivatives designated as cash flow hedges and $nil (2008 – $nil) was recorded in other income for changes in fair value of the ineffective portion of derivatives classified as cash flow hedges. Amounts accumulated in other comprehensive income are reclassified to net income in the same period that interest on certain floating rate loans (i.e. the hedged items) affect income. A net gain after tax of $9,379 (2008 – $1,773) was reclassified to net income. During the year, $5,410 after tax (2008 – $938) was reclassified to other liabilities for derivatives terminated prior to maturity and the deferred balance will be amortized into net interest income over the original hedged period. A net gain of $1,678 (2008 – $2,432) after tax recorded in accumulated other comprehensive income (loss) as at October 31, 2009 is expected to be reclassified to net income in the next 12 months and will offset variable cash flows from floating rate loans.

There were no forecasted transactions that failed to occur.

12. OTHER ASSETS

		2009	2008
Accrued interest receivable		$ 47,184	$ 40,241
Future income tax asset	(Note 24)	20,319	16,142
Accounts receivable		16,888	6,004
Prepaid expenses		6,209	3,520
Financing costs[1]		3,730	4,636
Taxes receivable		127	1,259
Other		3,366	2,820
Total		$ 97,823	$ 74,622

(1) Amortization for the year amounted to $989 (2008 – $1,037).

13. DEPOSITS

Deposits are accounted for on an amortized cost basis. Costs relating to the issuance of fixed term deposits are amortized over the expected life of the deposit using the effective interest method.

	Individuals	Business and Government	Financial Institutions	2009 Total
Payable on demand	$ 20,028	$ 339,148	$ –	$ 359,176
Payable after notice	1,660,715	1,117,886	–	2,778,601
Payable on a fixed date	4,717,146	1,655,315	2,000	6,374,461
Deposit from CWB Capital Trust [1]	–	105,000	–	105,000
Total	$ 6,397,889	$ 3,217,349	$ 2,000	$ 9,617,238

	Individuals	Business and Government	Financial Institutions	2008 Total
Payable on demand	$ 16,071	$ 367,012	$ –	$ 383,083
Payable after notice	732,630	1,277,409	–	2,010,039
Payable on a fixed date	4,601,439	2,136,158	10,000	6,747,597
Deposit from CWB Capital Trust [1]	–	105,000	–	105,000
Total	$ 5,350,140	$ 3,885,579	$ 10,000	$ 9,245,719

(1) The senior deposit note of $105 million from CWB Capital Trust is reflected as a Business and Government deposit payable on a fixed date. This senior deposit note bears interest at an annual rate of 6.199% until December 31, 2016 and, thereafter, at the CDOR 180-day Bankers' Acceptance rate plus 2.55%. This note is redeemable at the Bank's option, in whole or in part, on and after December 31, 2011, or earlier in certain specified circumstances, both subject to the approval of OSFI. Each one thousand dollars of WesTS principal is convertible at any time into 40 non-cumulative redeemable CWB First Preferred Shares Series 1 of the Bank at the option of CWB Capital Trust. CWB Capital Trust will exercise this conversion right in circumstances in which holders of CWB Capital Trust Capital Securities Series 1 (WesTS) exercise their holder exchange rights. See Note 14 for more information on WesTS and CWB Capital Trust.

14. TRUST CAPITAL SECURITIES

In 2006, the Bank arranged for the issuance of innovative capital instruments, CWB Capital Trust Capital Securities Series 1 (WesTS), through Canadian Western Bank Capital Trust (CWB Capital Trust), a special purpose entity. CWB Capital Trust, an open-end trust, issued non-voting WesTS and the proceeds were used to purchase a senior deposit note from CWB.

CICA Accounting Guideline (AcG-15) provides a framework for identifying Variable Interest Entities ("VIEs") and requires the consolidation of a VIE if the Bank is the primary beneficiary of the VIE. The only special purpose entity in which the Bank participates is CWB Capital Trust. Although CWB owns the unit holder's equity and voting control of CWB Capital Trust through Special Trust Securities, the Bank is not exposed to the majority of any CWB Capital Trust losses and is, therefore, not the primary beneficiary under AcG-15. Accordingly, CWB does not consolidate CWB Capital Trust and the WesTS issued by CWB Capital Trust are not reported on the consolidated balance sheets, but the senior deposit note is reported in deposits (see Note 13) and interest expense is recognized on the senior deposit note.

Holders of WesTS are eligible to receive semi-annual non-cumulative fixed cash distributions. No cash distributions will be payable by CWB Capital Trust on WesTS if CWB fails to declare regular dividends on its preferred shares or, if no preferred shares are outstanding, on its common shares. In this case, the net distributable funds of CWB Capital Trust will be distributed to the Bank as holder of the residual interest in CWB Capital Trust.

Should CWB Capital Trust fail to pay the semi-annual distributions in full, CWB has contractually agreed not to declare dividends of any kind on any of the preferred or common shares for a specified period of time.

The following information presents the outstanding WesTS:

Issuance date	August 31, 2006
Distribution dates	June 30, December 31
Annual yield	6.199%
Earliest date redeemable at the option of the issuer	December 31, 2011
Earliest date exchangeable at the option of the holder	Anytime
Trust capital securities outstanding	105,000
Principal amount	$105,000

The significant terms and conditions of the WesTS are:

1) Subject to the approval of OSFI, CWB Capital Trust may, in whole (but not in part), on the redemption date specified above, and on any distribution date thereafter, redeem the WesTS without the consent of the holders.

2) Subject to the approval of OSFI, upon occurrence of a special event as defined, prior to the redemption date specified above, CWB Capital Trust may redeem all, but not part, of the WesTS without the consent of the holders.

3) The WesTS may be redeemed for cash equivalent to (i) the early redemption price if the redemption occurs prior to December 31, 2016 or (ii) the redemption price if the redemption occurs on or after December 31, 2016. Redemption price refers to an amount equal to one thousand dollars plus the unpaid distributions to the redemption date. Early redemption price refers to an amount equal to the greater of (i) the redemption price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the redemption date with a maturity date of December 31, 2016, plus 0.50%.

4) Holders of WesTS may, at any time, exchange each one thousand dollars of principal for 40 First Preferred Shares Series 1 of the Bank. CWB's First Preferred Shares Series 1 pay semi-annual non-cumulative cash dividends with an annual yield of 4.00% and will be redeemable at the option of the Bank, with OSFI approval, on or after December 31, 2011, but not at the option of the holders. This exchange right will be effected through the conversion by CWB Capital Trust of the corresponding amount of the deposit note of the Bank. The WesTS exchanged for the Bank's First Preferred Shares Series 1 will be cancelled by CWB Capital Trust.

5) Each WesTS will be exchanged automatically without the consent of the holders for 40 non-cumulative redeemable CWB First Preferred Shares Series 2 upon occurrence of any one of the following events: (i) proceedings are commenced for the winding up of the Bank, (ii) OSFI takes control of the Bank, (iii) the Bank has a Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%, or (iv) OSFI has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction. Following the occurrence of an automatic exchange, the Bank would hold all of the Special Trust Securities and all of the WesTS, and the primary asset of CWB Capital Trust would continue to be the senior deposit note. The Bank's First Preferred Shares Series 2 pay semi-annual non-cumulative cash dividends with an annual yield of 5.25% and will be redeemable at the option of the Bank, with OSFI approval, on or after December 31, 2011, but not at the option of the holders.

6) For regulatory capital purposes, WesTS are included in Tier 1 capital to a maximum of 15% of net Tier 1 capital with the remainder included in Tier 2 capital. All of the outstanding WesTS amounts are currently included in Tier 1 capital.

7) The non-cumulative cash distribution on the WesTS will be 6.199% paid semi-annually until December 31, 2016 and, thereafter, at CDOR 180-day Bankers' Acceptance rate plus 2.55%.

15. INSURANCE RELATED OTHER LIABILITIES

		2009	2008
Unpaid claims and adjustment expenses	(Note 21)	$ 81,025	$ 76,176
Unearned premiums		62,307	56,799
Due to insurance companies and policyholders		1,425	987
Unearned commissions		752	807
Total		$ 145,509	$ 134,769

16. OTHER LIABILITIES

		2009	2008
Accrued interest payable		$ 109,559	$ 101,584
Accounts payable		37,391	24,895
Taxes payable		15,822	5,260
Leasehold inducements		2,673	1,373
Future income tax liability	(Note 24)	2,037	1,300
Deferred revenue		1,864	2,485
Total		$ 169,346	$ 136,897

17. SUBORDINATED DEBENTURES

Financing costs relating to the issuance of subordinated debentures are amortized over the expected life of the related subordinated debenture using the effective interest method.

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.

Interest Rate	Maturity Date	Earliest Date Redeemable by CWB at Par	2009	2008
5.550%[1]	November 19, 2014	November 20, 2009	$ 60,000	$ 60,000
5.426%[2]	November 21, 2015	November 22, 2010	70,000	70,000
5.070%[3]	March 21, 2017	March 22, 2012	120,000	120,000
5.571%[4]	March 21, 2022	March 22, 2017	75,000	75,000
5.950%[5]	June 27, 2018	June 27, 2013	50,000	50,000
			$ 375,000	$ 375,000

(1) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 160 basis points. On November 20, 2009, these conventional debentures were redeemed by the Bank.

(2) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points.

(3) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 155 basis points. Of the $125,000 debentures issued, $5,000 were acquired by Canadian Direct Insurance Incorporated, a wholly owned subsidiary, and have been eliminated on consolidation.

(4) These conventional debentures have a 15-year term with a fixed interest rate for the first 10 years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points.

(5) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 302 basis points.

18. 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; and

25,000,000 first preferred shares without nominal or par value, issuable in series, of which 4,200,000 first preferred shares Series 1 and 4,200,000 first preferred shares Series 2 have been reserved (see Note 14). 8,390,000 first preferred shares Series 3 have been issued and are convertible to first preferred shares Series 4 as noted below.

Issued and fully paid:

	2009		2008	
	Number of Shares	Amount	Number of Shares	Amount
Preferred Shares – Series 3				
Outstanding at beginning of year	–	$ –	–	$ –
Issued during the year	8,390,000	209,750	–	–
Outstanding at end of year	8,390,000	209,750	–	–
Common Shares				
Outstanding at beginning of year	63,457,142	221,914	62,836,189	219,004
Issued on exercise of warrants	624	9	–	–
Issued under dividend reinvestment plan	38,760	744	–	–
Issued on exercise or exchange of options	406,934	2,200	620,953	1,646
Transferred from contributed surplus on exercise or exchange of options	–	1,613	–	1,264
Outstanding at end of year	63,903,460	226,480	63,457,142	221,914
Share Capital		$ 436,230		$ 221,914

The Bank is prohibited by the Bank Act from declaring any dividends on common shares when the Bank is or would be placed, as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the Act. In addition, should CWB Capital Trust fail to pay the semi-annual distributions in full on the CWB Capital Trust Securities Series 1 (see Note 14), the Bank has contractually agreed to not declare dividends on any of its common and preferred shares for a specified period of time. These limitations do not restrict the current level of dividends.

a) Preferred Shares

During 2009, the Bank issued 8.4 million preferred units at $25 per unit, for total proceeds of $209.8 million. Of the total, 5.4 million preferred units were issued by way of a private placement for total proceeds of $135.0 million, and 3.0 million were issued under a public offering for total proceeds of $74.8 million.

The preferred units issued by way of the private placement and the public offering each consist of one Non-Cumulative 5-Year Rate Reset Preferred Share, Series 3 (Series 3 Preferred Shares) in the capital of the Bank with an issue price of $25.00 per share and 1.7857 and 1.7800 common share purchase warrants, respectively. Each warrant is exercisable at a price of $14.00 to purchase one common share in the capital of the Bank until March 3, 2014.

Holders of the Series 3 Preferred Shares are entitled to receive non-cumulative quarterly fixed dividends for the initial five-year period ending April 30, 2014 of 7.25% per annum, payable quarterly, as and when declared by the Board of Directors. The dividend rate on Series 3 Preferred Shares will reset May 1, 2014 and every five years thereafter at a level of 500 basis points over the then current five-year Government of Canada bond yield. On April 30, 2014, and every five years thereafter, holders of Series 3 Preferred Shares will, subject to certain conditions, have the option to convert their shares to Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares). Holders of the Series 4 Preferred Shares will be entitled to a floating quarterly dividend rate equal to the 90-day Canadian treasury bill rate plus 500 basis points, as and when declared by the Board of Directors.

The Series 3 Preferred Shares are not redeemable prior to April 30, 2014. Subject to the provisions of the Bank Act, the prior consent of OSFI and the provisions described in the prospectus for the public offering, on April 30, 2014 and on April 30 every five years thereafter, the Bank may redeem all or any part of the then outstanding Series 3 Preferred Shares at the Bank's option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of $25.00 together with all declared and unpaid dividends to the date fixed for redemption.

Subject to the provisions of the Bank Act, the prior consent of OSFI and the provisions described in the prospectus for the public offering, on not more than 60 nor less than 30 days' notice, the Bank may redeem all or any part of the then outstanding Series 4 Preferred Shares at the Bank's option without the consent of the holder by the payment of an amount in cash for each such share so redeemed of: (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on April 30, 2019 and on April 30 every five years thereafter; or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after April 30, 2014.

b) Warrants to Purchase Common Shares

Number of Warrants	October 31, 2009	October 31, 2008
Outstanding at beginning of year	–	–
Issued	14,964,980	–
Exercised	(624)	–
Outstanding at end of year	**14,964,356**	–

c) Dividend Reinvestment Plan

During the year, the Bank introduced a dividend reinvestment plan (plan) that provides holders of the Bank's common shares and holders of any other class of shares deemed eligible by the Bank's Board of Directors with the opportunity to direct cash dividends paid on any class of their eligible shares towards the purchase of additional common shares. Currently, the Board of Directors has deemed that the holders of the Bank's Series 3 Preferred Shares are eligible to participate in the plan. The plan is only open to shareholders residing in Canada.

At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price based on the closing prices of a board lot of common shares on the Toronto Stock Exchange for the five trading days immediately preceding the dividend payment date, with a discount of between 0% to 5% at the Bank's discretion. The Bank also has the option to fund the plan through the open market at market prices. During the year, 38,760 common shares were issued under the plan from the Bank's treasury with a 2% discount.

19. STOCK-BASED COMPENSATION

a) Stock Options

Stock options are accounted for using the fair value based method. The estimated fair value is recognized over the applicable vesting period as an increase to both salary expense and contributed surplus. When options are exercised, the proceeds received and the applicable amount, if any, in contributed surplus are credited to capital stock.

The Bank has authorized 5,848,470 common shares (2008 – 5,505,404) for issuance under the share incentive plan. Of the amount authorized, options exercisable into 4,394,605 shares (2008 – 5,204,882) are issued and outstanding. The options generally vest within three years and 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 date. All options expire within eight years of date of grant. Outstanding options expire on dates ranging from May 2010 to June 2014.

The details of, and changes in, the issued and outstanding options follow:

	2009		2008	
Options	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of year	5,204,882	$ 20.83	4,911,277	$ 16.96
Granted	1,465,035	13.33	1,249,032	28.39
Exercised or exchanged	(933,900)	10.56	(838,177)	8.98
Forfeited	(1,341,412)	26.88	(117,250)	24.26
Balance at end of year	**4,394,605**	**$ 18.66**	5,204,882	$ 20.83
Exercisable at end of year	**1,742,100**	**$ 18.22**	1,870,500	$ 13.10

Further details relating to stock options outstanding and exercisable follow:

Range of Exercise Prices	Options Outstanding Number of Options	Options Outstanding Weighted Average Remaining Contractual Life (years)	Options Outstanding Weighted Average Exercise Price	Options Exercisable Number of Options	Options Exercisable Weighted Average Exercise Price
$8.58 to $10.84	26,500	2.7	$ 9.20	10,000	$ 10.21
$11.76 to $13.78	1,209,735	3.4	12.16	239,500	13.78
$15.46 to $17.58	1,185,100	2.3	16.61	733,500	16.44
$19.16 to $21.46	1,063,890	2.1	21.45	753,100	21.44
$22.29 to $26.38	684,600	2.8	25.64	6,000	22.30
$28.11 to $31.18	224,780	3.1	31.13	–	–
Total	4,394,605	2.7	$ 18.66	1,742,100	$ 18.22

The terms of the share incentive plan allow the holders of vested options a cashless settlement alternative whereby the option holder can either (a) elect to receive shares by delivering cash to the Bank in the amount of the option exercise price or (b) elect to receive the number of shares equivalent to the excess of the market value of the shares under option, determined at the exercise date, over the exercise price. Of the 933,900 (2008 – 838,177) options exercised or exchanged, option holders exchanged the rights to 722,400 (2008 – 651,727) options and received 195,434 (2008 – 434,503) shares in return under the cashless settlement alternative.

Salary expense of $6,745 (2008 – $5,817) was recognized relating to the estimated fair value of options granted since November 1, 2002, which included the stock option forfeiture discussed below. The fair value of options granted was estimated using a binomial option pricing model with the following variables and assumptions: (i) risk-free interest rate of 2.2% (2008 – 3.8%), (ii) expected option life of 4.0 (2008 – 4.0) years, (iii) expected volatility of 38% (2008 – 23%), and (iv) expected dividends of 3.6% (2008 – 1.5%). The weighted average fair value of options granted was estimated at $2.94 (2008 – $5.84) per share.

During the year, certain employees voluntarily and irrevocably released, without consideration, all right, title and interest in 1,283,062 stock options. The unamortized fair value of these forfeited options ($1,696) was recognized at that time as additional non-tax deductible salary expense with an offsetting increase to contributed surplus.

During the year, $1,613 (2008 – $1,264) was transferred from contributed surplus to share capital, representing the estimated fair value recognized for 933,900 (2008 – 804,177) options granted after November 1, 2002 and exercised during the year.

b) **Restricted Share Units**

During the year, the Bank adopted a plan to grant Restricted Share Units (RSUs) as part of its long-term incentive plan. Under this plan, certain employees are eligible to receive an award in the form of RSUs. Each RSU entitles the holder to receive the cash equivalent of the market value of the Bank's common shares at the vesting date and an amount equivalent to the dividends paid on the common shares during the vesting period. RSUs vest on each anniversary of the grant in equal one-third installments over a vesting period of three years. Salary expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire.

During the year, salary expense of $3,985 ($2,770, net of tax) was recognized related to RSUs. As at October 31, 2009, the liability for the RSUs held under this plan was $3,985. At the end of each period, the liability and salary expense are adjusted to reflect changes in the market value of the Bank's common shares.

For the year ended October 31, 2009	Number of RSUs
Restricted Share Units	
Balance at beginning of year	–
Granted	286,929
Forfeited	(1,732)
Balance at end of year	285,197

20. CONTINGENT LIABILITIES AND COMMITMENTS

a) Credit 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 sheets. These items are reported below and are expressed in terms of the contractual amount of the related commitment.

	2009	2008
Credit Instruments		
Guarantees and standby letters of credit	$ 196,380	$ 232,649
Commitments to extend credit	2,346,324	3,190,420
Total	$ 2,542,704	$ 3,423,069

Guarantees and standby letters of credit represent the Bank's obligation to make payments to third parties when a customer is unable to make required payments or meet other contractual obligations. These instruments carry the same credit risk, recourse and collateral security requirements as loans extended to customers and generally have a term that does not exceed one year. 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 undrawn availability under lines of credit and commercial operating loans of $1,180,690 (2008 – $931,957) and recently authorized but unfunded loan commitments of $1,165,634 (2008 – $2,258,463). 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. 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. 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 operating leases for the rental of premises. Minimum future lease commitments for each of the five succeeding years and thereafter are as follows:

2010	$ 8,625
2011	8,409
2012	8,062
2013	8,024
2014	7,622
2015 and thereafter	27,124
Total	$ 67,866

c) Guarantees

A guarantee is defined as a contract that contingently requires the guarantor to make payments to a third party based on i) changes in an underlying economic characteristic that is related to an asset, liability or equity security of the guaranteed party, ii) failure of another party to perform under an obligating agreement, or iii) failure of another third party to pay indebtedness when due.

Significant guarantees provided to third parties include guarantees and standby letters of credit as discussed above.

In the ordinary course of business, the Bank enters into contractual arrangements under which the Bank may agree to indemnify the other party. Under these agreements, the Bank may be required to compensate counterparties for costs incurred as a result of various contingencies, such as changes in laws and regulations and litigation claims. A maximum potential liability cannot be identified as the terms of these arrangements vary and generally no predetermined amounts or limits are identified. The likelihood of occurrence of contingent events that would trigger payment under these arrangements is either remote or difficult to predict and, in the past, payments under these arrangements have been insignificant.

The Bank issues personal and business credit cards through an agreement with a third party card issuer. The Bank has indemnified the card issuer from loss if there is a default on the issuer's collection of the business credit card balances. The Bank has provided no indemnification relating to the personal or reward credit card balances. The issuance of business credit cards and establishment of business credit card limits are approved by the Bank and subject to the same credit assessment, approval and monitoring as the extension of direct loans. At year-end, the total approved business credit card limit was $10,496 (2008 – $11,503), and the balance outstanding was $2,566 (2008 – $2,778).

No amounts are reflected in the consolidated financial statements related to these guarantees and indemnifications.

d) **Legal Proceedings**

In the ordinary course of business, the Bank and its subsidiaries are party to legal proceedings. Based on current knowledge, the Bank does not expect the outcome of any of these proceedings to have a material effect on the consolidated financial position or results of operations.

21. INSURANCE OPERATIONS

Premiums Earned and Deferred Policy Acquisition Costs
Insurance premiums are included in other income on a daily pro rata basis over the terms of the underlying insurance policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force and are included in other liabilities.

Policy acquisition costs are those expenses incurred in the acquisition of insurance business. Acquisition costs comprise advertising and marketing expenses, insurance advisor salaries and benefits, premium taxes and other expenses directly attributable to the production of business. Policy acquisition costs related to unearned premiums are only deferred, and included in other assets, to the extent that they are expected to be recovered from unearned premiums and are amortized to income over the periods in which the premiums are earned. If the unearned premiums are not sufficient to pay expected claims and expenses (including policy maintenance expenses and unamortized policy acquisition costs), a premium deficiency is said to exist. Anticipated investment income is considered in determining whether a premium deficiency exists. Premium deficiencies are recognized by writing down the deferred policy acquisition cost asset.

Unpaid Claims and Adjustment Expenses
The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. These provisions are included in other liabilities and their computation takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions.

All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

Reinsurance Ceded
Earned premiums and claims expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded in other assets and are estimated in a manner consistent with the liabilities associated with the reinsured policies.

a) **Insurance Revenues, Net**

Insurance revenues, net, reported in other income on the consolidated statements of income is presented net of claims, adjustment expenses and policy acquisition costs.

	2009	2008
Net earned premiums	$ 104,062	$ 97,943
Commissions and processing fees	2,852	2,876
Net claims and adjustment expenses	(68,996)	(64,380)
Policy acquisition costs	(20,802)	(20,573)
Insurance revenues, net	$ 17,116	$ 15,866

b) **Unpaid Claims and Adjustment Expenses**

Nature of Unpaid Claims
The establishment of the provision for unpaid claims and adjustment expenses and the related reinsurers' share is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity, and claims frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the claims department personnel and independent adjusters retained to handle individual claims, quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination since, the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as liability claims.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

Provision for Unpaid Claims and Adjustment Expenses

An annual evaluation of the adequacy of unpaid claims is completed at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims and adjustment expenses follow:

	2009	2008
Unpaid claims and adjustment expenses, net, beginning of year	$ 57,676	$ 50,389
Claims incurred		
In the current year	73,346	67,457
In prior periods	(4,350)	(3,077)
Claims paid during the year	(63,391)	(57,093)
Unpaid claims and adjustment expenses, net, end of year	63,281	57,676
Reinsurers' share of unpaid claims and adjustment expenses	10,441	11,561
Recoverable on unpaid claims	7,303	6,939
Unpaid claims and adjustment expenses, net, end of year	$ 81,025	$ 76,176

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries are discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The investment rate of return used for all cash flow periods and all lines of business was 2.75% (2008 – 4.1%). However, that rate was reduced by a 1% (2008 – 1%) provision for adverse deviation in discounting the provision for unpaid claims and adjustment expenses and related reinsurance recoveries. The impact of this provision for adverse deviation results in an increase of $887 (2008 – $850) in unpaid claims and adjustment expenses and related reinsurance recoveries.

Policy balances, included in insurance related other assets and other liabilities, analyzed by major lines of business are as follows:

	2009		2008	
	Automobile	Home	Automobile	Home
Unpaid claims and adjustment expenses	$ 65,736	$ 15,289	$ 64,181	$ 11,995
Reinsurers' share of unpaid claims and adjustment expenses	9,984	457	11,561	–
Unearned premiums	44,635	17,672	40,886	15,913

c) **Underwriting Policy and Reinsurance Ceded**

Reinsurance contracts with coverage up to maximum policy limits are entered into to protect against losses in excess of certain amounts that may arise from automobile, personal property and liability claims.

Reinsurance with a limit of $180,000 (2008 – $180,000) is obtained to protect against certain catastrophic losses. Retention on catastrophic events and property and liability risks is generally $1,000 (2008 – $1,000). Retentions are further reduced by quota share reinsurance and, for the British Columbia automobile insurance product, by the underlying mandatory coverage provided by the provincially governed Crown corporation. Due to the geographic concentration of the business, management believes earthquakes and windstorms are its most significant exposure to catastrophic losses. Utilizing sophisticated computer modelling techniques developed by independent consultants to quantify the estimated exposure to such losses, management believes there is sufficient catastrophe reinsurance protection.

At October 31, 2009, $10,441 (2008 – $11,561) of unpaid claims and adjustment expenses were recorded as recoverable from reinsurers. Failure of a reinsurer to honour its obligation could result in losses. The financial condition of reinsurers is regularly evaluated to minimize the exposure to significant losses from reinsurer insolvency.

The amounts shown in other income are net of the following amounts relating to reinsurance ceded to other insurance companies:

	2009	2008
Premiums earned reduced by	$ 7,257	$ 6,849
Claims incurred reduced by	595	2,987

22. DISCLOSURES ON RATE REGULATION

Canadian Direct Insurance Incorporated (Canadian Direct), a wholly owned subsidiary, is licensed under insurance legislation in the provinces in which it conducts business. Automobile insurance is a compulsory product and is subject to different regulations across the provinces in Canada, including those with respect to rate setting. Rate setting mechanisms vary across the provinces, but they generally fall under three categories: "use and file", "file and use" and "file and approve". Under "use and file", rates are filed following use. Under "file and use", insurers file their rates with the relevant authorities and wait for a prescribed period of time and then implement the proposed rates. Under "file and approve", insurers must wait for specific approval of filed rates before they may be used.

The authorities that regulate automobile insurance rates, in the provinces in which Canadian Direct is writing that business, are listed below. Automobile direct written premiums in these provinces totaled $36,900 in 2009 (2008 – $31,300) and represented 47% (2008 – 44%) of direct automobile premiums written.

Province	Rate Filing	Regulatory Authority
Alberta	File and approve or File and use	Alberta Automobile Insurance Rate Board

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. At October 31, 2009, there was no regulatory asset or liability.

23. EMPLOYEE FUTURE BENEFITS

All employee future benefits are accounted for on an accrual basis. The Bank's contributions to the group retirement savings plan and employee share purchase plan totaled $7,077 (2008 – $6,183).

24. INCOME TAXES

The Bank follows the asset and liability method of accounting for income taxes whereby current income taxes are recognized for the estimated income taxes payable for the current year. Future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities, and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period of the tax rate change. All future income tax assets are expected to be realized in the normal course of operations.

The provision for income taxes consists of the following:

	2009	2008
Consolidated statements of income		
Current	$ 55,553	$ 43,725
Future	(13,633)	276
	41,920	44,001
Shareholders' equity		
Future income tax expense related to:		
Unrealized gains (losses) on available-for-sale securities	12,425	(2,624)
Gains (losses) on derivatives designated as cash flow hedges	(2,233)	2,900
	10,192	276
Total	$ 52,112	$ 44,277

A reconciliation of the statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that is reported in the consolidated statements of income follows:

	2009		2008	
Combined Canadian federal and provincial income taxes and statutory tax rate	$ 43,743	29.5%	$ 44,536	30.5%
Increase (decrease) arising from:				
Tax-exempt income	(5,329)	(3.6)	(3,579)	(2.5)
Stock-based compensation	1,985	1.3	1,774	1.2
Future federal and/or provincial tax rate reductions[1]	149	0.1	999	0.7
Other	1,372	0.9	271	0.2
Provision for income taxes and effective tax rate	$ 41,920	28.2%	$ 44,001	30.1%

(1) Future federal and/or provincial tax rate reductions represent the revaluation of future income tax assets to reflect corporate income tax rate reductions enacted for accounting purposes.

Future income tax balances are comprised of the following:

	2009	2008
Net future income tax assets		
Allowance for credit losses	$ 16,487	$ 16,103
Deferred loan fees	3,448	1,428
Other temporary differences	384	(1,389)
	$ 20,319	$ 16,142
Net future income tax liabilities		
Intangible assets	$ 2,217	$ 742
Allowance for credit losses	–	(845)
Other temporary differences	(180)	1,403
	$ 2,037	$ 1,300

The Bank has approximately $11,140 (2008 – $11,140) of capital losses that are available to apply against future capital gains and have no expiry date. The tax benefit of these losses has not been recognized in the consolidated financial statements.

25. EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated based on the average number of common shares outstanding during the year. Diluted earnings per share is calculated based on the treasury stock method, which assumes that any proceeds from the exercise of in-the-money stock options would be used to purchase the Bank's common shares at the average market price during the year.

The calculation of earnings per common share follows:

	2009	2008
Numerator		
Net income available to common shareholders	$ 96,223	$ 102,019
Denominator		
Weighted average of common shares outstanding – basic	63,613,398	63,214,117
Dilutive instruments:		
Warrants	1,439,723	–
Stock options[1]	281,442	1,227,017
Weighted average number of common shares outstanding – diluted	65,334,563	64,441,134
Earnings per Common Share		
Basic	$ 1.51	$ 1.61
Diluted	1.47	1.58

(1) At October 31, 2009, the denominator excludes 1,122,170 (2008 – 3,334,382) employee stock options with an average adjusted exercise price of $28.58 (2008 – $27.45) where the exercise price, adjusted for unrecognized stock-based compensation, is greater than the average market price.

26. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Assets under administration of $5,467,447 (2008 – $4,347,723) and assets under management of $878,095 (2008 – nil) represent the fair value of assets held for personal, corporate and institutional clients. The assets are kept separate from the Bank's own assets. Assets under administration and management are not reflected in the consolidated balance sheets and relate to the banking and trust segment.

27. RELATED PARTY TRANSACTIONS

The Bank makes loans, primarily residential mortgages, to its officers and employees at various preferred rates and terms. The total amount outstanding for these types of loans is $62,861 (2008 – $64,836). The Bank offers deposits, primarily fixed term deposits to its officers, employees and their immediate family at preferred rates. The total amount outstanding for these types of deposits is $139,871 (2008 – $127,219).

28. INTEREST RATE SENSITIVITY

The Bank is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing behaviour of interest sensitive assets and liabilities. The interest rate gap is managed by forecasting core balance trends. The repricing profile of these assets and liabilities has been incorporated in the table following showing the gap position at October 31 for select time intervals. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

ASSET LIABILITY GAP POSITIONS
($ millions)

October 31, 2009	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	More than 5 Years	Non-Interest Sensitive	Total
Assets								
Cash resources and securities	$ 92	$ 36	$ 352	$ 480	$ 1,573	$ 81	$ 55	$ 2,189
Loans	4,792	585	929	6,306	2,890	128	(88)	9,236
Other assets	–	–	–	–	–	–	211	211
Derivative financial instruments[1]	–	–	239	239	–	–	–	239
Total	4,884	621	1,520	7,025	4,463	209	178	11,875
Liabilities and Equity								
Deposits	3,796	826	1,560	6,182	3,343	105	(13)	9,617
Other liabilities	303	6	27	336	36	8	277	657
Debentures	60	–	–	60	240	75	–	375
Shareholders' equity	–	–	–	–	–	–	987	987
Derivative financial instruments[1]	239	–	–	239	–	–	–	239
Total	4,398	832	1,587	6,817	3,619	188	1,251	11,875
Interest Rate Sensitive Gap	$ 486	$ (211)	$ (67)	$ 208	$ 844	$ 21	$ (1,073)	$ –
Cumulative Gap	$ 486	$ 275	$ 208	$ 208	$ 1,052	$ 1,073	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	4.1%	2.3%	1.8%	1.8%	8.9%	9.0%	–	–
October 31, 2008								
Total assets	$ 5,140	$ 784	$ 1,263	$ 7,187	$ 3,749	$ 141	$ 120	$ 11,197
Total liabilities and equity	4,072	889	1,992	6,953	3,165	189	890	11,197
Interest Rate Sensitive Gap	$ 1,068	$ (105)	$ (729)	$ 234	$ 584	$ (48)	$ (770)	$ –
Cumulative Gap	$ 1,068	$ 963	$ 234	$ 234	$ 818	$ 770	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	9.5%	8.6%	2.1%	2.1%	7.3%	6.9%	–	–

(1) Derivative financial instruments are included in this table at the notional amount.
(2) Accrued interest is excluded in calculating interest sensitive assets and liabilities.
(3) 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. The majority of fixed rate loans, mortgages and leases are either closed or carry prepayment penalties.

The effective, weighted average interest rates for each class of financial asset and liability are shown below.

WEIGHTED AVERAGE EFFECTIVE INTEREST RATES
(%)

October 31, 2009	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	More than 5 Years	Total
Assets							
Cash resources and securities	0.6%	1.7%	1.9%	1.6%	3.3%	5.7%	3.0%
Loans	3.8	2.7	5.7	4.0	5.8	5.8	4.6
Derivative financial instruments	3.1	2.7	3.1	3.0	2.3	–	2.8
Total	3.8	2.6	4.5	3.8	4.9	5.8	4.3
Liabilities							
Deposits	0.7	2.4	3.1	1.6	3.5	6.4	2.3
Other liabilities	0.3	–	–	0.3	–	–	0.3
Debentures	5.6	–	–	5.6	5.4	5.6	5.4
Derivative financial instruments	0.2	–	–	0.2	–	–	0.2
Total	0.7	2.4	3.1	1.4	3.6	5.8	2.3
Interest Rate Sensitive Gap	3.1%	0.2%	1.4%	2.4%	1.3%	0.0%	2.0%
October 31, 2008							
Total assets	4.7%	4.2%	5.1%	4.8%	5.4%	5.8%	5.0%
Total liabilities	2.2	3.6	4.0	2.9	4.2	5.7	3.4
Interest Rate Sensitive Gap	2.5%	0.6%	1.1%	1.9%	1.2%	0.1%	1.6%

Based on the current interest rate gap position, it is estimated that a one-percentage point increase in all interest rates would decrease net interest income by approximately 2.5% or $6,574 (October 31, 2008 – 4.8% or $10,324 increase to net interest income) and decrease other comprehensive income $21,355 (October 31, 2008 – $19,982) net of tax, respectively over the following twelve months. A one-percentage point decrease in all interest rates would increase net interest income by approximately 3.8% or $10,241 (October 31, 2008 – 4.8% or $10,356 decrease to net interest income) and increase other comprehensive income $21,355 (October 31, 2008 – $19,982) net of tax.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial instruments measured at fair value that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. For certain securities and derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The fair value of financial assets recorded on the consolidated balance sheets at fair value (cash, securities, securities purchased under resale agreements and derivatives) was determined using published market prices quoted in active markets (referred to as Level 1) and estimated using a valuation technique based on observable market data (referred to as Level 2). The fair value of liabilities recorded on the consolidated balance sheets at fair value (derivatives) was determined using a valuation technique based on observable market data. There were no financial instruments that were measured using unobservable market data (referred to as Level 3).

		Valuation Technique		
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Cash resources	$ 297,104	$ 297,104	$ –	$ –
Securities	1,891,409	1,884,918	6,491	–
Derivative related	2,334	–	2,334	–
October 31, 2009	$ 2,190,847	$ 2,182,022	$ 8,825	$ –
October 31, 2008	$ 1,808,117	$ 1,665,237	$ 142,880	$ –
Financial Liabilities				
Securities purchased under reverse resale agreements	$ 300,242	$ –	$ 300,242	$ –
Derivative related	74	–	74	–
October 31, 2009	$ 300,316	$ –	$ 300,316	$ –
October 31, 2008	$ 163	$ –	$ 163	$ –

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 fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the value of the consideration given or received). Subsequent to initial recognition, financial instruments measured at fair value on the consolidated balance sheets that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. For certain securities and derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Several of the Bank's significant financial instruments, such as loans and deposits, 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 loans, deposits and subordinated debentures are 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 table below sets out the fair values of financial instruments (including certain derivatives) using the valuation methods and assumptions referred to below the table. The table does not include assets and liabilities that are not considered financial instruments.

		2009			2008		
		Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
Assets							
Cash resources	(Note 3)	$ 297,104	$ 297,104	$ –	$ 492,173	$ 492,173	$ –
Securities	(Note 4)	1,891,409	1,891,409	–	1,228,964	1,228,964	–
Securities purchased under resale agreements		–	–	–	77,000	77,000	–
Loans[1]		9,320,749	9,368,074	47,325	8,700,672	8,635,811	(64,861)
Other assets[2]		97,179	97,179	–	82,782	82,782	–
Derivative related		2,334	2,334	–	9,980	9,980	–
Liabilities							
Deposits[1]		9,628,949	9,739,360	110,411	9,258,776	9,247,017	(11,759)
Other liabilities[3]		265,295	265,295	–	232,678	232,678	–
Securities purchased under reverse resale agreements		300,242	300,242	–	–	–	–
Subordinated debentures		375,000	377,363	2,363	375,000	387,774	12,774
Derivative related		74	74	–	163	163	–

(1) Loans and deposits exclude deferred premiums and deferred revenue, which are not financial instruments.
(2) Other assets exclude land, buildings and equipment, goodwill and other intangible assets, reinsurers' share of unpaid claims and adjustment expenses, future income tax asset, prepaid and deferred expenses, financing costs and other items that are not financial instruments.
(3) Other liabilities exclude future income tax liability, deferred revenue, unearned insurance premiums and other items that are not financial instruments.
(4) For further information on interest rates associated with financial assets and liabilities, including derivative instruments, refer to Note 28.

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

- cash resources and securities are reported on the consolidated balance sheets at the fair value disclosed in Notes 3 and 4. These values are based on quoted market prices, if available. Where a quoted market price is not readily available, other valuation techniques are based on observable market rates used to estimate fair value;
- loans reflect changes in the general level of interest rates that 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;
- other assets and other liabilities, with the exception of derivative financial instruments, are assumed to approximate their carrying value, due to their short-term nature;
- for derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants;
- 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 terms; and
- the fair values of subordinated debentures 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 judgment and, as such, may not be reflective of future fair values.

30. RISK MANAGEMENT

As part of the Bank's risk management practices, the risks that are significant to the business are identified, monitored and controlled. The most significant risks include credit risk, liquidity risk, market risk, insurance risk, operational risk and litigation risk. The nature of these risks and how they are managed is provided in the commentary on pages 59 to 63 of the MD&A.

As permitted by the CICA, certain of the risk management disclosure related to risks inherent with financial instruments is in the MD&A. The relevant MD&A sections are identified by shading and the shaded areas form an integral part of these audited consolidated financial statements.

Information on specific measures of risk, including the allowance for credit losses, derivative financial instruments, interest rate sensitivity, fair value of financial instruments and liability for unpaid claims are included elsewhere in these notes to the consolidated financial statements.

31. CAPITAL MANAGEMENT

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to be considered well capitalized, protect customer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all while providing a satisfactory return for shareholders.

The Bank has a share incentive plan that is provided to officers and employees who are in a position to materially impact the longer term financial success of the Bank as measured by share price appreciation and dividend yield. Note 19 to the consolidated financial statements details the number of shares under options outstanding, the weighted average exercise price and the amounts exercisable at year-end.

Basel II Capital Adequacy Accord

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, which is commonly referred to as Basel II. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. As an example, a loan that is fully insured by the Canada Mortgage and Housing Corporation (CMHC) is applied a risk weighting of 0% as the Bank's risk of loss is nil, while uninsured commercial loans are assigned a risk weighting of 100% to reflect the higher level of risk associated with this type of asset. The ratio of regulatory capital to risk-weighted assets is calculated and compared to OSFI's standards for Canadian financial institutions. Off-balance sheet assets, such as the notional amount of derivatives and some credit commitments, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk-weighted calculations are prescribed by OSFI. As Canadian Direct is subject to separate OSFI capital requirements specific to insurance companies, the Bank's investment in CDI is deducted from total capital and CDI's assets are excluded from the calculation of risk-weighted assets.

Current 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 has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. CWB's Tier 1 capital is comprised of common shareholders' equity and innovative capital (to a regulatory maximum of 15% of net Tier 1 capital), while Tier 2 capital includes subordinated debentures (to the regulatory maximum amount of 50% of net Tier 1 capital), the inclusion of the general allowance for credit losses (to the regulatory maximum) and any innovative capital not included in Tier 1.

During March 2009, the Bank issued 8.4 million preferred units for total proceeds of $209.8 million, which qualify as Tier 1 capital (refer to Note 9). The preferred units, issued by way of the private placement and the public offering, each consist of one Non-Cumulative 5-Year Rate Reset Preferred Share, Series 3 (Series 3 Preferred Shares) in the capital of the Bank with an issue price of $25.00 per share and 1.7857 and 1.7800 common share purchase warrants, respectively. Each warrant is exercisable at a price of $14.00 to purchase one common share in the capital of the Bank until March 3, 2014 (refer to Note 18).

During the year, the Bank complied with all internal and external capital requirements.

CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR-END

($ thousands)

	2009	2008
Tier 1 Capital		
Retained earnings	$ 511,784	$ 448,203
Accumulated unrealized losses on available-for-sale equity securities, net of tax(2)	–	(6,973)
Preferred shares	209,750	–
Common shares	226,480	221,914
Contributed surplus	19,366	14,234
Innovative capital instrument(3)	105,000	105,000
Non-controlling interest in subsidiary	267	–
Less goodwill of subsidiaries	(9,360)	(6,933)
Total	1,063,287	775,445
Tier 2 Capital		
General allowance for credit losses (Tier A)(4)	61,153	60,527
Accumulated unrealized gains on available-for-sale equity securities, net of tax(2)	2,118	–
Subordinated debentures (Tier B)(5)	380,000	380,000
Total	443,271	440,527
Less investment in insurance subsidiary	(56,768)	(47,700)
Total Regulatory Capital	$ 1,449,790	$ 1,168,272
Regulatory Capital to Risk-Weighted Assets		
Tier 1 capital	11.3%	8.9%
Tier 2 capital	4.7	5.1
Less investment in insurance subsidiary	(0.6)	(0.5)
Total Regulatory Capital Adequacy Ratio	15.4%	13.5%
Assets to Regulatory Capital Multiple(6)	8.1	9.2

(1) Regulatory capital and capital ratios are calculated in accordance with the requirements of the Office of the Superintendent of Financial Institution, and capital is managed and reported in accordance with the requirements of the Basel II Capital Adequacy Accord (Basel II).

(2) Accumulated other comprehensive income related to unrealized losses on certain available-for-sale equity securities, net of tax, reduces Tier 1 capital, while unrealized gains on certain available-for-sale equity securities, net of tax, increases Tier 2 capital.

(3) Innovative capital may be included in Tier 1 capital to a maximum of 15% of net Tier 1 capital. Any excess innovative capital outstanding is included in Tier 2B capital.

(4) Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. At October 31, 2009, the Bank's general allowance represented 0.65% (2008 – 0.70%) of risk-weighted assets.

(5) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital. Any excess Tier 2B capital is included in capital as net Tier 1 capital increases. At October 31, 2009 and October 31, 2008, all subordinated debentures are included in Tier 2B capital.

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

32. SEGMENTED INFORMATION

The Bank operates principally in two industry segments – banking and trust, and insurance. These two segments differ in products and services but are both within the same geographic region.

The banking and trust segment provides banking, trust and wealth management services to personal clients, small to medium-sized commercial business clients and institutional clients primarily in Western Canada. The insurance segment provides home and auto insurance to individuals in British Columbia and Alberta.

	Banking and Trust		Insurance		Total	
	2009	2008	2009	2008	2009	2008
Net interest income (teb)[1]	$ 230,227	$ 222,837	$ 6,127	$ 5,780	$ 236,354	$ 228,617
Less teb adjustment	7,203	5,191	644	480	7,847	5,671
Net interest income per financial statements	223,024	217,646	5,483	5,300	228,507	222,946
Other income[2]	74,013	54,338	17,599	15,902	91,612	70,240
Total revenues	297,037	271,984	23,082	21,202	320,119	293,186
Provision for credit losses	13,500	12,000	–	–	13,500	12,000
Non-interest expenses[3]	147,571	125,748	10,611	9,418	158,182	135,166
Provision for income taxes	38,560	40,589	3,360	3,412	41,920	44,001
Non-controlling interest in subsidiary	232	–	–	–	232	–
Net Income[5]	$ 97,174	$ 93,647	$ 9,111	$ 8,372	$ 106,285	$102,019
Total average assets ($ millions)[4]	$ 11,055	$ 9,747	$ 198	$ 184	$ 11,253	$ 9,931

(1) Taxable Equivalent Basis (teb) – Most banks analyze revenue on a taxable equivalent basis to permit uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividends received is significantly lower than would apply to a loan or security of the same amount. The adjustment to taxable equivalent basis increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. The taxable equivalent basis does not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other banks.

(2) Other income for the insurance segment is presented net of claims, adjustment costs and policy acquisition costs (see Note 21) and also includes the gain on the sale of securities.

(3) Amortization of intangible assets of $1,020 (2008 – $276) is included in the banking and trust segment and $250 (2008 – $250) in the insurance segment. Amortization of land, buildings and equipment total $6,000 (2008 – $5,040) for the banking and trust segment and $1,503 (2008 – $1,330) for the insurance segment while additions amounted to $13,422 (2008 – $10,552) for the banking and trust segment and $1,387 (2008 – $1,975) for the insurance segment. Goodwill of $6,106 (2008 – $3,679) is allocated to the banking and trust segment and $3,254 (2008 – $3,254) to the insurance segment.

(4) Assets are disclosed on an average daily balance basis as this measure is most relevant to a financial institution and is the measure reviewed by management.

(5) Transactions between the segments are reported at the exchange amount, which approximates fair market value.

33. BUSINESS ACQUISITION

Effective November 1, 2008 the Bank acquired 72.5% of the outstanding shares of Adroit Investment Management Ltd. (Adroit). Adroit is an Edmonton, Alberta based firm specializing in wealth management for individuals, corporations and institutional clients. The results of operations for Adroit have been included in the Bank's consolidated financial statements since the effective acquisition date. The initial $6,481 acquisition cost was paid in cash. Additional contingent consideration, to a maximum of $1,675, will be paid in cash if earnings targets are achieved over a two year period. Any future contingent payment will be recorded when the liability has been incurred and will increase goodwill.

The following table summarizes the fair value of the assets acquired and liabilities assumed:

Net assets acquired	
Other assets	$ 90
Other intangible assets	3,964
Goodwill	2,427
	$ 6,481

Other intangible assets include customer relationships, non-competition agreements and a trademark. The trademark, which has an estimated value of $280, is not subject to amortization. Adroit's financial results, the goodwill and other intangible assets related to the acquisition are included in the banking and trust segment. The total amount of goodwill and intangible assets are not deductible for income tax purposes.

34. SUBSIDIARIES AND AFFILIATE

Canadian Western Bank Subsidiaries[1]

(annexed in accordance with subsection 308 (3) of the Bank Act)
October 31, 2009

	Address of Head Office	Carrying Value of Voting Shares Owned by the Bank[2]
Canadian Western Trust Company	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	$ 60,753
Canadian Direct Insurance Incorporated	Suite 600, 750 Cambie Street Vancouver, British Columbia	59,681
Valiant Trust Company	Suite 310, 606 4th St. S.W. Calgary, Alberta	13,672
Adroit Investment Management Ltd.	Suite 1250, 10303 Jasper Avenue Edmonton, Alberta	6,312
Canadian Western Financial Ltd.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1,639
Canadian Western Bank Leasing Inc.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1,397
Canadian Western Bank Capital Trust[3]	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1,000

(1) The Bank owns 100% of the voting shares of each entity, with the exception of Adroit Investment Management Ltd. (72.5% ownership).
(2) The carrying value of voting shares is stated at the Bank's equity in the subsidiaries.
(3) In accordance with accounting standards, this entity is not consolidated as the Bank is not the primary beneficiary.

35. SUBSEQUENT EVENT

On December 9, 2009 the Bank signed an agreement to acquire 100% of the common shares of National Leasing Group Inc. (National Leasing) in exchange for cash and common shares of the Bank. The vendors may retain a participating interest in National Leasing for up to 25% of the agreed upon enterprise value of $130 million. The acquisition is subject to the regulatory and other approvals and is expected to close at the beginning of February 2010.

National Leasing is a privately held commercial equipment leasing company for small to mid-size transactions. National Leasing is headquartered in Winnipeg, Manitoba, and has over 58,000 lease agreements with a collective book value of approximately $650 million, including securitized leases which comprise approximately one half of the portfolio.

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

Glossary of Key Terms

ALLOWANCE FOR CREDIT LOSSES: An allowance set aside which, in management's opinion, is adequate to absorb both expected and unexpected credit-related losses that are likely to exist in the portfolio. It includes specific and general allowances.

ASSETS UNDER ADMINISTRATION: Assets owned by customers, for which the Bank provides custodial services. Services provided in respect of assets under administration are of an administrative nature and include such things as record keeping, safekeeping, collecting investment income or settling purchase and sale transactions. These assets are not reported on the Bank's consolidated balance sheet.

ASSETS UNDER MANAGEMENT: Assets owned by customers, for which the Bank provides investment management services. Services provided in respect of assets under management include the selection of investments and investment advice. These assets are not reported on the Bank's consolidated balance sheet.

BASIS POINT: A unit of measure defined as one-hundredth of one per cent.

CAPITAL: Primarily consists of common and preferred shareholders' equity, innovative capital instruments and subordinated debentures. It can support asset growth, absorb impacts from loan losses and protect depositors.

DERIVATIVE INSTRUMENTS: Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all derivative instruments.

EFFICIENCY RATIO: Measures the efficiency with which the Bank incurs expenses to generate revenue. It expresses non-interest expenses as a percentage of the sum of net interest income on a taxable equivalent basis and other income. A lower ratio indicates improved productivity.

EARNINGS PER SHARE (EPS), BASIC: Calculated as net income less preferred share dividends divided by the average number of common shares outstanding.

EARNINGS PER SHARE (EPS), DILUTED: Calculated as net income less preferred share dividends divided by the average number of common shares outstanding adjusted for the dilutive effects of stock options and other convertible securities (common share purchase warrants).

FAIR VALUE: The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

GENERAL ALLOWANCE: Established by the Bank to recognize credit losses which are likely embedded in the loan portfolio, but have not yet been specifically identified on an individual item-by-item basis.

HEDGING: Protecting against interest rate, market or foreign exchange exposures by taking positions that are expected to react to market conditions in an offsetting manner.

IMPAIRED LOANS: Loans on which the Bank no longer has reasonable assurance as to the timely collection of interest and/or principal, or where a contractual payment is past due a prescribed period. Interest is not accrued on impaired loans.

INTEREST RATE CURVE OR YIELD CURVE: A graph showing the term structure of interest rates, plotting the yields of similar quality bonds by term to maturity.

MARKED-TO-MARKET: The valuation of certain financial instruments at fair value as of the balance sheet date.

NET INTEREST INCOME: The difference between what is earned on assets such as loans and securities and what is paid on liabilities such as deposits and subordinated debentures.

NET INTEREST MARGIN: Net interest income, on a taxable equivalent basis, expressed as a percentage of average total assets.

OFF-BALANCE SHEET INSTRUMENTS: These are indirect credit commitments, including undrawn commitments to extend credit and guarantees.

OSFI: The Office of the Superintendent of Financial Institutions Canada (OSFI), the regulator of federal banks, trust and insurance companies.

PROVISION FOR CREDIT LOSSES: The amount charged against income necessary to bring the allowance for credit losses to a level determined appropriate by management. This includes both specific and general provisions.

RETURN ON EQUITY (ROE): Net income available to common shareholders (net income less preferred share dividends), expressed as a percentage of average common shareholders' equity.

RETURN ON ASSETS (ROA): Net income available to common shareholders (net income less preferred share dividends), expressed as a percentage of average assets.

RISK: Financial institutions face a number of different risks that expose them to possible losses. These risks include, but are not limited to, credit risk, market risk, operational risk, liquidity risk, reputation risk, regulatory and legal risk and insurance risk.

RISK-WEIGHTED ASSETS: Calculated using weights based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk weights are applied.

SECURED LENDING: Loans or other obligations in which assets are pledged as security to protect the lender's interests. Collateral can take many forms, such as cash, highly rated financial securities, property, inventory, equipment, receivables, etc.

STANDBY LETTERS OF CREDIT AND LETTERS OF GUARANTEE: Assurances given by the Bank that it will make payments on behalf of clients to third parties. The Bank has recourse against its clients for any advanced funds.

SWAPS: Interest rate swaps are agreements to exchange streams of interest payments, typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts.

TANGIBLE COMMON EQUITY RATIO: The tangible common equity ratio (TCE) is a ratio of TCE to risk-weighted assets. The level of tangible common equity is generally considered to be one of the most important measures of a bank's capital strength, and is often used to assess the quality of a bank's capital position. CWB calculates tangible common equity as total shareholders' equity, less preferred shares, unrealized gains/losses on available-for-sale securities and cash flow hedges, goodwill, and intangible assets.

TAXABLE EQUIVALENT BASIS (teb): The grossing up of tax-exempt income earned on certain securities to an equivalent before-tax basis. This ensures uniform measurement and comparison of net interest income arising from both taxable and tax-exempt sources.

TIER 1 AND TOTAL CAPITAL RATIOS: These are ratios of capital to risk-weighted assets, as stipulated by OSFI. Tier 1 capital, the more permanent, consists primarily of common shareholders' equity, non-controlling interest in subsidiaries plus non-cumulative preferred shares, plus eligible Innovative capital instruments, less unamortized goodwill and ineligible intangible assets. Tier 2 capital consists mainly of subordinated debentures and the eligible general allowance. Together, Tier 1 and Tier 2 capital less certain deductions (including CWB's investment in CDI) comprise total regulatory capital.

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(L – R) Howard Pechet, Arnold Shell , Alan Rowe, Robert Phillips, Gerald McGavin, Allan Jackson, Robert Manning, Raymond Protti, Larry Pollock, Wendy Leaney, Jack Donald. Missing: Albrecht Bellstedt

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Senior Vice President and
Regional General Manager

CANADIAN WESTERN TRUST

Adrian M. Baker
Vice President and
Chief Operating Officer
Trust Services

Scott K.F. Scobie
General Manager

CANADIAN DIRECT INSURANCE

Brian J. Young
President and
Chief Executive Officer

Susannah M. Bach
Vice President
Corporate and Strategic
Operations

Colin G. Brown
Chief Operating Officer

Michael Martino
Chief Financial Officer

Vince M. Muto
Vice President, Claims

ADROIT INVESTMENT MANAGEMENT

Valmon A. Vaillant
President

David D. Schuster
Executive Vice President

Maria K. Holowinsky
Vice President

VALIANT TRUST

Adrian M. Baker
President

Matt K. Colpitts
General Manager

OMBUDSMAN

R. Graham Gilbert

Shareholder Information

CWB Group Corporate Headquarters

Canadian Western Bank & Trust
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423-8888
Fax: (780) 423-8897
Website: www.cwbankgroup.com

Transfer Agent and Registrar

Valiant Trust Company
Suite 310, 606 - 4th Street S.W.
Calgary, Alberta T2P 1T1
Telephone: (866) 313-1872
Fax: (403) 233-2857
Website: www.valianttrust.com

Stock Exchange Listings

The Toronto Stock Exchange (TSX)
Common Shares: CWB
Series 3 Preferred Shares: CWB.PR.A
Common Share Purchase Warrants: CWB.WT

Shareholder Administration

Valiant Trust Company, with offices in Calgary, Edmonton, Vancouver and Toronto, serves as Transfer Agent and Registrar for the common shares, preferred shares and common share purchase warrants of CWB.

For dividend information, change in share registration or address, lost share certificates, tax forms or estate transfers, please write or call the Transfer Agent and Registrar, or email inquiries@valianttrust.com.

Duplicated Communications

If you receive, but do not require, more than one mailing for the same ownership, please contact the Transfer Agent to combine the accounts.

Direct Deposit Services

Shareholders may choose to have CWB common and preferred cash dividends deposited directly into their accounts held at their financial institutions. To arrange direct deposit service, please contact the Transfer Agent and Registrar.

Eligible Dividend Designation

CWB designates all dividends for both common and preferred shares paid to Canadian residents as "eligible dividends", as defined in the Income Tax Act (Canada), unless otherwise noted.

Dividend Reinvestment Plan

CWB's dividend reinvestment plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage and commission fees. For information about participation in the plan, please contact the Transfer Agent and Registrar.

Investor Relations

Shareholders, institutional investors or research analysts who would like additional financial information are asked to contact:

Investor Relations Department
Canadian Western Bank
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (800) 836-1886
Fax: (780) 969-8326
Email: InvestorRelations@cwbank.com

More comprehensive investor information – including supplemental financial reports, quarterly financial releases, corporate presentations, corporate fact sheets and frequently asked questions – is available under the Investor Relations section on our website at www.cwbankgroup.com This 2009 Annual Report, along with our Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular, is available on our website. For additional printed copies of these reports, please contact the Investor Relations Department.
Filings are available on the Canadian Securities Administrator's website: www.sedar.com

2010 Annual and Special Meeting

The annual and special meeting of the common shareholders of Canadian Western Bank will be held in Edmonton, Alberta, on March 4, 2010, at the Winspear Centre (the Studio Room), at 3:00 p.m. MST (5:00 p.m. EST).

Corporate Secretary

Gail L. Harding, Q.C.
Senior Vice President
General Counsel and Corporate Secretary
Canadian Western Bank
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Complaints or Concerns regarding Accounting, Internal Accounting Controls or Auditing Matters

Please contact either:
Tracey C. Ball
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Fax: (780) 969-8326
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or
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Chairman of the Audit Committee
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Edmonton, Alberta T6H 4J8
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Email: rmanning@shawbiz.ca

Award of Excellence Recipients for 2009

Hard working. Enthusiastic. Responsive. Dedicated.

These are the characteristics exemplified by the recipients of the Award of Excellence, an annual recognition for employees who every day, live and breathe the qualities for which CWB Group is known.

Exceeding the expectations of both clients and colleagues, these individuals consistently take initiative, innovate and inspire.

Congratulations to the 2009 recipients of the Award of Excellence.

Trent Bobinski, CWB Corporate Office
Henry Cheung, CDI Cambie
Jennifer Eng, CWB Lethbridge
Joan Hopp, CWB Edmonton 103rd Street
Craig Martin, CWB Langley
Zehra Mehrani, CWT Cambie
Wendy Nish, CWB Calgary Foothills
Anna Phan, Valiant Trust, Vancouver
Drinda Ribeiro, CDI Cambie
Toneille Steiner, CWB Corporate Office
Pam Szufnarowicz, CWB Kamloops
Marjan Wams, CWB Courtenay

Locations

Canadian Western Bank

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Michael Halliwell

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Jim Burke

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(780) 423–8801
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Old Strathcona
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Donna Austin

South Edmonton Common
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Wayne Dosman

West Point
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(780) 484–7407
David Hardy

CALGARY

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Glen Eastwood

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Calgary Foothills
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Brad Ford

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Les Erickson

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Don Odell

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Jeff Suggitt

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Ron Baker

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Alan Dafoe
(Jason Zaichkowsky) - Acting

CRANBROOK
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828 Baker Street
(250) 426–1140
Mike Eckersley

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Peter Greenway

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Kelowna
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Keith Wilkes

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James Kruiper

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Craig Martin

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Russ Burke

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David Duck

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Bob Granger

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The Hill Center Tower II
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Kelly Dennis

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Saskatoon City Centre
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Ron Kowalenko

Saskatoon North Landing
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(306) 244–8008
Dwayne Demeester

YORKTON
45, 277 Broadway Street East
(306) 782–1002
Barb Apps

MANITOBA

WINNIPEG
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Robert Bean

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Canadian Western Trust

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REAL ESTATE LENDING
22nd Floor, 666 Burrard Street
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Optimum Mortgage

EDMONTON
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310, 101 Schoolhouse Street
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230 Portage Avenue
(204) 926–1547

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16 Bear Creek Drive
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SOUTHERN ONTARIO
Woodbridge
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Canadian Western Financial

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Eco Audit

This annual report uses paper that comes from well-managed forests, certified in accordance with the international standards of the Forest Stewardship Council (FSC). The paper used for the report cover contains 30% Post Consumer Recycled (PCR) and the paper used for the report contains 100% PCR fibre instead of virgin paper. As a result, the following savings to our natural resources were realized:

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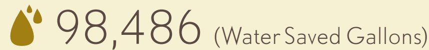

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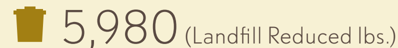

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