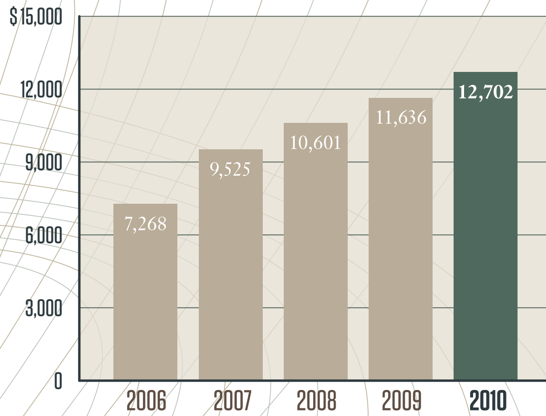
KNOWING WHAT WORKS

BUILDING ON THE FUNDAMENTALS

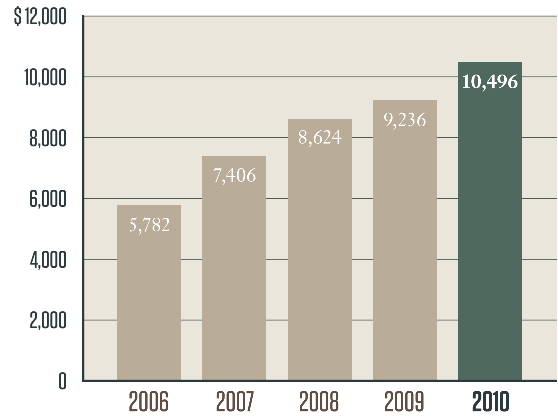
CANADIAN WESTERN BANK GROUP • 2010 ANNUAL REPORT

OUR HISTORY OF FINANCIAL PERFORMANCE

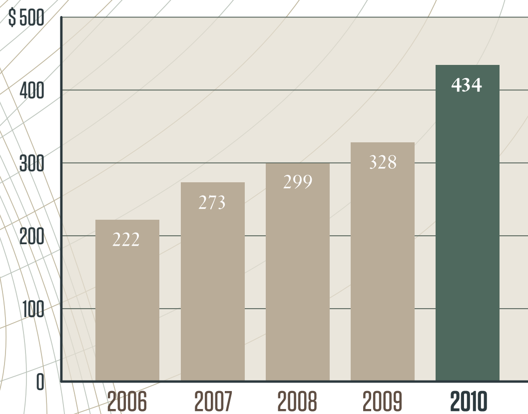
TOTAL ASSETS ($ millions)



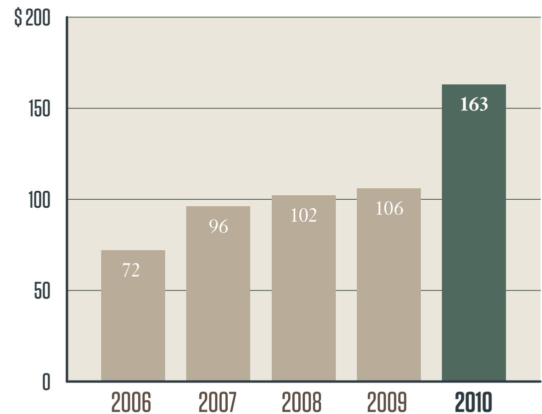
TOTAL LOANS ($ millions)



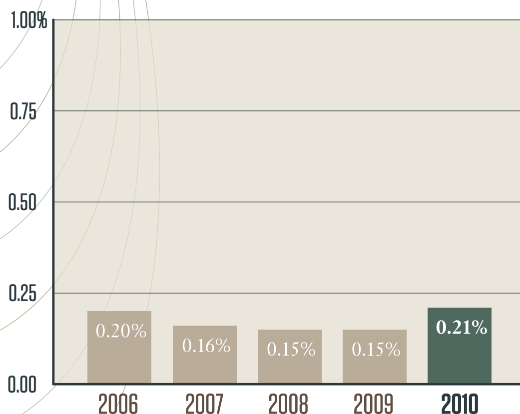
TOTAL REVENUE (teb) ($ millions)



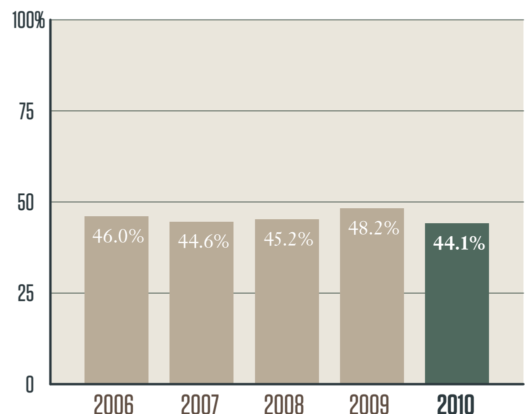
NET INCOME ($ millions)



PROVISION FOR CREDIT LOSSES
(as a percentage of average loans)



EFFICIENCY RATIO (teb)
(expenses to revenues)



FIVE YEAR FINANCIAL SUMMARY

($ thousands, except per share amounts)

	2010	2009	2008	2007	2006
Results of Operations					
Net interest income (teb)[1]	$ 328,664	$ 236,354	$ 228,617	$ 210,659	$ 168,684
Less teb adjustment	11,186	7,847	5,671	5,410	4,078
Net interest income per financial statements	317,478	228,507	222,946	205,249	164,606
Other income	105,595	91,612	70,240	62,821	53,086
Total revenues (teb)	434,259	327,966	298,857	273,480	221,770
Total revenues	423,073	320,119	293,186	268,070	217,682
Net income	163,621	106,285	102,019	96,282	72,007
Return on common shareholders' equity[2]	17.1%	13.2%	15.9%	17.4%	14.8%
Return on average total assets[3]	1.24	0.86	1.03	1.18	1.12
Per Common Share[4]					
Average common shares outstanding (thousands)	65,757	63,613	63,214	62,354	61,514
Earnings per share					
Basic	$ 2.26	$ 1.51	$ 1.61	$ 1.54	$ 1.17
Diluted	2.05	1.47	1.58	1.50	1.13
Diluted cash[5]	2.09	1.49	1.59	1.50	1.14
Dividends	0.44	0.44	0.42	0.34	0.25
Book value	14.08	12.16	10.70	9.48	8.39
Market price					
High	26.59	23.00	32.20	30.86	22.78
Low	19.85	7.52	14.67	20.78	16.64
Close	25.36	21.38	18.44	30.77	21.15
Balance Sheet and Off-Balance Sheet Summary					
Assets	$ 12,701,691	$ 11,635,872	$ 10,600,732	$ 9,525,040	$ 7,268,360
Cash resources, securities and resale agreements	1,876,085	2,188,512	1,798,137	1,961,241	1,332,987
Loans	10,496,464	9,236,193	8,624,069	7,405,580	5,781,837
Deposits	10,812,767	9,617,238	9,245,719	8,256,918	6,297,007
Subordinated debentures	315,000	375,000	375,000	390,000	198,126
Shareholders' equity	1,148,043	986,499	679,148	595,493	519,530
Assets under administration	8,530,716	5,467,447	4,347,723	4,283,900	3,344,414
Assets under management	795,467	878,095	—	—	—
Capital Adequacy					
Tangible common equity to risk-weighted assets[6]	8.5%	8.0%	7.7%	7.7%	8.6%
Tier 1 ratio[7]	11.3	11.3	8.9	9.1	10.1
Total ratio[7]	14.3	15.4	13.5	13.7	13.7
Other Information					
Efficiency ratio (teb)[8]	44.1%	48.2%	45.2%	44.6%	46.0%
Efficiency ratio	45.3	49.4	46.1	45.5	46.9
Net interest margin (teb)[9]	2.74	2.10	2.30	2.58	2.62
Net interest margin	2.64	2.03	2.25	2.51	2.56
Provision for credit losses					
as a percentage of average loans	0.21	0.15	0.15	0.16	0.20
Net impaired loans as a percentage of total loans	0.62	0.68	0.19	(0.57)	(0.75)
Number of full-time equivalent staff[10]	1,716	1,339	1,284	1,185	1,097
Number of bank branches	39	37	36	35	33

(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 statements 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) A stock dividend effecting a two-for-one split of the Bank's common shares was paid in 2007. All prior period common share and per common share information has been restated to reflect this effective split.

(5) Diluted cash earnings per share is diluted earnings per common share excluding the after-tax amortization of acquisition-related intangible assets.

(6) 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. Capital ratios prior to fiscal 2008 have been calculated using the previous framework.

(7) 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. Capital ratios prior to fiscal 2008 have been calculated using the previous framework.

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

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

(10) The significant increase in the number of full-time equivalent staff in 2010 compared to the prior year reflects the Bank's acquisition of National Leasing Group Inc., effective February 1, 2010.

PERFORMANCE TARGETS & OUTLOOK

2010 Highlights

- Record net income of $163.6 million, an increase of 54% over the 2009 record.
- Record diluted earnings per common share of $2.05, up 39% over 2009.
- Record total revenues (teb) of $434.3 million, up 32% compared to the record established in 2009.
- Net interest margin (teb) of 2.74%, up 64 basis points.
- Return on common shareholders' equity of 17.1%, up 390 basis points.
- Return on assets of 1.24%, up 38 basis points.
- Loan growth of 14% marked the achievement of double-digit loan growth in 20 of the past 21 years.
- New benchmark efficiency ratio (teb) of 44.1%, a 410 basis point improvement.
- Marked 90 consecutive quarters of profitability.
- Completed the acquisition of National Leasing, effective February 1, 2010.
- Achieved record net income in the insurance segment.
- Opened new full-service commercial and retail banking centres in Sherwood Park, Alberta and Surrey, British Columbia.
- Surpassed $6 billion of assets under administration in Canadian Western Trust.

We are pleased to report Canadian Western Bank Group surpassed all but one of its 2010 minimum performance targets. Record financial performance led to new annual benchmarks for earnings, revenues and efficiency despite challenges related to the post-recessionary operating environment. Results reflect a robust improvement in net interest margin early in the year and generally strong performance across each business line. The second quarter acquisition of National Leasing was a key highlight and materially benefited all performance metrics except the provision for credit losses. The impact of National Leasing's historically higher loan loss experience compared to the Bank's core lending business is more than offset by the relatively high yield earned on the lease portfolio.

Our outlook for 2011 includes expectations for continued strong performance despite certain hurdles related to economic and competitive factors. We have set challenging targets that confirm ongoing confidence about the benefits of our proven business plan, as well as our geographic position in Western Canada. We will continue to invest in our people, premises and technology to further diversify and expand our operations while supporting sustained growth. We will remain focused on high quality assets and expect to achieve another year of double-digit loan growth. We plan to maintain strong profitability and efficiency and have also targeted double-digit growth in total revenues, on a taxable equivalent basis (teb – see definition following the financial highlights page).

	2010 Minimum Targets	**2010 Performance**	2011 Minimum Targets
Net income growth [(1)]	12%	**54%**	6%
Net income growth, before taxes (teb) [(2)]	n/a	**42%**	10%
Total revenue (teb) growth	12%	**32%**	12%
Loan growth	10%	**14%**	10%
Provision for credit losses as a percentage of average loans	0.15 to 0.20%	**0.21%**	0.20 to 0.25%
Efficiency ratio (teb)	48%	**44.1%**	46%
Return on common shareholders' equity [(3)]	13%	**17.1%**	15%
Return on assets [(4)]	0.90%	**1.24%**	1.20%

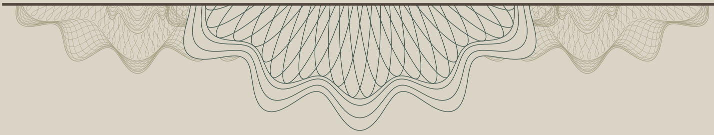
(1) Net income before preferred share dividends.

(2) Net income before income taxes (teb), non-controlling interest in subsidiary and preferred share dividends.

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

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

KNOWING WHAT WORKS



This sounds simple enough, but our ability to successfully manage and grow through challenges confirms this as a core value that continues to set us apart. Our goal is not to reinvent how business is done but, rather, to continue to do what we've always done, only better.

We know what works for our customers: our teams of business professionals are committed to working hard for our clients and recognize that customer needs always come first. We know what works for our employees: our culture thrives on respect, dedication and an entrepreneurial spirit that connects and motivates us. We know what works for communities: we embrace our responsibility to strengthen and support the places where our customers and employees live, work and play. We know what works in our target markets: headquartered in Western Canada with a select business focus across the country, we offer a local perspective and understand what drives our economies and industries. We know what works for our shareholders: consistent growth, a clear vision for the future and proven financial performance demonstrated by 90 consecutive profitable quarters.

Our commitment to knowing what works has been a key reason for Canadian Western Bank Group's (CWB Group) success for over 26 years. Now it is time to build on the fundamentals that brought us here so we can continue to grow in the future. While our roots are in Western Canada, we understand the financial services marketplace in all the places where we do business. We demonstrate this understanding through our products, services and overall approach to serving customers.

We have always taken the conservative road in the way we manage our businesses. We make decisions based on common sense and focus our strategies on areas that we know and understand. We support our communities and drive economic growth by meeting our customers' needs and investing in the development and well-being of our employees. While we are proud of our track record, we also know there are many areas we can improve, more places to grow and people to reach.

We invite you to know more about what works for CWB Group in the pages that follow.

TABLE OF CONTENTS

1	Knowing What Works
2	Canadian Western Bank Group
4	Q&A with the President and CEO
8	Q&A with the Chairman
10	Canadian Western Bank
13	Canadian Western Financial
14	Canadian Direct Financial
15	National Leasing
16	Canadian Western Trust
17	Optimum Mortgage
18	Valiant Trust
19	Canadian Direct Insurance
20	Adroit Investment Management
21	Corporate Social Responsibility
26	Corporate Governance
28	Management's Discussion and Analysis
76	Financial Statements
111	Board of Directors
111	Senior Officers
112	Shareholder Information
112	Award of Excellence Recipients

CANADIAN WESTERN BANK GROUP

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BANK · TRUST · INSURANCE
WEALTH MANAGEMENT

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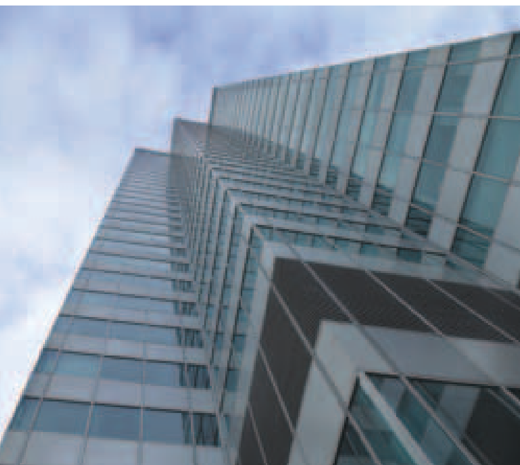
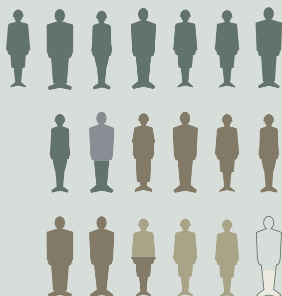


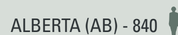
CWB Group is made up of Canadian Western Bank (CWB or the Bank) and eight operating companies/divisions that collectively offer services in the areas of banking, trust, insurance and wealth management. We primarily serve customers through 39 banking branches, a centralized equipment leasing office, eight trust locations, two insurance call centres and one wealth management location.

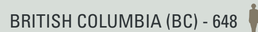
CWB's subsidiary companies include National Leasing Group Inc., Canadian Western Trust Company, Valiant Trust Company, Canadian Direct Insurance Inc., Adroit Investment Management Ltd., and Canadian Western Financial Ltd. Canadian Direct Financial is a division of the Bank while Optimum Mortgage is a division of Canadian Western Trust. As Western Canada's largest publicly traded Canadian bank, we have combined balance sheet assets of over $12 billion, including more than $10 billion of total loans. Our assets under administration are over $8 billion, and assets under management are approaching $1 billion. Together, CWB Group now employs over 1,800 people in more than 50 communities across Canada.

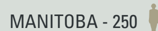
CWB Group Employees

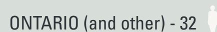
Each figure represents 100 employees of CWB Group.











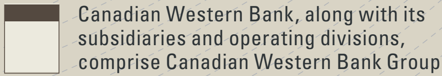
BUILDING ON THE FUNDAMENTALS

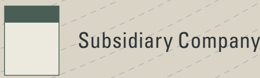
Our founders knew what would work when CWB was formed in 1984, and many of these same principles still drive our success today. We are proud to be headquartered in Western Canada and are uniquely positioned to understand and capitalize on the many opportunities in our markets. This is where we live and where we see the best opportunities to drive the evolution and future growth of CWB Group. However, we will also continue to expand our reach within select business areas in other parts of Canada. Our proven strategies, conservative management, strong financial footing and solid capital base have us positioned to expand our services and support new growth while remaining ready to manage any challenges that may arise. Everyone knows the best things in life take time, and we are committed to doing what's best for our customers, employees, communities and shareholders over the long term.

The way we do business is rooted in our culture, where every person makes a difference and is appreciated for their commitment and contribution. Our willingness to communicate, listen and work hard helps us build strong business relationships.

"I am very proud of the organization we have become. Our fundamental strengths 'came shining through' in 2010 and are reflected in our record financial results, a continued focus on developing our people and our award-winning corporate culture."

–Tracey Ball, *Executive Vice President and Chief Financial Officer*, Canadian Western Bank


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


Subsidiary Company

Operating Division

† Includes both full- and part-time employees

Canadian Western Bank Group

Employees†: 1,800+
Clients: 600,000+
Total Assets: $12.7 billion+
President & CEO: Larry M. Pollock
Chairman: Allan W. Jackson

Canadian Western Bank

Employees†: 1,093
Consecutive Profitable Quarters: 90
Total Branches (#): 39

Canadian Direct Financial

Established: 2008
Deposits: $90 million+
Provinces in Canada Where Products Are Offered (#): 9

Canadian Direct Insurance

Employees†: 294
Number of Policies Outstanding: 185,000+
Annual Gross Written Premiums: $124 million+

Valiant Trust

Employees†: 42
Appointments in 2010 (#): 496
Number of Clients: 275+

Canadian Western Trust

Employees†: 70
Investment Accounts (#): 46,000+
Total Assets Under Administration: $6 billion+

Optimum Mortgage

Employees†: 45
Total Mortgages: ~$800 million
Client Mortgages (#): 3,000+

Adroit Investment Management

Employees†: 11
Total Assets Under Management: ~$800 million
Number of Client Relationships: 300+

Canadian Western Financial

Mutual Fund Representatives (#): 100+
Client Mutual Funds: $115 million+

National Leasing

Employees†: 267
Total Leases Under Management: $680 million+
Leases Outstanding (#): 58,000+

AN INTERVIEW WITH LARRY M. POLLOCK, PRESIDENT & CEO

Q: CWB Group had a great year in 2010 – what stands out for you the most in terms of performance?

A: We posted record financial performance and closed out the year with our 90th consecutive profitable quarter. I believe we are probably the only bank in North America that can claim such a long history of consecutive profits, and that's something we're very proud of. Our overall performance turned out to be much better than we anticipated at the beginning of the year. The largest contributor to our exceptional revenue and profit growth was the significant recovery of our net interest margin in the wake of the global financial crisis experienced in 2008 and 2009. CWB has a relatively simple business model, so the spread we earn on our loans has a big impact on our overall results. When we set our minimum performance targets for 2010, we expected it would take longer for our margins to bounce back, so it was positive to see it happen in the first quarter. In step with our great performance in the Bank, Canadian Western Trust and Canadian Direct Insurance had record results as well. The contribution from our acquisition of National Leasing this year also surpassed expectations. I guess you could say our operations were running on all cylinders in 2010.

Q: CWB Group has a long track record of consistently delivering strong loan growth and stellar credit performance. How do you feel about the organization's ability to continue this trend in the future?

A: We have posted double-digit loan growth in 20 of the past 21 years, with the only exception coming in 2009 when loans grew by 7%. Our ability to grow through challenging economic and market conditions when many other banks were shrinking speaks volumes about the strength of our franchise. We will continue to build customer awareness and increase market share by working hard for our clients and leveraging the benefits of our service advantage, particularly when it comes to meeting the needs of western Canadian businesses. We are targeting another year of double-digit loan growth in 2011 and I am optimistic about our ability to achieve this. We still have ample room to expand in all of the areas where we lend.

The greatest impact on loan growth during the economic downturn was felt in our large-ticket equipment financing and real estate construction portfolios. There just wasn't a lot of new business, and these portfolios tend to pay down very quickly compared to our other types of loans. As economic circumstances have improved, we are seeing more optimism related to new growth opportunities and credit performance across all of our lending areas. The benefits of our focus on high quality loans and secured lending practices continue to pay off. One of the ways we add value for shareholders is by growing faster than the industry without sacrificing credit quality, and we have proven our ability to deliver on this, particularly in the challenging economic environment of the past few years.

Q: What prompted the acquisition of National Leasing, and what does it mean for CWB Group going forward?

A: When we consider acquiring any company, we make sure we know exactly what we're getting into beforehand. I started in the equipment leasing business over 35 years ago, and it's really just an extension of the type of lending we do in the Bank. We also looked at National Leasing's very strong culture, which was clearly a great fit with CWB Group. The company is based in Winnipeg, so it's also consistent with our strategic focus in Western Canada. We are extremely excited to have successfully closed this deal.

National Leasing was a private company and two of its key challenges before joining CWB Group were securing competitive funding and accessing additional capital to grow the business. With the Bank's strong balance sheet and ability to provide lower cost funding, their doors are now open to capitalize on growth opportunities that previously would have been very challenging. National Leasing is a dominant player in offering small and mid-sized leases in Canada, and there is still plenty of room to grow and expand. The leadership team and employees at National Leasing are thrilled about their future with CWB Group and, frankly, so are we.

Q: Are there opportunities for CWB Group to expand further via acquisition? And, if so, in what areas are these opportunities most likely to arise?

A: We're always looking at acquisitions, but finding an opportunity that complements our existing business and culture is very challenging. I sometimes say we should expect to kiss a lot of frogs before we find a prince, and that's exactly what we continue to do. We see potential for a number of smaller acquisitions in small-ticket leasing, as we believe there is room for consolidation in this space, particularly with privately owned leasing companies. We're also looking to acquire portfolios that may become available in other lending areas. We have an objective to enhance our wealth management services, and certain acquisitions, on top of organic growth, may be the most effective way to achieve our goals in this area. Our strong balance sheet and solid capital base put us in an excellent position to move on any opportunities that fit our objectives to grow, diversify and add value for CWB shareholders.

"Our strong balance sheet and solid capital base put us in an excellent position to move on any opportunities that fit our objectives to grow, diversify and add value for CWB shareholders."

Larry M. Pollock
President and CEO
Canadian Western Bank

Photo Credit: Roth and Ramberg

In December 2009, Larry M. Pollock was selected as Alberta's 2009 Business Person of the Year. This award was the cover story for the December 2009 issue of *Alberta Venture* magazine.

Q: Can you give some perspective on your economic outlook and current competitive factors that may be impacting CWB Group's businesses?

A: I think Western Canada is poised for modest economic growth in 2011. Most indicators in our markets have improved considerably compared to a year ago, but there are still uncertainties about the global economic recovery. Real estate markets in Canada continue to show resilience despite a recent drop-off in residential sales activity. Employment levels are also moving in the right direction. While our current view is somewhat cautious, we are very confident about Western Canada's growth prospects over the long term, particularly once we see increased global demand for commodities.

The competition in our market has increased, but we've continued to maintain our margins and grow our market share. We learned a long time ago that we won't be successful by trying to be all things to all people so, instead, we offer superior service, specific business and industry expertise, and competitive prices. We pass on deals that don't make sense and focus additional resources where we have a distinct competitive advantage – areas like heavy equipment financing, real estate construction lending, small-ticket leasing and alternative mortgages. We also see good opportunities to grow oil and gas production loans as a percentage of our portfolio.

Q: International banking regulations are in the midst of some major changes with the introduction of Basel III. How is CWB Group positioned to deal with these new international rules that require banks to hold more capital?

A: CWB Group is very well capitalized and we are in an excellent position to adapt to changing regulations. We have always taken a conservative approach to managing our business, which includes maintaining a strong capital base. Our operations are relatively straightforward and the new rules won't impact us as much as larger banks that have much more complex structures.

Q: You have been President and CEO for over 20 years. How does CWB Group approach succession planning and what are your own personal plans for the future?

A: Effective succession planning requires having a deep pool of candidates to choose from. We put a great deal of time and effort into developing people who we know are a good fit with our unique culture, brand and vision. We take succession planning very seriously and our senior management team, along with the Board of Directors, have succession plans for every key position in our organization, including my own.

That being said, I plan to be around for awhile yet. I am still very engaged and one of the things that really energizes me is when people doubt our ability to deliver on our goals. If there is one thing that keeps me up at night, it's that our current share price doesn't reflect the true value we've built. As a team, we will continue to prove the doubters wrong.

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

A: Without question, it's the ongoing commitment and dedication of our employees. We now have a team of more than 1,800 people, and it's amazing to see them all working toward the same goal of providing sound financial solutions to meet the needs of our customers. I often wish that our clients and shareholders could look inside our walls and see the passion our people have for this organization. I am also very proud of our active involvement in the communities where we operate, as well as the contributions we make in supporting economic growth in our markets. It's very gratifying to play a part in helping people achieve their goals.

Q: In general, what are your strategies and expectations for CWB Group in 2011 and beyond?

A: Consistent with our "*knowing what works*" philosophy, we plan to build on the fundamentals that got us here. Essentially, do what we've always done, only better. Within the Bank, we still have plenty of room for organic growth and expect our concentration in Western Canada will continue to pay off for our clients and shareholders. We opened two new full-service banking centres this year and will continue to develop infrastructure and expand our market presence. We expect to grow across all of our lending areas. We will also further develop our deposit-gathering capabilities. It is important that we maintain our strong operating efficiency while also investing in our future so we are positioned to deliver sustained growth over the long term. We also have growth and development potential within each of our subsidiaries. I am very excited about what the future holds.

We have set challenging performance targets for fiscal 2011, but we believe they are attainable. At the beginning of fiscal 2009, we committed to surpassing $200 million of net income within five years, essentially doubling our profits. Based on where we are today, I'm pleased to say that we may have to consider increasing this performance goal. Stay tuned.

"...one of the things that really energizes me is when people doubt our ability to deliver on our goals. If there is one thing that keeps me up at night, it's that our current share price doesn't reflect the true value we've built."

Larry M. Pollock
President and CEO
Canadian Western Bank

AN INTERVIEW WITH ALLAN JACKSON, CHAIRMAN OF THE BOARD

Allan W. Jackson
Chairman of the Board

Q: You've been on CWB's Board of Directors (the Board) since the Bank was established in 1984, but this was your first year as Chairman. What has been the Board's main focus since you took the helm and has it changed compared to prior years?

A: The Board was very well run under the stewardship of the former Chair, Jack Donald. He is a fine leader and was always surrounded by a very strong Board. When I was asked to take over as Chair, I did not see the need to make a lot of changes.

However, we have somewhat refocused our activities with respect to corporate governance. We try to spend more time on the aspects of governance that are centred on working with management to develop a clear strategy with a proper balance of risk and reward. Additionally, we ensure that our management team has the tools in place to successfully execute our strategy and monitor performance. These are the functions of a good board that I believe are most important. Often, I think corporate governance is too narrowly interpreted to mean that adequate control frameworks are in place, regulations are being followed, compensation programs are effective and reasonable, and that the shareholders receive complete and accurate reporting. While these are very important responsibilities of all boards, I think too much emphasis creates the risk of not giving enough attention to strategy.

Q: What changes has the Board made recently in terms of corporate governance?

A: Our Board continuously monitors governance best practices, and we introduced significant changes in each of the past two years.

At our 2010 annual meeting, we implemented the right for shareholders to vote for individual Directors, as opposed to a slate. There was a tremendous amount of dialogue at the Board level over a period of years that preceded the implementation of this change. The Board's concern was that shareholders do not have the benefit of seeing our Directors in action. Although our disclosure provides information on such measures as attendance at Board meetings and the number of other boards they are on, the attributes that make Directors most effective, such as the ability to listen, ask critical questions and exercise independent judgement, are difficult to set out in disclosure documents. Moreover, great Directors contribute to a company's well-being year-round, not just at Board meetings. Our shareholders can be assured that if a Board Director was not contributing value or was not performing up to expectations, that name would not be considered for re-election. However, we were, and will continue to be, influenced by the wishes of our shareholders and concluded their requests were not contrary to the best interests of the Bank.

This year, we plan to adopt the practice of most other financial institutions in Canada and give our shareholders the right to vote on our approach to executive compensation, often called "say on pay". Say on pay is a non-binding, advisory vote

that provides us with additional insight about the collective view of CWB shareholders regarding our approach to executive compensation. We will always welcome shareholders' advice and opinions on any subject. We wondered, however, whether shareholders, as a group, can ever have enough information about the unique needs of the Bank and its executives to fully appreciate the issues. We spend a great deal of time and energy to ensure CWB Group has an appropriate executive compensation plan. This includes extensive work with our executives and with compensation consultants to ensure the needs of our stakeholders are met in an equitable and productive manner. We have a top-tier management team, and we need to make sure we retain and motivate them by providing appropriate incentives that are aligned with the best interests of CWB shareholders.

Q: CWB Group has a Board with many long serving members. However, there have been a few changes over the past couple years. What type of things does the Board look for when recruiting new talent?

A: As a Board, the first thing we do is determine our needs, the skills we require and the type of personalities that will be a fit so we can continue to work together effectively. The expression of personal opinions and constructive debates are a necessary part of the process for good oversight and management, but a board's effectiveness can break down if there is too much controversy because of conflicting personalities. Our goal is to form a group of people with relevant backgrounds and good skill sets that balance each other. It's important for us to recruit experienced individuals who are committed to working collectively for the betterment of CWB Group.

Q: Was there any specific milestone achieved by CWB Group over the past year that really stands out for you?

A: Actually, there were several, but the biggest was probably the day that National Leasing joined the CWB Group. You often hear the word synergy being bandied about during a merger or acquisition. While it sounds great, some people use it as another way of saying, "wait until we get a hold of these guys and show them how to run the business." Just occasionally, it means the two companies are closely matched in culture and values, and that only great things can come. I think National Leasing and CWB are two such companies. Our businesses are similar enough that we understand each other, yet different enough that we complement each other.

Q: Larry Pollock has been the President and CEO for more than 20 years; is the Board currently working on any succession plans for CWB Group's next leader?

A: Succession is one of the Board's top priorities, and we have plans in place for every key position. Earlier this year, Larry signed a new contract through 2013. While the transition to a new leader will definitely incorporate change, our current executives operate as a cohesive team and the majority of our existing leadership will still be here. Replacing great leaders is never easy and we have an eye to the future. We know we are not going to find another Larry Pollock, but we will find another strong leader who shares the organization's culture and values, and brings his or her own strengths to the role. Even though it's still a ways out, we are well into the process of identifying Larry's successor.

Q: What do you believe are the main reasons for the success of CWB Group?

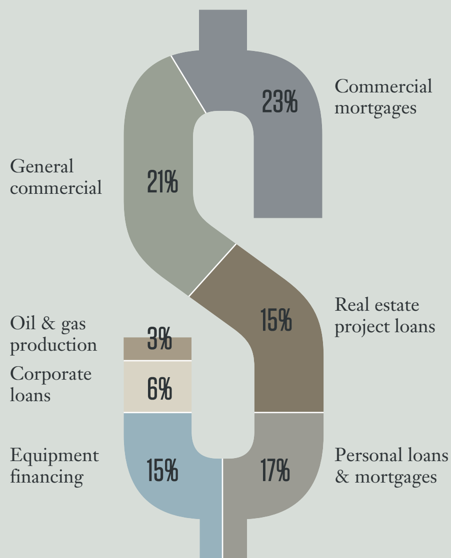
A: We have highly dedicated employees who are working together under effective leadership. The founders of CWB, Dr. Charles Allard and Mr. Eugene Pechet, had a dream to establish a western-based bank that specialized in serving the needs of western Canadians. They genuinely believed this was a great opportunity, and they were right. Larry and his team have cultivated a group of talented and motivated individuals who are guided by a philosophy that I call aggressive conservatism. The ability to consistently grow while carefully managing risks is extremely important, especially for a financial institution. The Bank started 26 years ago with $31 million of capital from an initial public offering. Today, CWB Group serves more than 600,000 customers, has over $12 billion of assets, and its market capitalization has surpassed $1.7 billion. I think Dr. Allard and Mr. Pechet would be pleased to see how their dream has progressed. Even more exciting is that we're still a long way from reaching CWB Group's full potential. As an organization, if we remember it's our employees and our customers that make us successful, our future will remain very bright.

CANADIAN WESTERN BANK

CANADIAN WESTERN BANK
The *Working* Bank™

www.cwbank.com

Loan Portfolio by Lending Sector (as of October 31, 2010)



"Our approach to business works. We build value for shareholders by lending to industries that we know and understand, and we focus on building lasting relationships with our customers."

Chris Fowler
Executive Vice President
Canadian Western Bank

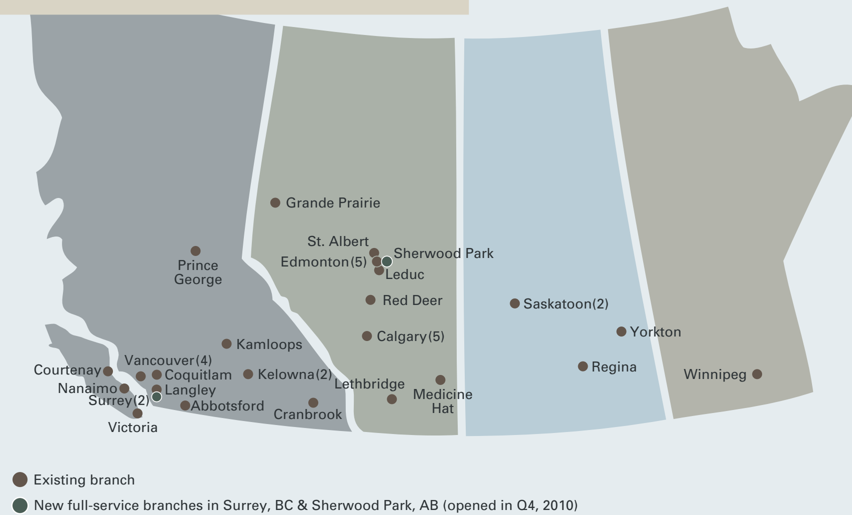
CWB is the seventh largest Schedule I bank in Canada measured by market capitalization, and is the largest Canadian bank regionally focused on Western Canada. With assets of over $12 billion, the majority of the Bank's revenues are earned through spread lending, which involves generating customer deposits and offering sensible loans to businesses and individuals.

CWB builds solid relationships with our customers by offering great service and reliable knowledge while focusing on the key points that set us apart from our competitors. We specialize in business loans and are uniquely positioned to meet the needs of small to medium-sized businesses in Western Canada. In addition to general commercial financing, we have specific expertise in the areas of commercial real estate and construction financing, energy lending, and large-scale equipment financing and leasing. We offer comprehensive business banking services as well as a complete range of personal banking products and services. Our goal is to meet the needs of business owners and their employees, as well as individuals who want to experience a western-based banking alternative for their saving and borrowing needs.

One of our strategies to mitigate the effects of a slow economic recovery and increased competition is to strengthen our sales culture and increase customer recognition of the CWB brand. We implemented a new marketing plan in support of this strategy, positioning CWB as *The Working Bank*™. This advertising and communications initiative reinforces our mission to be known and respected as Canada's business bank, providing Western Canada and other markets with a preferred source of financial services. It speaks to the fact we have money to lend and reflects our commitment to be efficient, down-to-earth and responsive in everything we do.

Growing and diversifying the Bank's revenues is key in our objective to deliver sustained growth and value for CWB shareholders. We also take pride in our long-standing reputation for maintaining strong operating efficiency. For CWB Group, our ratio of expenses to revenues was 44.1% in 2010, compared to 48.2% last year. This means that we paid approximately 44 cents in operating costs for every dollar of revenue earned, the lowest among all of the six largest Canadian banks. While effective cost management is a part of our competitive advantage, we are equally committed to reinvesting in our businesses.

Ongoing investments in technology and information services have been critical to improving efficiencies and building on our competitive position. One example of how we are using technology to improve our business is our new loan origination program called *WAVE*™. One of the many future benefits we expect from *WAVE*™ is a streamlined application process for our lenders that will allow them more one-on-one time with customers. *WAVE*™ will increase automation and enhance our portfolio data and statistics. It will help us provide faster decisions for clients and improve our ability to manage the Bank's capital.

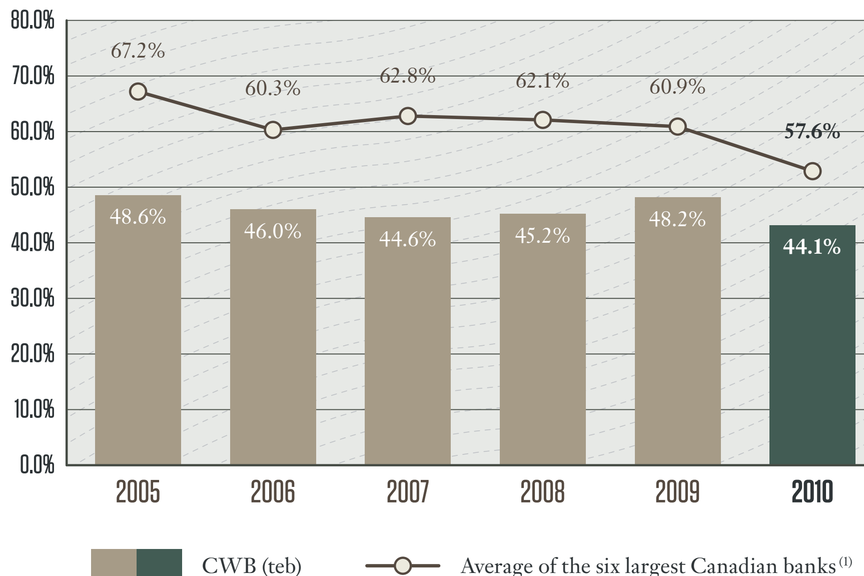


"CWB is a growing financial institution that has tremendous appreciation for its western roots. Our commitment to service is part of CWB's culture, and we endeavour to be responsive and efficient in everything we do."

Randy Garvey
Executive Vice President
Canadian Western Bank

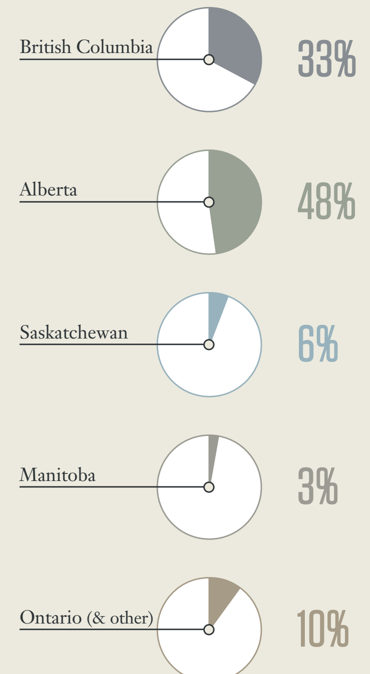
We know great people are the foundation of our success. We provide employees with a progressive work environment that enables and challenges them to give their best every day. As part of our growth strategy and commitment to superior client service, we welcomed many new faces to our team this year during a time when other financial institutions were cutting back. Subsequent to year end, CWB was proud to be recognized as having one of Canada's *10 Most Admired Corporate Cultures*™. We were also recognized as one of the *50 Best Employers in Canada* for the fifth consecutive year.

Efficiency Ratio (teb) – Industry Comparison

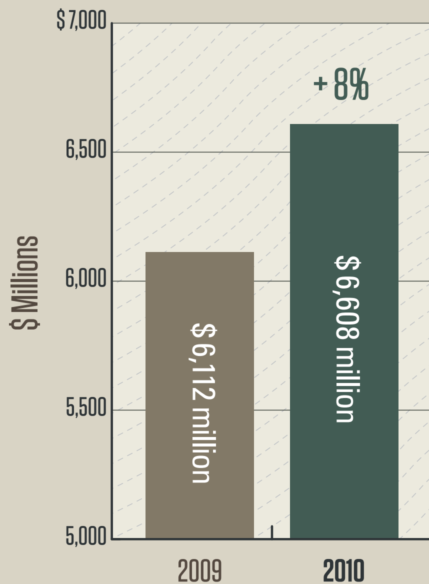


(1) *Average of the six largest Canadian banks is calculated based on information contained in the publicly available company reports of the following (TSX Trading Symbols): BMO, BNS, CM, NA, RY, and TD.*

Total Loans by Location of Security (as of October 31, 2010)

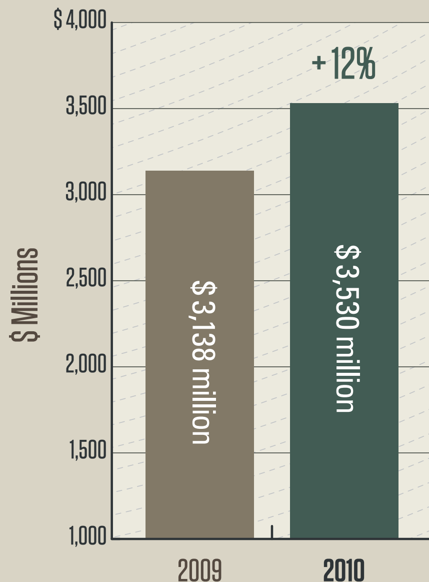


Total Branch-Raised Deposits[(1)]



(1) *Branch-raised deposits include deposits raised through the Bank, CWT and Valiant Trust.*

Total Demand and Notice Deposits



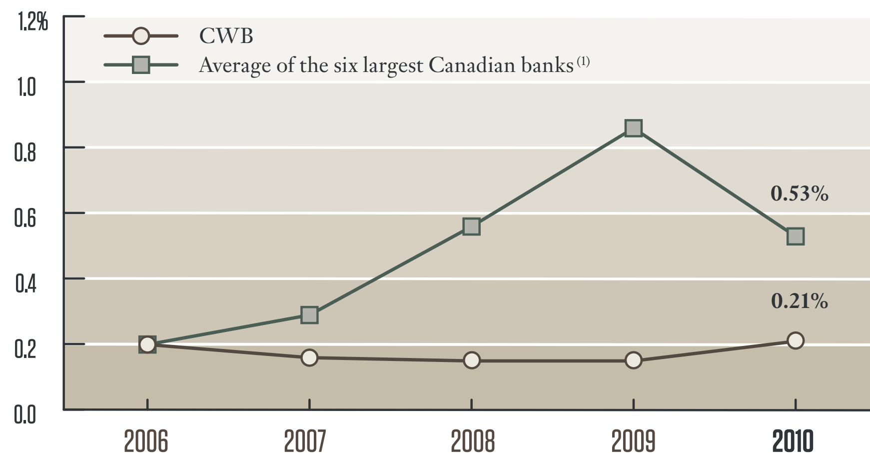
CWB is pleased to now offer business and personal banking services through 39 branch locations across Western Canada, including two new full-service commercial and retail banking centres opened in the latter part of 2010. We plan to further expand our branch network and are committed to investing in our physical infrastructure to support sustained growth.

Sticking with our proven business plan continued to pay off in 2010, as we posted record financial results despite the post-recessionary economic environment. CWB had record earnings and revenues, solid loan growth and achieved our 90th consecutive profitable quarter, a period spanning almost 23 years. We continued to grow while maintaining our focus on profitable lending areas where we have proven expertise. Our net interest income, which is the difference between what we earn on our loans and investments and what we pay on deposits and other debt, represents the bulk of our revenues. This increased significantly compared to last year and included the positive impacts from improved market conditions and a more stable interest rate environment. Non-interest income also increased due to solid business growth complemented by an expanded offering of products and services. The benefits of our strong credit discipline and secured lending practices also served us well through the recessionary economic environment. We effectively managed troubled accounts while limiting actual losses to levels well below other Canadian banks when measured against total loans.

KNOWING WHAT WORKS

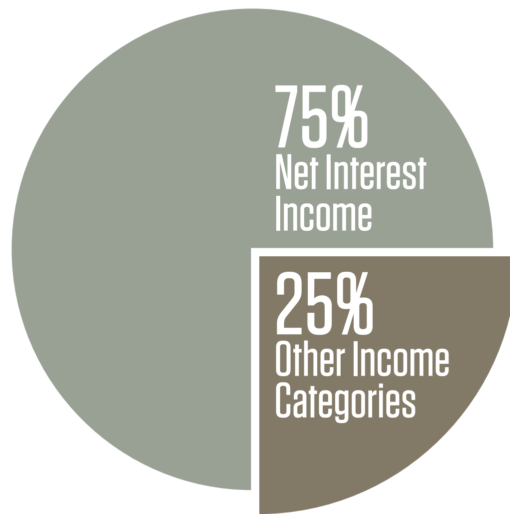
CWB was founded by entrepreneurs, and our client base today remains centred on people who recognize both the opportunities and challenges of doing business in Western Canada. Our commitment to personalized service means that we are accessible, knowledgeable and hard working. Our lending process is not a cookie-cutter approach. It's about taking the time to listen to our customers and gain insight into their business and personal banking needs. From there, we can make business decisions that are good for our customers and smart for CWB.

Provision for Credit Losses (as a % of average loans)

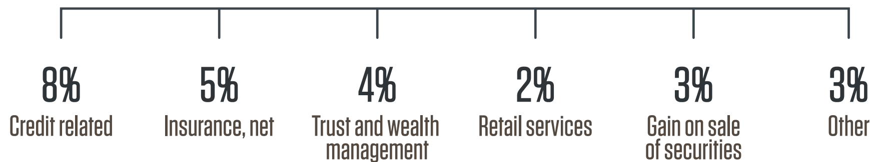


(1) *Average of the six largest Canadian banks is calculated based on information contained in the publicly available company reports of the following (TSX Trading Symbols): BMO, BNS, CM, NA, RY, and TD.*

Composition of 2010 Total Revenues



Breakdown of Other Income Categories



Expanding Market Presence (CWB Group)

- **Banking Branches** across Western Canada
- **Equipment Leasing Centre** headquartered in Winnipeg (satellite offices across Canada)
- **Trust Services Offices** Vancouver, Calgary, Edmonton, Toronto
- **Insurance Call Centres** Edmonton, Vancouver
- **Wealth Management Office** Edmonton

CANADIAN WESTERN FINANCIAL

MUTUAL FUND SERVICES

Canadian Western Financial (CWF), established in 1999, offers customers a wide selection of third-party mutual fund investments. Clients can currently choose investment products from over 30 different third-party fund companies that are accessed through licensed representatives located in CWB branches across Western Canada. Our representatives do not work on commission and only recommend investments that are in the best financial interests of our clients. CWF provides an important investment service for our banking clients, and we see ample opportunities to further expand CWB Group's personal investment products and wealth management services.

www.canadianwesternfinancial.com

CANADIAN DIRECT FINANCIAL

Canadian Direct Financial

www.canadiandirectfinancial.com

"In addition to offering competitive rates and a host of client-friendly products online, dealing with Canadian Direct Financial gives our customers confidence and security in knowing they are dealing with a highly respected Schedule I Canadian bank."

Peter Morrison
Vice President
Marketing & Product Development
Canadian Western Bank

Canadian Direct Financial (CDF) is the Internet-banking division of CWB launched in September 2008 to expand our personal banking services to Canadians not conveniently located near a CWB branch. Our service platform allows clients from all provinces and territories, except Quebec, to take advantage of our competitive products, attractive interest rates and commitment to strong customer support.

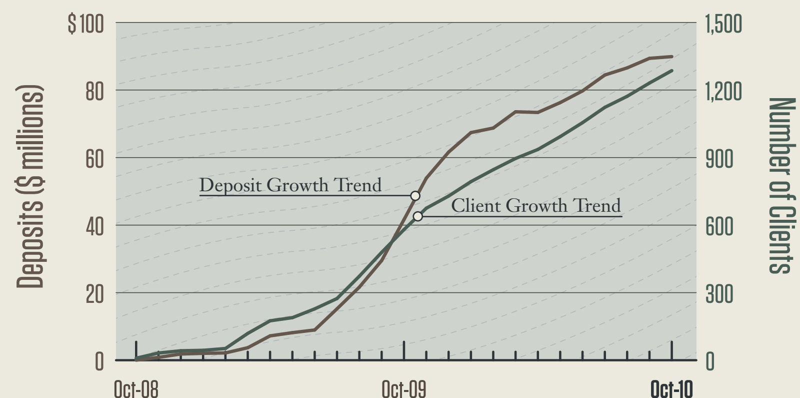
Some of the products currently offered by CDF include chequing accounts, savings accounts and Guaranteed Investment Certificates (GICs) that are designed to help our customers earn more from their money through better-than-average rates. A Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) were launched this year under the name *KeyReach*®. We also introduced a unique community-based savings product named the *KeyGiving GIC*®, where CDF makes a donation based on every dollar invested to a designated children's charity.

Our online banking strategy supports our objective to diversify and grow deposits while providing customers with new ways to do business with us. In 2010, CDF achieved deposit growth of 116% from October 31, 2009 based on a 122% increase in the total number of clients. CDF's business model was designed to support significant growth, and we are well positioned to further expand our online banking services to meet customer needs.

KNOWING WHAT WORKS

CDF began with the notion that our customer service can be outstanding whether offered in person, over the phone or online. Customers access CDF through our user-friendly website and are supported by a dedicated customer service team who are ready to answer questions and provide personalized service when required.

Client & Deposit Growth (CDF)



NATIONAL LEASING

NATIONAL LEASING

www.nationalleasing.com

National Leasing was acquired in February 2010 and is the newest addition to CWB Group. Formed in 1977, the company is headquartered in Winnipeg and has a presence across every region in Canada. We are a leader in commercial equipment leasing for a broad range of industries. While specializing in small and mid-sized transactions, we offer competitive financing for individual deal sizes that range from $5,000 to $1,000,000.

Our team of professionals are committed to building strong, long-term customer relationships through responsive service. This commitment is just one of the reasons why National Leasing is such a great fit with CWB Group. National Leasing's business success is also tied to the development and use of technology and software. Our proprietary technology processes deals electronically, allowing us more time to focus on customer needs. It also helps us control costs by minimizing bricks and mortar infrastructure. This flexibility allows us to compete in a broad variety of markets. Our combination of great service and fast response times for credit applications give us a competitive edge.

In addition to financing general commercial equipment, we have particular expertise in medical and dental, golf and turf, and agricultural equipment financing. As part of our commitment to social responsibility, we also offer alternative energy financing. We are currently the only leasing company in Canada to be ISO 9001:2000 certified, which sets a standard for how we conduct business and ensures that we deliver a superior level of quality and efficiency in our service.

National Leasing has realized many benefits since becoming a part of CWB Group. Our ability to access the Bank's more competitive cost of funds has enabled us to expand our market reach as well as enhance margins on our existing business. Based on our first nine months of performance since the acquisition date, our net income was up 10% compared to the same period in the prior year. Our application volume near the end of the year was also tracking at record levels despite continued economic challenges. We are very optimistic about the future and plan to build on our existing business while maintaining a diversified lease portfolio that strengthens our market position and reduces overall risk.

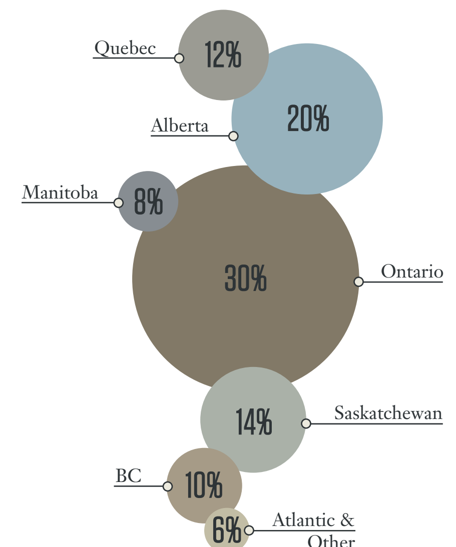
KNOWING WHAT WORKS

We primarily partner with equipment vendors to help them secure financing for their clients. Our dedicated team helps business people balance their equipment and finance needs with flexible leasing options and competitive rates. Above all, our business goal is to ensure that every client is given prompt, professional service.

"Our representatives build relationships with their customers and understand the businesses we're lending to. We use this knowledge along with technology to make credit decisions quickly, often in a matter of minutes."

Nick Logan
President
National Leasing

Provincial Breakdown of Leases (October 31, 2010)



CANADIAN WESTERN TRUST

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

www.cwt.ca

"Our experienced and knowledgeable staff, coupled with flexible, competitive pricing, make CWT the custodian of choice for individuals, as well as small and medium-sized companies."

–Adrian Baker, *Chief Operating Officer*, Trust Services

Canadian Western Trust (CWT), acquired in 1996, has offered retirement, trustee and custodial solutions to financial advisors, corporations and individuals for over 23 years. We currently operate two distinct business units: Individual Retirement and Investment Services (IRIS) and Corporate and Group Services (CGS).

CWT Total Revenues(teb),[(1)] including Optimum Mortgage ($ millions)

(1) *Total revenues(teb) for CWT represent net interest income plus other income excluding changes in fair value of intercompany swaps.*

Through IRIS we provide a full range of trustee, custody and record-keeping services for independent financial advisors, mortgage brokers, individuals and group RRSP plans. IRIS has approximately 46,000 accounts and over $3.2 billion of assets under administration. Revenues in this business unit are primarily based on fee income earned from the various account and administrative services we provide.

CGS provides the same services to pension plans, custody operations and investment managers. We also offer high-end tax deferred products for small business owners and senior executives of large corporations. We have about 650 direct clients through CGS, representing over 150,000 employees/individuals and more than $2.8 billion in assets under administration. Our revenues in this business unit include both fee income and deposit interest.

With trust offices located in Vancouver, Calgary, Edmonton and Toronto, we pride ourselves on being an industry leader in today's ever-changing financial services environment. Our *Service You Can Trust®* philosophy is centred on providing customers a rapid response, strong attention to detail and a flexible, solution-orientated approach. As demonstrated by our account growth and new corporate appointments, more clients are recognizing the value of CWT's service. With our continued growth, we are also better able to capitalize on the benefits that come with being a large provider of trust services. In 2010, this helped us control expenses and enhance our services while achieving strong revenue growth.

We operate in a very well-developed area of the financial services industry and are positioned to deliver continued strong performance. We earn additional business by taking market share from our competitors, and we will continue to grow by remaining focused on our service advantage and ability to quickly adapt to changing client needs.

KNOWING WHAT WORKS

We recognize our clients as business partners and are committed to providing them with unparalleled service and exceptional value. Our growing market presence reflects our success in offering relevant products and services that are designed to meet the business objectives of our customers.

OPTIMUM MORTGAGE

www.optimummortgage.ca

Optimum Mortgage (Optimum), established by CWB in 2004, is a division of CWT that works directly with a network of over 8,500 mortgage brokers to provide residential mortgages throughout Western Canada and within targeted regions of southern Ontario. We offer mortgage brokers access to a variety of financing solutions for their clients, such as alternative mortgages, conventional mortgages and higher-ratio insured mortgages. Today, our team includes more than 40 people who manage over 3,000 mortgages with a collective book value of approximately $800 million.

Alternative, or Alt-A mortgages, are primarily offered to borrowers who have difficulties confirming their income (i.e. self-employed individuals), and/or those who are otherwise challenged to meet the lending guidelines of traditional mortgage providers. At Optimum, we make credit decisions using our *Sensible Lending®* philosophy, where every potential deal is carefully reviewed by one of our experts and credit decisions are made based on the individual aspects of each application. There is much more to consider when making a good lending decision than just an individual's debt ratios and credit scores. We help people secure competitive mortgage financing by looking at a wide-range of factors, such as the value of the property, the amount of down payment, and the borrower's job or other sources of income.

Optimum had another strong year in 2010 led by 42% growth in total loans. Despite economic challenges, the number of mortgage applications received established a new record and was up 31% compared to last year. Looking forward, we expect to achieve continued strong earnings and revenue growth as we approach $1 billion of total loans. While we plan to maintain our primary focus on funding alternative mortgages, we are also well positioned to add more insured mortgages to our portfolio.

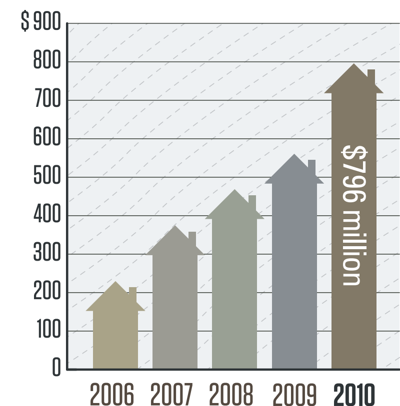
KNOWING WHAT WORKS

Our personalized service and common-sense approach to underwriting has helped Optimum build a strong reputation with our broker clients. When mortgage brokers call, they know we will do everything possible to answer their questions quickly, and they appreciate the fact that we do not operate with automated voice mail systems. We take pride in our commitment to provide a timely response to all mortgage applications, typically within 24 hours of receipt.

"We make lending decisions based on our extensive experience and common-sense approach. Mortgage brokers appreciate our responsiveness and our ability to offer solutions that close the deal for their customers in a quick and efficient manner."

Lester Shore
Senior Assistant Vice President
Optimum Mortgage

Total Optimum Mortgage Loans ($ millions)

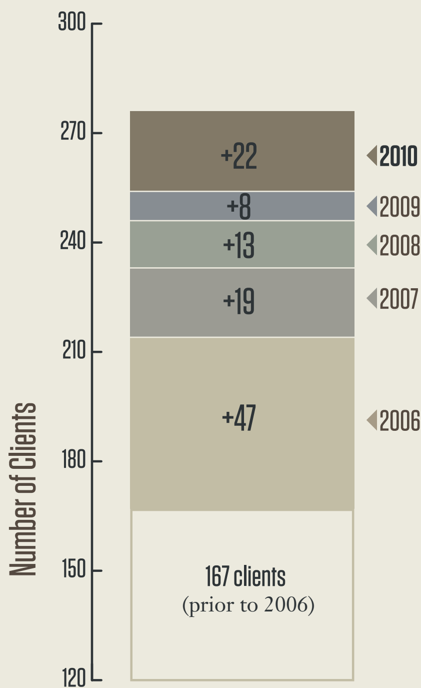


VALIANT TRUST

VALIANT TRUST
Canadian Western Bank Group
A reputation for getting things done.®

www.valianttrust.com

Five-Year Client Summary



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

Year	# of Client Appointments
2010	**496**
2009	468
2008	440
2007	433
2006	390

Valiant Trust Company (Valiant) is a specialty trust company providing stock transfer, corporate trust, escrow and employee plan services to public and private corporations. Valiant was acquired by CWB Group in 2004 and has since grown to become a national trust service provider and federal deposit-taking institution with offices in Vancouver, Calgary, Edmonton and Toronto. We set ourselves apart by offering highly personalized, responsive and flexible service. We are committed to building long-term business relationships and our common-sense, down-to-business approach has given us *A Reputation for Getting Things Done®*.

Our service offerings include acting as transfer agents and providing registrar services for issuing and transferring securities, administering initial public offerings (IPO) and new issues, security holder meeting services, facilitating mergers and acquisitions, and disbursing dividends on behalf of our clients. Valiant also acts as corporate trustee for investment funds, debt offerings, warrant issues and other structures. A growing number of our clients rely on Valiant to hold cash, securities or other assets under escrow agreements, administer shareholder rights plans and effectively manage security holder and regulatory reporting, including SEDAR filing services.

Valiant's long-term success and growth is largely dependent on our ability to help clients communicate effectively and efficiently with their security holders and regulatory bodies. While constrained capital markets activity and a low interest rate environment have adversely impacted revenues, we continue to be successful in earning the business of public and private companies from our competitors. We increased our market presence to serve almost 300 companies through approximately 500 different client appointments in 2010.

Today, we maintain accounts for over 150,000 active registered holders. Our clients have over 17 billion shares issued and outstanding, and we process more than 5,600 security registration transfers monthly. In the past five years, we have disbursed more than $20 billion of cash entitlements to security holders on behalf of our clients.

KNOWING WHAT WORKS

Backed by demonstrated expertise and strong Canadian ownership, Valiant is a true alternative to our major foreign-owned competitors. We are approachable, innovative and take pride in our ability to get things done.

"Our corporate clients know we are here for them and appreciate our commitment to service and attention to detail."

–Matt Colpitts, *General Manager*, Valiant Trust

CANADIAN DIRECT INSURANCE

www.canadiandirect.com

Canadian Direct Insurance (CDI) was acquired by CWB Group in 2004 and provides personal auto, home and travel insurance at competitive, direct prices. CDI was initially started in 1996 to offer a price and customer service alternative to government auto insurance in BC. Today, we offer auto and home insurance policies and third-party travel insurance to residents across BC and Alberta.

Our insurance products are offered over the telephone by highly trained insurance professionals located in both Vancouver and Edmonton. We also offer auto insurance over the Internet and through select auto insurance brokers in BC. In 2010, we further enhanced our insurance options to include secondary auto products such as motorhomes, travel trailers, snowmobiles and ATVs.

We differentiate ourselves by providing great customer service. Our scores measuring customer satisfaction consistently exceed 90%, and ratings for a positive experience during a claims process are at 98%. We are one of the fastest growing insurance companies in Western Canada in terms of sales volume, and our customers frequently refer us to their family and friends based on their positive experiences and the money they save.

CDI was pleased to report record financial performance in 2010, and we are optimistic about our potential as we continue to increase brand awareness and build on our reputation. Looking forward, we believe our continued growth will be led by performance in the Alberta auto business and ongoing success in our broker distribution channel in BC. Our goal is to achieve a balanced book that is equally represented by each of our business lines in Alberta auto, BC auto and home insurance.

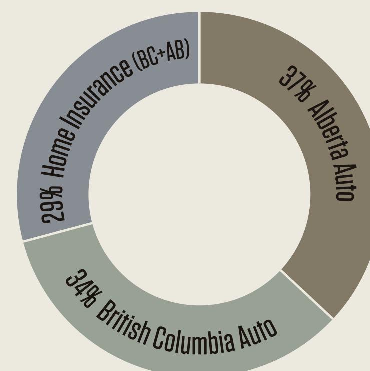
"Canadian Direct has a solid reputation for taking care of its customers. Our excellent customer service combined with competitive rates and our hassle-free claims process has positioned us as a leader in auto and home insurance."

Brian Young
President and CEO
Canadian Direct Insurance

KNOWING WHAT WORKS

We deal directly with customers to keep our prices competitive while providing excellent customer service. Our insurance professionals have in-depth knowledge of our products so they can offer reliable insurance advice. Another one of our goals is to make things easy for our customers by ensuring our claims process is as efficient and hassle-free as possible.

2010 Gross Written Premiums by Product Line



CDI Highlights	2006	2007	2008	2009	**2010**
Policies outstanding	159,965	164,263	168,071	175,662	**185,107**
Gross written premiums (000's)	$100,227	$104,829	$107,054	$116,828	**$124,451**
Net income (000's)	$6,940	$7,773	$8,372	$9,111	**$12,388**

ADROIT INVESTMENT MANAGEMENT

www.adroitinvestments.ca

"Clients choose us because they value our personalized service and conservative investment approach. We evaluate each client's situation and build an investment portfolio that reflects their specific needs, including consideration for both potential return and risk."

–David Schuster, *President and CEO*, Adroit Investment Management

Adroit Investment Management (Adroit), established in 1993, was acquired by CWB Group in December 2008. Adroit is an Edmonton-based investment counselling firm with assets under management approaching $1 billion.

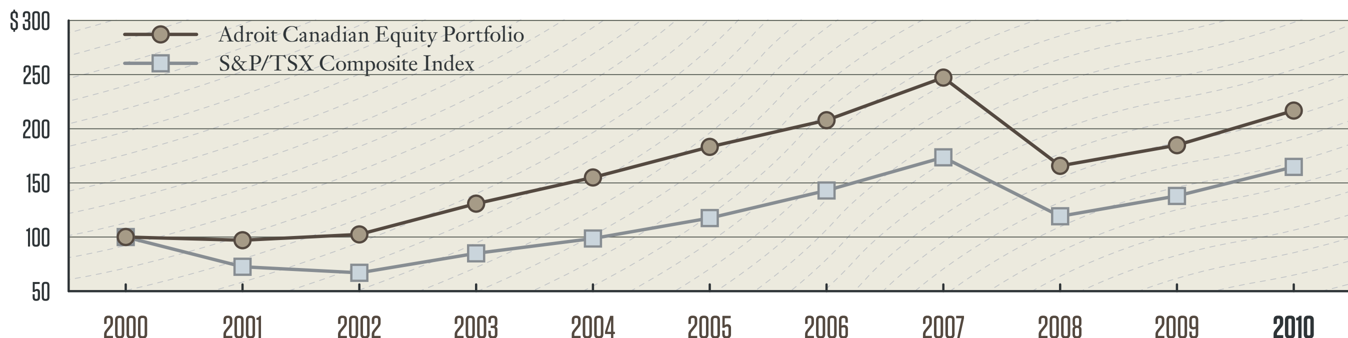
Our team of experienced investment professionals specialize in wealth and portfolio management for high net worth individuals, corporations and institutional clients, including non-profit organizations, colleges, foundations and endowment funds. Our business success is built on high ethical standards, conservative growth principles and strong investment performance. We focus on building and maintaining wealth for our clients by performing an in-depth analysis of every investment we make on their behalf. Our investment managers meet one-on-one with clients to tailor an investment portfolio that fits their unique needs and circumstances. Our commitment to maintaining good communication was particularly important in 2008 and 2009 when market prices were most volatile. As financial markets continue to recover, we believe new and existing clients will recognize even more value from the type of conservative wealth management solutions we offer. Our door is always open, and we welcome clients who are looking for a proven alternative to help them manage their investments and plan for the future.

Although wealth management still represents a relatively small part of CWB Group, we believe there are great opportunities for us to further expand our reach in this area. We recognize there are many CWB clients who could benefit from Adroit's expertise, and we will continue to build awareness in this regard. We have also enhanced our business development practices and expect this will continue to show positive results in the future. While Adroit currently has good brand recognition in the Edmonton area, our goal over time is to have better representation in all major markets, including Vancouver, Edmonton, Calgary and Winnipeg. While our immediate growth plans are based on growing in-house, we are also evaluating opportunities to expand our presence through acquisition.

KNOWING WHAT WORKS

Our strong investment discipline includes choosing the right asset mix for each individual client and maintaining a diverse range of high quality investments. Our strategies allow us to closely manage risk while maximizing the potential returns for our clients.

Cumulative Value of $100 Invested on October 31, 2000



Our reputation goes beyond our products, services, financial performance and positive contributions to economic growth. At CWB Group, we are known for our commitment to our customers, employees, communities and the environment.

It's about our people

We have employees who just started their careers with CWB Group, an employee who has been with us since our very first day of operations more than 26 years ago, and all tenures in between. CWB Group is proud to be an employer of choice to more than 1,800 people.

This Corporate Social Responsibility (CSR) section highlights how CWB Group has integrated good corporate citizenship into our daily operations. For the first time, CWB Group will also report on its economic, social and environmental performance through an expanded CSR Report to be published in the spring of 2011. The report will be prepared in accordance with Global Reporting Initiative (GRI) Sustainability Guidelines and federal Public Accountability Statement (PAS) Guidelines, and is consistent with our commitment to transparency and continuous improvement.

50+

THE NUMBER OF DIFFERENT COMMUNITIES WHERE CWB GROUP EMPLOYEES LIVE, WORK AND PLAY

$475,000+

THE DOLLAR AMOUNT DONATED TO YOUTH AND CHILDREN'S CHARITIES OVER THE PAST TWO YEARS THROUGH *THE GREATER INTEREST GIC®* AND THE *KEY GIVING GIC®*

39

THE NUMBER OF CWB BUSINESS AND PERSONAL BANKING BRANCHES ACROSS WESTERN CANADA

$0

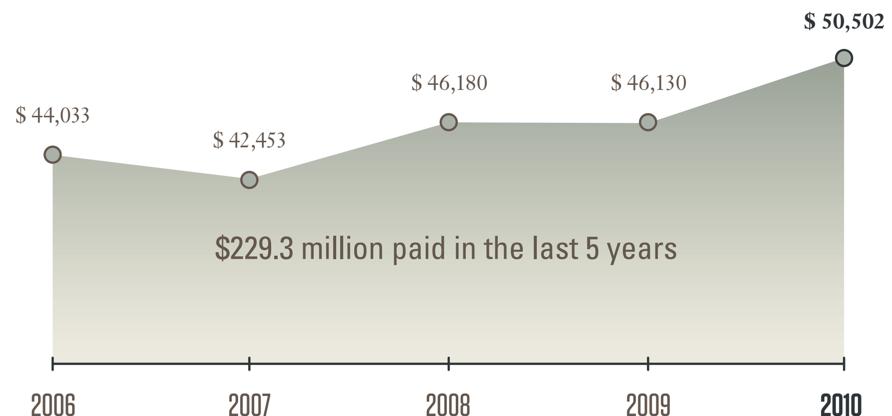
THE MONTHLY SERVICE FEE FOR YOUTH AND POST-SECONDARY STUDENTS, AS WELL AS SENIOR CITIZENS WITH *GOLD LEAF PLUS®* ACCOUNTS

STRONG ECONOMIC IMPACT

CWB Group supports responsible economic growth, as it drives our performance and enhances the well being of our customers, employees and communities. We serve hundreds of thousands of business and personal clients every year, and the loans, deposits and other services we provide help them grow their businesses and meet their personal financial and insurance needs. We now employ over 1,800 people who live in more than 50 different communities across Canada, and the salaries and benefits paid by CWB Group help them reinvest into their local communities. In 2010, CWB Group paid more than $123 million in salaries and benefits to employees.

The branches and offices we build and operate drive economic activity through the taxes we pay and the local businesses we support with the purchase of goods and services. Last year, CWB Group paid over $50 million in government taxes, including more than $30 million in federal income taxes and nearly $20 million in provincial income and capital taxes. Office leasing and maintenance costs totaled over $19 million, while office supply purchases and travel costs amounted to $1.2 million and $1.6 million, respectively.

Total Federal and Provincial Income and Capital Taxes Paid ($ thousands)



IMPROVING ACCESS TO FINANCIAL SERVICES

To provide greater access to basic banking services, CWB provides a flexible, low-cost chequing account for as little as $4 per month. Moreover, we waive the monthly account fee for youth, as well as students pursuing a post-secondary education. Senior citizens do not pay service fees for our *Gold Leaf Plus®* account. We also offer them the option of receiving monthly interest payments on their GICs and reduced fees for safe deposit box rentals. To ensure accessibility, all of our branches are wheelchair friendly and include sit-down banking alternatives. We give customers more choices by offering many services online or over the telephone. Through our highly diverse group of employees, CWB Group can serve customers in nearly 50 different languages.

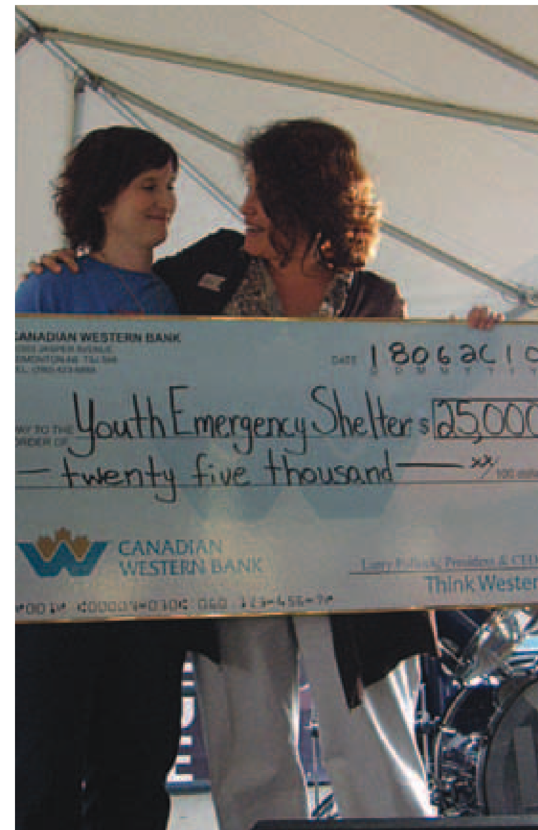
CWB Group has a commitment to delivering products and services that not only meet our customers' needs, but also strengthen our commitment to society and community.

GIVING BACK TO OUR COMMUNITIES

CWB Group gives back to communities where our employees and customers live, work and play. Last year we invested more than $1 million in charitable donations and sponsorships in three targeted areas of giving: education; community and civic services; and health and wellness.

CWB has created a unique community-based personal investment product that gives customers a competitive return on their guaranteed investments while helping youth and children's charities. For every dollar our clients invest in *The Greater Interest GIC*®, CWB makes a donation of 1/8% back to the community where the deposits were raised. CDF introduced a similar community-based investment product in 2010 named the *Key Giving GIC*®. Over the past two years, these initiatives have resulted in a combined donation of more than $475,000 being distributed to numerous chapters of Big Brothers Big Sisters, and to the Youth Emergency Shelter Society in Edmonton.

Beyond sponsorships and donations, volunteerism is a core part of our culture and CWB Group employees support numerous causes that are close to their hearts. Our *Western Spirit* program allows employees who volunteer their time in the community to apply for an annual $250 grant, where CWB will make a donation on their behalf to a charity of their choice. In our *Funds for Fundraiser* program, CWB matches the dollars our employees raise for fundraising campaigns. CWB Group and our employees also actively support the United Way with numerous initiatives throughout the year.



CWB Group supports hundreds of charities in the communities where we live, work and play, including the Youth Emergency Shelter of Edmonton.

"We help finance change by embracing principles of sustainable development: change that will allow our partners and clients to meet the needs of the present without impacting the ability of future generations to meet their own needs."

Grant Arbuckle
Senior Consultant
National Leasing

Eco Audit

This Annual Report uses FSC certified paper that comes from well-managed forests. The paper used for the report cover contains Mixed Sources Recycled, and the paper used for the report contains 100% Post Consumer Recycled fibre instead of virgin paper and is produced using wind power. As a result, the following savings to our natural resources were realized:(1)

TREES SAVED
223

WOOD SAVED
32 Tons

ENERGY NOT CONSUMED
71 (Million BTU's)

NET GREENHOUSE GASES PREVENTED
21,201 (lbs. Co2 Equiv.)

WASTE WATER
102,111 (Water Saved gals.)

SOLID WASTE
6,199 (Landfill Reduced lbs.)

(1) *Eco audit information is based on use of the following products: 169,000 sheets of 23 x 35 Envirographic100, 60lb Text, 102M. Data research provided by www.environmentaldefence.org*

PROTECTING THE ENVIRONMENT

CWB Group is sensitive to our role as environmental stewards and we consider this in the development of our products and services, our lending polices and our daily business practices.

CWB Group has many initiatives in place to reduce the environmental impact of our daily operations and services. We try to minimize our carbon footprint and reduce the need for air travel by using teleconferencing and web-conferencing wherever possible. We have employee-driven teams across our various businesses that share new ideas about responsible environmental practices such as office recycling programs and cleanup initiatives in our cities. Most of our business lines offer customers the choice of paperless statements, online services and paperless record-keeping. CDI and National Leasing both use technology to manage a paperless office environment, and CWT is currently in the process of implementing similar technology.

CWB recently initiated a partnership with the Northern Alberta Institute of Technology (NAIT) Architectural Technology program to increase sustainability in our building designs and construction. This includes identifying new technologies, evaluating their feasibility and using this information to design a new multi-storey building for CWB's largest branch, to be located in Edmonton. We are also using other technologies to become more efficient and minimize our environmental impact. One example is the construction of our new data centre at CWB's corporate office, which incorporates green principles to improve cooling and reduce electricity consumption.

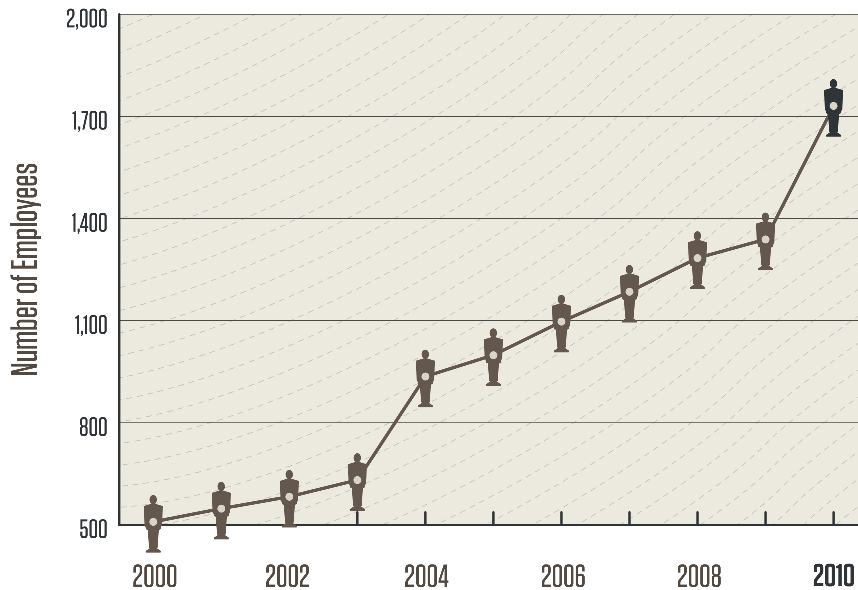
CDI was the first insurance company in Canada to offer a premium discount for hybrid/fuel-efficient automobiles. National Leasing also has a number of products and tools that support environmental sustainability. Their *Green Earth Solutions*™ program allows clients to reduce their carbon footprint while preserving capital. They promote energy efficiency to businesses by leasing equipment related to renewable energy initiatives and energy-efficient building projects. In fact, National Leasing was recognized as one of the *Top 30 Green Companies in Canada* for its success in reducing the company's impact on the environment.

CWB also considers potential environmental impacts when making lending decisions. Lenders evaluate possible environmental risks as part of the credit-granting process, and we work closely with our clients to identify if there are any issues in this area. If environmental risks are identified that cannot be mitigated to the Bank's satisfaction, the lending application is declined.

ENGAGING OUR EMPLOYEES

CWB Group has always put its people first, recognizing that great employees are the key to our success. While many organizations like to say that their people are their greatest asset, at CWB Group, we truly mean it. Our approach has attracted dynamic, caring individuals who are responsive to our customers. Each individual plays an important role in CWB Group's collective success, and we recognize them for their invaluable contributions. We hire for attitude and our people come to work eager to make a difference for our customers. In turn, we provide a rewarding career, competitive salaries and excellent benefits.

CWB Group Employees (number of full-time equivalent staff)



The total number of full- and part-time employees at CWB Group increased by 384 people in 2010 to reach 1,828. While the majority of new employees this year came to CWB Group through the acquisition of National Leasing, we continued to welcome many new team members across the organization. We announce with pride that CWB Group has never laid off an employee, even through the most challenging economic times.

There are several unique benefits we offer to attract and retain employees. Our *CWbalance®* program promotes a healthy work/life balance and, among other benefits, provides an extra paid day off for each employee every year. Our Employee Share Purchase Plan (ESPP) is one of the best in the industry and encourages employee ownership of CWB shares. Currently, more than 94% of CWB Group employees are shareholders through participation in the ESPP. Referrals are the best compliment and our employee referral program is one of our most successful forms of employee recruitment. To date, we have received almost 99 referrals from employees and made 66 hires because of those referrals.

In September 2009, we launched the CWB Learning Centre internal website to provide management and leadership training, as well as educational opportunities through webinars and online learning. CWB Group invested more than $1 million in career development and training in 2010.

While we are proud of our people and how we support them, we are humbled by the external recognition we have received for our approach. CWB was recognized as one of *Canada's 50 Best Employers* for the fifth consecutive year. The Bank also received recognition as one of *Canada's 10 Most Admired Corporate Cultures*™. National Leasing was named one of Canada's *50 Best Managed Companies* for the 16th year in a row and one of the *50 Best Small and Medium Employers in Canada* for the fourth time in as many years.

Since 2007, CWB has been selected as one of the *50 Best Employers in Canada* five times, ranking 27th for the 2011 survey.

National Leasing has been recognized as one of Canada's *50 Best Managed Companies* for 16 straight years.

CORPORATE GOVERNANCE

Corporate Governance Highlights

- The Board is led by a non-executive chairman.
- 10 out of the 11 current directors are independent.
- The independent directors set aside time for discussion with no management present at each meeting of the Board and its Committees.
- Shareholders vote for individual directors, not a slate.
- The Board has adopted "say on pay" to give shareholders an advisory vote on CWB Group's approach to executive compensation.
- The Bank has adopted a minimum share ownership requirement for directors and executive management that is designed to align their interests with those of shareholders.
- The Board evaluates, in alternating years, the effectiveness of each director and the Board as a whole through a written assessment and feedback process.
- 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.
- The Bank maintains whistleblower procedures through which complaints or concerns regarding questionable audit or accounting matters may be made.

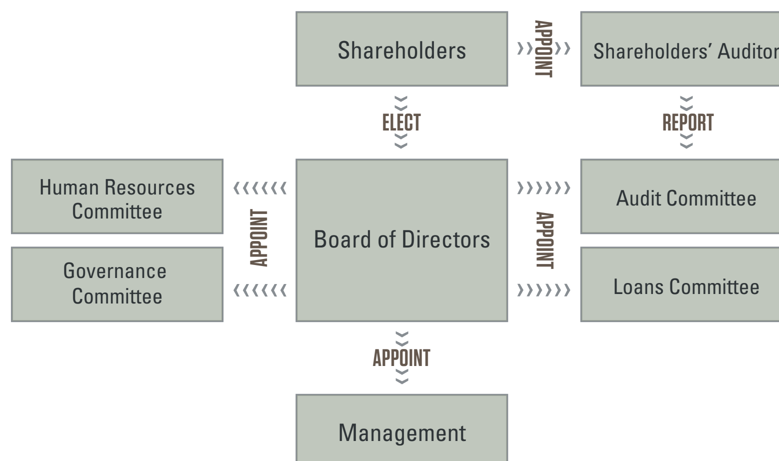
CWB Group is committed to sound and effective corporate governance. Our experienced Board of Directors (the Board) works closely with management to ensure operations are both effective and efficient within a continuously evolving regulatory environment. Policies are reviewed regularly and are designed to effectively supervise management while creating long-term value for shareholders.

The Board continues to monitor governance best practices. In fiscal 2009, a director election policy was adopted to allow shareholders to vote for individual directors, as opposed to a slate. In fiscal 2010, the Board approved the adoption of a non-binding advisory vote on CWB Group's approach to executive compensation, commonly referred to as a "say on pay" resolution.

The Board approves all major strategy and policy recommendations for CWB Group and must be satisfied that management is maintaining a culture of integrity throughout the organization. CWB Group has codes of conduct for all directors, officers and employees. The Board monitors compliance with these codes by requiring each individual to annually sign a certificate confirming his/her understanding of, and compliance with, what is formally expected of them.

The Board is responsible for stewarding CWB Group's growth, which includes identifying the organization's key risks and ensuring appropriate systems are in place to manage these risks. Part of this responsibility involves a review and approval at least once a year of a strategic plan that takes into account both the current and expected opportunities and challenges of all CWB Group's businesses.

Overview of Corporate Governance Structure



For More Information

Additional information about CWB Group'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

The Corporate Governance section of the CWB Group website contains information on our corporate governance practices, including the mandate of the Board, the mandates of each of the Board Committees, the Personal and Business Conduct Policy for CWB Group's 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 3, 2011 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 and oversees the whistleblower procedures.
Governance Committee	Albrecht W.A. Bellstedt (Chair) Allan W. Jackson Wendy A. Leaney Robert A. Manning Raymond J. Protti	» Reviews and monitors corporate governance trends and best practices on an ongoing basis. » Monitors procedures regarding related party transactions, conflicts of interest, standards of business conduct, the handling of customer complaints, and recommends director compensation and director succession.
Loans Committee	Gerald A.B. McGavin (Chair) Allan W. Jackson Albrecht W.A. Bellstedt Wendy A. Leaney Howard E. Pechet Robert L. Phillips Larry M. Pollock Raymond J. Protti Alan M. Rowe Arnold J. Shell	» Oversees the documentation, measurement and management of credit risk. » Approves, declines or recommends approval to the Board of all credit applications in excess of a specified limit.
Human Resources Committee	Alan M. Rowe (Chair) Allan W. Jackson Robert A. Manning Arnold J. Shell Howard E. Pechet Robert L. Phillips Arnold J. Shell	» Approves executive compensation and incentive compensation plans. » Oversees CEO performance assessment and senior management succession.

TABLE OF CONTENTS

28 BUSINESS PROFILE AND STRATEGY

31 GROUP FINANCIAL PERFORMANCE

31 Overview

34 Net Interest Income

35 Other Income

37 Non-Interest Expenses and Efficiency

38 Income and Capital Taxes

39 Comprehensive Income

40 Cash and Securities

40 Loans

42 Credit Quality

46 Deposits

48 Other Assets and Other Liabilities

48 Liquidity Management

52 Contractual Obligations

52 Capital Management

56 Financial Instruments and Other Instruments

57 Acquisitions

58 Off-Balance Sheet Arrangements

58 OPERATING SEGMENT REVIEW

58 Banking and Trust

61 Insurance

62 SUMMARY OF QUARTERLY RESULTS

63 ACCOUNTING POLICIES AND ESTIMATES

63 Critical Accounting Estimates

65 Changes in Accounting Policies

65 Future Changes in Accounting Policies

68 RISK MANAGEMENT

68 Overview

69 Credit Risk

70 Liquidity Risk

70 Market Risk

72 Insurance Risk

73 Operational Risk

74 General Business and Economic Conditions

74 Level of Competition

74 Regulatory and Legal Risk

74 Accuracy and Completeness of Information on Customers and Counterparties

74 Ability to Execute Growth Initiatives

74 Information Systems and Technology

75 Reputation Risk

75 Other Factors

75 UPDATED SHARE INFORMATION

75 CONTROLS AND PROCEDURES

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, National Leasing Group Inc. (National Leasing or NL), Canadian Western Trust Company (CWT), Valiant Trust Company (Valiant), Canadian Direct Insurance Incorporated (Canadian Direct or CDI), Adroit Investment Management Ltd. (Adroit) and Canadian Western Financial Ltd. (CWF), currently operate in the financial services areas of banking, trust, insurance and wealth management. The Bank remains primarily focused on its core business lending and retail banking services in Western Canada. NL specializes in commercial equipment leasing for small and mid-sized transactions and is represented across Canada. 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. CWT also underwrites residential mortgages through its operating division, Optimum Mortgage. Valiant's operations include stock transfer and trustee services to public companies. CDI provides personal auto and home insurance to customers in British Columbia (BC) and Alberta. Adroit specializes in wealth management for individuals, corporations and institutional clients. Third party mutual funds are offered through CWF, the Bank's mutual fund dealer subsidiary.

CWB's mission is to be known and respected as Canada's business bank, providing Western Canada and other select markets with a preferred source of 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, insurance and wealth management operations through internal growth as well as strategic acquisitions;
- support return on common shareholders' equity (ROE) by maintaining strong operating performance, an efficient capital structure, and continued diversification into businesses with lower capital requirements, including residential mortgages, small-ticket leases, 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;

- recruit, develop and retain high quality employees who embrace the Bank's culture by offering a rewarding work environment that includes comprehensive employee benefits, career growth opportunities, a focus on work/life balance and competitive compensation packages. CWB believes that such employees are critical to build and maintain competitive advantages related to offering superior customer service and relationship-based banking; 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", "goal", "focus", "potential", "proposed" 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 and are subject to inherent risks and uncertainties, which give rise to the possibility that the Bank's predictions, forecasts, projections, expectations and conclusions will not prove to be accurate, that its assumptions may not be correct and that its strategic goals will not be achieved.

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, legislative and regulatory developments, 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.

Additional information about these factors can be found in the Risk Management section of this Management's Discussion and Analysis (MD&A).

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 2011 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 2011, management's assumptions include:

- moderate economic growth in Canada aided by positive relative performance in the four western provinces;
- relatively stable energy and commodity prices;
- sound credit quality with actual losses remaining within the Bank's historical range of acceptable levels, including consideration for National Leasing;
- modest inflationary pressures and gradual increases in the prime lending interest rate beginning in early to mid-calendar year 2011; and
- a relatively stable net interest margin supported by a low deposit cost environment, favourable yields on both new lending facilities and renewed accounts, and relatively stable investment returns reflecting high quality assets held in the securities portfolio.

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 $11.2 million (2009 – $7.8 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 MD&A.

Non-GAAP Measures

Taxable equivalent basis, return on common shareholders' equity, return on assets, diluted cash earnings per share, 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;
- diluted cash earnings per share – diluted earnings per common share excluding the after-tax amortization of acquisition-related intangible 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 2010 (compared to 2009)

- Record net income of $163.6 million, up 54%.
- Record diluted earnings per common share of $2.05, up 39%.
- Record total revenues (teb) of $434.3 million, up 32%.
- Net interest margin (teb) of 2.74%, up 64 basis points.
- Return on common shareholders' equity of 17.1%, up 390 basis points.
- Return on assets of 1.24%, up 38 basis points.
- Loan growth of 14%, reflecting both organic growth and the acquisition of NL.
- Sound credit quality with a provision for credit losses of 21 basis points measured as a percentage of average loans.
- Efficiency ratio (teb) of 44.1%, a 410 basis point improvement.
- Marked 90 consecutive quarters of profitability.
- Tier 1 capital ratio of 11.3%, unchanged from 2009.
- Tangible common equity to risk-weighted assets ratio of 8.5%, up from 8.0%.
- Total capital ratio of 14.3%, down from 15.4%.
- Completed the acquisition of National Leasing, effective February 1, 2010.
- Achieved record net income in the insurance segment.
- Opened new full-service commercial and retail banking centres in Sherwood Park, Alberta and Surrey, BC.
- Surpassed $6 billion of assets under administration in CWT.
- Cash dividends of $0.44 per share paid to common shareholders.

TABLE 1 – SELECT ANNUAL FINANCIAL INFORMATION[1]

($ thousands, except per share amounts)

	2010	2009	2008	Change from 2009 $	Change from 2009 %
Key Performance Indicators					
Net income	$ 163,621	$ 106,285	$ 102,019	$ 57,336	54%
Earnings per share					
Basic	2.26	1.51	1.61	0.75	50
Diluted	2.05	1.47	1.58	0.58	39
Diluted cash[1]	2.09	1.49	1.59	0.60	40
Provision for credit losses as a percentage of average loans	0.21%	0.15%	0.15%		6bp[2]
Net interest margin (teb)[1]	2.74	2.10	2.30		64
Net interest margin	2.64	2.03	2.25		61
Efficiency ratio (teb)[1][3]	44.1	48.2	45.2		(410)
Efficiency ratio	45.3	49.4	46.1		(410)
Return on common shareholders' equity	17.1	13.2	15.9		390
Return on average total assets	1.24	0.86	1.03		38
Other Financial Information					
Total revenues (teb)	$ 434,259	$ 327,966	$ 298,857	$ 106,293	32%
Total revenues	423,073	320,119	293,186	102,954	32
Total assets	12,701,691	11,635,872	10,600,732	1,065,819	9
Subordinated debentures	315,000	375,000	375,000	(60,000)	(16)
Dividends	0.44	0.44	0.42	–	–

(1) See page 30 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 $150 million milestone for the first time to reach a record $163.6 million, a 54% ($57.3 million) increase over 2009 despite continued challenges related to Canada's post-recessionary environment. Diluted earnings per common share was $2.05 ($2.26 basic), up 39% from $1.47 ($1.51 basic) in the prior year. Record total revenues (teb) grew 32% to reach $434.3 million, driven by a 64 basis point recovery in net interest margin (teb) to 2.74%, 14% ($1,260 million) growth in total loans and a 15% ($14.0 million) increase in other income. Margin expansion in the year was mainly due to lower deposit costs, more favourable yields on fixed rate loans, a shift in the deposit mix and lower liquidity levels. More favourable yields on fixed rate loans reflect the positive impact from NL's comparatively higher yielding lease portfolio as well as wider spreads on certain product lines, particularly early in the year. Credit quality was satisfactory and the provision for credit losses as a percentage of average loans remained relatively low at 21 basis points. The second quarter acquisition of NL materially benefited all performance metrics except the provision for credit losses. Compared to the Bank's core lending business, National Leasing's portfolio earns a higher yield that more than compensates for its relatively higher loan loss experience due to the nature of its business. The efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb), of 44.1% improved 410 basis points from last year and established a new benchmark. The improvement in the efficiency ratio (teb) reflects very strong growth in total revenues mainly due to margin expansion, loan growth and strong other income which more than offset a 21% ($33.3 million) increase in non-interest expenses. The acquisition of NL contributed $20.1 million of the year-over-year increase in non-interest expenses, with the remainder attributed to additional staff complement and ongoing investment in premises and technology infrastructure to support continued business growth. Return on common shareholders' equity of 17.1% was up 390 basis points compared to 2009 while return on assets increased 38 basis points to 1.24%. The significant improvement in key profitability ratios was due to the factors already noted, partially offset by lower gains realized on the sale of securities. Realized gains on sale of securities were exceptionally high in the prior year and first two quarters of 2010 primarily resulting from transactions related to favourable pricing on certain high quality debt investments which arose from effects of the global financial crisis. Total cash dividends paid to common shareholders of $0.44 per share were unchanged from the prior year.

Total assets increased 9% to reach $12,702 million primarily driven by loan growth. While all primary lending sectors recorded positive growth in the year, lending activity was constrained in certain areas by challenges related to lingering recessionary impacts and the repayment of existing accounts. The impact of negative growth in real estate construction loans was more than offset by very strong results in commercial mortgages, while the acquisition of NL had a significant positive impact on the equipment financing portfolio. Loan growth was achieved across each of the Bank's geographic regions, although activity in BC provided the strongest volume of new loans. Loans in the Bank's residential mortgage business, Optimum Mortgage, increased 42% and comprised approximately 8% of total loans at fiscal year end.

Total branch-raised deposits increased 8% ($496 million) compared to the previous year, while the demand and notice component within branch-raised deposits was up 12% ($392 million). The demand and notice component comprised 33% of total deposits at

October 31, 2010, unchanged from a year earlier. Growth in demand and notice deposits reflects ongoing execution of strategies to further enhance and diversify the Bank's core funding sources as well as CWT's success in generating deposits through its fiduciary trust business. Total branch deposits measured as a percentage of total deposits were 61% at October 31, 2010, compared to 64% a year earlier with the decrease mainly reflecting fixed rate term deposits raised through the deposit broker network to meet the funding requirements of NL, partially offset by the above-noted growth in branch-raised deposits.

The Bank's objective is to maintain a strong and efficient capital base. The Tier 1 and total capital ratios at October 31, 2010 of 11.3% and 14.3%, respectively, remained well above internal and regulatory minimums. This capital position provides flexibility to pursue strategic growth opportunities and manage through any unforeseen challenges. Management believes the forthcoming changes to regulatory capital standards known as "Basel III" should be relatively straightforward to manage given the lack of complexity in the Bank's current composition of regulatory capital. In November 2010, subsequent to year end, the Bank issued $300 million and redeemed $70 million of subordinated debentures. Including the impact of these transactions, the pro forma total capital ratio at October 31, 2010 was 16.4%.

TABLE 2 – PERFORMANCE TARGETS

The performance target ranges established for the 2010 fiscal year, together with actual performance, and new minimum target ranges for fiscal 2011 are presented below:

	2010 Minimum Targets	2010 Performance	2011 Minimum Targets
Net income growth[1]	12%	54%	6%
Net income growth, before taxes (teb)[2]	n/a	42	10
Total revenue (teb) growth	12	32	12
Loan growth	10	14	10
Provision for credit losses as a percentage of average loans	0.15 – 0.20	0.21	0.20 – 0.25
Efficiency ratio (teb)	48	44.1	46
Return on common shareholders' equity[3]	13	17.1	15
Return on assets[4]	0.90	1.24	1.20

(1) Net income, before preferred share dividends.
(2) Net income before income taxes (teb), non-controlling interest in subsidiary and preferred share dividends.
(3) Return on common shareholders' equity calculated as net income after preferred share dividends divided by average common shareholders' equity.
(4) Return on assets calculated as net income after preferred share dividends divided by average total assets.

Minimum Performance Targets and Outlook

CWB exceeded six out of seven of its fiscal 2010 minimum performance targets by considerable margins despite a post-recessionary economic environment. Total revenue (teb) growth, net income growth, the efficiency ratio (teb) and both profitability ratios were each well above the respective targets largely reflecting a significant recovery of net interest margin in the wake of the global financial crisis experienced in 2008 and 2009. Fiscal 2010 performance further benefited from unusually high gains on sale of securities in the first two quarters and a third quarter recovery of income taxes related to prior period transactions. Loan growth was also well above the target and included the positive impact from the acquisition of NL, effective February 1, 2010. Growth in total loans excluding NL of 9% was consistent with lingering recessionary impacts, repayments of existing loans, particularly in the interim construction and equipment financing portfolios, and continued uncertainty about the strength of economic recovery in North America and globally. The provision for credit losses was slightly above the upper range of the target reflecting the impact of NL's comparatively higher provision due to the nature of its business.

Canada's economic fundamentals call for moderate growth in 2011. Consistent with a favourable long-term outlook for commodities, including the impact from developing global economies, management continues to believe Western Canada will perform well relative to the rest of Canada. 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. The 2011 target for loan growth is 10%, unchanged from last year. Overall credit quality is within expectations and based on management's current view, future write-offs should remain within the Bank's historical range of acceptable levels. The provision for credit losses is expected to represent 20 to 25 basis points of average loans. Targets for profitability ratios and growth in total revenues and net income are moderated compared to actual results achieved in 2010 but reflect ongoing confidence in CWB's business model and overall strategic direction. With its solid financial footing and strong capital position, CWB is well positioned to take advantage of opportunities and manage unforeseen challenges that may arise. Management will maintain its focus on creating value and growth for shareholders over the long term. The overall outlook for 2011 remains positive.

NET INTEREST INCOME

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.

Highlights of 2010

- Net interest margin (teb) of 2.74% was up significantly from 2.10% in 2009 and 2.30% in 2008 mainly reflecting improved market conditions and a more favourable interest rate environment following the global financial crisis. The acquisition of NL further improved net interest margin reflecting comparatively higher yields earned on its lease portfolio.
- Net interest income (teb) was a record $328.7 million, up 39%, reflecting the margin improvement and 7% growth in average total assets.

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

($ thousands)

	2010				2009			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Assets								
Cash, securities and deposits with regulated financial institutions	$ 1,767,193	15%	$ 56,627	3.20%	$ 2,007,126	18%	$ 64,335	3.21%
Securities purchased under resale agreements	163,390	2	872	0.53	47,315	–	524	1.11
Loans								
Residential mortgages	2,319,765	20	103,371	4.46	2,211,716	20	107,896	4.88
Other loans	7,486,043	62	407,903	5.45	6,794,806	60	347,517	5.11
	9,805,808	82	511,274	5.21	9,006,522	80	455,413	5.06
Total interest bearing assets	11,736,391	98	568,773	4.85	11,060,963	98	520,272	4.70
Other assets	270,379	2	–	0.00	191,783	2	–	0.00
Total Assets	$12,006,770	100%	$ 568,773	4.74%	$ 11,252,746	100%	$ 520,272	4.62%
Liabilities								
Deposits								
Demand	$ 461,662	4%	$ –	0.00%	$ 371,288	3%	$ –	0.00%
Notice	2,970,970	25	21,274	0.72	2,236,527	20	18,873	0.84
Fixed term	6,642,576	55	194,258	2.92	6,924,320	62	237,248	3.43
Deposit from CWB Capital Trust	105,000	1	6,745	6.42	105,000	1	6,745	6.42
	10,180,208	85	222,277	2.18	9,637,135	86	262,866	2.73
Other liabilities	430,468	3	79	0.02	512,476	5	151	0.03
Subordinated debentures	318,729	3	17,753	5.57	375,000	3	20,901	5.57
Shareholders' equity	1,077,365	9	–	0.00	728,135	6	–	0.00
Total Liabilities and Equity	$12,006,770	100%	$ 240,109	2.00%	$ 11,252,746	100%	$ 283,918	2.52%
Total Assets/Net Interest Income	$12,006,770		$ 328,664	2.74%	$ 11,252,746		$ 236,354	2.10%

(1) See page 30 for a discussion of teb and other non-GAAP measures.

Net interest income (teb) of $328.7 million increased 39% ($92.3 million) in the year, driven by the significant improvement in net interest margin (teb) after the global financial crisis and 6% growth in average interest earning assets. The net interest margin recovery that began in March 2009 continued through the first two quarters of 2010 and then leveled off. The 64 basis point increase in annual net interest margin to 2.74% resulted primarily from lower costs on fixed rate term deposits which had increased significantly in 2008 and 2009 relative to benchmark bond rates as a result of the global demand for increased liquidity. Margin also benefited from increased yields on fixed rate loans primarily related to the National Leasing portfolio, growth in average deposits coming entirely from lower cost notice and demand deposits, and overall lower liquidity levels, partially offset by lower yields on floating rate loans.

Generally, increases in the prime interest rate positively impact net interest margin because prime-based loans reprice more quickly than deposits, which subsequently expand the interest spread earned on the Bank's assets. The presence of interest rate floors negotiated on many lending accounts in 2009 muted the positive impact on net interest margin from recent increases in the prime lending interest rate as floating loan rates do not increase until the floor has been passed. Management believes future increases in the prime lending interest rate will have a comparatively more positive impact on net interest margin as many of the floors have now been passed and/or renegotiated.

The prime rate averaged 2.46% compared to 2.70% last year. The prime rate as at October 31, 2010 was 3.00%, up from its historic low of 2.25% established in April 2009.

Outlook for Net Interest Income

Fiscal 2011 net interest income should increase with the targeted 10% loan growth and expectations for a slightly improved net interest margin that is consistent with the full year impact from National Leasing's higher yielding portfolio, slightly lower deposit costs and gradual increases in the prime lending interest rate. The foregoing factors support management's current expectations that net interest margin (teb) will be slightly above the level achieved in fiscal 2010. Growth in net interest income due to asset growth and slightly improved margins 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 2010.

OTHER INCOME

Highlights of 2010

- Other income increased 15% ($14.0 million) reflecting the positive impact of National Leasing and growth in credit related and net insurance revenues of 35% and 27%, respectively, which more than offset a $12.8 million decrease in gains on sale of securities.
- Other income represented 24% of total revenues (teb), compared to 28% in 2009, reflecting significant growth in net interest income due to an improved margin and strong loan growth, as well as a lower level of gains on sale of securities.

TABLE 4 – OTHER INCOME

($ thousands)

			Change from 2009	
	2010	2009	$	%
Insurance				
Net earned premiums	$ 111,368	$ 104,062	$ 7,306	7%
Commissions and processing fees	2,347	2,852	(505)	(18)
Net claims and adjustment expenses	(68,641)	(68,996)	355	(1)
Policy acquisition costs	(23,358)	(20,802)	(2,556)	12
Net insurance revenues	21,716	17,116	4,600	27
Credit related	31,550	23,369	8,181	35
Trust and wealth management services	17,316	15,478	1,838	12
Retail services	9,017	7,403	1,614	22
Gains on sale of securities, net	12,447	25,225	(12,778)	(51)
Securitization revenue	4,285	–	4,285	nm(1)
Foreign exchange	2,422	2,745	(323)	(12)
Other(2)	6,842	276	6,566	2,379
Total Other Income	$ 105,595	$ 91,612	$ 13,983	15%

(1) not meaningful.

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

Other income of $105.6 million was up 15% ($14.0 million) over 2009 and included $11.1 million related to NL's securitization and lease administration revenue as well as the change in fair value of interest rate swaps. Strong loan growth, including the impact of NL, contributed to a 35% ($8.2 million) increase in credit related fees. Net insurance revenues were $4.6 million (27%) higher on lower claims expense. Although gains on sales of securities were $12.8 million lower compared to the prior year, the level continued to exceed normal historical amounts and reflected 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.

Fees related to trust and wealth management services increased $1.8 million (12%) reflecting strong performance in each of CWT, Valiant and Adroit. Transaction related retail service fees increased 22% ($1.6 million) reflecting increased branch activity.

Other income as a percentage of total revenues (net interest income and other income) declined to 24%, compared to 28% in the prior year. This change was mainly attributed to the significant increase in net interest income due to an improved net interest margin and loan growth.

Outlook for Other Income

Growth is expected across almost all categories of other income reflecting double-digit loan growth and the Bank's continued focus on enhancing transactional services and other sources of fee income. While shifts in the interest rate curve and market spread fluctuations will likely provide some further opportunities to realize gains on sale of securities, such gains are not expected to reach the levels realized in fiscal 2009 and 2010 given the return of more typical credit spreads and the expectation for a more stable interest rate environment. Securitization revenue is expected to reduce as the securitized portfolios mature and are replaced with on-balance sheet funding sources. The "other" category of other income could also be lower as 2010 included several unusual items related to both NL's operations and a tax recovery.

CWB's medium-term objective is to grow non-interest revenues to comprise 30% of total revenues 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 fundamental to the ultimate achievement of this goal.

The trust companies, including Optimum Mortgage, expect solid growth in 2011 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 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 2010

- The efficiency ratio (teb) of 44.1% represented a 410 basis point improvement compared to 2009 reflecting the recovery of net interest margin and strong loan growth which supported a 21% increase in non-interest expenses mainly resulting from the National Leasing acquisition and ongoing investments to support future growth.

TABLE 5 – NON-INTEREST EXPENSES AND EFFICIENCY RATIO

($ thousands)

			Change from 2009	
	2010	2009	$	%
Salaries and Employee Benefits				
Salaries	$ 103,273	$ 87,381	$ 15,892	18%
Employee benefits	20,699	16,724	3,975	24
	123,972	104,105	19,867	19
Premises				
Rent	13,564	12,431	1,133	9
Depreciation	3,697	2,869	828	29
Other	2,208	1,997	211	11
	19,469	17,297	2,172	13
Equipment and Furniture				
Depreciation	6,335	4,634	1,701	37
Other	5,644	4,099	1,545	38
	11,979	8,733	3,246	37
General				
Marketing and business development	5,220	4,336	884	20
Professional fees and services	5,122	4,007	1,115	28
Amortization of intangibles	4,068	1,256	2,812	224
Banking charges	2,907	2,224	683	31
Postage and stationery	2,458	2,486	(28)	(1)
Capital and business taxes	1,979	2,230	(251)	(11)
Regulatory costs	1,916	1,466	450	31
Travel	1,636	1,360	276	20
General insurance	1,280	1,066	214	20
Community investment	1,158	690	468	68
Communications	998	1,155	(157)	(14)
Other	7,318	5,771	1,547	27
	36,060	28,047	8,013	29
Total Non-Interest Expenses	$ 191,480	$ 158,182	$ 33,298	21%
Efficiency Ratio (teb)[1][2]	44.1%	48.2%		(410)bp[3]

(1) Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income). See page 30 for a discussion of non-GAAP measures.

(2) A decrease in this ratio reflects improved efficiency, while an increase reflects deterioration.

(3) bp – basis points.

Total non-interest expenses of $191.5 million increased 21% ($33.3 million) with the February 1, 2010 acquisition of National Leasing contributing $20.1 million of the increase. Excluding National Leasing, non-interest expenses increased $13.2 million (8%). Salaries and benefits increased 19% (8% excluding National Leasing) largely reflecting increased staff complement, annual salary increments and lower stock-based compensation charges. Fiscal 2009 included $1.7 million of additional non-cash, stock-based compensation expense reflecting required accounting treatment for stock options voluntarily forfeited by certain CWB management. The number of full-time equivalent employees (FTEs) grew 29% (391 FTEs) from October 31, 2009 with the increase reflecting the impact of National Leasing (257 FTEs), staffing requirements for additional bank branches and other business expansion. Premises and equipment expenses, including depreciation, increased 21% ($5.4 million) with one-third of the growth relating to National Leasing and the remainder due to premises and technology infrastructure investment such as a new integrated general ledger and budget system. General non-interest expenses increased 29% (16% excluding National Leasing) reflecting costs to manage the ongoing growth and development of CWB's businesses. The increase in amortization of intangibles of $2.8 million relates to the acquisition of NL.

Growth in total revenues (teb) mainly due to an improved net interest margin and loan growth, including the impact of National Leasing, surpassed growth in non-interest expenses, leading to an efficiency ratio (teb) of 44.1%, a 410 basis point improvement compared to the prior year. Non-interest expenses as a percentage of average assets of 1.6% compares to 1.4% in 2009.

Outlook for Non-Interest Expenses and Efficiency

Expected growth in total revenues (teb) in 2011 should largely offset the impact of increased non-interest expenses necessary for effective execution of CWB's strategic plan focused on sustainable growth. 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. Further building on CWB's position as an employer of choice is a priority. In the fourth quarter of 2010, new full-service branches were opened in Sherwood Park, Alberta and Surrey, BC. Management expects there will be further development of the branch network in 2011. Investments in technology, such as those being made for the introduction of a new loan origination system, systems infrastructure and business applications will also contribute to the level of non-interest expenses in 2011, but are expected to provide significant operating efficiencies in future periods. Announced reductions in capital tax rates, as well as expectations for modest inflationary pressures in 2011 will moderate non-interest expenses. Overall, CWB expects to achieve an efficiency ratio (teb) of 46% or better in fiscal 2011.

INCOME AND CAPITAL TAXES

The provision for income taxes (teb) was 26.3% down from 31.8% in the prior year. 2010 tax expense included a $7.5 million tax recovery related to the resolution of items pertaining to prior years which reduced the tax provision by 360 basis points. The provision before the teb adjustment was 22.4%, compared to 28.2% in the previous year. The federal corporate income tax rate was reduced from 19.5% to 19.0%, effective January 1, 2009 and to 18.0% effective January 1, 2010. Effective July 1, 2009, the corporate provincial income tax rate in Manitoba decreased 100 basis points to 12%, while the rate in British Columbia decreased 50 basis points to 10.5% on January 1, 2010. On April 1, 2009, the capital tax rate in BC applicable to CWB decreased to 0.33%, down from 0.67%, and was eliminated completely on 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 and liability relate primarily to the general allowance for credit losses and intangible assets, repectively. 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 (2009 – $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	2010	2009	Change from 2009 $	Change from 2009 %
British Columbia	0.14%[1]	28%	$ 738	$ 1,149	$ (411)	(36)%
Alberta	n/a	65%	n/a	n/a	–	–
Saskatchewan	0.7%	5%	404	375	29	8
Manitoba	3.0%	1%	407	408	(1)	(0)
Total Capital Taxes			$ 1,549	$ 1,932	$ (383)	(20)%

(1) The BC capital tax rate decreased from 0.33% to nil effective April 1, 2010. The above table reflects the blended rate for 2010.

Capital taxes for 2010 totaled $1.5 million, representing a 20% decline from 2009. Lower capital taxes reflect the elimination of capital tax on financial institutions in BC, partially offset by increased capital associated with the retention of earnings.

Outlook

Based on current expectations, CWB's budgeted income tax rate (teb) for fiscal 2011 is 28.5%, or 24.5% before the teb adjustment, reflecting announced reductions in the federal (150 basis points) and BC (50 basis points) corporate income tax rates effective January 1, 2011. Provincially levied capital taxes will decline with the elimination noted above, partially offset by the ongoing retention of earnings and the impact of new capital issues, if these are material.

COMPREHENSIVE INCOME

Comprehensive income is comprised 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 fair value changes for derivative instruments designated as cash flow hedges.

Comprehensive income totaled $167.4 million for the year, compared to $130.6 million last year. As previously noted, net income was up 54% ($57.3 million) compared to one year ago. Lower OCI in 2010 reflects a much smaller increase in the fair value of available-for-sale cash and securities compared to 2009 and a lower volume of gains reclassified to other income on the sale of securities.

TABLE 7 – COMPREHENSIVE INCOME

($ thousands)

	2010	2009
Net Income	$ 163,621	$ 106,285
Other Comprehensive Income		
Available-for-sale securities		
Gains from change in fair value, net of tax	14,285	47,214
Reclassification to other income, net of tax	(8,868)	(17,556)
	5,417	29,658
Derivatives designated as cash flow hedges		
Gains from change in fair value, net of tax	17	9,453
Reclassification to net interest income, net of tax	(1,613)	(9,379)
Reclassification to other liabilities for derivatives terminated prior to maturity, net of tax	–	(5,410)
	(1,596)	(5,336)
	3,821	24,322
Total Comprehensive Income	$ 167,442	$ 130,607

CASH AND SECURITIES

Cash, securities and securities purchased under resale agreements totaled $1,876 million at October 31, 2010, compared to $2,189 million one year ago. The unrealized gain recorded on the balance sheet at October 31, 2010 was $32.1 million, compared to $24.8 million last year. The change in unrealized gains is primarily attributed to a market value improvement in the preferred share portfolio; unrealized gains in this portfolio totaled $18.3 million, compared to $5.8 million a year earlier. The cash and securities portfolio is mainly comprised of high quality debt instruments and a much smaller component of preferred and common equities, primarily those of the major Canadian banks, which are not held for trading purposes and, where applicable, are typically held until maturity. While the combined value of investments in preferred and common equities is relatively small in relation to total liquid assets, it does increase the potential for comparatively larger fluctuations in OCI. Fluctuations in fair value of the securities portfolios are generally attributed to changes in interest rates, market credit spreads and shifts in the interest rate curve. During 2010, the Bank increased the amount invested in common shares of Canadian large market capitalization firms. This portfolio remains relatively small and is managed with a mandate to achieve reasonable long-term capital appreciation with a preference toward dividend income.

The Bank was able to capitalize on opportunities to realize gains on sale of securities in the past two years resulting from a combination of investment strategies and market conditions. Realized gains on sale of securities in 2010 were $12.4 million, a $12.8 million decrease compared to the prior year but well above the five-year average of $8.6 million. The level of gains on sale of securities is expected to decrease in future periods. 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. CWB also has no direct credit exposure to sovereign debt outside of Canada.

See Table 27 – Valuation of Financial Instruments on page 64 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 48 of this MD&A.

LOANS

Highlights of 2010

- Returned to double-digit loan growth, an achievement realized in 20 of the past 21 years (the exception being 2009 when loan growth was 7%).
- Total loan growth of 14%, led by 37% growth in equipment financing (including National Leasing), 20% growth in commercial mortgages and 24% growth in personal loans and mortgages (including Optimum Mortgage).
- A 13% decline in real estate project loans reflecting both expected loan repayments due to this portfolio's relatively short duration and a continued reduction in lending opportunities reflective of a moderated economic environment and reduced residential sales activity.

TABLE 8 – OUTSTANDING LOANS BY PORTFOLIO

($ millions)

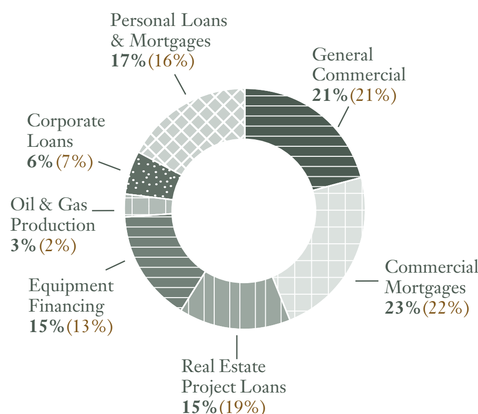
			Change from 2009	
	2010	2009	$	%
Commercial mortgages	$ 2,458	$ 2,051	$ 407	20%
General commercial loans	2,197	1,992	205	10
Real estate project loans	1,576	1,803	(227)	(13)
Personal loans and mortgages	1,794	1,451	343	24
Equipment financing	1,624	1,186	438	37
Corporate loans	660	672	(12)	(2)
Oil and gas production loans	266	157	109	69
Total Outstanding Loans	**$ 10,575**	**$ 9,312**	**$ 1,263**	**14%**

Total loans, excluding the allowance for credit losses, increased 14% ($1,263 million) to reach $10,575 million at year end. Measured by loan type as shown in Table 8, National Leasing's on-balance sheet portfolio at year end of $482 million represented the strongest source of loan growth in 2010, in both dollar and percentage terms, and is represented in equipment financing. The equipment financing portfolio excluding National Leasing was down $36 million from the prior year reflecting the combined impact of this portfolio's relatively short duration and continued economic uncertainty. Commercial mortgages grew 20% ($407 million) over 2009. Personal loans and mortgages, which include the Bank's alternative residential mortgage business, Optimum Mortgage (Optimum), showed very strong results with 24% ($343 million) growth. General commercial loans grew 10% ($205 million) over 2009 and include categories based on industry sector (see Table 12 on page 46) such as manufacturing, finance and insurance, wholesale and retail trade, and others. 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 significant year-over-year decline by loan type was in real estate project loans reflecting both significant loan repayments due to this portfolio's relatively short duration and reduced new lending opportunities in this area. Oil and gas production loans, although still a small percentage of the portfolio, increased significantly.

Loans in Optimum, the Bank's alternative mortgage business, increased 42% over October 31, 2009 to reach $796 million. Residential sales activity was much stronger in the first half of calender 2010 prompted by changes to residential mortgage regulations and the implementation of Harmonized Sales Tax in Ontario and BC. During the year, Optimum continued to increase the proportion of the portfolio represented by higher ratio mortgages insured by either the Canada Mortgage and Housing Corporation (CMHC) or Genworth Financial Canada. Management expects insured mortgages will become a larger component of this portfolio going forward. Optimum continued to underwrite residential mortgages in certain targeted regions of Ontario in an effort to further grow and diversify the portfolio. The uninsured mortgages carry a weighted average 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 further developing the alternative mortgage business as it continues to produce strong returns while maintaining an acceptable risk profile. Optimum's portfolio of insured mortgages is also expected to provide a source of future growth.

The mix of the portfolio shifted slightly during the year (see Figure 1 below) as growth in equipment financing related to NL's portfolio offset the decrease in real estate project loans. Based on the location of security, Alberta and BC represented 48% and 33% of total loans at year end, respectively. The geographic distribution of loans (see Figure 3 on page 45) shifted slightly from Alberta and BC to "other" provinces reflecting the broader geographic footprint of NL's portfolio.

FIGURE 1 – OUTSTANDING LOANS BY PORTFOLIO
(October 31, 2009 in brackets)



Outlook for Loans

The Bank expects to maintain double-digit loan growth and has set its fiscal 2011 minimum 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 active foreign-based competitors in some lending areas. Canada's domestic economy continues to demonstrate moderate growth led by strength in commodities which should positively impact growth in the four western provinces. Management believes Western Canada will be poised for comparatively faster economic growth than the rest of Canada. In Alberta, the forecast for 2011 is supported by returning strength in oil and gas production. The ongoing development of the Canadian oilsands is particularly important as it continues to deliver higher production levels and results in significant capital investment in the province. For BC, near-term growth expectations will be mainly driven by public infrastructure spending. The resource sector in BC is showing modest improvement and this positive momentum is expected to continue. Growth in Saskatchewan will be supported by the recovery in potash production, the potential for year-over-year improvement in agriculture output and the region's growing energy sector. Manitoba's economy is diverse with positive economic growth contributions mainly expected from agriculture production, mining, and oil and gas. Materially higher prices for natural gas are unlikely in the foreseeable future and will continue to adversely affect exploration and production companies that rely on this area, as well as related drilling activity and supporting service companies. Improving employment, real income growth, the current low interest rate environment and continued migration toward Western Canada will positively contribute to housing affordability and help maintain an adequate balance between supply and demand for residential real estate. Paybacks on existing real estate project loans will likely moderate the overall level of loan growth and this circumstance is expected to continue until there is increased certainty regarding the strength of economic recovery. While strong competition from domestic banks and other financial services firms is expected to persist, the current overall outlook for new loans is encouraging.

CREDIT QUALITY

Highlights of 2010

- Credit quality and risk performance remained satisfactory and within expectations given post-recessionary impacts.
- The provision for credit losses was $20.4 million and represented 21 basis points of average loans, one basis point above the upper end of the fiscal 2010 target range reflecting the acquisition of NL.
- The dollar level of gross impaired loans increased slightly, but decreased when measured as a percentage of the total portfolio; gross impaired loans represented 135 basis points of total loans at October 31, 2010, compared to 149 basis points at the end of fiscal 2009.

Impaired Loans

As shown in Table 9, gross impaired loans totaled $143.2 million and represented 1.35% of outstanding loans, compared to 1.49% of total loans last year. While there are positive signs, the current credit cycle continues to run its course and management expects the dollar level of gross impaired loans will fluctuate until economic conditions stabilize further. 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 downturn impacted virtually all industries represented in the Bank's loan portfolio with the largest impact being on the construction and real estate industry sectors, as well as the heavy equipment financing sector.

TABLE 9 – CHANGE IN GROSS IMPAIRED LOANS

($ thousands)

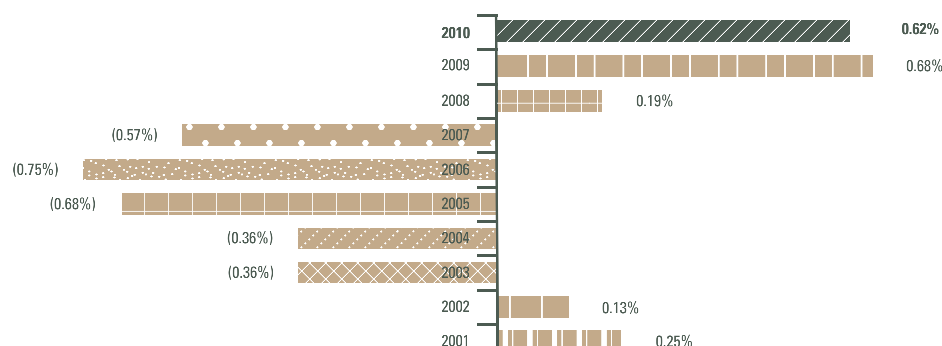
	2010	2009	2008	Change from 2009 $	Change from 2009 %
Gross impaired loans, beginning of period	$ 137,944	$ 91,636	$ 21,104	$ 46,308	51
New formations	165,833	158,129	99,078	7,704	5
Reductions – impaired accounts paid down or returned to performing status	(135,971)	(97,979)	(25,968)	(37,992)	39
Write-offs	(24,599)	(13,842)	(2,578)	(10,757)	78
Total, end of period[3]	$ 143,207	$ 137,944	$ 91,636	$ 5,263	4
Balance of the ten largest impaired accounts	$ 79,721	$ 76,101	$ 56,797	$ 3,620	5
Total number of accounts classified as impaired[4]	189	224	161	(35)	(16)
Total number of accounts classified as impaired under $1 million	163	199	142	(36)	(18)
Gross impaired loans as a percentage of total loans[1]	1.35%	1.49%	1.05%	–	(14)bp[2]

(1) Total loans do not include an allocation for credit losses or deferred revenue and premiums.
(2) bp – basis point.
(3) Gross impaired loans includes foreclosed assets held for sale with a carrying value of $867 (2009 – nil).
(4) Total number of accounts excludes National Leasing accounts.

Although the level of gross impaired loans increased 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 56% of the total gross impaired loans at year end, compared to 55% a year earlier. While new formations of impaired loans exceeded reductions in the year by $29.9 million, there was a net reduction of $14.6 million through the latter half of the 2010 fiscal year.

The 2010 provision for credit losses of $20.4 million increased $6.9 million over the previous year and represented 21 basis points of average loans, compared to 15 basis points in 2009. The increase in the provision measured against average loans was mainly attributed to the acquisition of NL. Compared to the Bank's traditional lending portfolio, the nature of NL's business leads to a higher provision for credit losses that is more than offset by a comparatively higher portfolio yield. At October 31, 2010, gross impaired loans exceeded the total allowance for credit losses by $64.6 million, representing 62 basis points (2009 – 68 basis points) of net loans outstanding (see Figure 2). In the five years prior to fiscal 2008, a relatively consistent dollar provision 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 57 basis points of risk-weighted assets at year end (2009 – 65 basis points). Continued fluctuations are expected as the economic cycle runs its course and specific weaknesses in the portfolio become evident. The allowance for credit losses as a percentage of gross impaired loans (coverage ratio) remained unchanged from 2009 at 55%.

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, reviews 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 the 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)

	2010 Opening Balance	Provision for Credit Losses	Acquisition of Subsidiary	Write-Offs, net of Recoveries[1]	2010 Ending Balance
Specific Allowance					
Commercial	$ 1,292	$ 10,652	$ –	$ (9,289)	$ 2,655
Real estate	5,611	3,232	–	(3,963)	4,880
Equipment financing	6,196	10,309	2,596	(8,886)	10,215
Consumer and personal	1,207	1,942	–	(1,861)	1,288
	14,306	26,135	2,596	(23,999)	19,038
General Allowance	61,153	(5,722)	4,172	–	59,603
Total	$ 75,459	$ 20,413	$ 6,768	$ (23,999)	$ 78,641

(1) Recoveries in 2010 totaled $600 (2009 – $263).

The allowance for credit losses is maintained to absorb both identified and unidentified losses in the loan portfolio and, at October 31, 2010, consisted of $19.0 million in specific allowances and $59.6 million in the general allowance for credit losses. Specific allowances include the accumulated allowances for losses required on identified impaired accounts 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 56 basis points of gross outstanding loans (2009 – 66 basis points) and 57 basis points of risk-weighted assets (2009 – 65 basis points). An assessment of the adequacy of the general allowance is conducted quarterly and measured against the three-, 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. Over the previous four years, the general allowance increased reflecting portfolio growth and a strong economy. In the current year, challenging economic conditions contributed to a decrease in the general allowance as impaired accounts were identified and a portion of the allowance was 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 continues. At October 31, 2010, the general allowance for credit losses met all of management's tests of adequacy.

Outlook for Allowance for Credit Losses

Specific allowances will continue to be determined on an account-by-account basis and reviewed at least quarterly. The general allowance is expected to fluctuate 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 historical 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 21 basis points of average loans in 2010 (see Table 11), an increase from the three-year average of 17 basis points and unchanged from the five-year average of 21 basis points. The increase in the provision as a percentage of average loans in 2010 reflects the characteristics of NL's portfolio. The net new specific provision represented 27 basis points of average loans in 2010. These results compare to the three-, five-and ten-year trends when the net new specific provision for credit losses averaged 15, 9 and 13 basis points of average loans, respectively. During 2010, $5.7 million was drawn from the general allowance for credit losses and applied to net new specific provisions reflecting the Bank's current position in the latter stages of the credit cycle. 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)

	2010	2009	2008	2007	2006
Provision for credit losses(1)	0.21%	0.15%	0.15%	0.16%	0.20%
Net new specific provisions (net of recoveries)(2)	0.27	0.14	0.09	0.04	(0.03)
General allowance	$ 59,603	$ 61,153	$ 60,527	$ 55,608	$ 48,037
Coverage ratio(3)	55%	55%	82%	299%	514%

(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 the Provision for Credit Losses

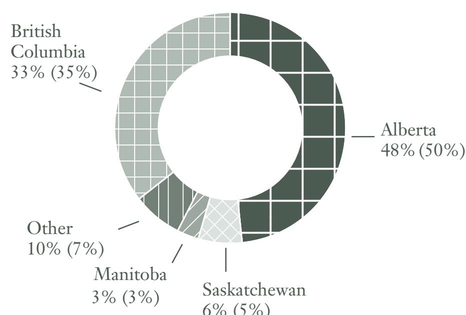
The provision for credit losses in 2011 is expected to be 20 to 25 basis points of average loans, consistent with results in 2010. The expected provision reflects the Bank's current assessment based on reasonable assumptions about the economic outlook, expected 10% loan growth, the overall quality of the portfolio and its underlying security, as well as the adequacy of the general allowance for credit losses. This assessment is ongoing and the Bank's updated 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, 2009 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)

	2010	2009
Real estate operations	22%	22%
Construction	20	22
Consumer loans and residential mortgages[2]	16	14
Health and social services	6	4
Transportation and storage	5	6
Hotel/motel	5	4
Finance and insurance	4	4
Oil and gas (production)	3	3
Manufacturing	3	3
Retail trade	3	3
Oil and gas (service)	2	3
Wholesale trade	2	1
Other services	1	3
Logging/forestry	1	2
All other	7	6
Total	100%	100%

(1) 2010 percentages are based on the North American Industry Classification System (NAICS) and 2009 percentages are 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. Heavy equipment financing is primarily sourced within branches or through stand-alone equipment financing centres, while small- and mid-sized leases are offered across Canada through NL. Oil and gas production lending is conducted by specialists located in Calgary. Real estate specialists are established in the major centres of Edmonton, Calgary and Vancouver. The alternative residential mortgage business, Optimum, maintains centralized administration based in Edmonton.

Outlook for Diversification of Portfolio

Portfolio diversification by geography is expected to remain relatively consistent with October 31, 2010. Interim construction accounts (i.e. real estate project loans) are expected to reduce as a proportion of total loans in 2011 reflecting a combination of loan repayments due to this portfolio's relatively short duration and moderated lending opportunities compared to other lending areas. There is increased optimism about lending opportunities in heavy equipment financing moving forward, particularly as economic factors improve further. 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 2011. NL maintains lending operations across Canada with the largest concentration by province in Ontario. A strong outlook for this business is expected to provide further diversification by both industry and geography. The Bank also expects its oil and gas production loans could increase as a percentage of the portfolio in 2011.

DEPOSITS

Highlights of 2010

- Personal deposits, which include the Bank's lowest cost source of funding, increased 14%.
- Business and government deposits increased 9%.
- Branch and trust generated demand and notice deposits increased 8%.
- Branch and trust generated deposits were 61% of total deposits, down from 64% a year earlier reflecting growth in fixed rate term deposits raised through the deposit broker network primarily to meet funding requirements for NL.

TABLE 13 – DEPOSITS
($ thousands)

	Demand	Notice	Term	2010 Total	% of Total
Personal	$ 23,308	$ 1,840,026	$ 5,462,231	$ 7,325,565	68%
Business and government	507,300	1,159,573	1,713,329	3,380,202	31
Deposit-taking institutions	–	–	2,000	2,000	–
Deposit from CWB Capital Trust(1)	–	–	105,000	105,000	1
Total Deposits	$ 530,608	$ 2,999,599	$ 7,282,560	$ 10,812,767	100%
% of Total	5%	28%	67%	100%	

	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%	

(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 rights. See Note 15 to the consolidated financial statements for more information on WesTS and CWB Capital Trust.

Total deposits at year end of $10,813 million increased 12% ($1,196 million) over 2009 reflecting 14% ($928 million) growth in personal deposits and 9% ($268 million) growth 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 48 of this MD&A).

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

	2010	2009	2008	2007	2006
Branches	61%	64%	63%	64%	66%
Deposit brokers	38	34	34	33	30
Corporate wholesale	–	1	2	2	2
Deposit from CWB Capital Trust	1	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® continues to be well received, with the total dollar value of deposits from this source growing $79 million in the year to reach $650 million. An Internet-based division of the Bank named Canadian Direct Financial® offers deposit and registered savings products primarily to customers who do not have convenient access to CWB's branch network. Canadian Direct Financial® has shown good results to date and management is optimistic about its potential to provide a more valued source of funding in the future. 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. 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-raised deposits was 8% this year. The demand and notice component within branch-raised deposits increased 12% to comprise 33% of total deposits at year end, unchanged from the previous year. At October 31, 2010, branch and trust generated deposits comprised 61% of total deposits, compared to 64% in the previous year with the decrease reflecting fixed rate term deposits raised through the deposit broker network largely due to the funding requirements of NL, partially offset by the above-

noted growth in branch-raised deposits. Growth in demand and notice deposits reflects ongoing execution of strategies to further enhance and diversify the Bank's core funding sources as well as CWT's success in generating deposits through its fiduciary trust business.

Outlook for Deposits

A strategic focus on increasing branch-raised deposits (including CWT) will continue in 2011, with 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 Trust Company has been approved as a federal deposit-taking institution and management plans to further develop strategies to utilize this additional channel to raise insured deposits. The Bank's deposit broker network remains a valued source for raising insured fixed term retail deposits and has proven to be an extremely effective and efficient way to access funding and liquidity over a wide geographic base. The deposit broker network is also a very effective channel to raise deposits to meet the fixed term funding requirements of NL.

OTHER ASSETS AND OTHER LIABILITIES

At October 31, 2010 other assets totaled $329 million (2009 – $211 million). The increase from 2009 primarily reflects goodwill and intangibles related to the acquisition of NL. The increase also included a $30 million amount receivable related to redemptions of securities that were not settled until the first business day in November. Insurance related other assets were $60 million (2009 – $56 million) and consisted primarily of instalment premiums receivable as well as the reinsurer's share of unpaid claims. Other assets at October 31, 2010 included goodwill and intangible assets of $38 million and $43 million, respectively.

Other liabilities totaled $426 million at October 31, 2010 (2009 – $657 million) and included nil (2009 – $300 million) securities purchased under reverse resale agreements. Reverse resale agreements are periodically used for short-term cash management purposes. Insurance related other liabilities were $149 million (2009 – $146 million) and consisted primarily of provisions for unpaid claims and adjustment expenses and unearned premiums. Other liabilities at October 31, 2010 also include a $31 million provision for contingent consideration and $53 million of other liabilities related to the NL acquisition.

LIQUIDITY MANAGEMENT

Highlights of 2010

- Maintained a strong liquidity position and conservative investment profile.
- Enhanced liquidity monitoring capabilities and increased stability in Canadian capital markets allowed for a reduction in liquid assets to more normal levels.
- In November 2010, subsequent to year end, received a credit rating from DBRS Limited on senior debt/deposits (A low) and subordinated debentures (BBB high); both ratings were issued indicating a stable trend.

A schedule outlining the consolidated securities portfolio at October 31, 2010 is provided in Note 4 to the consolidated financial statements. A conservative investment profile is maintained by ensuring:

- all investments are high quality and include government debt securities, short-term money market instruments, preferred shares and other marketable securities;
- specific investment criteria and procedures are in place to manage the securities portfolio;
- regular review, monitoring and approval of investment policies by management's 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. CWB also has no direct credit exposure to sovereign debt outside of Canada.

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)

	2010	2009	Change from 2009
Cash	$ 4,244	$ 4,069	$ 175
Deposits with regulated financial institutions	173,719	280,358	(106,639)
Cheques and other items in transit	9,981	12,677	(2,696)
Total Cash Resources	187,944	297,104	(109,160)
Securities purchased under resale agreements	177,954	(300,242)	478,196
Government of Canada treasury bills	434,383	156,677	277,706
Government of Canada, provincial and municipal bonds, term to maturity 1 year or less	128,799	130,510	(1,711)
Government of Canada, provincial and municipal bonds, term to maturity more than 1 year	89,990	820,413	(730,423)
Preferred shares	511,228	434,361	76,867
Other marketable securities	345,787	349,448	(3,661)
Total Securities Purchased or Sold Under Resale Agreements and Marketable Securities	1,688,141	1,591,167	96,974
Total Liquid Assets	$ 1,876,085	$ 1,888,271	$ (12,186)
Total Assets	$ 12,701,691	$ 11,635,872	$ 1,065,819
Liquid Assets as a Percentage of Total Assets	15%	16%	(1)%
Total Deposit Liabilities	$ 10,812,767	$ 9,617,238	$ 1,195,529
Liquid Assets as a Percentage of Total Deposit Liabilities	17%	20%	(3)%

As shown in Table 15, liquid assets comprised of cash, interbank deposits, securities purchased under resale agreements and marketable securities totaled $1,876 million at October 31, 2010, a decrease of $13 million compared to a year earlier. The Bank continues to carry more liquidity than it would in a robust economic environment with more normal market conditions. Liquid assets represented 15% (2009 –16%) of total assets and 17% (2009 – 20%) of total deposit liabilities at year end.

Over the year, the Bank shifted a significant portion of government securities with maturities greater than one year into shorter dated treasury bills and short dated securities purchased under resale agreements (repo) to manage interest rate and market value risk. Highlights of the composition of liquid assets at October 31, 2010 are as follows:

- maturities within one year increased to 49% (2009 – 9%) of liquid assets, or $921 million (2009 – $162 million);
- Government of Canada, provincial and municipal debt securities decreased to 35% (2009 – 59%) of liquid assets;
- deposits with regulated financial institutions, including Bankers' Acceptances, decreased to 9% (2009 – 15%) of liquid assets;
- preferred shares increased to 27% of liquid assets (2009 – 23%); and
- other marketable securities remained constant at 18% of liquid assets.

Securities purchased under resale agreements totaled $178 million at October 31, 2010. This compares to October 31, 2009 when securities sold under reverse resale agreements totaled $300 million. These agreements are primarily used for cash flow management purposes.

Securities purchased under resale agreements are included in liquid assets. These represent short-term loans to securities dealers that require subsequent repurchase of the securities given as collateral, typically within a few days. CWB may also enter into reverse resale agreements which are included in other liabilities. These are short-term advances from securities dealers, typically no more than a few days in duration and require the Bank 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 comes from corporate clients that tend to hold larger balances that 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, 2010	Within 1 Month	1 to 3 Months	3 Months to 1 Year	Cumulative Within 1 Year
Demand deposits	$ 531	$ –	$ –	$ 531
Notice deposits	2,999	–	–	2,999
Deposits payable on a fixed date	1,044	892	1,951	3,887
Total	$ 4,574	$ 892	$ 1,951	$ 7,417
October 31, 2009 Total	$ 4,082	$ 816	$ 1,514	$ 6,412

TABLE 17 – TOTAL DEPOSIT MATURITIES

($ millions)

October 31, 2010	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	$ 531	$ –	$ –	$ –	$ –	$ –	$ 531
Notice deposits	2,999	–	–	–	–	–	2,999
Deposits payable on a fixed date	3,887	1,555	796	557	383	–	7,178
Note to CWB Capital Trust	–	–	–	–	–	105	105
Total	$ 7,417	$ 1,555	$ 796	$ 557	$ 383	$ 105	$ 10,813
October 31, 2009 Total	$ 6,412	$ 1,693	$ 773	$ 394	$ 240	$ 105	$ 9,617

A breakdown of deposits by source is provided in Table 14 on page 47. 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 broker-generated deposits is expected to increase as the Bank grows or when higher levels of liquidity are required. Insured deposits raised through deposit brokers remain a highly effective and valued funding source. As at October 31, 2010, CWT's notice account balances totaled $993 million (2009 – $931 million) reflecting ongoing business and client growth.

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

TABLE 18 – SUBORDINATED DEBENTURES OUTSTANDING

($ thousands)

Interest Rate	Maturity Date	Earliest Date Redeemable by CWB at Par	2010	2009
5.426%[(1)]	November 21, 2015	November 22, 2010	$ 70,000	$ 70,000
5.070%[(2)]	March 21, 2017	March 22, 2012	120,000	120,000
5.571%[(3)]	March 21, 2022	March 22, 2017	75,000	75,000
5.950%[(4)]	June 27, 2018	June 28, 2013	50,000	50,000
5.550%[(5)]	November 19, 2014	November 20, 2009	–	60,000
Total			$ 315,000	$ 375,000

(1) These conventional debentures had a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate would have been reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points. On November 22, 2010, 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 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.

(3) 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.

(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 been reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 302 basis points.

(5) These conventional debentures had 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.

Outlook for Liquidity Management

Subsequent to October 31, 2010, the Bank redeemed $70 million and issued $300 million of subordinated debentures which will temporarily increase liquidity.

The Bank continues to refine its methodologies for measuring and monitoring liquidity risk. Use of dynamic scenario analysis has allowed for a reduction in the level of liquid asset coverage while continuing to maintain prudent liquidity standards. As the economic recovery continues to unfold, a slight reduction in liquidity levels is expected compared to October 31, 2010.

In addition to the Consultative Document described in the Capital Management section of this MD&A, the Bank for International Settlements (BIS) issued a companion Consultative Document entitled *International Framework for Liquidity Risk Measurement, Standards and Reporting*. Although the framework was primarily aimed at internationally active banks, CWB participated along with the other large Canadian banks by providing OSFI information to assist in assessing the impact of the proposals. The new proposals, which were updated in July 2010, could lead to higher liquidity and funding costs for internationally active banks. On December 1, 2010, the BIS indicated that the final rules text is expected to be published before the end of 2010. It also stated that the new liquidity coverage ratio and net stable funding ratio will be subject to an observation period and will include a review clause to address any unintended consequences. It is not yet known how the liquidity standards will apply to Canadian banks with predominantly domestic business.

CONTRACTUAL OBLIGATIONS

In addition to the obligations related to deposits and subordinated debentures discussed in the Deposits and Liquidity Management sections on pages 46 and 48 of this MD&A, as well as Notes 14, 18, 21, 29 and 37 of the consolidated financial statements, the following contractual obligations are outstanding at October 31, 2010.

TABLE 19 – CONTRACTUAL OBLIGATIONS
($ thousands)

	Within 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Lease commitments	$ 8,437	$ 16,144	$ 15,173	$ 19,636	$ 59,390
Purchase obligations for capital expenditures	538	310	–	–	848
October 31, 2010	$ 8,975	$ 16,454	$ 15,173	$ 19,636	$ 60,238
October 31, 2009	$ 8,875	$ 16,481	$ 15,646	$ 27,124	$ 68,126

CAPITAL MANAGEMENT

Highlights of 2010

- Maintained strong Tier 1 and total capital adequacy ratios of 11.3% and 14.3%, respectively.
- Increased the ratio of tangible common equity to risk-weighted assets to 8.5%, up from 8.0% in 2009.

Subsequent Highlights

- In November 2010, issued $300 million and redeemed $70 million of subordinated debentures.
- In December 2010, the Board of Directors declared a quarterly cash dividend of $0.13 per common share, an increase of $0.02 per share (18%) from both the previous quarterly cash dividend and the quarterly cash dividend 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. Consistent with Basel II guidelines described below, CWB has implemented an Internal Capital Adequacy Assessment Process (ICAAP) to help ensure that capital levels remain adequate in relation to current and future risks.

In 2008 and 2009, the global financial crisis led to significant demand for increased capital levels, particularly from investors. The Canadian financial industry responded by issuing capital during the period of heightened market uncertainty, and by maintaining stable dividends and restricting share buybacks. In 2010, the overall market normalized and international banking regulators issued several press releases to clarify the next round of capital guidelines, commonly known as Basel III. These releases provided more certainty and eased requirements for increased capital conservatism previously requested by OSFI. Subsequent to year end, the Bank redeemed $70 million of its existing subordinated debentures and issued $300 million of new subordinated debentures in the capital markets. On December 6, 2010, the Bank's Board of Directors declared a quarterly dividend of $0.13 per CWB common share payable in January 2011. This represents an increase of $0.02 (18%) per share compared to the previous quarterly dividend paid in October 2010.

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 20 to the consolidated financial statements details the number of options outstanding, the weighted average exercise price and the amounts exercisable at year end. Holders of CWB's common shares and holders of any other class of shares deemed eligible by the Bank's Board of Directors are offered the choice to direct cash dividends paid toward the purchase of common shares through a dividend reinvestment plan (DRIP). Further details regarding the Bank's DRIP are available at www.cwbankgroup.com/investor_relations.

Basel II Capital Adequacy Accord

OSFI currently requires banks to measure capital adequacy in accordance with published 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. The Standardized Approach for credit risk applies a weighting of 0% to 150% based on the deemed credit risk for each type of asset. As an example, a loan that is fully insured by 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 CWB's ICAAP thresholds and OSFI's standards for Canadian financial institutions. Off-balance sheet items, 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. National Leasing's off-balance sheet securitized asset portfolio is reflected in a deduction from both Tier 1 and total capital. 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 the 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). Refer to Table 20 for additional details on CWB's capital structure and regulatory capital ratios.

The Bank complied with all internal and external capital requirements in 2010.

Basel III Capital Adequacy Accord

On December 1, 2010, the Basel Committee on Banking Supervision of the BIS (the Committee) announced that it had agreed on the Basel III rules text which supports the global standards on capital adequacy and liquidity. The rules text is expected to be published by the end of 2010 and will include the transitional arrangements and grandfathering rules. The standards were endorsed by the G20 Leaders at their Seoul Summit in November after the Committee's Consultative Document entitled *Strengthening the Resilience of the Banking Sector* issued in December 2009 was updated in July and September 2010. Transition to the new standards is expected to begin in 2013 with full compliance by 2019.

Although the final international rules text has not yet been published and OSFI must determine how to implement the proposals, the following significant capital changes relevant to CWB are expected:

- Increased focus on tangible common equity.
- All forms of non-common equity, such as conventional subordinated debentures and preferred shares, must include a clause that would require conversion to common equity in the event that OSFI deems the institution to be insolvent or a government is ready to inject a "bail out" payment. Some grandfathering of existing capital instruments is expected.
- Innovative Tier 1 instruments, such as CWB's WesTS, will no longer qualify.
- An investment in insurance subsidiary is no longer deducted from capital except for any amount that exceeds 15% of tangible common equity.
- Potential changes in the risk-weighting or capital treatment for investments in the regulatory capital of other financial institutions.

CWB currently has a very strong capital position and expects implementation of the final set of standards should be relatively straightforward to manage given the lack of complexity in the Bank's current composition of regulatory capital.

TABLE 20 – CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR END

($ thousands)

	2010	2009	Change from 2009
Tier 1 Capital			
Retained earnings	$ 614,710	$ 511,784	$ 102,926
Common shares	279,352	226,480	52,872
Preferred shares	209,750	209,750	–
Contributed surplus	21,291	19,366	1,925
Innovative capital instrument[2]	105,000	105,000	–
Non-controlling interest in subsidiary	180	267	(87)
Less goodwill of subsidiaries	(37,723)	(9,360)	(28,363)
Less securitization	(8,880)	–	(8,880)
Total	1,183,680	1,063,287	120,393
Tier 2 Capital			
General allowance for credit losses (Tier A)[3]	59,603	61,153	(1,550)
Accumulated unrealized gains on available-for-sale securities, net of tax[1]	16,119	2,118	14,001
Subordinated debentures (Tier 2B)[4]	315,000	380,000	(65,000)
Total	390,722	443,271	(52,549)
Less investment in insurance subsidiary	(68,993)	(56,768)	(12,225)
Less securitization	(8,880)	–	(8,880)
Total Regulatory Capital	$ 1,496,529	$ 1,449,790	$ 46,739
Regulatory Capital to Risk-Weighted Assets			
Tier 1 capital	11.3%	11.3%	–%
Tier 2 capital	3.7	4.7	(1.0)
Less investment in insurance subsidiary and securitization	(0.7)	(0.6)	(0.1)
Total Regulatory Capital Adequacy Ratio	14.3%	15.4%	(1.1)%
Assets to Regulatory Capital Multiple[5]	8.5	8.1	0.4

(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 securities, net of tax, increases Tier 2 capital.

(2) The innovative capital instrument consists of CWB's WesTS and 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, 2010, the Bank's general allowance represented 0.57% (2009 – 0. 65%) 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, 2010 and October 31, 2009 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)

				2010	
	Cash, Securities and Resale Agreements	Loans	Other Items	Total	Risk-Weighted Assets
Corporate	$ 54,513	$ 7,939,691	$ –	$ 7,994,204	$ 7,731,941
Sovereign	635,830	10,739	–	646,569	19,443
Bank	507,514	53,644	–	561,158	309,201
Retail residential mortgages	–	1,664,601	–	1,664,601	467,492
Other retail					
Excluding small business entities	–	161,496	–	161,496	117,945
Small business entities	–	753,166	–	753,166	572,527
Equity	550,602	–	–	550,602	298,079
Undrawn commitments	–	139,018	–	139,018	137,523
Operational risk	–	–	47,749	47,749	596,864
Other	–	56,406	303,956	360,362	238,603
As at October 31, 2010	$ 1,748,459	$ 10,778,761	$ 351,705	$ 12,878,925	$ 10,489,618
As at October 31, 2009	$ 2,071,304	$ 9,530,655	$ 220,260	$ 11,822,219	$ 9,395,679

TABLE 22 – RISK-WEIGHTED CATEGORY

($ thousands)

								2010	
	0%	20%	35%	50%	75%	100%	150% and greater	Balance	Weighted
Corporate	$ 31,742	$ 18,365	$ –	$ 512,356	$ –	$ 7,351,042	$ 80,699	$ 7,994,204	$ 7,731,941
Sovereign	612,613	18,140	–	–	–	15,816	–	646,569	19,443
Bank	30	305,747	–	14,660	–	240,721	–	561,158	309,201
Retail residential mortgages	395,657	–	1,227,085	–	15,386	26,473	–	1,664,601	467,492
Other									
Excluding small business entities	625	6,738	–	–	152,756	70	1,307	161,496	117,945
Small business entities	3,309	2,912	–	–	711,483	29,721	5,741	753,166	572,527
Equity	–	315,654	–	–	–	234,948	–	550,602	298,079
Undrawn commitments	–	–	–	–	13,079	122,389	3,550	139,018	137,523
Operational risk	–	–	–	–	–	–	47,749	47,749	596,864
Other	111,095	10,944	–	–	7,641	230,682	–	360,362	238,603
As at October 31, 2010	$1,155,071	$ 678,500	$ 1,227,085	$ 527,016	$ 900,345	$ 8,251,862	$ 139,046	$12,878,925	$10,489,618
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

At as October 31, 2010, the total capital adequacy ratio was 14.3% (2009 – 15.4%), of which 11.3% (2009 – 11.3%) was Tier 1 capital. Total regulatory capital increased $47 million over 2009, primarily from the combination of:

- earnings, net of dividends and the purchase of warrants for cancellation, of $103 million;
- common shares issued on the acquisition of National Leasing ($43 million), exercise of options ($7 million) and dividend reinvestment plan ($3 million);
- a net change related to accumulated after-tax unrealized gains on available-for-sale securities of $14 million;
- an increase of $28 million in the deduction for goodwill of subsidiaries related to the National Leasing acquisition;
- a new $18 million deduction related to NL's securitized assets; and
- an increase of $12 million in the deduction for investment in insurance subsidiary.

In November 2010, subsequent to year end the Bank issued $300 million and redeemed $70 million of subordinated debentures. The new debentures qualify as Tier 2 capital and, including the impact of these transactions, the pro forma total capital ratio as at October 31, 2010 was 16.4%.

Outlook for Capital Management

CWB expects to remain very well capitalized with the Basel II Tier 1 and total capital ratios staying well above the current regulatory minimums of 7% and 10%, respectively. The ongoing retention of earnings and the November 2010 subordinated debenture issue should support capital requirements associated with the anticipated achievement of the 2011 minimum performance targets. The Bank's very strong capital ratios are also currently above the targeted ICAAP ranges, assuming a normal operating environment, 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.

Implementation of the final Basel III framework is expected to be relatively straightforward to manage given CWB's very strong capital position and the lack of complexity in the Bank's current composition of regulatory capital. Management will continue to carefully assess the impact on CWB's capital strategies as the standards are finalized and leading up to the initial transition expected in 2013.

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 sold under repurchase 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 68 to 72 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 63.

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 12 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)

	2010	2009
Notional Amounts		
Interest rate contracts[1]	$ 47,550	$ 235,000
Equity contracts[2]	500	2,000
Foreign exchange contracts[3]	57,032	2,496
Total	$ 105,082	$ 239,496

(1) Interest rate contracts are used as economic hedging devices to manage interest rate risk. The outstanding contracts mature between November 2010 and April 2014. The total gross positive replacement cost of interest rate contracts was nil (2009 – $2,265). The market value in the prior year 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 contract matures March 2011. The total gross positive replacement cost was $2 (2009 – 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, 2010, there were US$55,870 (2009 – US$2,233) of forward foreign exchange contracts outstanding that mature between November 2010 and July 2011.

The active use of interest rate contracts remains an integral component in managing the Bank's short-term gap position; however, the volume of outstanding contracts (measured by the notional amount) has decreased from 2009 despite the addition of $48 million of notional amount related to National Leasing. During 2010, CWB allowed outstanding interest rate swaps designated as cash flow hedges for interest rate risk to mature without replacement. This strategy positions CWB to benefit further in a period of increasing interest rates while maintaining interest rate risk within prudent policy guidelines. 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.

ACQUISITIONS

On February 1, 2010, the Bank acquired 100% of the outstanding common shares of National Leasing in exchange for $53 million in cash, 2,065,088 common shares of the Bank (equating to an equivalent dollar value of $43 million) and contingent consideration for a total cost of $127 million. Both the Bank and the vendors have the option to trigger payment of the contingent consideration no earlier than November 1, 2012. The final amount of the contingent consideration is not yet determinable and, under Canadian GAAP, any change will be recognized as an adjustment to goodwill in the period in which the contingency is resolved.

National Leasing is a commercial equipment leasing company for small to mid-size transactions headquartered in Winnipeg, Manitoba. The average size of each lease transaction has historically been approximately $20,000. The company has representation across Canada with the largest concentration of leases sourced in Ontario. At the acquisition date, National Leasing had over 58,000 lease agreements with a collective book value of approximately $657 million, including securitized assets, which comprised approximately one half of the portfolio.

Details of the fair values of assets and liabilities acquired are as follows:

ASSETS AND LIABILITIES ACQUIRED AT FAIR VALUE
($ thousands)

Leases	$ 322,512
Intangible assets	40,708
Goodwill	27,937
Retained interest in securitized assets	19,109
Long-term debt	(270,630)
Future income tax liabilities	(10,611)
Other items, net	(2,407)
Net assets acquired	$ 126,618

Intangible assets include customer relationships, computer software, non-competition agreements, lease administration contracts and trademarks. The trademark, which has an estimated value of $1,610, is not subject to amortization. National Leasing'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. The long-term debt was repaid immediately after the acquisition.

The acquisition was accretive to the Bank's consolidated earnings per diluted common share in fiscal 2010 and resulted in only a slight reduction in 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 21 to CWB's consolidated financial statements for 2010.

OPERATING SEGMENT REVIEW

CWB operates in two business segments: 1) banking and trust, and 2) insurance. Segmented information is also provided in Note 33 of the audited consolidated financial statements.

BANKING AND TRUST

Highlights of 2010

- Acquired National Leasing Group Inc., effective February 1, 2010.
- Realized record net income of $151.2 million, an increase of 56% ($54.0 million).
- Achieved record total revenues (teb) of $405.0 million, an increase of 33% ($100.8 million), reflecting a 65 basis point improvement in net interest margin (teb) to 2.73% and 14% loan growth.
- Maintained satisfactory credit quality and a provision for credit losses measured as a percentage of average loans of 21 basis points.
- Increased branch and trust generated deposits 8%, with the demand and notice component up 12%.
- Opened new full-service commercial and retail banking centres in Sherwood Park, Alberta and Surrey, BC.
- Surpassed $6 billion of assets under administration in CWT.

The operations of the banking and trust segment include business and retail banking services, including equipment leases offered by NL, 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. Optimum Mortgage, a division of CWT, underwrites residential mortgages within Western Canada and select markets in Ontario. 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 and other select markets. 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 access is provided through a network of 39 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 range of deposit and registered savings products directly to customers who are not served by the branch network. Optimum Mortgage sources residential mortgages through a network of over 8,500 mortgage brokers located in Western Canada and Ontario. National Leasing specializes in small and mid-sized commercial equipment leases and has representation across Canada. 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. Adroit is an Edmonton-based firm that specializes in wealth management for individuals, corporations and institutional clients, including non-profit organizations, colleges, foundations and endowment funds.

TABLE 24 – BANKING AND TRUST HIGHLIGHTS[1]

($ thousands)

	2010	2009	Change from 2009
Net interest income (teb)	$ 321,640	$ 230,227	40%
Other income	83,393	74,013	13
Total revenues (teb)	405,033	304,240	33
Provision for credit losses	20,413	13,500	51
Non-interest expenses	179,734	147,571	22
Provision for income taxes (teb)	53,438	45,763	17
Non-controlling interest in subsidiary	215	232	(7)
Net income	$ 151,233	$ 97,174	56%
Efficiency ratio (teb)	44.4%	48.5%	(410)bp[2]
Efficiency ratio	45.5	49.7	(420)
Net interest margin (teb)	2.73	2.08	65
Net interest margin	2.64	2.02	62
Average loans ($ millions)[3]	$ 9,806	$ 9,007	9%
Average assets ($ millions)[3]	11,792	11,055	7

(1) See page 30 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) 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.

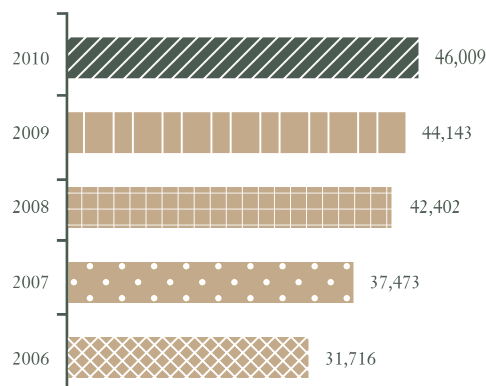
Record banking and trust net income of $151.2 million was up 56% ($54.1 million) over 2009 on 33% ($100.8 million) growth in total revenues (teb). Growth in total revenues (teb) reflects net interest income (teb) that was 40% ($91.4 million) higher compared to the prior year due to the positive contributions from a 65 basis point improvement in net interest margin to 2.73% and 14% loan growth. The significant increase in net interest margin was mainly the result of lower deposit costs, more favourable yields on fixed rate loans, a shift in the deposit mix and lower liquidity levels. More favourable yields on fixed rate loans reflect the positive impact from NL's comparatively higher yielding lease portfolio as well as wider spreads on certain product lines, particularly early in the year. Other income increased 13% ($9.4 million) as strong results across CWB's core operations, including contributions from the second quarter acquisition of NL, more than offset a $12.8 million decline in gains on sale of securities and slightly lower foreign exchange gains. Non-interest expenses increased 22% ($32.2 million) with the acquisition of NL contributing $20.1 million of the year-over-year difference. The remainder of the increase in non-interest expenses was mainly attributed to additional staff complement and ongoing investment in premises and technology infrastructure to support continued business growth. Very strong growth in total revenues (teb) more than offset the impact of higher non-interest expenses and led to a 410 basis point improvement in the efficiency ratio (teb) to a new benchmark of 44.4%.

Growth in total branch and trust deposits increased 8%, while the demand and notice component of branch and trust deposits was up 12%. Growth in branch and trust generated deposits reflect ongoing execution of strategies to further enhance and diversify the Bank's core funding sources and CWT's continued success in generating deposits through its fiduciary trust business.

Significant infrastructure initiatives completed in 2010 included additional full-service branches in Sherwood Park, Alberta and Surrey, BC, as well as further upgrades and expansions to systems and existing premises.

Total assets under administration, including both trust assets under administration and third-party lease service agreements, totaled $8,531 million at October 31, 2010, compared to $5,467 million one year ago. Growth in assets under administration reflects the acquisition of NL and businesses growth in CWT. A portion of assets under administration are held in investment accounts, including self-directed RRSP and RRIF accounts, which numbered 46,009 (2009 – 44,143), an increase of 4% from one year ago. Assets under management were $795 million at October 31, 2010, compared to $878 million one year ago as new account growth was more than offset by the loss of a larger institutional client that was a competitor of a subsidiary. Assets under administration and assets under management are not reflected in the consolidated balance sheets (see Note 27 to the consolidated financial statements).

FIGURE 4 – NUMBER OF CWT INVESTMENT ACCOUNTS



Outlook for Banking and Trust

The outlook for 2011 includes expectations for continued strong performance across all business lines. Management expects to achieve its 10% minimum loan growth target driven by an expanding market presence, moderate economic growth in Canada and an ongoing commitment to relationship-based business banking that provides a competitive advantage to increase market share. The Bank will also maintain advertising and communication initiatives to improve market awareness within key geographic regions. Loan growth should further benefit from expected performance in both NL and Optimum. NL's volume of new deals was tracking near record levels at the end of 2010 despite post-recessionary impacts and management is optimistic about opportunities to build this business by strengthening its market position and further diversifying the lease portfolio. While residential sales activity has moderated considerably compared to the first half of calendar 2010, Optimum expects continued growth in both Alt-A mortgages and the insured product. Canadian Direct Financial® will commence offering personal mortgages via its Internet banking platform in 2011which has potential to provide an additional source of loan growth and diversification in the future. Gains on the sale of securities are expected to be lower in fiscal 2011, but the associated reduction in revenues should be more than offset by the positive impact of a relatively stable net interest margin and expected loan growth, as well as a full year of contributions from NL. Credit and retail services fee income is expected to grow in line with increased lending activity and an expanded branch network. Ongoing growth in CWT's fiduciary trust business will positively contribute to both fee income and deposit growth, as this company continues to gain market share and deliver solid overall performance. Valiant has been successful in growing its client base across each of its geographic regions, including Toronto, Calgary, Vancouver and Edmonton, and improved capital markets activity will have a further positive impact on its performance. Adroit is also expected to make positive contributions as the Bank continues to build its presence in wealth management services.

Management believes Western Canada's fundamentals will be positive relative to the rest of Canada, although market challenges continue to be apparent in certain areas. 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. The dollar level of gross impaired loans is expected to fluctuate even though the economic cycle has moved closer toward sustained recovery. Largely owing to the Bank's secured lending practices and a more favourable economic outlook, actual loan losses should remain within CWB's historical range of acceptable levels.

While strong fiscal responsibility will be maintained, effective execution of CWB's strategic plan will require increased spending in areas that enhance the Bank's growth platform. These areas include ongoing investment in people, premises and technology infrastructure, and also include plans for further expansion and development of the branch network. While anticipated revenue growth will help offset the impact of planned capital investment and higher non-interest expenses related to continued business growth, the efficiency ratio (teb) will likely increase compared to the record level achieved in fiscal 2010.

INSURANCE

Highlights of 2010

- Record net income of $12.4 million, up 36%.
- Gross written premiums of nearly $125 million, up 7%.
- Claims loss ratio of 62% and a combined ratio of 91%.
- Positive contribution from the Alberta auto Risk Sharing Pools (the Pools).
- Customer retention rate of 87%.
- Customer satisfaction rating of 98%.
- Launched secondary auto product offerings late in the year, including travel trailers and motorhomes.

Canadian Direct provides auto and home insurance products in BC and Alberta and has more than 185,000 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 fulfillment 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. CDI's use of technology helps to maintain a favourable expense ratio without compromising customer satisfaction. CDI currently retains a high percentage of its customers, a measure that confirms its success in providing quality products and services at competitive prices.

TABLE 25 – INSURANCE HIGHLIGHTS[1]

($ thousands)

	2010	2009	Change from 2009
Net interest income (teb)	$ 7,024	$ 6,127	15%
Other income			
Net earned premiums	111,368	104,062	7
Commissions and processing fees	2,347	2,852	(18)
Net claims and adjustment expenses	(68,641)	(68,996)	(1)
Policy acquisition costs	(23,358)	(20,802)	12
Insurance revenues (net)	21,716	17,116	27
Gains on sale of securities	486	483	1
Total revenues (teb)	29,226	23,726	23
Non-interest expenses	11,746	10,611	11
Provision for income taxes (teb)	5,092	4,004	27
Net income	$ 12,388	$ 9,111	36%
Number of policies outstanding at October 31	185,167	175,662	5%
Gross written premiums	$ 124,451	$ 116,828	7
Claims loss ratio	62%	67%	(500)bp[2]
Expense ratio	29	27	200
Combined ratio	91	94	(300)
Alberta automobile insurance Risk Sharing Pools impact on net income before tax	$ 3,255	$ (292)	nm[3]
Average total assets ($ millions)[4]	215	198	9%

(1) See page 30 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) nm – not meaningful.
(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 $12.4 million, up 36% ($3.3 million) over 2009 reflecting continued policy growth and a 7% increase in net earned premiums. Net claims expense was relatively unchanged from last year, but included a $3.0 million increase from the core lines of business, offset by a $3.3 million decrease in claims from the Pools. Claims experience in the Alberta home line was negatively impacted by a severe hailstorm in July. The BC auto product line experienced higher severity in its liability coverage driven by negative developments on certain bodily injury claims late in the year. The lower claims costs from the Pools included a $1.5 million reduction to unpaid claims reserves specifically related to a December 2009 decision by the Supreme Court that denied leave to appeal the cap on minor injuries suffered in an automobile accident. Following the Supreme Court decision, the Pools' unpaid claims reserves originally recorded in the fourth quarter of 2008 were reduced.

Canadian Direct's share of the Pools resulted in a positive before tax contribution of $3.3 million, compared to a $0.3 million before tax loss in 2009. The Pools' results included the $1.5 million reduction in unpaid claims reserves noted previously. Canadian Direct's claims ratio at 62% was 5% lower than last year, while the combined ratio at 91% was 3% lower. Policies outstanding grew by 5%, while the overall policy retention rate was unchanged from last year at 87%.

Outlook for Insurance Operations

The outlook for 2011 reflects expectations for continued growth in both policies outstanding and premiums written, while cost increases will be kept in line with revenue growth. Canadian Direct will continue to meet the ongoing challenges brought about by the pricing strategies of the Insurance Corporation of British Columbia through expansion of the broker distribution network for BC auto to help drive growth in that line. In Alberta, the Auto Insurance Rate Board (AIRB) announced a mandatory 5% rate reduction for basic coverage on private passenger vehicles, which takes effect November 1, 2010. The reduction will put downward pressure on premium revenue. This marks the second consecutive year that a 5% rate reduction was mandated by the AIRB. Additional rate reductions could be mandated in the coming year that would also negatively impact the Alberta auto product line. In the home product lines, Canadian Direct will review the coverage it provides and likely increase rates to cover the costs of the increasing frequency of storms and water-related losses.

The 2011 claims loss ratio is expected to be in the mid-range between 60% and 70%. The comparatively low claims ratio in 2010 included the Pools' positive impact and expectations for the current year are relatively consistent with experience in 2009 and prior years. The loss ratio can be negatively impacted by seasonal storm activity, particularly in the winter months. The target for the combined ratio is 94%. 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.

SUMMARY OF 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.

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 61), 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, as was the case in the third quarter of 2010 when an income tax recovery and related interest receipt from certain prior period transactions increased net income by approximately $8.3 million.

The acquisition of National Leasing was effective February 1, 2010 and the results of its operations and financial position are consolidated as part of the Bank's overall financial performance beginning with the second quarter of 2010 (refer to Results by Business Segment – Banking and Trust on page 58). The acquisition had a positive impact on all categories in the table below except the provision for credit losses. The impact of the higher loan loss experience inherent in NL's portfolio compared to the Bank's core lending business is more than offset by the relatively higher yield earned on its portfolio.

Throughout fiscal 2009 the Bank's quarterly net interest income, reflected in total revenues (teb), was negatively impacted by compression of the net interest margin that mainly resulted from consecutive reductions in the prime lending interest rate, coupled with significantly higher deposit costs and other spinoff effects of the global financial crisis. In the first quarter of 2010, net interest margin recovered to more typical levels achieved before the onset of the global financial crisis. Gains on sale of securities, reflected in other income, were unusually high throughout 2009 and the first two quarters of 2010 also mainly due to factors associated with the financial crisis, including a steep interest rate curve and wide credit spreads that allowed the Bank to capitalize on specific investment strategies.

Comprehensive management's discussion and analysis along with unaudited interim consolidated financial statements for each quarter, including the fourth quarter of fiscal 2010, 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)

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (teb)	$ 89,206	$ 85,020	$ 80,132	$ 74,306	$ 68,012	$ 60,934	$ 52,812	$ 54,596
Less teb adjustment	3,179	2,782	2,662	2,563	2,397	2,189	1,675	1,586
Net interest income per financial statements	86,027	82,238	77,470	71,743	65,615	58,745	51,137	53,010
Other income	22,364	26,025	30,840	26,366	22,087	24,604	22,570	22,351
Total revenues (teb)	111,570	111,045	110,972	100,672	90,099	85,538	75,382	76,947
Total revenues	108,391	108,263	108,310	98,109	87,702	83,349	73,707	75,361
Net income	39,107	46,595	37,884	40,035	30,357	28,729	21,580	25,619
Earnings per common share								
Basic	0.53	0.64	0.52	0.57	0.42	0.39	0.30	0.40
Diluted	0.48	0.59	0.47	0.52	0.39	0.38	0.30	0.40
Diluted cash	0.49	0.60	0.48	0.52	0.39	0.38	0.30	0.41
Return on common shareholders' equity (ROE)	15.1%	19.1%	16.3%	18.0%	13.7%	13.4%	11.0%	14.7%
Return on average total assets (ROA)	1.13	1.40	1.17	1.25	0.91	0.87	0.70	0.93
Efficiency ratio (teb)	46.6	44.4	45.0	40.0	46.1	47.0	53.1	47.3
Efficiency ratio	47.9	45.5	46.1	41.0	47.4	48.2	54.3	48.3
Net interest margin (teb)	2.84	2.78	2.76	2.56	2.34	2.13	1.93	1.99
Net interest margin	2.74	2.69	2.67	2.47	2.25	2.05	1.87	1.93
Provision for credit losses as a percentage of average loans	0.21	0.23	0.23	0.16	0.15	0.15	0.15	0.15

(1) See page 30 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 judgements, 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 judgement 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, 2010, the Bank's total allowance for credit losses was $78.6 million (2009 – $75.5 million) which included a specific allowance of $19.0 million (2009 – $14.3 million) and a general allowance of $59.6 million (2009 – $61.2 million). Allowances acquired in 2010 with the purchase of National Leasing were $2.6 million specific and $4.2 million general. 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 42 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 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, 2010, the provision for unpaid claims and adjustment expenses totaled $80.1 million (2009 – $81.0 million). Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Note 22 to the consolidated financial statements. This critical estimate relates to CWB's insurance segment.

Financial Instruments Measured at Fair Value

Cash resources, securities, securities purchased under resale agreements, securities sold under repurchase agreements, retained interest in securitized assets 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 or other financial assets and liabilities 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, 2010.

TABLE 27 – VALUATION OF FINANCIAL INSTRUMENTS

($ thousands)

		Valuation Technique	
	Fair Value	Quoted Market Prices	Model with Observable Market Data
Financial assets			
Cash resources	$ 187,944	$ 181,143	$ 6,801
Securities	1,510,187	1,510,187	–
Securities purchased under resale agreements	177,954	–	177,954
Retained interest in securitized assets	9,703	–	9,703
Derivative related	134	–	134
October 31, 2010	$ 1,885,922	$ 1,691,330	$ 194,592
October 31, 2009	$ 2,190,847	$ 2,182,022	$ 8,825
Financial liabilities			
Derivative related	$ 992	$ –	$ 992
October 31, 2010	$ 992	$ –	$ 992
October 31, 2009	$ 300,316	$ –	$ 300,316

Notes 3, 4, 5, 12 and 30 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. CWB also has no direct credit exposure to sovereign debt outside of Canada.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during 2010.

FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (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 the 2012 fiscal year commencing November 1, 2011 and will include comparative information for the 2011 fiscal year.

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 the Bank's most recent assumptions and expectations, and there continues to be significant changes in the standards as proposed or 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 continues to 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 embarked on 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 involved 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 any required 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, the design and planning phase in October 2009 and the solution development phase is now substantially complete. The Bank's detailed impact assessment has identified a number of differences between IFRS and Canadian GAAP that impact CWB's financial statements. Most 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 CWB's accounting policies are largely aligned with IRFS requirements in many key areas. Of the differences identified, none will require significant changes to the Bank's information systems. Based on the analysis completed to date, the most significant accounting policy differences on initial transition for the Bank due to adopting IFRS have been identified as the following:

Loan loss accounting – Although both existing Canadian GAAP and IFRS calculate loan losses using the incurred loss model, IFRS is more specific as to what qualifies as an "incurred event." Under IFRS, incurred losses require objective evidence of impairment, must have a reliably measurable effect on the present value of estimated cash flows and be supported by currently observable data. This difference is not expected to impact the calculation of the specific allowance for credit losses but may impact the estimation of the general (or collective) allowance, which totaled $59.6 million at October 31, 2010. The Bank continues to develop its methodology, but it is not yet determinable whether any adjustments will be required.

Derecognition – Under existing IFRS rules, NL's securitized assets (totaling $199 million at October 31, 2010) would be reported on the balance sheet, which would increase both loans and debt. However, recent IASB proposals, if adopted, would permit all securitized pools existing prior to the transition date to remain off-balance sheet.

Consolidation – Under IFRS, a variable interest entity (VIE) is consolidated by an entity if the entity is deemed to control it, as determined under the criteria within International Accounting Standard (IAS) 27 – Consolidated and Separate Financial Statements. As a result, Canadian Western Bank Capital Trust will be consolidated under IFRS, which will decrease deposits and increase debt. For more information about this special purpose entity see Note 15 of the 2010 audited consolidated financial statements.

Business Combinations – Under IFRS, contingent consideration related to a business combination is accounted for as a financial liability and fair valued at the time of the acquisition. An adjustment of the liability to current fair value is recorded through net income every period thereafter until settlement. Under Canadian GAAP, when the amount of contingent consideration cannot be reasonably estimated or the outcome of the contingency cannot be determined without reasonable doubt, the liability is not recognized until the contingency is resolved and consideration is issued or becomes issuable, and at such time, the consideration is recorded as an adjustment of goodwill. The contingent consideration related to the 2010 NL acquisition will be fair valued on transition to IFRS, and an adjustment is expected to increase liabilities and reduce retained earnings. Development of an appropriate methodology to calculate the fair value of the contingent consideration is currently underway.

IFRS 1 – IFRS 1: First Time Adoption of IFRS provides a framework for the transition to IFRS. Generally, retroactive application is applied to the opening balance sheet for the comparative 2010 year financial statements as though the Bank had always applied IFRS. However, IFRS 1 permits both mandatory exceptions to retroactive application and optional exemptions from other IFRS standards. The Bank has evaluated all optional exemptions under IFRS 1, with the most significant potential exemption relating to business combinations. The Bank expects to elect not to apply IFRS 3 – Business Combinations retrospectively to business combinations that occurred before November 1, 2010.

The following table is a summary of the Bank's progress towards completion of selected key activities of our IFRS transition plan as of October 31, 2010. At this time, the Bank cannot quantify the impact that the future adoption of IFRS will have on the financial statements and operating performance measures. Additional information will be provided as CWB moves towards the changeover date on November 1, 2011.

	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 that occurred during the third quarter of 2010. Development and review of draft financial statement format commenced during the fourth quarter of 2010 and is expected to be completed in the first quarter of 2011.	Completed the Diagnostic phase and Design & Planning phase, which involved a detailed impact assessment of the differences between Canadian GAAP and IFRS. Completed the analysis of accounting policy choices. The financial statement, related note disclosure format, and quantified effect of the transition is expected to be completed during the first quarter of 2011.
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 to be completed by mid-2011. Communication of effects of transition in time for 2012 financial reporting process, by mid-2011.	Participated in industry IFRS specialist groups. Finance group, Audit Committee and Board of Directors training occurred during Q4 2007, Q3 2009 and Q3 2010; Periodic status reports ongoing. Engaged a third-party subject matter expert to assist in the training of CWB lenders in 2009.
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.	Confirmation that business processes and systems are IFRS compliant throughout the project. Confirmation that systems can address 2011 dual record-keeping processing requirements by the first quarter of 2009.	Diagnostic analysis regarding current systems completed; no significant business processes or system changes required. Dual record-keeping process confirmed 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.	Assessment of all key control and design effectiveness implications throughout 2010. Completion of changes by the first quarter of 2011.	Commenced analysis of control requirements and expect finalization prior to the recording of the 2011 comparative adjustments.

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 which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented on pages 68 to 72 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2010.

OVERVIEW

Effective risk management is central to the ability to remain financially sound and profitable and includes identifying, assessing, managing and monitoring all aspects of risk that have potential to affect CWB's businesses. CWB, like other financial institutions, is exposed to several factors that could adversely affect its operating and regulatory environments, financial condition and financial performance, and which may also influence an investor to buy, sell or hold CWB shares, deposits, debentures and other securities. While CWB has demonstrated its ability to effectively manage these risks through conservative management practices, a strong risk culture and a disciplined risk management approach, many of the risk factors are beyond CWB's direct control. CWB established a dedicated Group Risk Management function in 2010 to assist with the ongoing evolution of its overall risk management processes.

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 officers 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 and derivatives risk, 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, audits all subsidiaries, and reports the results directly to senior management, as well as the Bank's CEO and Audit Committee. Internal audit of NL's operations will commence in 2011.

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. Credit risk is managed through lending policies and procedures, the establishment of lending limits and a defined approval process. Risk diversification is addressed by establishing portfolio limits by geographic area, industry sector and product. CWB's policy is to limit connected corporate borrowers' loan authorizations to not more than 10% of the Bank's shareholders' equity. The limit for any single exposure is presently set at $50 million. CWB customers with larger borrowing requirements can be 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, in certain situations, 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 with operations conducted in the four western provinces and to individuals. 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;
- 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 each regulated entity to ensure compliance with regulatory guidelines.

Subsequent to October 31, 2010, DBRS Limited issued credit ratings on the Bank's senior debt (deposits) and subordinated debentures of "A (low)" and "BBB (high)", respectively, both with a stable outlook. Credit ratings do not comment on market price or suitability of any financial instrument for a particular investor and are not recommendations to purchase, sell or hold securities. Ratings are subject to revision or withdrawal at any time by the rating organization. Management believes the rating will help increase the breadth of clients and investors who can participate in CWB's deposit and debt offerings while also lowering the Bank's overall cost of capital.

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 29 to the consolidated financial statements shows the gap position at October 31, 2010 for select time intervals.

The gap analysis in Note 29 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 1.5% from 1.8% at October 31, 2009, while the one-month and under gap increased to 7.8% from 4.1% 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 typically managed at a target duration of between two and three years.

Of the $3,887 million in fixed term deposit liabilities maturing within one year from October 31, 2010, approximately $2,919 million (27% of total deposit liabilities) mature by April 30, 2011. The term in which maturing deposits are retained will have an impact on the future asset liability structure and, hence, interest rate sensitivity. Approximately $319 million of the fixed term deposit liabilities maturing within one month are deposits redeemable 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;
- 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, 2010, a 1% increase in interest rates would increase net interest income by 2.3% over the following 12 months; this compares to October 31, 2009 when a 1% increase in interest rates would have decreased net interest income by 2.5% over the following 12 months. At October 31, 2010, a 1% decrease in interest rates would decrease net interest income by 1.5% over the following 12 months; this compares to October 31, 2009 when a 1% decrease in interest rates would have increased net interest income by 3.8% over the following 12 months.

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

($ thousands)

Impact of 1% increase in interest rates

Period	2010	2009
90 days	$ 2,378	$ (1,394)
1 year	7,372	(6,574)
1 year percentage change	2.3%	(2.5)%

Impact of 1% decrease in interest rates

Period	2010	2009
90 days	$ (1,694)	$ 2,394
1 year	(4,703)	10,241
1 year percentage change	(1.5)%	3.8%

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 $9.8 million, net of tax (2009 – $21.4 million). A one-percentage point decrease in all interest rates would increase annual 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 57). 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 15 and 18 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, 2010, assets denominated in U.S. dollars were 1.6% (2009 – 1.4%) of total assets and U.S. dollar liabilities were 1.6% (2009 – 1.4%) 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 customers 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, 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 and is embedded in the processes that support other risks, like credit, liquidity and market risk. 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 2010.

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. The recently established Group Risk Management function is responsible for the continual enhancement of the group-wide Operational Risk Framework and the evolution of CWB's 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 a highly ethical culture;
- very 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;
- organizational surveys on employee engagement and corporate culture;
- 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 mature group-wide Operational Risk Framework that encompasses a common language of risk coupled with enterprise-wide programs and methodologies for identification, measurement, control, reporting 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;
- an annual anonymous employee survey on the control environment;
- the adoption of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) for Smaller Business framework for internal control assessment;
- recent enhancements to CWB's fraud prevention processes and policies;
- certification of National Leasing under ISO 9001 standards for quality management and quality management systems;
- 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" processes and employee codes of conduct;
- operational risk assessments conducted by business managers closest to the identified risks, that are annually reviewed and reported to ALCO and the Board ;
- regular internal audits for compliance and the effectiveness of procedural controls by a strong, independent internal audit team;
- centralized reporting of operating losses to senior management and the Board;
- maintenance of a group-wide outsourcing risk management program;
- continual assessment and benchmarking of the amount and type of business insurance to ensure it is providing the coverage required;
- 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,
- continual updating and testing of procedures and contingency plans for disaster recovery and 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 customer or counterparties.

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 December 2, 2010, there were 66,651,694 common shares outstanding. Also outstanding were employee stock options, which are or will be exercisable for up to 3,793,077 common shares for maximum proceeds of $75.5 million and 13,471,611 warrants that are each exercisable until March 3, 2014 to purchase one common share in the Bank at a price of $14.00.

On December 6, 2010, the Board of Directors declared a quarterly cash dividend of $0.13 per common share payable on January 13, 2011 to shareholders of record on December 30, 2010. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share payable on January 31, 2011 to shareholders of record on January 21, 2011.

CONTROLS AND PROCEDURES

As of October 31, 2010, 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, 2010, 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.

The Bank's certifying officers have limited the scope of the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of National Leasing, acquired in the second quarter of 2010. This limitation will be removed no later than January 31, 2011.

These evaluations were conducted in accordance with the standards of COSO 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, 2010 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 6, 2010.

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 represented 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 our 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 the MD&A 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 Governance 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 themselves 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, ICD.D
Executive Vice President and Chief Financial Officer

November 26, 2010

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CANADIAN WESTERN BANK

We have audited the consolidated balance sheets of Canadian Western Bank as at October 31, 2010 and 2009 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 audits.

We conducted our audits 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, 2010 and 2009 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 26, 2010

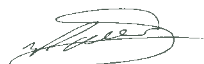
CONSOLIDATED BALANCE SHEETS

As at October 31

($ thousands)

		2010	2009
Assets			
Cash Resources	(Note 3)		
Cash and non-interest bearing deposits with financial institutions		$ 8,965	$ 17,447
Deposits with regulated financial institutions		168,998	266,980
Cheques and other items in transit		9,981	12,677
		187,944	297,104
Securities	(Note 4)		
Issued or guaranteed by Canada		564,694	854,457
Issued or guaranteed by a province or municipality		88,478	253,143
Other securities		857,015	783,809
		1,510,187	1,891,409
Securities Purchased Under Resale Agreements	(Note 5)	177,954	–
Loans	(Note 6)		
Residential mortgages		2,479,957	2,282,475
Other loans		8,095,148	7,029,177
		10,575,105	9,311,652
Allowance for credit losses	(Note 7)	(78,641)	(75,459)
		10,496,464	9,236,193
Other			
Property and equipment	(Note 9)	65,978	39,252
Goodwill	(Note 10)	37,723	9,360
Intangible assets	(Note 10)	43,420	6,465
Insurance related	(Note 11)	59,652	55,932
Derivative related	(Note 12)	134	2,334
Other assets	(Note 13)	122,235	97,823
		329,142	211,166
Total Assets		$ 12,701,691	$ 11,635,872
Liabilities and Shareholders' Equity			
Deposits	(Note 14)		
Payable on demand		$ 530,608	$ 359,176
Payable after notice		2,999,599	2,778,601
Payable on a fixed date		7,177,560	6,374,461
Deposit from Canadian Western Bank Capital Trust	(Note 15)	105,000	105,000
		10,812,767	9,617,238
Other			
Cheques and other items in transit		39,628	41,964
Insurance related	(Note 16)	149,396	145,509
Derivative related	(Note 12)	992	74
Securities sold under repurchase agreements	(Note 5)	–	300,242
Other liabilities	(Note 17)	235,865	169,346
		425,881	657,135
Subordinated Debentures			
Conventional	(Notes 18 and 37)	315,000	375,000
Shareholders' Equity			
Preferred shares	(Note 19)	209,750	209,750
Common shares	(Note 19)	279,352	226,480
Contributed surplus		21,291	19,366
Retained earnings		614,710	511,784
Accumulated other comprehensive income		22,940	19,119
		1,148,043	986,499
Total Liabilities and Shareholders' Equity		$ 12,701,691	$ 11,635,872
Contingent Liabilities and Commitments	(Note 21)		

Allan W. Jackson
Chairman



Larry M. Pollock
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended October 31

($ thousands, except per share amounts)

		2010	2009
Interest Income			
Loans		$ 511,274	$ 455,413
Securities		40,785	44,209
Deposits with regulated financial institutions		5,528	12,803
		557,587	512,425
Interest Expense			
Deposits		222,356	263,017
Subordinated debentures		17,753	20,901
		240,109	283,918
Net Interest Income		317,478	228,507
Provision for Credit Losses	(Note 7)	20,413	13,500
Net Interest Income after Provision for Credit Losses		297,065	215,007
Other Income			
Credit related		31,550	23,369
Insurance, net	(Note 22)	21,716	17,116
Trust and wealth management services		17,316	15,478
Gains on sale of securities		12,447	25,225
Retail services		9,017	7,403
Securitization revenue		4,285	–
Foreign exchange gains		2,422	2,745
Other		6,842	276
		105,595	91,612
Net Interest and Other Income		402,660	306,619
Non-Interest Expenses			
Salaries and employee benefits		123,972	104,105
Premises and equipment		31,448	26,030
Other expenses		34,511	26,115
Provincial capital taxes		1,549	1,932
		191,480	158,182
Net Income before Income Taxes and Non-Controlling Interest in Subsidiary		211,180	148,437
Income Taxes	(Note 25)	47,344	41,920
		163,836	106,517
Non-Controlling Interest in Subsidiary		215	232
Net Income		$ 163,621	$ 106,285
Preferred Share Dividends		15,208	10,062
Net Income Available to Common Shareholders		$ 148,413	$ 96,223
Average number of common shares (in thousands)		65,757	63,613
Average number of diluted common shares (in thousands)		72,329	65,335
Earnings Per Common Share	(Note 26)		
Basic		$ 2.26	$ 1.51
Diluted		2.05	1.47

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended October 31

($ thousands)

		2010	2009
Retained Earnings			
Balance at beginning of year		$ 511,784	$ 448,203
Net income		163,621	106,285
Dividends - Preferred shares		(15,208)	(10,062)
- Common shares		(28,929)	(27,991)
Warrants purchased under normal course issuer bid	(Note 19)	(16,453)	–
Issuance costs on common shares		(105)	–
Issuance costs on preferred units		–	(4,651)
Balance at end of year		614,710	511,784
Accumulated Other Comprehensive Income (Loss)			
Balance at beginning of year		19,119	(5,203)
Other comprehensive income		3,821	24,322
Balance at end of year		22,940	19,119
Total retained earnings and accumulated other comprehensive income		637,650	530,903
Preferred Shares	(Note 19)		
Balance at beginning of year		209,750	–
Issued		–	209,750
Balance at end of year		209,750	209,750
Common Shares	(Note 19)		
Balance at beginning of year		226,480	221,914
Issued on acquisition of subsidiary	(Note 34)	42,582	–
Issued on exercise of options		3,864	2,200
Transferred from contributed surplus on the exercise or exchange of options		3,181	1,613
Issued under dividend reinvestment plan		2,922	744
Issued on exercise of warrants		323	9
Balance at end of year		279,352	226,480
Contributed Surplus			
Balance at beginning of year		19,366	14,234
Amortization of fair value of options	(Note 20)	5,106	6,745
Transferred to capital stock on the exercise or exchange of options		(3,181)	(1,613)
Balance at end of year		21,291	19,366
Total Shareholders' Equity		$ 1,148,043	$ 986,499

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended October 31

($ thousands)

	2010	2009
Net Income	$ 163,621	$ 106,285
Other Comprehensive Income, net of tax		
Available-for-sale securities		
Gains from change in fair value(1)	14,285	47,214
Reclassification to other income(2)	(8,868)	(17,556)
	5,417	29,658
Derivatives designated as cash flow hedges		
Gains from change in fair value(3)	17	9,453
Reclassification to net interest income(4)	(1,613)	(9,379)
Reclassification to other liabilities for derivatives terminated prior to maturity(5)	–	(5,410)
	(1,596)	(5,336)
	3,821	24,322
Comprehensive Income for the Year	$ 167,442	$ 130,607

(1) Net of income tax expense of $5,647 (2009 – $20,094).
(2) Net of income tax benefit of $3,579 (2009 – $7,669).
(3) Net of income tax expense of $7 (2009 – $4,066).
(4) Net of income tax benefit of $672 (2009 – $4,035).
(5) Net of income tax benefit of nil (2009 – $2,264).

CONSOLIDATED STATEMENTS OF CASH FLOW

For the Year Ended October 31

($ thousands)

		2010	2009
Cash Flows from Operating Activities			
Net income		$ 163,621	$ 106,285
Adjustments to determine net cash flows:			
Provision for credit losses		20,413	13,500
Depreciation and amortization		13,816	8,773
Amortization of fair value of employee stock options		5,107	6,745
Future income taxes, net		556	(13,633)
Gain on sale of securities, net		(12,447)	(25,225)
Accrued interest receivable and payable, net		(4,012)	1,032
Current income taxes payable, net		(2,164)	11,694
Other items, net		41,148	5,595
		226,038	114,766
Cash Flows from Financing Activities			
Deposits, net		1,195,528	371,519
Common shares issued	(Note 19)	7,109	2,953
Securities sold under repurchase agreements, net		(300,242)	300,242
Long-term debt repaid	(Note 34)	(270,630)	–
Debentures redeemed	(Note 18)	(60,000)	–
Dividends		(44,137)	(38,053)
Warrants purchased under normal course issuer bid	(Note 19)	(16,453)	–
Issuance costs on share capital		(105)	(4,651)
Preferred units issued	(Note 19)	–	209,750
		511,070	841,760
Cash Flows from Investing Activities			
Interest bearing deposits with regulated financial institutions, net		95,168	203,663
Securities, purchased		(2,966,470)	(3,253,024)
Securities, sales proceeds		2,717,950	2,302,967
Securities, matured		617,444	348,998
Securities purchased under resale agreements, net		(177,954)	77,000
Loans, net		(957,478)	(625,624)
Property and equipment		(21,079)	(14,809)
Acquisition of subsidiaries		(53,531)	(6,481)
		(745,950)	(967,310)
Change in Cash and Cash Equivalents		(8,842)	(10,784)
Cash and Cash Equivalents at Beginning of Year		(11,840)	(1,056)
Cash and Cash Equivalents at End of Year *		$ (20,682)	$ (11,840)
*Represented by:			
Cash and non-interest bearing deposits with financial institutions		$ 8,965	$ 17,447
Cheques and other items in transit (included in Cash Resources)		9,981	12,677
Cheques and other items in transit (included in Other Liabilities)		(39,628)	(41,964)
Cash and Cash Equivalents at End of Year		$ (20,682)	$ (11,840)
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year		$ 251,739	$ 275,943
Amount of income taxes paid in the year		48,953	44,198

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 as 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 35 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 sold under repurchase agreements
6	Loans
7	Allowance for credit losses
8	Securitization
9	Property and equipment
10	Goodwill and intangible assets
11	Insurance related other assets
12	Derivative financial instruments
13	Other assets
14	Deposits
15	Capital trust securities
16	Insurance related other liabilities
17	Other liabilities
18	Subordinated debentures
19	Capital stock
20	Stock based compensation
21	Contingent liabilities and commitments
22	Insurance operations
23	Disclosures on rate regulation
24	Employee future benefits
25	Income taxes
26	Earnings per common share
27	Assets under administration and management
28	Related party transactions
29	Interest rate sensitivity
30	Fair value of financial instruments
31	Risk management
32	Capital management
33	Segmented information
34	Acquisition of subsidiary
35	Subsidiaries and affiliate
36	Comparative figures
37	Subsequent events

e) Future Accounting Changes

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (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 IFRS comparative information for the prior year.

The Bank has a four stage project underway to identify and evaluate the impact of the transition to IFRS on the consolidated financial statements and complete the transition. The project plan includes the following phases – diagnostic, design and planning, solution development, and implementation. The diagnostic, and design and planning phases are complete, and the solution development phase is substantially complete.

The quantitative impact of the transition to IFRS on the Bank's consolidated financial statements for current standards has not yet been determined. However, the policy differences identified include loan loss accounting, derecognition, the consolidation of variable interest entities, and contingent consideration as a result of a business combination. 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 the Bank's 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 sold under repurchase 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 are managed can be found in the Risk Management section of the 2010 Annual Report beginning on page 68.

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, and fair value changes in certain derivatives are classified to other income.

3. CASH RESOURCES

Cash resources have been designated as available-for-sale and are reported on the consolidated balance sheets at fair value with changes in fair value recorded 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 $168,998 (2009 – $266,980), which is $2,104 (2009 – $7,390) higher than amortized cost.

4. SECURITIES

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

Securities are purchased with the original intention to hold the instrument 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				2010	2009
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Carrying Value	Total Carrying Value
Securities issued or guaranteed by						
Canada	$ 493,727	$ 70,967	$ –	$ –	$ 564,694	$ 854,457
A province or municipality	69,454	15,073	2,326	1,625	88,478	253,143
Other debt securities	98,351	127,556	19,013	11,624	256,544	332,592
Equity securities						
Preferred shares	26,266	86,011	383,773	15,178	511,228	434,361
Common shares	–	–	–	89,243	89,243	16,856
Total	$ 687,798	$ 299,607	$ 405,112	$ 117,670	$ 1,510,187	$ 1,891,409

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

	2010				2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities issued or guaranteed by								
Canada	$ 564,833	$ 69	$ 208	$ 564,694	$ 852,863	$ 1,602	$ 8	$ 854,457
A province or municipality	87,755	737	14	88,478	250,596	2,682	135	253,143
Other debt securities	253,132	3,493	81	256,544	325,694	7,279	381	332,592
Equity securities								
Preferred shares	492,897	20,614	2,283	511,228	428,551	14,108	8,298	434,361
Common shares	81,574	9,305	1,636	89,243	16,298	1,244	686	16,856
Total	$ 1,480,191	$ 34,218	$ 4,222	$ 1,510,187	$ 1,874,002	$ 26,915	$ 9,508	$ 1,891,409

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 SOLD UNDER REPURCHASE 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.

Securities sold under repurchase 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, including leases, 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 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 to the carrying value of 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:

	2010				2009			
	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Consumer and personal	$ 1,793,181	$ 24,534	$ 1,288	$ 23,246	$ 1,452,682	$ 14,805	$ 1,207	$ 13,598
Real estate[1]	4,124,235	82,799	4,880	77,919	3,909,991	76,643	5,611	71,032
Equipment financing	1,943,716	27,918	10,215	17,703	1,412,344	26,408	6,196	20,212
Commercial	2,713,973	7,956	2,655	5,301	2,536,635	20,088	1,292	18,796
Total[2]	$ 10,575,105	$ 143,207	$ 19,038	124,169	$ 9,311,652	$ 137,944	$ 14,306	123,638
General allowance[3]				(59,603)				(61,153)
Net impaired loans after general allowance				$ 64,566				$ 62,485

(1) Multi-family residential mortgages are presented as real estate loans in this table.
(2) Gross impaired loans include foreclosed assets with a carrying value of $867 (2009 – nil) which are held for sale.
(3) The general allowance for credit risk is not allocated by loan type.

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

	2010			2009		
	Gross Impaired Amount	Specific Allowance	Net Impaired Loans	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Alberta	$ 98,973	$ 14,515	$ 84,458	$ 74,847	$ 7,651	$ 67,196
British Columbia	38,543	1,259	37,284	37,655	5,000	32,655
Saskatchewan	2,109	1,114	995	1,632	609	1,023
Manitoba	329	233	96	337	23	314
Other	3,253	1,917	1,336	23,473	1,023	22,450
Total	$ 143,207	$ 19,038	124,169	$ 137,944	$ 14,306	123,638
General allowance[1]			(59,603)			(61,153)
Net impaired loans after general allowance			$ 64,566			$ 62,485

(1) The general allowance for credit risk is not allocated by province.

During the year, interest recognized as income on impaired loans totaled $3,392 (2009 – $1,726).

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, 2010	1 – 30 days	31 – 60 days	61 – 90 days	More than 90 days	Total
Residential mortgages	$ 5,762	$ 7,933	$ 3,912	$ –	$ 17,607
Other loans[1]	17,877	33,938	5,731	4	57,550
	$ 23,639	$ 41,871	$ 9,643	$ 4	$ 75,157
As at October 31, 2009					
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

(1) Amounts exclude National Leasing.

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

October 31, 2010 ($ millions)	British Columbia	Alberta	Saskatchewan	Manitoba	Other	Total[1]	Composition Percentage
Loans to individuals							
Residential mortgages[2]	$ 1,046	$ 1,040	$ 145	$ 68	$ 181	$ 2,480	23%
Other loans	66	104	14	3	1	188	2
	1,112	1,144	159	71	182	2,668	25
Loans to Businesses							
Commercial	753	1,447	111	95	291	2,697	26
Construction and real estate[3]	1,272	1,517	223	70	184	3,266	31
Equipment financing	329	710	118	58	464	1,679	16
Energy	–	265	–	–	–	265	2
	2,354	3,939	452	223	939	7,907	75
Total Loans	$ 3,466	$ 5,083	$ 611	$ 294	$ 1,121	$ 10,575	100%
Composition Percentage	33%	48%	6%	3%	10%	100%	
October 31, 2009 ($ millions)							
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%	

(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:

	2010			2009		
	Specific Allowance	General Allowance for Credit Losses	Total	Specific Allowance	General Allowance for Credit Losses	Total
Balance at beginning of year	$ 14,306	$ 61,153	$ 75,459	$ 15,011	$ 60,527	$ 75,538
Acquisition of subsidiary	2,596	4,172	6,768	–	–	–
Provision for credit losses	26,135	(5,722)	20,413	12,874	626	13,500
Write-offs	(24,599)	–	(24,599)	(13,842)	–	(13,842)
Recoveries	600	–	600	263	–	263
Balance at end of year	$ 19,038	$ 59,603	$ 78,641	$ 14,306	$ 61,153	$ 75,459

8. SECURITIZATION

As a result of the acquisition of National Leasing Group Inc. (National Leasing) on February 1, 2010 (see Note 34), the Bank participates in securitization activities. Securitization consists of the transfer of equipment leases to an independent trust or other third party, which buys the leases and may issue securities to investors. Securitizations are accounted for as sales as the Bank surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets.

When the Bank has an entitlement to participate in future cash flows, the retained interests, net of estimated servicing costs, are classified by the Bank as available-for-sale and included in other assets. When the Bank has received the full proceeds in cash, a reserve for estimated credit and prepayment losses and a reserve for future servicing costs are included in other liabilities. The retained interests represent the maximum exposure to losses on the securitized assets. On a quarterly basis, the fair value of the retained interests in securitized assets is reviewed for impairment. Fair value is subject to credit, prepayment and interest rate risks.

Gains on the sale of leases and servicing revenues are reported in other income – securitization revenue. In determining the gain, the carrying amount of the leases sold is allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. The Bank estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions - credit losses, prepayment speeds and discount rates commensurate with the risks involved. There have been no securitizations since February 1, 2010.

The leases are sold on a fully serviced basis. Accordingly, upon each securitization a servicing liability is recorded to recognize the potential reduction in cash flows receivable as if an amount was paid by the securitizor to a replacement servicer. The estimated fees that would otherwise be payable to a replacement servicer form the basis of determination of the fair value of the servicing liability that is charged against the gain at the time of recognition of the sale of securitized assets.

Cash flows received from securitization activities were as follows:

	For the nine months ended October 31, 2010
Proceeds from new securitizations	$ –
Cash flow received from retained interests	8,300
Losses reimbursed to securitizor	(2,520)
Early termination option payments	(13,141)
Total	$ (7,361)

The following table presents information about off-balance sheet gross impaired leases and net write-offs for securitized assets as at October 31, 2010 and are not included in Note 6 – Loans and Note 7 – Allowance for Credit Losses:

	Gross Leases	Gross Impaired Leases	Write-offs, Net of Recoveries(1)
Type of Lease			
Equipment financing securitization	$ 199,097	$ 1,143	$ 2,306

(1) For the nine months ended October 31, 2010.

As at October 31, 2010, key economic assumptions and the sensitivity of the current fair value (FV) of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

	Key Economic Assumptions	Impact on FV of 10% Adverse Change	Impact on FV of 20% Adverse Change
Fair value of retained interests	$ 6,418		
Cash flow received from retained interests	8,300	$ 830	$ 1,660
Annual prepayment rate	7.5%	81	162
Expected credit losses	3.39%	113	226
Residual cash flows discount rate	3.78%	38	76

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a 10 or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the above table, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

9. PROPERTY 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 ten 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	2010 Net Book Value	2009 Net Book Value
Land	$ 4,265	$ –	$ 4,265	$ 2,783
Buildings	18,515	4,309	14,206	1,985
Computer equipment	46,967	33,958	13,009	6,498
Office equipment and furniture	24,571	15,402	9,169	7,104
Leasehold improvements	43,618	18,289	25,329	20,882
Total	$ 137,936	$ 71,958	$ 65,978	$ 39,252

Depreciation and amortization for the year amounted to $10,033 (2009 – $7,503).

10. 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 consolidated statements of income over their expected lives not exceeding 15 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 statements of income in the period of impairment.

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Goodwill	$ 37,723	$ –	$ 37,723	$ 9,360
Identifiable intangible assets				
Customer relationships	37,668	5,162	32,506	3,885
Non-competition agreements	5,731	1,594	4,137	2,000
Trademarks	2,206	–	2,206	580
Others	5,578	1,007	4,571	–
	51,183	7,763	43,420	6,465
Total	$ 88,906	$ 7,763	$ 81,143	$ 15,825

Amortization of customer relationships and other intangible assets for the year amounted to $4,067 (2009 – $1,270). The trademarks have an indefinite life and are not subject to amortization. Goodwill includes $34,469 (2009 – $6,106) related to the banking and trust segment and $3,254 (2009 – $3,254) related to the insurance segment. There were no writedowns of goodwill or intangible assets due to impairment.

11. INSURANCE RELATED OTHER ASSETS

	2010	2009
Instalment premiums receivable	$ 29,391	$ 27,620
Reinsurers' share of unpaid claims and adjustment expenses	10,949	10,441
Deferred policy acquisition costs	10,510	9,808
Recoverable on unpaid claims	6,326	7,303
Due from reinsurers	2,476	760
Total	$ 59,652	$ 55,932

12. 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 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). 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. If a hedging transaction becomes ineffective or if the derivative is not designated as a cash flow hedge, any subsequent change in the fair value of the hedging instrument is recognized in earnings. Prior to February 1, 2010, all interest rate swaps were designated as cash flow hedges. Subsequent to February 1, 2010, with the acquisition of National Leasing (see Note 34), the Bank has interest rate swaps outstanding that are not designated as hedges. As at October 31, 2010, all interest rate swaps designated as cash flow hedges have matured.

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 risk are not closely related to those of the host contract and the combined contract is not carried at fair value. Embedded derivatives identified 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 statements 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 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 within the Capital Management section of Management's Discussion and Analysis.

	2010					2009				
	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	$ 47,550	$ –	$ 234	$ 234	$ 49	$ 235,000	$ 2,265	$ –	$ 2,265	$ 453
Equity contracts	500	2	30	32	6	2,000	–	130	130	26
Foreign exchange contracts	57,032	132	570	702	181	2,496	44	22	66	22
Total	$ 105,082	$ 134	$ 834	$ 968	$ 236	$ 239,496	$ 2,309	$ 152	$ 2,461	$ 501

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).

	2010				2009			
	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 not designated as hedges	$ –	$ –	$ 47,550	$ (930)	$ –	$ –	$ –	$ –
Interest rate swaps designated as cash flow hedges	–	–	–	–	235,000	2,265	–	–
Equity contracts	500	2	–	–	–	–	2,000	(33)
Foreign exchange contracts	51,739	132	5,293	(59)	1,248	44	1,248	(41)
Embedded derivatives in equity linked deposits	n/a	–	n/a	(3)	n/a	25	n/a	–
Other forecasted transactions	–	–	–	–	–	–	–	–
Total	$ 52,239	$ 134	$ 52,843	$ (992)	$ 236,248	$ 2,334	$ 3,248	$ (74)

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:

	2010	2009
Favourable derivative financial instruments (assets)	$ 625	$ 7,547
Unfavourable derivative financial instruments (liabilities)	$ 1,168	$ 287

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

	2010				2009			
	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 swaps not designated as hedges[1]	$ 750	4.19%	$ 46,800	2.73%	$ –	–	$ –	–
Interest rate swaps designated as cash flow hedges[2]	–	–	–	–	235,000	3.33%	–	–
Equity contracts[3]	500		–		1,500		500	
Foreign exchange contracts[4]	57,032		–		2,496		–	
Total	$ 58,282		$ 46,800		$238,996		$ 500	

(1) The Bank pays interest at a fixed contractual rate and receives interest on the one-month (30-day) Canadian Bankers' Acceptance rate. Interest rate swaps not designated as hedges mature between November 2010 and April 2014.

(2) The Bank pays interest at a floating rate based on the one-month (30-day) Canadian Bankers' Acceptance rate and receives interest at a fixed rate.

(3) The Bank receives amounts based on the specified equity index and pays amounts based on the one-month (30-day) Canadian Bankers' Acceptance rate. The remaining equity contract matures in March 2011.

(4) The contractual interest rate is not meaningful for foreign exchange contracts. Foreign exchange contracts mature between November 2010 and July 2011.

During the year, a net unrealized after tax gain of $17 (2009 – $9,453) was recorded in other comprehensive income for changes in fair value of the effective portion of derivatives designated as cash flow hedges and nil (2009 – 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) affects income. A net gain after tax of $1,613 (2009 – $9,379) was reclassified to net income. During the year, nil after tax (2009 – $5,410) 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 nil (2009 – $1,678) after tax recorded in accumulated other comprehensive income (loss) as at October 31, 2010 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.

13. OTHER ASSETS

		2010	2009
Accounts receivable		$ 46,477	$ 16,888
Accrued interest receivable		39,566	47,184
Retained interests	(Note 8)	6,418	–
Prepaid expenses		7,536	6,209
Future income tax asset	(Note 25)	7,458	20,319
Financing costs[1]		2,910	3,730
Income taxes receivable		7,593	127
Other		4,277	3,366
Total		$ 122,235	$ 97,823

(1) Amortization for the year amounted to $1,374 (2009 – $989).

14. 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	2010 Total
Payable on demand	$ 23,308	$ 507,300	$ –	$ 530,608
Payable after notice	1,840,026	1,159,573	–	2,999,599
Payable on a fixed date	5,462,231	1,713,329	2,000	7,177,560
Deposit from CWB Capital Trust(1)	–	105,000	–	105,000
Total	$ 7,325,565	$ 3,485,202	$ 2,000	$ 10,812,767

	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

(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 CWB Capital Trust Capital Securities Series 1 (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 WesTS exercise their holder exchange rights. See Note 15 for more information on WesTS and CWB Capital Trust.

15. CAPITAL TRUST 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 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 14) 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%.

16. INSURANCE RELATED OTHER LIABILITIES

		2010	2009
Unpaid claims and adjustment expenses	(Note 22)	$ 80,086	$ 81,025
Unearned premiums		66,444	62,307
Due to insurance companies and policyholders		2,305	1,425
Unearned commissions		561	752
Total		$ 149,396	$ 145,509

17. OTHER LIABILITIES

		2010	2009
Accrued interest payable		$ 97,929	$ 109,559
Accounts payable		82,712	37,391
Acquisition contingent consideration		31,155	–
Future income tax liability	(Note 25)	17,549	2,037
Deferred revenue		3,437	1,864
Leasehold inducements		2,446	2,673
Income taxes payable		637	15,822
Total		$ 235,865	$ 169,346

18. 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		2010		2009
5.426%[1]	November 21, 2015	November 22, 2010	$	70,000	$	70,000
5.070%[2]	March 21, 2017	March 22, 2012		120,000		120,000
5.571%[3]	March 21, 2022	March 22, 2017		75,000		75,000
5.950%[4]	June 27, 2018	June 28, 2013		50,000		50,000
5.550%[5]	November 19, 2014	November 20, 2009		–		60,000
Total			$	315,000	$	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 180 basis points. On November 22, 2010, these conventional debentures were redeemed by the Bank (Note 37).

(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 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.

(3) 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.

(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 302 basis points.

(5) These conventional debentures had a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate would have been 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.

19. 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 15). In addition, 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:

		2010			2009		
		Number of Shares		Amount	Number of Shares		Amount
Preferred Shares – Series 3							
Outstanding at beginning of year		8,390,000	$	209,750	–	$	–
Issued during the year		–		–	8,390,000		209,750
Outstanding at end of year		8,390,000		209,750	8,390,000		209,750
Common Shares							
Outstanding at beginning of year		63,903,460		226,480	63,457,142		221,914
Issued on acquisition of subsidiary	(Note 34)	2,065,088		42,582	–		–
Issued on exercise or exchange of options		524,151		3,864	406,934		2,200
Issued under dividend reinvestment plan		125,595		2,922	38,760		744
Issued on exercise of warrants		23,068		323	624		9
Transferred from contributed surplus on exercise or exchange of options		–		3,181	–		1,613
Outstanding at end of year		66,641,362		279,352	63,903,460		226,480
Share Capital			$	489,102		$	436,230

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 15), 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 $25.00 per unit, for total proceeds of $209.8 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

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.

Number of Warrants	2010	2009
Outstanding at beginning of year	14,964,356	–
Issued	–	14,964,980
Purchased and cancelled	(1,469,677)	–
Exercised	(23,068)	(624)
Outstanding at end of year	13,471,611	14,964,356

c) Dividend Reinvestment Plan

Under the dividend reinvestment plan (plan), the Bank 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, 125,595 (2009 – 38,760) common shares were issued under the plan from the Bank's treasury at a 2% (2009 – 2%) discount.

d) Normal Course Issuer Bid

On January 18, 2010 and subsequently amended on September 30, 2010, the Bank received approval from the Toronto Stock Exchange to institute a Normal Course Issuer Bid (NCIB) to purchase and cancel up to 1,469,677 of its warrants. The NCIB commenced January 20, 2010 and was completed in October 2010. During the year, the Bank purchased and cancelled 1,469,677 warrants fulfilling all available purchases under the NCIB at an aggregate cost of $16,453, which was charged to retained earnings.

20. STOCK BASED COMPENSATION

a) Stock Options

Stock options are accounted for using the fair value based method. The estimated 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 5,324,319 common shares (2009 – 5,848,470) for issuance under the share incentive plan. Of the amount authorized, options exercisable into 3,834,433 shares (2009 – 4,394,605) 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 five years of date of grant. Outstanding options expire from December 2010 to June 2015.

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

	2010		2009	
Options	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of year	4,394,605	$ 18.66	5,204,882	$ 20.83
Granted	632,386	22.67	1,465,035	13.33
Exercised or exchanged	(1,085,435)	16.24	(933,900)	10.56
Forfeited	(107,123)	21.04	(1,341,412)	26.88
Balance at end of year	3,834,433	$ 19.93	4,394,605	$ 18.66
Exercisable at end of year	1,109,850	$ 22.84	1,742,100	$ 18.22

Further details relating to stock options outstanding and exercisable follow:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$8.58 to $11.76	949,000	3.1	$ 11.70	–	$ –
$16.89 to $17.48	461,750	3.4	16.92	26,000	17.44
$21.11 to $21.46	944,740	1.2	21.46	673,950	21.46
$22.09 to $26.38	1,264,913	3.0	24.18	406,400	25.43
$28.11 to $31.18	214,030	2.1	31.13	3,500	28.11
Total	3,834,433	2.6	$ 19.93	1,109,850	$ 22.84

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 1,085,435 (2009 – 933,900) options exercised or exchanged, option holders exchanged the rights to 842,025 (2009 – 722,400) options and received 280,741 (2009 – 195,434) shares in return under the cashless settlement alternative.

Salary expense of $5,106 (2009 – $6,745) was recognized relating to the estimated fair value of options granted, which included in 2009 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 2.6% (2009 – 2.2%), (ii) expected option life of 4.0 (2009 – 4.0) years, (iii) expected volatility of 44% (2009 – 38%), and (iv) expected dividends of 2.1% (2009 – 3.6%). The weighted average fair value of options granted was estimated at $7.36 (2009 – $2.94) per share.

During 2009, certain employees voluntarily and irrevocably released, without consideration, all rights, 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 $3,181 (2009 – $1,613) was transferred from contributed surplus to share capital, representing the estimated fair value recognized for 1,085,435 (2009 – 933,900) options exercised during the year.

b) Restricted Share Units

Under the Restricted Share Unit (RSU) 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 instalments 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 $4,628 (2009 – $3,985) was recognized related to RSUs. As at October 31, 2010, the liability for the RSUs held under this plan was $6,335 (2009 – $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.

Number of RSUs	2010	2009
Balance at beginning of year	285,197	–
Granted	287,591	286,929
Vested and paid out	(92,997)	–
Forfeited	(9,850)	(1,732)
Balance at end of year	469,941	285,197

c) Deferred Share Units

During the year, the Bank adopted a plan to grant Deferred Share Units (DSUs) to non-employee directors of the Bank by linking a portion of their annual compensation to the future value of the Bank's common shares. Under this plan, non-employee directors will receive at least 50% of their annual retainer in DSUs. The DSUs are not redeemable until the individual is no longer a director and must be redeemed for cash. Common share dividend equivalents accrue to the directors in the form of additional units. As at October 31, 2010, 24,046 DSUs were outstanding (2009 – nil).

The expense related to the DSUs is recorded in the period the award is earned by the director. During the year, non-interest expenses "other expenses" included $358 related to the DSUs (2009 – nil). As at October 31, 2010, the liability for DSUs was $610 (2009 – nil). At the end of each period, the liability and expense are adjusted to reflect changes in the market value of the Bank's common shares.

21. 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.

	2010	2009
Credit instruments		
Guarantees and standby letters of credit	$ 261,438	$ 196,380
Commitments to extend credit	3,375,690	2,346,324
Total	$ 3,637,128	$ 2,542,704

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 $1,468,325 (2009 – $1,180,690) and recently authorized but unfunded loan commitments of $1,907,365 (2009 – $1,165,634). 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:

2011	$ 8,437
2012	8,091
2013	8,053
2014	7,652
2015	7,521
2016 and thereafter	19,636
Total	$ 59,390

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 $13,153 (2009 – $10,496), and the balance outstanding was $2,927 (2009 – $2,566).

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.

22. 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.

The 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 expense 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 are presented net of claims, adjustment expenses and policy acquisition costs.

	2010	2009
Net earned premiums	$ 111,368	$ 104,062
Commissions and processing fees	2,347	2,852
Net claims and adjustment expenses	(68,641)	(68,996)
Policy acquisition costs	(23,358)	(20,802)
Insurance revenues, net	$ 21,716	$ 17,116

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:

	2010	2009
Unpaid claims and adjustment expenses, net, beginning of year	$ 63,281	$ 57,676
Claims incurred		
In the current year	70,098	73,346
In prior periods	(1,457)	(4,350)
Claims paid during the year	(69,111)	(63,391)
Unpaid claims and adjustment expenses, net, end of year	62,811	63,281
Reinsurers' share of unpaid claims and adjustment expenses	10,949	10,441
Recoverable on unpaid claims	6,326	7,303
Unpaid claims and adjustment expenses, net, end of year	$ 80,086	$ 81,025

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 2.96% (2009 – 2.75%). However, that rate was reduced by a 1% (2009 – 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 $901 (2009 – $887) 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:

	2010		2009	
	Automobile	Home	Automobile	Home
Unpaid claims and adjustment expenses	$ 65,486	$ 14,600	$ 65,736	$ 15,289
Reinsurers' share of unpaid claims and adjustment expenses	9,967	982	9,984	457
Unearned premiums	46,622	19,822	44,635	17,672

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 $200,000 (2009 – $180,000) is obtained to protect against certain catastrophic losses. Retention on catastrophic events and property and liability risks is generally $1,000 (2009 – $1,000). For the British Columbia automobile insurance product, retentions are further reduced by the underlying mandatory coverage provided by the provincially governed Crown corporation. Reinsurance coverage is diversified across many reinsurers in order to spread risk and reduce reinsurer concentration risk in the event of a very large loss, such as an earthquake. The reinsurers selected to participate in the program have a minimum rating of A- from A.M. Best or Standard & Poor's. In addition, reinsurance treaties have a special termination clause allowing the Bank to change a reinsurer during the term of the agreement if their rating falls below the specified level.

At October 31, 2010, $10,949 (2009 – $10,441) 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.

	2010	2009
Premiums earned reduced by	$ 8,947	$ 7,257
Claims incurred reduced by	5,723	595

23. 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 $39,500 in 2010 (2009 – $36,900) and represented 49% (2009 – 47%) of direct automobile premiums written.

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

While regulatory authorities generally approve rates and rate adjustments prospectively, in some circumstances retroactive rate adjustments in respect of historical results may be required, which could result in a liability for the Bank. As at October 31, 2010, the Bank had no such liability although the reinstatement of the Alberta automobile Minor Injury Regulation and its impact on rates is being reviewed by the relevant regulatory authority.

24. 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 $8,864 (2009 – $7,077).

25. 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 and liabilities are expected to be realized in the normal course of operations.

The provision for income taxes consists of the following:

	2010	2009
Consolidated statements of income		
Current	$ 63,493	$ 55,553
Future	(16,149)	(13,633)
	47,344	41,920
Shareholders' equity		
Future income tax expense related to:		
Unrealized gains (losses) on available-for-sale securities	2,159	12,425
Gains (losses) on derivatives designated as cash flow hedges	(636)	(2,233)
	1,523	10,192
Total	$ 48,867	$ 52,112

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:

	2010		2009	
Combined Canadian federal and provincial income taxes				
and statutory tax rate	$ 60,327	28.6%	$ 43,743	29.5%
Increase (decrease) arising from:				
Tax-exempt income	(9,480)	(4.5)	(5,329)	(3.6)
Resolution of outstanding issues	(7,488)	(3.6)	–	–
Stock-based compensation	1,451	0.7	1,985	1.3
Other	2,534	1.2	1,521	1.0
Provision for income taxes and effective tax rate	$ 47,344	22.4%	$ 41,920	28.2%

Future income tax balances are comprised of the following:

	2010	2009
Net future income tax assets		
Allowance for credit losses	$ 14,240	$ 16,487
Deferred loan fees	4,365	3,448
Deferred agent commission	(3,688)	(3,198)
Leasing income	(2,800)	–
Other temporary differences	(4,659)	3,582
	$ 7,458	$ 20,319
Net future income tax liabilities		
Intangible assets	$ 11,459	$ 2,217
Leasing income	5,733	–
Other temporary differences	357	(180)
	$ 17,549	$ 2,037

The Bank has approximately $11,140 (2009 – $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.

26. 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:

	2010	2009
Numerator		
Net income available to common shareholders	$ 148,413	$ 96,223
Denominator		
Weighted average of common shares outstanding – basic	65,756,653	63,613,398
Dilutive instruments:		
Warrants	5,796,819	1,439,723
Stock options(1)	775,360	281,442
Weighted average number of common shares outstanding – diluted	72,328,832	65,334,563
Earnings per Common Share		
Basic	$ 2.26	$ 1.51
Diluted	2.05	1.47

(1) At October 31, 2010, the denominator excludes 832,830 (2009 – 1,122,170) employee stock options with an average adjusted exercise price of $27.23 (2009 – $28.58) where the exercise price, adjusted for unrecognized stock-based compensation, is greater than the average market price.

27. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Assets under administration of $8,530,716 (2009 – $5,467,447) and assets under management of $795,467 (2009 – $878,095) represent the fair value of assets held for personal, corporate and institutional clients as well as third party leases subject to service agreements. 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.

28. 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 $75,035 (2009 – $62,861). 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 $162,805 (2009 – $139,871).

29. 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, 2010	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[2]								
Cash resources and securities	$ 467	$ 184	$ 316	$ 967	$ 735	$ 105	$ 69	$ 1,876
Loans	4,926	535	1,104	6,565	3,858	127	(53)	10,497
Other assets	–	–	–	–	–	–	329	329
Derivative financial instruments[1]	105	–	–	105	–	–	–	105
Total	5,498	719	1,420	7,637	4,593	232	345	12,807
Liabilities[2] and Equity								
Deposits	4,318	905	2,009	7,232	3,494	105	(18)	10,813
Other liabilities	3	7	30	40	34	7	345	426
Debentures[3]	70	–	–	70	170	75	–	315
Shareholders' equity	–	–	–	–	–	–	1,148	1,148
Derivative financial instruments	105	–	–	105	–	–	–	105
Total	4,496	912	2,039	7,447	3,698	187	1,475	12,807
Interest Rate Sensitive Gap	$ 1,002	$ (193)	$ (619)	$ 190	$ 895	$ 45	$ (1,130)	$ –
Cumulative Gap	$ 1,002	$ 809	$ 190	$ 190	$ 1,085	$ 1,130	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	7.8%	6.3%	1.5%	1.5%	8.5%	8.8%	–	–
October 31, 2009								
Total assets	$ 4,884	$ 621	$ 1,520	$ 7,025	$ 4,463	$ 209	$ 178	$ 11,875
Total liabilities and equity	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%	–	–

(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, 2010	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
Total assets	3.9%	2.8%	4.9%	4.0%	5.5%	5.2%	4.6%
Total liabilities	1.2	2.0	2.6	1.7	3.2	5.8	2.3
Interest Rate Sensitive Gap	2.7%	0.8%	2.3%	2.3%	2.3%	(0.6)%	2.3%
October 31, 2009							
Total assets	3.8%	2.6%	4.5%	3.8%	4.9%	5.8%	4.3%
Total liabilities	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%

Based on the current interest rate gap position, it is estimated that a one-percentage point increase in all interest rates would increase net interest income by approximately 2.3% or $7,372 (October 31, 2009 – 2.5% or $6,574 decrease to net interest income) and decrease other comprehensive income $9,796 (October 31, 2009 – $21,355) net of tax, respectively over the following twelve months. A one-percentage point decrease in all interest rates would decrease net interest income by approximately 1.5% or $4,703 (October 31, 2009 – 3.8% or $10,241 increase to net interest income) and increase other comprehensive income $9,796 (October 31, 2009 – $21,355) net of tax.

30. 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, retained interest in securitized assets 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 measured using unobservable market data (referred to as Level 3).

		Valuation Technique		
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Cash resources	$ 187,944	$ 181,143	$ 6,801	$ –
Securities	1,510,187	1,510,187	—	–
Securities purchased under resale agreements	177,954	–	177,954	–
Retained interest in securitized assets	9,703	–	9,703	–
Derivative related	134	–	134	–
October 31, 2010	$ 1,885,922	$ 1,691,330	$ 194,592	$ –
October 31, 2009	$ 2,190,847	$ 2,182,022	$ 8,825	$ –
Financial Liabilities				
Derivative related	$ 992	$ –	$ 992	$ –
October 31, 2010	$ 992	$ –	$ 992	$ –
October 31, 2009	$ 300,316	$ –	$ 300,316	$ –

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 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.

		2010			2009		
		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)	$ 187,944	$ 187,944	$ –	$ 297,104	$ 297,104	$ –
Securities	(Note 4)	1,510,187	1,510,187	–	1,891,409	1,891,409	–
Securities purchased under resale agreements		177,954	177,954	–	–	–	–
Loans(1)		10,550,380	10,583,395	33,015	9,320,749	9,368,074	47,325
Other assets(2)		142,524	142,524	–	97,179	97,179	–
Derivative related		134	134	–	2,334	2,334	–
Liabilities							
Deposits(1)		10,826,670	10,883,873	57,203	9,628,949	9,739,360	110,411
Other liabilities(3)		302,479	302,479	–	265,295	265,295	–
Securities sold under repurchase agreements		–	–	–	300,242	300,242	–
Subordinated debentures		315,000	320,056	5,056	375,000	377,363	2,363
Derivative related		992	992	–	74	74	–

(1) Loans and deposits exclude deferred premiums and deferred revenue, which are not financial instruments.
(2) Other assets exclude property 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 29.

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.

31. 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 Risk Management section of the Management Discussion and Analysis (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 within boxes and the content forms 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.

32. 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 20 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.

The Bank has warrants outstanding and exercisable at a price of $14.00 to purchase one common share until March 3, 2014. Note 19 to the consolidated financial statements details the number of warrants outstanding.

Basel II Capital Adequacy Accord

Regulatory capital and capital ratios are calculated in accordance with the requirements of the OSFI, and capital is managed and reported in accordance with the requirements of the Basel II Capital Adequacy Accord (Basel II). 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 (CDI) 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 the year, the Bank complied with all internal and external capital requirements.

CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR END

($ thousands)

	2010	2009
Tier 1 Capital		
Retained earnings	$ 614,710	$ 511,784
Preferred shares	209,750	209,750
Common shares	279,352	226,480
Contributed surplus	21,291	19,366
Innovative capital instrument[1]	105,000	105,000
Non-controlling interest in subsidiary	180	267
Less goodwill of subsidiaries	(37,723)	(9,360)
Less securitization	(8,880)	–
Total	1,183,680	1,063,287
Tier 2 Capital		
General allowance for credit losses (Tier A)[2]	59,603	61,153
Accumulated unrealized gains on available-for-sale equity securities, net of tax[3]	16,119	2,118
Subordinated debentures (Tier B)[4]	315,000	380,000
Total	390,722	443,271
Less investment in insurance subsidiary	(68,993)	(56,768)
Less securitization	(8,880)	–
Total Regulatory Capital	$ 1,496,529	$ 1,449,790
Regulatory Capital to Risk-Weighted Assets		
Tier 1 capital	11.3%	11.3%
Tier 2 capital	3.7	4.7
Less investment in insurance subsidiary and securitization	(0.7)	(0.6)
Total Regulatory Capital Adequacy Ratio	14.3%	15.4%
Assets to Regulatory Capital Multiple[5]	8.5	8.1

(1) The innovative capital instrument consists of CWB's WesTS and 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.

(2) 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, 2010, the Bank's general allowance represented 0.57% (2009 – 0.65%) of risk-weighted assets.

(3) 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.

(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, 2010 and 2009, all subordinated debentures are included in Tier 2B capital. See also Note 37.

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

33. 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, including equipment leases from National Leasing, as well as 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	
	2010	2009	2010	2009	2010	2009
Net interest income (teb)[1]	$ 321,640	$ 230,227	$ 7,024	$ 6,127	$ 328,664	$ 236,354
Less teb adjustment	10,285	7,203	901	644	11,186	7,847
Net interest income per financial statements	311,355	223,024	6,123	5,483	317,478	228,507
Other income[2]	83,393	74,013	22,202	17,599	105,595	91,612
Total revenues	394,748	297,037	28,325	23,082	423,073	320,119
Provision for credit losses	20,413	13,500	–	–	20,413	13,500
Non-interest expenses[3]	179,734	147,571	11,746	10,611	191,480	158,182
Provision for income taxes	43,153	38,560	4,191	3,360	47,344	41,920
Non-controlling interest in subsidiary	215	232	–	–	215	232
Net income[4]	$ 151,233	$ 97,174	$ 12,388	$ 9,111	$ 163,621	$ 106,285
Total average assets ($ millions)[5]	$ 11,792	$ 11,055	$ 215	$ 198	$ 12,007	$ 11,253

(1) Taxable Equivalent Basis (teb) – Most banks analyze revenue on a taxable equivalent basis to permit 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 22) and also includes the gain on the sale of securities.

(3) Amortization of intangible assets of $3,817 (2009 – $1,020) is included in the banking and trust segment and $250 (2009 – $250) in the insurance segment. Amortization of property and equipment total $8,450 (2009 – $6,000) for the banking and trust segment and $1,583 (2009 – $1,503) for the insurance segment while additions amounted to $19,274 (2009 – $13,422) for the banking and trust segment and $1,816 (2009 – $1,387) for the insurance segment. Goodwill of $34,469 (2009 – $6,106) is allocated to the banking and trust segment and $3,254 (2009 – $3,254) to the insurance segment.

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

(5) 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.

34. ACQUISITION OF SUBSIDIARY

On February 1, 2010, the Bank acquired 100% of the outstanding common shares of National Leasing in exchange for $52,826 in cash, 2,065,088 common shares of the Bank ($42,582) and estimated contingent consideration for a total cost of $126,618. Both the Bank and the vendors have the option to trigger the payment of the contingent consideration no earlier than November 1, 2012. The final amount of the contingent consideration is not yet determinable and under Canadian GAAP, any change will be recognized as an adjustment to goodwill in the period in which the contingency is resolved.

National Leasing is a commercial equipment leasing company for small to mid-size transactions. National Leasing is headquartered in Winnipeg, Manitoba, and at acquisition had over 58,000 lease agreements with a collective book value of approximately $657,000, including securitized assets which comprised approximately one half of the portfolio.

Details of the fair values of assets and liabilities acquired are as follows:

Assets and Liabilities Acquired at Fair Value

Leases	$ 322,512
Intangible assets	40,708
Goodwill	27,937
Retained interest in securitized assets	19,109
Long-term debt	(270,630)
Future income tax liabilities	(10,611)
Other items, net	(2,407)
Net assets acquired	$ 126,618

Intangible assets include customer relationships, computer software, non-competition agreements, lease administration contracts and trademarks. The trademark, which has an estimated value of $1,610, is not subject to amortization. National Leasing'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. The long-term debt was repaid immediately after the acquisition.

35. SUBSIDIARIES AND AFFILIATE

CANADIAN WESTERN BANK SUBSIDIARIES[1]
(annexed in accordance with subsection 308 (3) of the Bank Act)
October 31, 2010

	Address of Head Office	Carrying Value of Voting Shares Owned by the Bank[2]
National Leasing Group Inc.	1525 Buffalo Place Winnipeg, Manitoba	$ 139,705
Canadian Western Trust Company	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	77,748
Canadian Direct Insurance Incorporated	Suite 600, 750 Cambie Street Vancouver, British Columbia	71,819
Valiant Trust Company	Suite 310, 606 4th St. S.W. Calgary, Alberta	13,929
Adroit Investment Management Ltd.	Suite 1250, 10303 Jasper Avenue Edmonton, Alberta	6,943
Canadian Western Bank Leasing Inc.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	2,794
Canadian Western Financial Ltd.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1,200
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. (76.25% 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.

36. COMPARATIVE FIGURES

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

37. SUBSEQUENT EVENTS

During November 2010, the Bank redeemed $70,000 subordinated debentures with a fixed interest rate of 5.550%. In addition, the Bank issued $300,000 subordinated debentures with a maturity date of November 30, 2020 and a fixed interest rate of 4.389% for the first 5 years and thereafter, a floating rate at 3-month CDOR plus 1.930%. The Bank may redeem the debentures on or after November 30, 2015 with the approval of OSFI.

BOARD OF DIRECTORS AND SENIOR OFFICERS

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

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Raymond J. Protti
Consultant on national security
and financial services
Victoria, British Columbia

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and Crown Capital Partners Inc.
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Arnold J. Shell Consulting Inc.
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Alma M. McConnell
Dr. Maurice W. Nicholson
Dr. Maurice M. Pechet

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Executive Vice President

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

Chris H. Fowler
Executive Vice President

Randy W. Garvey, FCMA
Executive Vice President

Brian J. Young
Executive Vice President

CORPORATE OFFICE

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Vice President and Chief Internal Auditor

Dennis M. Crough
Vice President
Credit Risk Management

Richard R. Gilpin
Senior Vice President
Credit Risk Management

Ricki L. Golick
Senior Vice President and Treasurer

Carolyn J. Graham
Senior Vice President
and Chief Accountant

Gail L. Harding, Q.C.
Senior Vice President
General Counsel and
Corporate Secretary

Darrell R. Jones
Senior Vice President and
Chief Information Officer

Uve Knaak
Senior Vice President
Human Resources

Peter K. Morrison
Vice President
Marketing and Product Development

Stan B. Plaisier
Director
Porfolio Management

COMMERCIAL AND RETAIL BANKING

James O. Burke
Vice President
Equipment Financing Group

Mario V. Furlan
Vice President
Real Estate Lending

Michael N. Halliwell
Senior Vice President and
Regional General Manager

Gregory J. Sprung
Senior Vice President and
Regional General Manager

Jack C. Wright
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 LTD.

David D. Schuster
President and Chief Executive Officer

Maria K. Holowinsky
Executive Vice President

VALIANT TRUST COMPANY

Adrian M. Baker
President

Matt K. Colpitts
General Manager

NATIONAL LEASING GROUP INC.

Nick R. Logan
President and Chief Executive Officer

Tom E. Pundyk
Executive Vice President and Chief
Operating Officer

Michael W. Dubovec
Senior Vice President
Sales and Marketing

Alan W. Kowalec
Senior Vice President and
Chief Financial Officer

Jackie A. Lowe
Senior Vice President
Business Development
General Counsel and Secretary

OMBUDSMAN

R. Graham Gilbert

SHAREHOLDER INFORMATION

CWB Group Corporate Headquarters

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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 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
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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 2010 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

2011 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 3, 2011 at the Crowne Plaza Chateau Lacombe (Alberta Ballroom), at 3:00 p.m. MT (5:00 p.m. ET).

Corporate Secretary

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

Please contact either:
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AWARD OF EXCELLENCE RECIPIENTS FOR 2010

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 2010 recipients of the Award of Excellence.

Alaina Strickland, *CDI, Edmonton*

Trisha Tyrrell, *CDI, Cambie*

Deborah Parsons, *Calgary Main Branch*

Connelly Sherwick, *Medicine Hat Branch*

Carm Corsetti, *CWT, Cambie*

Jeff Lunshof, *Valiant Trust, Calgary*

Hussein Bhanji, *West Point Branch*

Linda Huynh
Finance Department, Corporate

Shirley Maglalang
Finance Department, Corporate

Wayne MacInnes
Credit Risk Management Department, Corporate

Terri Thirlwell, *South Edmonton Common Branch*

Demetra Papaspyros, *Kitsilano Branch*

Shelly Campbell, *Real Estate Loans, Vancouver Regional*

LOCATIONS

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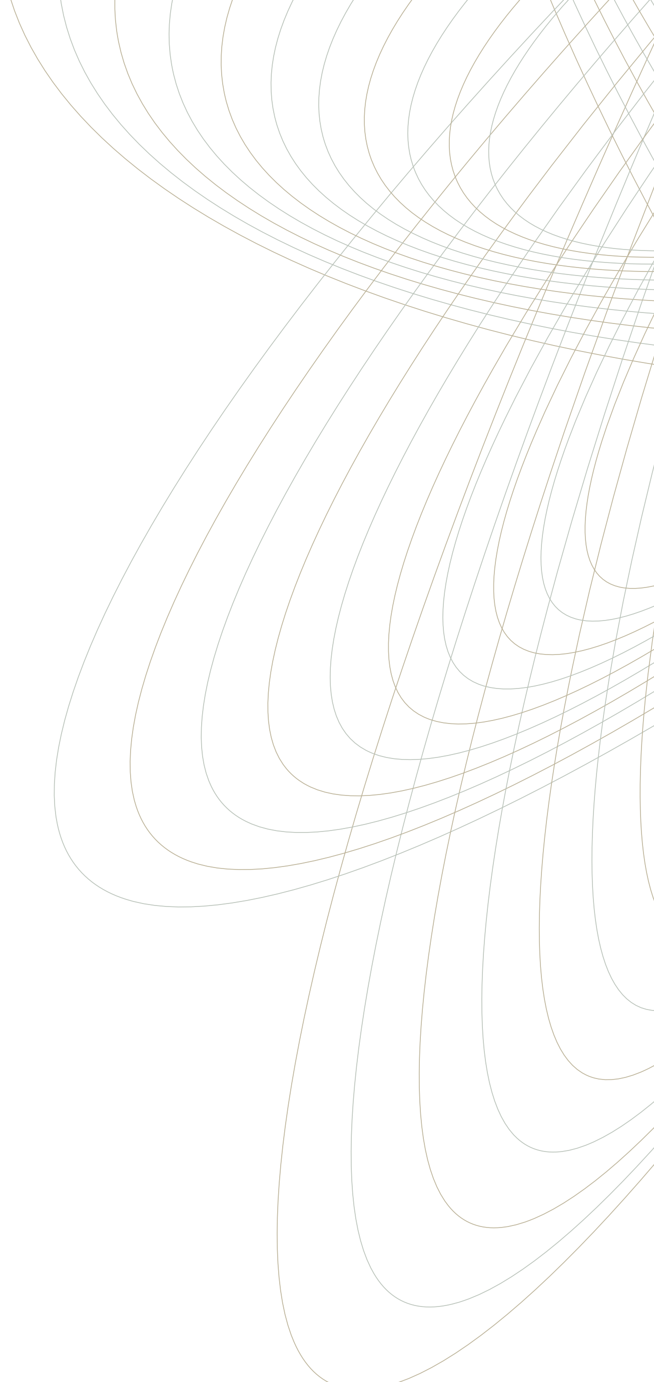

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