



**CANADIAN  
WESTERN  
BANK**

**ANNUAL INFORMATION FORM**

**January 14, 2000**

**CANADIAN WESTERN BANK  
ANNUAL INFORMATION FORM  
JANUARY 14, 2000**

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**<sup>(1)</sup>Reference**

The portions referred to above of the following documents are incorporated by reference into the Annual Information Form:

- (i) Annual Report for the year ended October 31, 1999 (the 1999 "Annual Report") which includes the audited financial statements for the year ended October 31, 1999 (the "Annual Financial Statements") and management's analysis of operations and financial condition (the "MD&A").
- (ii) Notice of the Annual General Meeting of Shareholders dated December 7, 1999 and Management Proxy Circular dated as of January 14, 2000 (the "Proxy Circular")

**Financial Information**

Unless otherwise noted, all information is given at, or for, the fiscal year ended October 31, 1999 and is expressed in Canadian dollars.

## **INCORPORATION**

Canadian Western Bank (the “Bank”) is a Schedule I chartered bank under the Bank Act (the “Act”). The Bank was formed effective November 1, 1987 through the amalgamation of Bank of Alberta (incorporated on March 22, 1984) and Western & Pacific Bank of Canada (incorporated on March 25, 1982). Canadian Western Bank has also amalgamated with two other financial institutions since 1987: B.C. Bancorp (effective November 1, 1996) and North West Trust Company (effective December 31, 1994). The Act is the charter of the Bank and governs its operations.

The Act also provides for the appointment of a Superintendent of Financial Institutions who is responsible to the Minister of Finance Canada for the administration of the Act. It is the Superintendent’s duty to examine and enquire into the business and affairs of each bank governed by the Act, to ensure that its provisions, having regard to the protection of the interests of the depositors, creditors and shareholders of the banks are being observed and that the banks are in sound financial condition. The Superintendent performs an annual inspection and submits his report to the Minister of Finance thereafter.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

During the year ended October 31, 1995, the Bank amalgamated with North West Trust Company which increased the asset base to approximately \$1.3 billion, up from \$706 million at October 31, 1994. The amalgamation ultimately added four branch locations and three new branches were also opened in 1995 making a total of twenty branches in operation at the 1995 fiscal year end. In 1996, a significant component of the asset growth was a result of the acquisition of Canadian Western Trust Company (“CWT”) effective January 1, 1996. CWT added assets of approximately \$274 million, assets under administration of over \$300 million and the ability to offer self-directed RRSP’s and RRIF’s, trust and other services to new and existing clients. On November 1, 1996, the Bank amalgamated with B.C. Bancorp (“BCB”) and acquired a deferred income tax asset of \$10.3 million which represented the consideration allocated to BCB’s unclaimed tax deductions of \$83.0 million and other tax loss carryforwards. The unclaimed deductions are available to the amalgamated Bank to be claimed to reduce future years’ taxable income without any time limitation. Since 1996, an internal loan growth rate averaging 15% has been achieved and at the end of fiscal 1999, total assets reached \$2.7 billion and there were twenty-four branch locations.

In January 1998, a controlling interest in Canadian Western Capital Limited (“CWC”) was acquired. Significant efforts have been directed towards developing and building CWC’s wealth management business but the benefits of these changes have not materialized. On December 21, 1999, subsequent to the 1999 fiscal year end, the Bank announced that, subject to due diligence, regulatory approvals, execution of a definitive agreement and minority shareholders’ acceptance, it will sell CWC to Goepel McDermid Inc. of Vancouver. The Bank estimates a loss from discontinued operations of between \$1.8 million and \$3.8 million will be recorded in its first quarter ending January 31, 2000.

## **BUSINESS OF THE BANK**

### **Organization**

The Bank is the smallest Canadian Schedule I chartered bank as ranked in terms of total assets and it operates only in Canada. It is the only Schedule I bank with branches located exclusively in the western provinces. A comprehensive range of personal and commercial banking services is provided. At October 31, 1999 there were 24 branches located in the provinces of British Columbia, Alberta, Saskatchewan and Manitoba and approximately 430 full time and full-time equivalent staff were employed. Including the trust and capital subsidiaries, the number of full-time and full-time equivalent staff was 555.

Responsibility for management rests with senior management which includes the President and Chief Executive Officer and all senior officers. Several members of senior management are charged with the direction of one or more of the main groups through which the Bank operates and conducts business. These main groups are commercial and retail banking by region, treasury and operations, corporate and strategic operations, marketing and product development, credit risk management, finance, human resources and audit services.

There are also two management committees. The Asset Liability Committee, comprised of senior management from various functional areas, establishes prudent policy guidelines for liquidity management and control within a normal business operating environment. This committee also monitors and establishes policies regarding the pricing of loan and deposit products and is charged with the responsibility of overall asset-liability management. The Operations Committee is responsible for the development and recommendation of policies and procedures regarding day-to-day, routine operations. This committee is made up of supervisory and management personnel from all functional areas. These two committees meet on a regular basis.

### **Retail and Commercial Banking**

Retail and commercial banking is currently carried on through the branches and the overall responsibility for these operations falls under the Executive Vice President, with assistance from three Regional Vice Presidents and a Vice President in each of real estate lending and industrial lending. In Alberta, there are four branches in Edmonton, three branches in Calgary and one branch in each of Red Deer, Camrose, Lethbridge and Grande Prairie. In Saskatchewan there is one branch in each of Regina, Saskatoon and Yorkton. There is one branch in Manitoba in Winnipeg. In British Columbia, there are three branches in Vancouver and one branch in each of Langley, Surrey, Victoria, Kelowna, Nanaimo and Courtenay.

All branches undertake both retail and commercial banking activities except for the Yorkton branch which undertakes only retail banking activities. Also, the branches in Surrey and Grande Prairie primarily service industrial finance clients. There are two additional banking operations, one located within the Head Office and one within the Vancouver Regional Office, which process only deposits gathered through a network of agents operating throughout Canada. In addition, the trust company provides mortgage lending and fiduciary services through its corporate office in Vancouver as well as deposit products which are gathered primarily through an agent network.

Retail banking services are aimed at the saver and investor with emphasis placed on a variety of competitively priced deposit products. Retail customers have access to their accounts through the Bank's membership in the Interac<sup>®</sup>, Cirrus<sup>®</sup> and Exchange<sup>®</sup> automated banking machine networks and the Interac<sup>®</sup>

Direct Payment system. Competitively priced consumer loans and mortgages are offered to customers. Through CWT, self-directed RRSP's and RRIF's, trust and other fiduciary services are provided. CWT's deposit products are also sold through the Bank's branch locations.

Commercial banking services are divided into three major categories: general commercial banking, real estate lending and industrial lending. In addition, the Calgary branches specialize in energy related loans. Commercial banking includes current accounts, lines of credit and operating and term loans. Real estate lending includes loans for commercial premises as well as construction and development loans. Industrial lending consists primarily of term loans on equipment and financial leasing activities. The focus is towards more term, fixed rate lending, however, some borrowers have been demonstrating an increasing preference for floating rate debt. At October 31, 1999 approximately 59% of commercial banking loans fell into the fixed rate category.

It is the Bank's policy to limit single and associated corporate borrowers' loan authorizations to not more than 10% of capital funds, excepting government risk and loans secured by cash or cash equivalents. Customers with larger borrowing requirements may be accommodated through syndication of loans with other financial institutions.

### **Wealth Management**

The Bank has been providing wealth management services through CWC, a Vancouver-based full service investment dealer with branches in nine cities throughout British Columbia, Alberta and Saskatchewan. On December 21, 1999 the Bank announced the intended sale of CWC which is expected to close by the end of January 2000. Wealth management services are focused on preserving and enhancing the value of a client's financial assets including services such as counselling on portfolio balances and providing research on emerging opportunities.

### **Other Support Departments**

The treasury department ensures that current and future obligations are able to be funded while optimizing earnings through the investment portfolio. This department also manages foreign exchange and interest rate risk and performs limited securities and foreign exchange purchases on behalf of its customers. The Senior Vice President of this department is also charged with the overall responsibility for the systems department, corporate administration including capital expenditures and for branch operations at the procedural level.

The credit risk management department is responsible for all lending and credit risk policies as well as assisting branch personnel to monitor and manage impaired and watch-listed loans.

The marketing and product development department investigates new business opportunities, develops new loan and deposit products and marketing strategies.

The human resource department deals with all personnel and payroll issues as well as developing and delivering in-house and external training programs.

Other departments include finance, which is responsible for internal and external, including regulatory, reporting, internal audit which is under the direction of the Chief Inspector and asset management which is under the direction of the Senior Vice President, Corporate and Strategic Operations.

## **Competition**

Competition mainly comes from chartered banks, credit unions, trust companies and other regionally-based financial institutions. The Bank operates in very competitive markets, particularly with respect to the pricing, nature and extent of products and services offered. The key competitive differentiators are a commitment to highly personalized service and local decision making. The ongoing restructuring of the major chartered banks and the announced policy changes proposed for the Canadian financial sector may provide additional competitive opportunities for the Bank.

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### **Comparability of Data**

During the year ended October 31, 1999 \$8.4 million of the 6.75% convertible subordinated debentures were converted by holders into 672,000 shares.

During the year ended October 31, 1998, a \$50 million 5.50% convertible subordinated debenture issue due March 31, 2008 was completed. The debentures trade on The Toronto Stock Exchange and the debt qualifies as Tier 2 regulatory capital. The issue put the Bank in a strong capital position and helped fund internal loan growth of approximately 16% for the year ended October 31, 1998 and 13% in 1999.

During the year ended October 31, 1997, three private placements of debentures for a total of \$13.1 million were completed. The debt qualified as Tier 2 regulatory capital and, net of a \$2 million debt redemption, helped provide the capital to support internally generated loan growth of approximately 16% experienced during that year.

Effective November 1, 1996 the Bank amalgamated with B.C. Bancorp ("BCB"). Share capital increased \$12.8 million through the issuance of approximately 1,119,000 common shares as a result of this transaction.

In the year ended October 31, 1996, Canadian Western Trust Company was acquired which added approximately \$274 million in assets and over \$300 million in assets under administration. To assist in financing the acquisition, \$20 million of 6.75% convertible subordinated debentures due April 15, 2006 were issued. The debentures traded on The Toronto Stock Exchange until November 30, 1999 when the then remaining balance of the issue was converted into common shares.

### **Changes in Accounting Policies and Practices**

There were no material changes in accounting policies or practices that occurred between the fiscal years ended October 31, 1995 and 1999 except for a new industry wide policy on impaired loans implemented November 1, 1995. This change in policy resulted in a \$600,000 charge to opening retained earnings in the year ended October 31, 1996. Also in the year ended October 31, 1999 the Bank increased its general allowance for credit risk by \$11.7 million in accordance with guidance provided by the Superintendent of Financial Institutions. This one-time adjustment resulted in a \$6.5 million charge to retained earnings representing the \$11.7 million adjustment less deferred income taxes of \$5.2 million.

## **Quarterly Financial Data**

(\$ thousands, except per share data)	1999				1998			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Total Interest Income	\$46,562	\$44,751	\$43,018	\$43,173	\$43,306	\$40,818	\$38,029	\$36,185
Net Interest Income	16,037	15,709	15,276	15,414	15,269	14,283	13,620	13,094
Other Income	4,613	5,475	4,982	4,725	4,303	4,631	5,054	3,503
Net Income	4,706	5,229	4,883	5,035	4,964	4,646	4,494	4,908
Earnings per share	\$0.47	\$0.51	\$0.47	\$0.51	\$0.53	\$0.49	\$0.48	\$0.52
Fully diluted earnings per share	\$0.43	0.48	0.42	0.46	\$0.45	0.43	0.43	0.46

Note: There were no extraordinary items reported in any of the above quarters.

## **Dividend Policy and Restrictions**

Dividends are payable on the Bank's common shares if, as and when declared by the Board of Directors of the Bank. Seven annual dividends have been declared and paid on the Bank's common shares. During the third quarter of Fiscal 1999 the dividend policy was amended to be semi-annual instead of annual. The first semi-annual dividend of \$0.16 per share was paid on July 5, 1999 to shareholders of record on June 15, 1999. The second semi-annual dividend of \$0.17 per share was declared on December 7, 1999 and was paid on January 10, 2000 to shareholders of record on December 17, 1999. The last annual dividend declared in December 1998 was \$0.32 per share. Although it is the present intention of the Board of Directors to continue dividend payments, the Board is not required to declare or pay dividends on the Bank's common shares.

The Bank is prohibited from paying or declaring a dividend if there are reasonable grounds for believing that the Bank is, or that payment would cause the Bank to be, in contravention of any regulation made under the Bank Act with respect to the maintenance of adequate capital and adequate and appropriate forms of liquidity or with any direction given to the Bank with respect to such matters by the Superintendent.

## **MARKET FOR SECURITIES**

The common shares of the Bank are listed on the Toronto and Canadian Venture Exchanges. The 5.50% convertible bank debentures are listed on the Toronto Stock Exchange ("TSE"). On January 31, 2000 all trading in the Bank's listed securities will be consolidated on the TSE. In the current restructuring of Canada's exchanges the TSE will become the sole national market for senior issuers.

## **DIRECTORS AND OFFICERS**

The following table sets out the name, position with the Bank, municipality of residence of each officer of the Bank who is not also a director of the Bank and how long the individual has been employed by the Bank as at October 31, 1999:

## Officers of the Bank

Name	Position with the Bank	Municipality of Residence	Employed Since
William J. Addington	Senior Vice President, Corporate & Strategic Operations	Edmonton, Alberta	1986
Tracey C. Ball	Vice President & Chief Financial Officer	Edmonton, Alberta	1987
S. Wayne Bamford	Vice President and Regional Manager	Calgary, Alberta	1995
R. Graham J. Gilbert	Vice President, Marketing & Product Development	St. Albert, Alberta	1988
David R. Gillespie	Vice President & Chief Inspector	St. Albert, Alberta	1985
Don Kemp	Vice President, Credit Risk Management	Edmonton, Alberta	1989
Allister J. McPherson	Senior Vice President, Treasury & Operations	Edmonton, Alberta	1997
Rod W. Sorbo	Vice President and Regional Manager	Delta, British Columbia	1994
Donald C. Watson	Vice President, Industrial Lending & Leasing	North Delta, British Columbia	1990
John (Jack) C. Wright	Vice President and Regional Manager	Edmonton, Alberta	1990
Raymond L. Young	Vice President, Real Estate Lending	Vancouver, British Columbia	1990

All of the above officers have held the position of Vice President or higher within the Bank for at least the last five years except for Mr. McPherson, Mr. Bamford, Mr. Watson, Mr. Kemp, and Mr. Sorbo. Mr. McPherson joined the Bank in March 1997 as a Vice President and was appointed to his current position in June 1997. Prior to joining the Bank, he was Senior Vice President and Chief Financial Officer of Viridian Inc. for part of 1996, and prior to that he was employed in various positions with Alberta Treasury since 1980, holding the position of Deputy Provincial Treasurer, Finance and Revenue for the last twelve years. Mr. Bamford and Mr. Watson were appointed Vice Presidents in June 1995. Prior to joining the Bank in June 1995, Mr. Bamford was employed with the Toronto Dominion Bank in various successive positions in Western Canada. He was appointed to his last position of Account Manager - Private Banking in 1993 and from 1989 to 1993 he held the position of Assistant General Manager - Corporate and Investment Banking Division. Mr. Watson has been employed with the Bank since 1990 and held the position of Senior Assistant Vice President prior to being appointed Vice President. Mr. Kemp was appointed Vice President in December 1997. Mr. Kemp has been employed with the Bank since 1989 and held the position of Senior Assistant Vice President for the six years prior to being appointed Vice President. Mr. Sorbo has been employed with the Bank since October 1994 and held the position of Senior Assistant Vice President Commercial Banking prior to being appointed Vice President in March 1999.

At December 3, 1999 the directors and senior officers of the Bank, as a group, beneficially owned or exercised direction over approximately 10 percent of the issued and outstanding common shares.

## **ADDITIONAL INFORMATION**

The Bank will provide to any person or company, upon request to the Secretary of the Bank at the head office of the Bank:

- (a) when the securities of the Bank are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities;
  - (i) one copy of the AIF of the Bank, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF;
  - (ii) one copy of the comparative financial statements of the Bank for its most recently completed financial year together with the accompanying report of the auditors, and one copy of any interim financial statements of the Bank issued subsequent to the financial statements for its more recently completed financial year;
  - (iii) one copy of the Management Proxy Circular of the Bank in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Bank may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Bank.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Bank's securities, options to purchase securities and interests of insiders in material transactions, where applicable, can be found in the Management Proxy Circular issued in connection with the Annual General and Special Meeting of Shareholders to be held on March 9, 2000. Additional financial information is provided in the Bank's comparative financial statements for the year ended October 31, 1999 as contained in the 1999 Annual Report. Copies of the information referred to in this section can be obtained by writing to the Secretary, Canadian Western Bank, Suite 2300, 10303 Jasper Avenue, Edmonton, Alberta, T5J 3X6.

## **CERTIFICATE**

Dated January 14, 2000

The foregoing, together with any information incorporated by reference, contains no untrue statement of a material fact that is required to be stated herein in accordance with the requirements of this Annual Information Form or that is necessary to make a statement contained herein not misleading in light of the circumstances in which it was made.

Larry M. Pollock (Signed)  
Larry M. Pollock  
President & Chief Executive Officer

Tracey C. Ball (Signed)  
Tracey C. Ball  
Vice President & Chief Financial Officer