

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

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

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



Larry M. Pollock
President and Chief Executive Officer



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

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

Auditors' Report

TO THE SHAREHOLDERS OF CANADIAN WESTERN BANK

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

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2009 and 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

KPMG LLP
Chartered Accountants
Edmonton, Alberta

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

CONSOLIDATED BALANCE SHEETS

AS AT OCTOBER 31

(\$ thousands)

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



Jack C. Donald
Chairman



Larry M. Pollock
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED OCTOBER 31

(\$ thousands, except per share amounts)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31

(\$ thousands)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31

(\$ thousands)

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

(1) Net of income tax expense of \$20,094 (2008 – tax benefit of \$1,170).

(2) Net of income tax benefit of \$7,669 (2008 – \$1,454).

(3) Net of income tax expense of \$4,066 (2008 – \$4,104).

(4) Net of income tax benefit of \$4,035 (2008 – \$775).

(5) Net of income tax benefit of \$2,264 (2008 – \$429).

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED OCTOBER 31

(\$ thousands)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

(\$ thousands, except per share amounts)

1. BASIS OF PRESENTATION

These consolidated financial statements of Canadian Western Bank (CWB or the Bank) have been prepared in accordance with subsection 308 (4) of the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below and in the following notes. These accounting policies conform, in all material respects, to Canadian GAAP.

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

a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as entities whose operations are controlled by the Bank and are corporations in which the Bank is the beneficial owner. See Note 34 for details of the subsidiaries and affiliate.

b) Business Combinations

Business acquisitions are accounted for using the purchase method.

c) Translation of Foreign Currencies

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

d) Specific Accounting Policies

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

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

e) **Change in Accounting Policies**

Goodwill and Intangible Assets

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

Credit Risk and Fair Value

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

Financial Instruments – Disclosures

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

f) **Future Accounting Changes**

International Financial Reporting Standards

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

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

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

2. FINANCIAL INSTRUMENTS

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

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

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

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

3. CASH RESOURCES

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

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

4. SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

6. LOANS

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

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

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

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

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

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

(1) Multi-family residential mortgages are presented as real estate loans in this table.

(2) The general allowance for credit risk is not allocated by loan type.

(3) Gross impaired loans includes foreclosed assets with a carrying value of nil (2008 – \$901) which are held for sale.

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

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

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

(2) Included in Other is a corporate loan with security that is not identifiable to a specific province.

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

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

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

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

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

October 31, 2008

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

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

(2) Includes single- and multi-unit residential mortgages and project (interim) mortgages on residential property.

(3) Includes commercial term mortgages and project (interim) mortgages for non-residential property.

7. ALLOWANCE FOR CREDIT LOSSES

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

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

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

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

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

8. LAND, BUILDINGS AND EQUIPMENT

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated primarily using the straight-line method over the estimated useful life of the asset, as follows: buildings – 20 years, equipment and furniture – three to five years, and leasehold improvements – term of the lease. Gains and losses on disposal are recorded in other income in the year of disposal. Land, building and equipment, if no longer in use or considered impaired, are written down to the fair value.

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

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

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

9. GOODWILL AND INTANGIBLE ASSETS

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

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

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

10. INSURANCE RELATED OTHER ASSETS

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Derivative financial instruments primarily used by the Bank include:

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

Interest rate swaps and other instruments are used as hedging devices to control interest rate risk. The Bank enters into these interest rate derivative instruments only for its own account and does not act as an intermediary in this market. The credit risk is limited to the amount of any adverse change in interest rates applied on the notional contract amount should the counterparty default. Equity contracts are used to offset the return paid to depositors on certain deposit products where the return is linked to a stock index. The credit risk is limited to the average return on an equity index, applied on the notional contract amount should the counterparty default. The principal amounts are not exchanged and, hence, are not at risk. The Asset Liability Committee (ALCO) of the Bank establishes and monitors approved counterparties (including an assessment of credit worthiness) and maximum notional limits. Approved counterparties are limited to rated financial institutions or their associated parent/affiliate with a minimum rating of A high or equivalent.

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

The following table summarizes the derivative financial instrument portfolio and the related credit risk. Notional amounts represent the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded on the consolidated balance sheets. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The future credit exposure represents the potential for future changes in value and is based on a formula prescribed by OSFI. The credit risk equivalent is the sum of the future credit exposure and the replacement cost. The risk-weighted balance represents the credit risk equivalent weighted according to the credit worthiness of the counterparty as prescribed by OSFI. Additional discussion of OSFI's capital adequacy requirements is provided on page 46 of Management's Discussion and Analysis.

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

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

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

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

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

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

	2009				2008			
	Maturity				Maturity			
	1 Year or Less		More than 1 Year		1 Year or Less		More than 1 Year	
	Contractual Notional Amount	Interest Rate	Contractual Notional Amount	Interest Rate	Contractual Notional Amount	Interest Rate	Contractual Notional Amount	Interest Rate
Interest Rate Contracts								
Interest rate swaps -								
receive fixed amounts ⁽¹⁾	\$ 235,000	3.33%	\$ –	n/a	\$ 228,000	3.83%	\$ 365,000	3.46%
Equity Contracts ⁽²⁾	1,500		500		2,400		2,000	
Foreign Exchange Contracts ⁽³⁾	2,496		–		2,600		–	
Total	\$ 238,996		\$ 500		\$ 233,000		\$ 367,000	

(1) The Bank pays floating interest amounts based on the one-month (30-day) Canadian Bankers' Acceptance rate. Interest rate swaps mature between November 2009 and June 2010.

(2) The Bank receives amounts based on the specified equity index and pays amounts based on the one-month (30-day) Canadian Bankers' Acceptance rate. Equity contracts mature between March 2010 and March 2011.

(3) The contractual interest rate is not meaningful for foreign exchange contracts. Foreign exchange contracts mature between November 2009 and April 2010.

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

There were no forecasted transactions that failed to occur.

12. OTHER ASSETS

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

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

13. DEPOSITS

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

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

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

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

14. TRUST CAPITAL SECURITIES

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

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

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

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

The following information presents the outstanding WesTS:

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

The significant terms and conditions of the WesTS are:

- 1) Subject to the approval of OSFI, CWB Capital Trust may, in whole (but not in part), on the redemption date specified above, and on any distribution date thereafter, redeem the WesTS without the consent of the holders.
- 2) Subject to the approval of OSFI, upon occurrence of a special event as defined, prior to the redemption date specified above, CWB Capital Trust may redeem all, but not part, of the WesTS without the consent of the holders.
- 3) The WesTS may be redeemed for cash equivalent to (i) the early redemption price if the redemption occurs prior to December 31, 2016 or (ii) the redemption price if the redemption occurs on or after December 31, 2016. Redemption price refers to an amount equal to one thousand dollars plus the unpaid distributions to the redemption date. Early redemption price refers to an amount equal to the greater of (i) the redemption price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the redemption date with a maturity date of December 31, 2016, plus 0.50%.
- 4) Holders of WesTS may, at any time, exchange each one thousand dollars of principal for 40 First Preferred Shares Series 1 of the Bank. CWB's First Preferred Shares Series 1 pay semi-annual non-cumulative cash dividends with an annual yield of 4.00% and will be redeemable at the option of the Bank, with OSFI approval, on or after December 31, 2011, but not at the option of the holders. This exchange right will be effected through the conversion by CWB Capital Trust of the corresponding amount of the deposit note of the Bank. The WesTS exchanged for the Bank's First Preferred Shares Series 1 will be cancelled by CWB Capital Trust.
- 5) Each WesTS will be exchanged automatically without the consent of the holders for 40 non-cumulative redeemable CWB First Preferred Shares Series 2 upon occurrence of any one of the following events: (i) proceedings are commenced for the winding up of the Bank, (ii) OSFI takes control of the Bank, (iii) the Bank has a Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%, or (iv) OSFI has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction. Following the occurrence of an automatic exchange, the Bank would hold all of the Special Trust Securities and all of the WesTS, and the primary asset of CWB Capital Trust would continue to be the senior deposit note. The Bank's First Preferred Shares Series 2 pay semi-annual non-cumulative cash dividends with an annual yield of 5.25% and will be redeemable at the option of the Bank, with OSFI approval, on or after December 31, 2011, but not at the option of the holders.
- 6) For regulatory capital purposes, WesTS are included in Tier 1 capital to a maximum of 15% of net Tier 1 capital with the remainder included in Tier 2 capital. All of the outstanding WesTS amounts are currently included in Tier 1 capital.
- 7) The non-cumulative cash distribution on the WesTS will be 6.199% paid semi-annually until December 31, 2016 and, thereafter, at CDOR 180-day Bankers' Acceptance rate plus 2.55%.

15. INSURANCE RELATED OTHER LIABILITIES

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

16. OTHER LIABILITIES

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

17. SUBORDINATED DEBENTURES

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

Each of the following qualifies as a bank debenture under the Bank Act and is subordinate in right of payment to all deposit liabilities. All redemptions are subject to the approval of OSFI.

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

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

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

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

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

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

18. CAPITAL STOCK

Authorized:

An unlimited number of common shares without nominal or par value;

33,964,324 class A shares without nominal or par value; and

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

Issued and fully paid:

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

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

a) Preferred Shares

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

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

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

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

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

b) Warrants to Purchase Common Shares

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

c) Dividend Reinvestment Plan

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

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

19. STOCK-BASED COMPENSATION

a) Stock Options

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

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

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

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

Further details relating to stock options outstanding and exercisable follow:

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

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

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

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

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

b) Restricted Share Units

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

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

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

20. CONTINGENT LIABILITIES AND COMMITMENTS

a) Credit Instruments

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

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

Guarantees and standby letters of credit represent the Bank's obligation to make payments to third parties when a customer is unable to make required payments or meet other contractual obligations. These instruments carry the same credit risk, recourse and collateral security requirements as loans extended to customers and generally have a term that does not exceed one year. Losses, if any, resulting from these transactions are not expected to be material.

Commitments to extend credit to customers also arise in the normal course of business and include undrawn availability under lines of credit and commercial operating loans of \$1,180,690 (2008 – \$931,957) and recently authorized but unfunded loan commitments of \$1,165,634 (2008 – \$2,258,463). In the majority of instances, availability of undrawn commercial commitments is subject to the borrower meeting specified financial tests or other covenants regarding completion or satisfaction of certain conditions precedent. It is also usual practice to include the right to review and withhold funding in the event of a material adverse change in the financial condition of the borrower. From a liquidity perspective, undrawn credit authorizations will be funded over time, with draws in many cases extending over a period of months. In some instances, authorizations are never advanced or may be reduced because of changing requirements. Revolving credit authorizations are subject to repayment which, on a pooled basis, also decreases liquidity risk.

b) Lease Commitments

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

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

c) Guarantees

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

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

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

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

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

d) Legal Proceedings

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

21. INSURANCE OPERATIONS

Premiums Earned and Deferred Policy Acquisition Costs

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

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

Unpaid Claims and Adjustment Expenses

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

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

Reinsurance Ceded

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

a) Insurance Revenues, Net

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

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

b) Unpaid Claims and Adjustment Expenses

Nature of Unpaid Claims

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

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

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

Provision for Unpaid Claims and Adjustment Expenses

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

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

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

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

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

c) Underwriting Policy and Reinsurance Ceded

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

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

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

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

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

22. DISCLOSURES ON RATE REGULATION

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

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

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

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

23. EMPLOYEE FUTURE BENEFITS

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

24. INCOME TAXES

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

The provision for income taxes consists of the following:

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

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

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

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

Future income tax balances are comprised of the following:

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

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

25. EARNINGS PER COMMON SHARE

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

The calculation of earnings per common share follows:

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

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

26. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

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

27. RELATED PARTY TRANSACTIONS

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

28. INTEREST RATE SENSITIVITY

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

ASSET LIABILITY GAP POSITIONS

(\$ millions)

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

(1) Derivative financial instruments are included in this table at the notional amount.

(2) Accrued interest is excluded in calculating interest sensitive assets and liabilities.

(3) Potential prepayments of fixed rate loans and early redemption of redeemable fixed term deposits have not been estimated. Redemptions of fixed term deposits where depositors have this option are not expected to be material. The majority of fixed rate loans, mortgages and leases are either closed or carry prepayment penalties.

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

WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

(%)

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

October 31, 2008

Total assets	4.7%	4.2%	5.1%	4.8%	5.4%	5.8%	5.0%
Total liabilities	2.2	3.6	4.0	2.9	4.2	5.7	3.4
Interest Rate Sensitive Gap	2.5%	0.6%	1.1%	1.9%	1.2%	0.1%	1.6%

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the value of the consideration given or received). Subsequent to initial recognition, financial instruments measured at fair value on the consolidated balance sheets that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. For certain securities and derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Several of the Bank's significant financial instruments, such as loans and deposits, lack an available trading market as they are not typically exchanged. Therefore, these instruments have been valued assuming they will not be sold, using present value or other suitable techniques and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of loans, deposits and subordinated debentures are not adjusted to reflect increases or decreases in fair value due to interest rate changes as the Bank's intention is to realize their value over time by holding them to maturity.

The table below sets out the fair values of financial instruments (including certain derivatives) using the valuation methods and assumptions referred to below the table. The table does not include assets and liabilities that are not considered financial instruments.

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

(1) Loans and deposits exclude deferred premiums and deferred revenue, which are not financial instruments.

(2) Other assets exclude land, buildings and equipment, goodwill and other intangible assets, reinsurers' share of unpaid claims and adjustment expenses, future income tax asset, prepaid and deferred expenses, financing costs and other items that are not financial instruments.

(3) Other liabilities exclude future income tax liability, deferred revenue, unearned insurance premiums and other items that are not financial instruments.

(4) For further information on interest rates associated with financial assets and liabilities, including derivative instruments, refer to Note 28.

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

- cash resources and securities are reported on the consolidated balance sheets at the fair value disclosed in Notes 3 and 4. These values are based on quoted market prices, if available. Where a quoted market price is not readily available, other valuation techniques are based on observable market rates used to estimate fair value;
- loans reflect changes in the general level of interest rates that have occurred since the loans were originated and are net of the allowance for credit losses. For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. For all other loans, fair value is estimated by discounting the expected future cash flows of these loans at current market rates for loans with similar terms and risks;
- other assets and other liabilities, with the exception of derivative financial instruments, are assumed to approximate their carrying value, due to their short-term nature;
- for derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants;
- deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows at current market rates for deposits of similar terms; and
- the fair values of subordinated debentures are determined by reference to current market prices for debt with similar terms and risks.

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

30. RISK MANAGEMENT

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

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

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

31. CAPITAL MANAGEMENT

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

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

Basel II Capital Adequacy Accord

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

Current regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. CWB's Tier 1 capital is comprised of common shareholders' equity and innovative capital (to a regulatory maximum of 15% of net Tier 1 capital), while Tier 2 capital includes subordinated debentures (to the regulatory maximum amount of 50% of net Tier 1 capital), the inclusion of the general allowance for credit losses (to the regulatory maximum) and any innovative capital not included in Tier 1.

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

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

CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR-END

(\$ thousands)

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

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

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

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

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

(5) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital. Any excess Tier 2B capital is included in capital as net Tier 1 capital increases.

At October 31, 2009 and October 31, 2008, all subordinated debentures are included in Tier 2B capital.

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

32. SEGMENTED INFORMATION

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

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

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

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

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

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

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

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

33. BUSINESS ACQUISITION

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

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

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

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

34. SUBSIDIARIES AND AFFILIATE

CANADIAN WESTERN BANK SUBSIDIARIES⁽¹⁾

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

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

(1) The Bank owns 100% of the voting shares of each entity, with the exception of Adroit Investment Management Ltd. (72.5% ownership).

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

(3) In accordance with accounting standards, this entity is not consolidated as the Bank is not the primary beneficiary.

35. SUBSEQUENT EVENT

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

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

36. COMPARATIVE FIGURES

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