

# Management's Discussion and Analysis

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## BUSINESS PROFILE AND STRATEGY

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

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

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

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

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

### Forward-Looking Statements

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

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

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

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

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

### Taxable Equivalent Basis (teb)

Most banks analyze revenue on a taxable equivalent basis to permit uniform measurement and comparison of net interest income.

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

## Non-GAAP Measures

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

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

## GROUP FINANCIAL PERFORMANCE

### Overview

#### *Highlights of 2009*

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

#### *Impact of the Global Financial Crisis*

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

TABLE 1 – SELECT ANNUAL FINANCIAL INFORMATION<sup>(1)</sup>

(\$ thousands, except per share amounts)

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

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

(2) bp – basis points.

(3) A decrease in the ratio reflects improved efficiency, while an increase reflects deterioration.

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

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

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

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

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

TABLE 2 – PERFORMANCE TARGETS

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

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

(1) Net income, before preferred share dividends.

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

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

#### *Minimum Performance Targets and Outlook*

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

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

## Net Interest Income

### Highlights of 2009

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

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

TABLE 3 – NET INTEREST INCOME (teb)<sup>(1)</sup>

(\$ thousands)

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

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

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

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

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

#### *Outlook for Net Interest Income*

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

## Other Income

#### *Highlights of 2009*

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

TABLE 4 – OTHER INCOME

(\$ thousands)

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

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

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

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

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

#### *Outlook for Other Income*

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

## Non-Interest Expenses and Efficiency

### Highlights of 2009

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

TABLE 5 – NON-INTEREST EXPENSES AND EFFICIENCY RATIO

(\$ thousands)

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

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

(2) bp – basis points.

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

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

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

#### *Outlook for Non-Interest Expenses and Efficiency*

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

### Income and Capital Taxes

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

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

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

TABLE 6 – CAPITAL TAXES

(\$ thousands)

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

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

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

#### *Outlook*

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

## Comprehensive Income

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

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

TABLE 7 – COMPREHENSIVE INCOME  
(\$ thousands)

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

### Cash and Securities

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

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

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

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

## Loans

### *Highlights of 2009*

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

TABLE 8 – OUTSTANDING LOANS BY PORTFOLIO

(\$ millions)

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

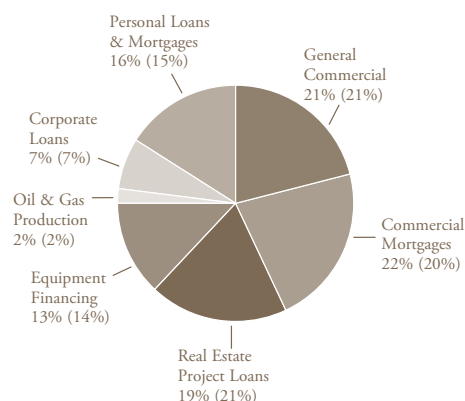
Total loans, excluding the allowance for credit losses, increased 7% (\$612 million) to total \$9,312 million at year end. Measured by loan type as shown in Table 8, commercial mortgages represented the strongest source of loan growth in 2009, measured in both dollar and percentage terms. Personal loans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

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

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

**FIGURE 1 – OUTSTANDING LOANS BY PORTFOLIO**

(October 31, 2008 in brackets)



#### *Outlook for Loans*

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

## Credit Quality

#### *Highlights of 2009*

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

#### *Impaired Loans*

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

TABLE 9 – CHANGE IN GROSS IMPAIRED LOANS

(\$ thousands)

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

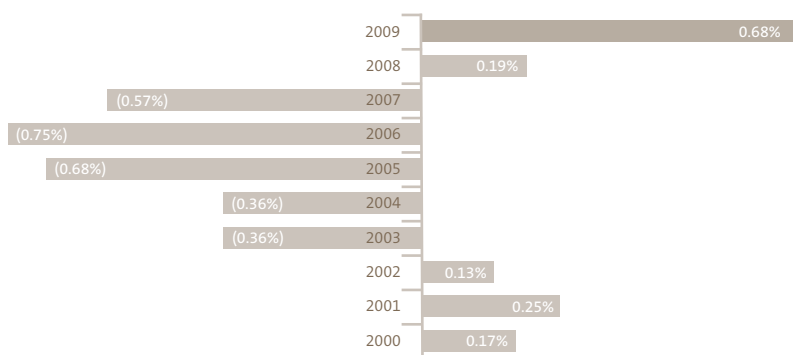
(1) Total loans do not include an allocation for credit losses or deferred revenue and premiums.

(2) bp – basis point change.

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

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

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



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

### *Outlook for Impaired Loans*

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

### *Allowance for Credit Losses*

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

TABLE 10 – ALLOWANCE FOR CREDIT LOSSES

(\$ thousands)

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

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

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

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

### *Outlook for Allowance for Credit Losses*

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

### Provision for Credit Losses

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

TABLE 11 – PROVISION FOR CREDIT LOSSES

(\$ thousands)

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

(1) As a percentage of average loans.

(2) Portion of the year's provision for credit losses allocated to specific provisions as a percentage of average loans.

(3) Allowance for credit losses as a percentage of gross impaired loans.

### Outlook for Provision for Credit Losses

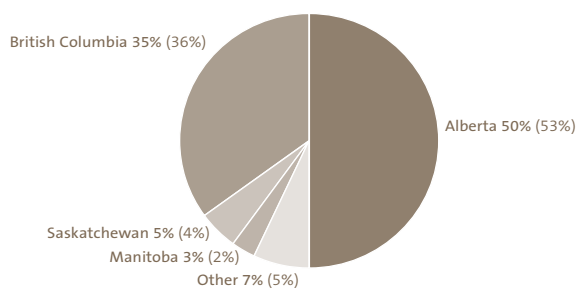
The provision for credit losses in 2010 is expected to be between 15 to 20 basis points of average loans, up modestly from the target range established for fiscal 2009. The expected provision reflects the Bank's current assessment based on reasonable assumptions about the economic outlook, expected growth,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

### Diversification of Portfolio

Total Advances Based on Location of Security

FIGURE 3 – GEOGRAPHICAL DISTRIBUTION OF LOANS<sup>(1)</sup>

(October 31, 2008 in brackets)



(1) Includes letters of credit.

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

TABLE 12 – TOTAL ADVANCES BASED ON INDUSTRY SECTOR<sup>(1)</sup>

% at October 31

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

(1) Table is based on the Standard Industrial Classification (SIC) codes.

(2) Residential mortgages in this table include only single-family properties.

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

#### *Outlook for Diversification of Portfolio*

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

## Deposits

#### *Highlights of 2009*

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

TABLE 13 – DEPOSITS  
(\$ thousands)

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

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

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

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

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

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

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

#### *Outlook for Deposits*

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

#### **Other Assets and Other Liabilities**

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

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

## Liquidity Management

### Highlights of 2009

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

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

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

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

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

TABLE 15 – LIQUID ASSETS

(\$ thousands)

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

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

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

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

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

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

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

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

TABLE 16 – DEPOSIT MATURITIES WITHIN ONE YEAR  
(\$ millions)

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

TABLE 17 – TOTAL DEPOSIT MATURITIES  
(\$ millions)

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

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

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

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

TABLE 18 – SUBORDINATED DEBENTURES OUTSTANDING  
(\$ thousands)

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

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

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

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

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

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

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

### *Outlook for Liquidity Management*

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

## Contractual Obligations

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

TABLE 19 – CONTRACTUAL OBLIGATIONS  
(\$ thousands)

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

## Capital Management

### *Highlights of 2009*

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

### *Subsequent Highlights*

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

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

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

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

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

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

### Basel II Capital Adequacy Accord

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

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

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

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

TABLE 20 – CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR END

(\$ thousands)

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

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

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

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

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

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

TABLE 21 – RISK-WEIGHTED ASSETS

(\$ thousands)

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

TABLE 22 – RISK-WEIGHTED CATEGORY

(\$ thousands)

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

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

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

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

### *Outlook for Capital Management*

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

## **Financial Instruments and Other Instruments**

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

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

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

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

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

### *Derivative Financial Instruments*

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

TABLE 23 – DERIVATIVE FINANCIAL INSTRUMENTS

(\$ thousands)

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

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

(2) Equity contracts are used to offset the return paid to depositors on certain deposit products where the return is linked to a stock index. The outstanding contracts mature between March 2010 and March 2011. The total gross positive replacement cost was \$nil (2008 – \$nil).

(3) U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. At October 31, 2009, there were \$2,233 U.S. (2008 – \$2,424 U.S.) of forward foreign exchange contracts outstanding that mature between November 2009 and April 2010.

The active use of interest rate contracts continues to be an integral component in managing the Bank's short-term gap position. Derivative financial instruments are entered into only for the Bank's own account and CWB does not act as an intermediary in this market. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review, including an assessment of the credit worthiness of the counterparty. Policies regarding the use of derivative financial instruments are approved, reviewed and monitored on a regular basis by ALCO and reviewed and approved by the Board of Directors at least annually. Given that interest rates appeared to have reached the bottom of the cycle during 2009, certain interest rate contracts were unwound to maximize returns when rates begin to trend upwards.

## Acquisitions

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

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

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

## Off-Balance Sheet Arrangements

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

### *Guarantees*

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

## OPERATING SEGMENT REVIEW

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

### Banking and Trust

#### *Highlights of 2009*

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

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

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

TABLE 24 - BANKING AND TRUST HIGHLIGHTS<sup>(1)</sup>  
(\$ thousands)

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

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

(2) nm – not meaningful.

(3) bp – basis points.

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

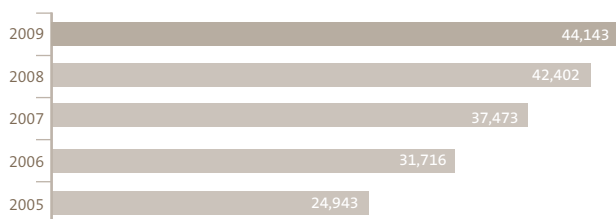
Record banking and trust net income of \$97.2 million was up 4% (\$3.5 million) over 2008 on 10% (\$27.1 million) growth in total revenues (teb). Growth in total revenues (teb) reflects net interest income (teb) that was 3% (\$7.4 million) higher compared to the prior year as the positive contribution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

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

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

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

FIGURE 4 – NUMBER OF CWT INVESTMENT ACCOUNTS



#### *Outlook for Banking and Trust*

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

## Insurance

#### *Highlights of 2009*

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

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

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

TABLE 25 – INSURANCE HIGHLIGHTS<sup>(1)</sup>  
(\$ thousands)

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

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

(2) nm – not meaningful.

(3) bp – basis points.

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

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

#### *Outlook for Insurance Operations*

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

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

## SUMMARY OF QUARTERLY RESULTS

### Quarterly Results

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

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

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

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

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

TABLE 26 – QUARTERLY FINANCIAL HIGHLIGHTS<sup>(1)</sup>

(\$ thousands, except per share amounts)

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

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

## ACCOUNTING POLICIES AND ESTIMATES

### Critical Accounting Estimates

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

#### *Allowance for Credit Losses*

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

#### *Provision for Unpaid Claims and Adjustment Expenses*

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

#### *Financial Instruments Measured at Fair Value*

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

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

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

TABLE 27 – VALUATION OF FINANCIAL INSTRUMENTS

(\$ thousands)

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

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

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

## Changes in Accounting Policies, Including Initial Adoption

### *Goodwill and Intangible Assets*

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

### *Credit Risk and Fair Value*

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

### *Financial Instruments – Disclosures*

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

## Future Changes in Accounting Policies

### *International Financial Reporting Standards*

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

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

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

#### *IFRS Transition Plan*

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

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

#### *Progress Towards Transition Plan*

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

The solution development phase will commence in fiscal 2010, and CWB will begin designing solutions to address the differences, focusing initially on those differences that may require changes to the Bank's financial systems or that are more complex or time-consuming to resolve.

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

	KEY ACTIVITY	KEY MILESTONES	STATUS
FINANCIAL STATEMENT PREPARATION	<p>Identify applicable differences in Canadian GAAP/IFRS accounting policies and practices and design and implement solutions</p> <p>Select IFRS 1 choices</p> <p>Develop financial statement and related note disclosure format</p> <p>Quantify effects of transition</p>	<p>Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur during the third quarter of 2010</p> <p>Development of draft financial statement format to occur during the latter part of 2010</p>	<p>Completed the Diagnostic phase and Design &amp; Planning phase, which involved a detailed impact assessment of the differences between Canadian GAAP and IFRS</p> <p>In-depth analysis of accounting policy choices and solution development will occur during 2010</p>
TRAINING	<p>Define and introduce appropriate level of IFRS expertise for each of the following:</p> <ul style="list-style-type: none"> <li>· Finance group</li> <li>· CWB lenders</li> <li>· Audit Committee &amp; Board of Directors</li> </ul>	<p>Timely training provided to align with work under transition – all training completed by mid-2011</p> <p>Communicate effects of transition in time for 2012 financial planning process, by mid-2011</p>	<p>Participation in industry IFRS specialist groups</p> <p>Finance group, Audit Committee and Board of Directors formal training occurred during Q3 2009. Periodic status reports on-going</p> <p>Engaged a third-party subject matter expert to assist in the training of CWB lenders</p>
INFORMATION SYSTEMS	<p>Identify and address IFRS differences that require changes to financial systems</p> <p>Evaluate and select methods to address need for dual record-keeping during 2011 (i.e., IFRS and Canadian GAAP) for comparatives</p>	<p>Confirm that business processes and systems are IFRS compliant throughout the project</p> <p>Confirm that systems can address 2011 dual record-keeping processing requirements by the first quarter of 2009</p>	<p>Diagnostic analysis regarding current systems completed; solution development to occur in 2010</p> <p>Dual record-keeping process determined during first quarter of 2009</p>
CONTROL ENVIRONMENT	<p>Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2011</p> <p>Design and implement internal controls with respect to one-time transition adjustments and related communications</p>	<p>All key control and design effectiveness implications will be assessed throughout 2010</p> <p>Changes completed by the first quarter of 2011</p>	<p>Analysis of control issues will occur concurrently during the Solution Development phase</p>

## RISK MANAGEMENT

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

### Overview

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

Senior management is responsible for establishing the framework for identifying risks and developing appropriate risk management policies and frameworks. The Board of Directors, either directly or through its committees, reviews and approves the key policies and implements specific reporting procedures to enable them to monitor ongoing compliance over significant risk areas. At least annually, a report on risks and risk management policies is presented to the Board and/or Board committees for review and assessment.

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

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

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

- ensuring that risks other than credit risk are identified and assessed and that appropriate policies are in place and effective;
- the establishment and maintenance of policies and programs for liquidity management and control, funding sources, investments, foreign exchange risk, interest rate risk and derivatives, and trust services risk; and
- overseeing compliance and strategy respecting diversification of product offerings and management of risks.

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

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

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

## Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to CWB. This risk can relate to balance sheet assets, such as loans, as well as off-balance sheet assets such as guarantees and letters of credit. To diversify the risk, the exposure to a single borrower or associated borrowers is limited, unless approved by the Board of Directors, to not more than 10% of the Bank's shareholders' equity and is presently set at \$50 million (\$60 million if the amount in excess of \$50 million is cash secured or CMHC insured). Customers with larger borrowing requirements are accommodated through loan syndications with other financial institutions.

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

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

## *Environmental Risk*

The operations of the Bank do not have a material effect on the environment. However, a risk of default may occur if a borrower is unable to repay loans due to environmental cleanup costs. The Bank may become directly liable for cleanup costs when it is deemed to have taken control or ownership of a contaminated property. Risk assessment criteria and procedures are in place to manage environmental risks and these are communicated to lending personnel. Reports on environmental inspections and findings are reviewed by senior management and reported upon quarterly to the Board.

## *Portfolio Quality*

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

## Liquidity Risk

Liquidity risk relates to financial liabilities that are settled by delivering cash or another financial asset. This risk arises from fluctuations in cash flows from lending, deposit taking, investing and other activities. Effective liquidity management ensures that adequate cash is available to honour all cash outflow obligations while limiting the opportunity cost of holding short-term assets. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Liquidity policies include:

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

Key features of liquidity management are:

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

## Market Risk

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

### *Interest Rate Risk*

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

A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific maturity or repricing period. Generally, a positive gap will result in an increase in net interest income when market interest rates rise since assets reprice earlier than liabilities. The opposite impact will generally occur when market interest rates fall. However, the directness of the correlation may be disrupted when interest rates approach zero.

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

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

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured at least monthly. Note 28 to the consolidated financial statements shows the gap position at October 31, 2009 for select time intervals.

The gap analysis in Note 28 is a static measurement of interest rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates, as well as the size and maturity structure of the cumulative interest rate gap position and management of those positions over time.

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

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

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

The estimated sensitivity of net interest income to a change in interest rates is presented in Table 28. The amounts represent the estimated change in net interest income over the time period shown resulting from a one percentage point change in interest rates. The estimates are based on a number of assumptions and factors, which include:

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

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

TABLE 28 – ESTIMATED SENSITIVITY OF NET INTEREST INCOME AS A RESULT OF A ONE PERCENTAGE POINT CHANGE IN INTEREST RATES  
(\$ thousands)

Impact of 1% increase in interest rates

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

Impact of 1% decrease in interest rates

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

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

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract appropriate assets and liabilities, as well as through the use of interest rate swaps or other appropriate hedging techniques

(see discussion under Derivative Financial Instruments on page 49). Assets and liabilities having a term to maturity in excess of five years are subject to specific review and control and, with the exception of subordinated debentures and the deposit from CWB Capital Trust, were not material. The subordinated debentures, which are typically redeemed (subject to OSFI approval) after five years, and the deposit from CWB Capital Trust are discussed in Notes 14 and 17 to the consolidated financial statements.

#### *Foreign Exchange Risk*

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in a foreign currency. In providing financial services to its customers, the Bank has assets and liabilities denominated in U.S. dollars. At October 31, 2009, assets denominated in U.S. dollars were 1.4% (2008 – 1.2%) of total assets and U.S. dollar liabilities were 1.4% (2008 – 1.3%) of total liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific customer needs and, therefore, the Bank has virtually no exposure to currencies other than U.S. dollars.

Policies have been established that include limits on the maximum allowable differences between U.S. dollar assets and liabilities.

The difference is measured daily and managed by use of U.S. dollar forward contracts or other means. Policy respecting foreign exchange exposure is reviewed and approved at least annually by the Board of Directors, and deviations from policy are reported to the Board and ALCO.

### **Insurance Risk**

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

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

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

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

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

### **Operational Risk**

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

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

Strategies to minimize and manage operational risk include:

Management:

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

Framework and supporting policies:

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

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

## **General Business and Economic Conditions**

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

## **Level of Competition**

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

## **Regulatory and Legal Risk**

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

## **Accuracy and Completeness of Information on Customers and Counterparties**

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

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

### **Ability to Attract and Retain Key Personnel**

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

### **Ability to Execute Growth Initiatives**

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

### **Information Systems and Technology**

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

### **Reputation Risk**

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

### **Other Factors**

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

## **UPDATED SHARE INFORMATION**

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

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

## **CONTROLS AND PROCEDURES**

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

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

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

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

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