Western FINANCIAL GROUP

2009
Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OF WESTERN FINANCIAL GROUP

We are a leader in providing insurance, financial services and banking services to more than 500,000 individuals and businesses in Western Canada through the Network, affiliated insurance brokers, Western Life, Bank West and SecuriCan.

We are one of only a few Canadian organizations operating in the banking, life and property and casualty insurance sectors. In addition we own and operate the largest insurance network of brokerages in Western Canada.

These combined operations provide our Company with a unique and powerful platform on which to expand sales to new customers in the West and develop sales momentum on cross sales to existing customers.

Our primary business has historically been the ownership and operation of the Western Financial Group (Network) Inc. (“Network”), which serves 100 communities with offices in British Columbia, Alberta, Saskatchewan and Manitoba. In addition, we have affiliated offices in 12 communities with 17 offices in British Columbia and Saskatchewan. These locations offer a broad variety of property and casualty insurance services including automobile insurance, home and farm insurance, business and specialty insurance, life insurance products and in many locations, investment and financial services.

In October 2009 we completed the acquisition of Hayhurst Elias Dudek Inc. (“HED”) which is now part of the Network. HED was one of the largest independently-owned insurance brokers in Canada, with approximately 190 employees nationwide. HED’s head office and the majority of the employees are located in Winnipeg. HED specializes in progressive and unique commercial insurance and employee benefits products specifically designed for Canadian independent businesses and Government entities that are aligned with association or buying group.

In addition we completed the acquisition of SecuriCan General Insurance Company (“SecuriCan”) October 1, 2009. SecuriCan is Canada’s largest and most profitable underwriter of pet health insurance.

With the acquisition of HED and SecuriCan, we have a powerful new set of resources in place to continue the systematic growth of our business.

Bank West (“the Bank”), a Schedule I chartered bank, offers deposit and loan services, including Guaranteed Investment Certificates (GICs) and personal and commercial loans which are offered through its own broker network as well as through the Network locations. The Bank has been successful in developing a growing business in recreational vehicle, marine and auto dealership financing and in offering mortgage products. In January 2009 we acquired all of the outstanding shares of AgriFinancial Canada Corp. (“AgriFinancial”) in Winnipeg, MB. AgriFinancial is a leading lender to agribusiness in Western Canada including more than 25,000 farmers who carry AgriFinancial’s AgriCard, a specialty credit card accepted at more than 750 agricultural merchants. In addition to the AgriCard, AgriFinancial provides term loans to farmers for the purchase of farm equipment. AgriFinancial operates as a specialty unit within our banking subsidiary, Bank West.

Western Life Assurance Company was acquired effective February 28, 2005, and brings a wide range of quality life insurance products to the Network offices. These include term and permanent life insurance, group benefits, health and disability insurance and loss of employment insurance. Western Life also has a network of over 2,000 brokers who sell its products. Since being acquired Western Life has worked closely to develop strategies to successfully introduce their product lines for sale through the Network.

Investment products are offered from a small number of Network locations on a referral basis to Jennings Capital, a full-service investment dealer with its head office in Calgary, Alberta, in which we have a 35.0% equity interest.

2009 HIGHLIGHTS

January	Acquisition of Bakes-Jarvie Insurance Brokers, Ltd. Acquisition of AgriFinancial
April	Completed offering of Convertible Subordinated debentures for gross proceeds of $16.7 million
August	Completed offering of first preferred shares series 5, for gross proceeds of $30.0 million
September	Completed additional offering of first preferred shares series 5, for gross proceeds of $5.5 million
	Re-negotiated our credit facility with a Canadian chartered bank increasing the available facility to $70.0 million
October	Acquisition of HED and SecuriCan

ACQUISITIONS AND INVESTMENTS

During the first quarter of 2009, we acquired all of the outstanding shares of Bakes-Jarvie Insurance Brokers Ltd. in Nanaimo, BC. In January 2009 we acquired all of the outstanding shares of AgriFinancial Canada Corp. ("AgriFinancial") in Winnipeg, MB.

In October 2009 we increased our investment in HED to 100% from 49% in 2008. The results of HED are included in our consolidated operating income subsequent to October 1, 2009. The results were previously recorded in income from equity investments as HED was classified as an equity investment.

During 2008, we acquired all of the outstanding shares of the following insurance brokerage businesses: Southern Insurance Management Inc., in Lethbridge, Alberta, Simpson Insurance Ltd., in Trochu, Alberta, Woodland Insurance Agencies, in Grande Cache, Alberta, Boyd Agencies Ltd. in Prince Albert, Saskatchewan, Vet's Insurance & Consultants Ltd. in Coleman, Alberta and Dunn Realty and Insurance Ltd. in Wolseley, Saskatchewan. In addition we increased our investment in Hayhurst Elias Dudek Inc. ("HED") to 49% from 25% which was acquired in August 2006.

In September 2008, we entered into a share purchase agreement with C.A. Bancorp Inc. to acquire Winnipeg based AgriFinancial Canada Corp. The acquisition closed in January 2009 as discussed above.

See note 10 in our audited financial statements for additional details regarding acquisitions.

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements and related notes as at and for the years ended December 31, 2009 and 2008.

CURRENT OUTLOOK

We do not expect there to be significant changes to the financial services industry, in general, that would have a material negative impact on the growth of Bank West, the Network, Western Life, or SecuriCan. In fact, we are encouraged by developing positive trends in Western Canada including stable employment rates and commodity prices. We recognize that the recovery will be slow so we will monitor our business and market developments and continue to act prudently.

While Property and Casualty (“P&C”) insurance rates at the Network in 2009 continued to be soft, we have started to see some personal insurance premium increases that will take effect over the next twelve months primarily on the property side of the business. In Alberta, the Rate Board has announced a 5% premium reduction on Alberta auto mandatory coverage effective November 1, 2009. Business insurance premiums have begun to stabilize. We expect to see a slight hardening of the commercial market although capacity to write business for most insurance companies remains high. We don’t expect a dramatic shift like we saw in 2002. Over the past few years, the financial results of insurers have deteriorated especially in personal property insurance, as rising claims costs were not fully covered by increases in premiums. As a result of the continuing claims, especially in homeowner insurance, the high cost of repair and a reduction in investment income, we see insurance companies applying rate increases. As broker’s revenues are derived from commissions, we expect to realize increased revenue at the Network as insurance premiums increase. We have not seen the expected rate increases in 2009 due to competition in the personal lines business and soft commercial market. We continue to track our same store sales and expect to see increases in premium rates in 2010.

With increased pricing we expect no adverse impact on customer retention as we will remain competitive in our market place. Our retention rates have remained consistent with 2008. We expect inflationary trends, particularly wage expenses, to abate somewhat.

Bank West will find opportunities for ongoing quality lending and acquisitions. We expect continued challenges in credit quality with residential mortgages, personal loans, and collections as we experienced increased specific loan loss provisions in 2009. Bank West will maintain disciplined underwriting practices along with diligent review of delinquencies and appropriate reserving levels. Our credit quality remained satisfactory in view of the ongoing economic challenges. Non-performing loans increase to 2.0 % compared to 1.1% at September 2009. Non-performing loans are expected to fluctuate as economic recovery is expected to be slow.

We anticipate that the life and health insurance industry will remain stable in the medium to long-term, especially in the communities where we operate. In 2009, we continued to develop new distribution channels and increased sales in the Network and our affiliated companies, resulting in improved diversification of our portfolio.

While the pet insurance industry is still enjoying double digit growth, 2009 was a tough year as we converted our brand from Petplan to Petsecure and as such we saw increased cancellations and fewer policy sales. We expect to see 2010 with growth rates similar to the industry and anticipate seeing good growth in premiums and new policy sales. Claims costs continue to be at anticipated levels and we don’t anticipate any drastic changes through 2010. Even with only 1% penetration in the pet insurance market in Canada the industry remains extremely competitive and we will be focusing on our core competencies to ensure that we maintain our number one position.

Our equity investments provide products and services similar to the Western Financial Group of companies except Jennings Capital Inc., which is an investment dealer. Revenues and earnings improved in the second quarter of 2009 and improvement continued throughout the year. The investment dealer industry was subject to a decrease in business with the economic environment. The challenging conditions in the capital markets resulted in lower profits in 2008.

This management's discussion and analysis is dated March 11, 2010 and provides forward-looking information and comments regarding our objectives, strategies, financial results, risk management and business outlook. Forward-looking information and statements involve numerous assumptions, risks and uncertainties, including the risk that prediction and other forward-looking statements may not prove to be accurate. We caution the reader not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and comments expressed in them. A variety of factors, many of which are beyond our control affect our operations, performance and results. Such factors may include, but are not limited to: changing and prolonged financial and economic uncertainty; regulatory and legal developments; competition industry trends and availability of capital resources; declining interest rates; credit quality; liquidity; movement in credit spreads; changes in accounting standards and policies; changes in tax laws; and our anticipated success in managing our risks. We caution readers that the foregoing list is not exhaustive. Except as required by law, we do not undertake to update any forward-looking statements, written or oral, that we may make from time to time regarding our operations and performance.

NON-GAAP MEASURES

The financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). We use non-GAAP measures to discuss our business, operations and performance. Although our non- GAAP measures do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers, these measures are determined by reference to our financial statements and management’s discussion and analysis. We discuss these measures as we feel that they are some of the key indicators of the performance of our business.

Operating income refers to earnings, including investment income, before income from equity investments, impairment on equity investments, impairment on available for sale securities, the gain or loss on the sale of investments and capital assets, interest and financing costs on long-term debt, amortization of intangible assets, amortization of capital assets, and income tax expense.

Return on common equity refers to net income after preferred dividends divided by average common shareholders’ equity.

Total long-term liabilities refer to customer deposits maturing after one year, and long-term debt less the current portion of long-term debt.

Same store revenue is the change from one year to the next in the revenues of the Network. (“the Network’s”) existing branches in the year excluding acquisitions in the year.

Same store customer accounts tracks the increase in our customers and policies in the Network’s existing branches in the year excluding acquisitions in the year.

Products per customer account (PPCA) tracks the number of additional products we deliver to a customer.

Loss Ratios, assist in analyzing the underwriting at Western Life Assurance Company ("Western Life") by dividing the claims incurred by the net premiums written.

Regulatory capital refers to the total capital required to support credit, market and operational risk at Bank West, in accordance with OSFI requirements.

Risk weighting of assets refers to the deemed credit risk of each asset and assets are assigned a rating which is then used as a calculation for the regulatory capital at Bank West, including operational risk and market risk based on OSFI requirements. ***Tier 1 and Tier 2 capital*** refers to the core capital that must be maintained at Bank West. The current regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighed asset and off-balance sheet items of 10%, of which 7% is to be tier1 and the remainder supplementary capital (tier 2).

Capital adequacy ratio is a measure of the regulatory capital at Bank West and is expressed as a percentage of the bank's risk weighted credit exposures. This ratio is used to protect depositors and promotes the stability and efficiency of financial institutions.

Bank West loan book is used to measure the gross loan portfolio.

Western Life policy/certificate count track the increase in individual and group policies written.

KEY BUSINESS DRIVERS

Our management has identified certain key business drivers to assist it in managing and evaluating the progress of our business, especially the largest component of our business, the Network. These drivers consist of both non-GAAP measures and operational indicators.

For the Network, we track **same-store revenue** change, from one period to the next. As we continue to add branch offices to the Network through acquisitions it is important for us to track the revenues of the Network's existing branch offices. As we continue to add new products through the sale of P&C insurance and the addition of financial service products through the Network, we expect the average number of products we sell to existing customers to increase. To analyze this, we track the **products per customer account (PPCA)**. We also track the Network's year-to-date annualized percentage change in **same-store customer account** increase.

With Western Life we track the increase in the **policy and certificate count**, and with Bank West we are focused on the growth of the **loan book**. Corporately we are looking at our **return on common equity** and the increase we are able to achieve over the next few years.

WESTERN FINANCIAL GROUP INC.

The table below shows our key business drivers.

	2009	2008	2007	2006	2005	2004	2003
Same-store Revenue (% change) (1)	**4.2 %**	+8.9 %	+ 7.7 %	+ 6.9 %	+ 6.8 %	+ 6.6 %	+13.8 %
Products per customer account (PPCA)	**2.41**	2.31	2.30	2.29	1.77	1.67	1.51
Same-store Customer Count (year to date annualized, % change) (2)	+1.1 **%**	+3.5 %	+ 4.3 %	+ 4.5 %	+ 2.8 %	+ 4.0 %	+ 4.0 %
Western Life Policy/Certificate Count	**29,901**	28,284	25,374	22,064	19,180	0	0
Bank West Loan Book ($ millions)	**$ 360.5**	$ 273.4	$286.8	$149.4	$91.5	$ 43.4	$ 16.4
Return on Common Equity (ROE)	**7.0 %**	1.8 %	8.1 %	7.9 %	8.1 %	8.3 %	7.5 %

Notes:

(1) Represents same-store revenue increase for the twelve months ended December 31, of the year over the corresponding period in the prior year.

(2) Represents year over year annualized increase.

THREE YEAR SUMMARY

YEARS ENDED DECEMBER 31 (in $ thousands except for per share amounts)	2009	2008	2007
Total revenues	**$ 166,076**	$ 124,885	$ 114,126
Net Income	**$ 15,961**	$ 6,548	$ 12,213
Earnings per share - Basic	**$ 0.22**	$ 0.05	$ 0.24
Earnings per share - Diluted	**$ 0.22**	$ 0.05	$ 0.22
Total assets	**$ 816,326**	$ 677,620	$ 622,701
Total long-term liabilities	**$ 249,475**	$ 228,103	$ 240,850
Total cash dividends paid	**$ 6,119**	$ 5,898	$ 2,074
Per Common Share	**$ 0.04**	$ 0.04	$ 0.03
Per First Preferred Series 2	**$ 6.75**	$ 6.75	$ 6.75
Per First Preferred Series 3	**$ 6.75**	$ 6.75	$ 3.38
Per First Preferred Series 4	**$ 6.75**	$ 6.75	$ -
Per First Preferred Series 5	**$ -**	$ -	$ -
Issued common shares	**49,367,049**	49,333,127	47,752,851

SEGMENTED DATA

Our financial results are divided into five reportable segments: insurance brokerage, banking services, life insurance, pet insurance, and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through the Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans, mortgages and GICs to other customers through Bank West. The life segment offers a range of disability products along with group life and health, and loss of employment insurance through the Network and other distribution channels. The pet insurance segment offers a range of accident and illness insurance products for cats and dogs through SecuriCan.

WESTERN FINANCIAL GROUP INC.

YEARS ENDED DECEMBER 31 (in $ thousands except for per share amounts)	**2009**		2008
The Network			
Commissions and other customer revenue	**89,144**	$	75,424
Operating expenses	**63,261**		54,709
Operating income (1)	**25,883**	$	20,715
Bank West			
Interest and investment income	**25,514**	$	18,596
Interest expense-customer deposits	**15,165**		12,555
Net interest and investment income	**10,349**		6,041
Provisions for credit losses	**2,645**		936
Operating expenses	**8,249**		3,867
Operating (loss) income (1)	**(545)**	$	1,238
Western Life			
Premium and investment income	**40,691**	$	32,923
Policyholder benefits	**20,123**		14,789
Operating expenses	**15,565**		13,907
Operating income (1)	**5,003**	$	4,228
SecuriCan			
Premium and investment income	**9,077**		-
Policyholder benefits	**3,951**		-
Operating expenses	**3,052**		-
Operating income (1)	**2,074**		
Corporate and all other			
Other revenues	**1,650**	$	1,959
Operating expenses	**9,692**		9,223
Operating loss (1)	**(8,042)**	$	(7,264)
Total operating income (1)	**24,373**	$	18,915

(1) Before Impairment on AFS ($3,830) and Realized Loss on AFS assets ($217) in 2008

Notes:

(1) See reconciliation to net income on Page 15. We use "operating income" in this chart to refer to earnings, before interest expense, income from long-term investments, taxes, impairment from available for sale financial instruments, one-time gains (losses), depreciation and amortization of intangible and capital assets. Operating income (loss) is a non-GAAP measure we use to measure our corporate performance before the costs of capital and amortization of capital and intangible assets. This measure may not be comparable to similar measures presented by other issuers and investors are cautioned that it should not be used as an alternative to "net income" or other measures of financial performance calculated in accordance with GAAP.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2009 COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

The operating results for HED and SecuriCan are included in the result of operations effective the acquisition date, October 1, 2009.

REVENUE

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
The Network	**$**	**89,144**	$	75,424	$	13,720	18%
Bank West		**25,514**		18,596	$	6,918	37%
Western Life		**40,691**		32,923	$	7,768	24%
SecuriCan		**9,077**		-		-	-
Corporate and all other		**1,650**		1,959	$	(309)	-16%
	$	**166,077**	$	128,902	$	28,098	22%

The increase in revenue was a result of the acquisitions at the Network primarily HED which resulted in an increase of 19.7% in net premium income at Western Life contributing $37.5 million to our revenue, the increase in the gross interest and investment income at Bank West of $6.9 million with the acquisition of AgirFinancial, and $9.1 million of revenue earned since October 1, 2009 with the acquisition of SecuriCan.

We have seen a slower 2009 than usual due to several conditions. First, with the continued down turn in economic conditions, the Network saw its same store sales increase at 4.2% compared to 8.9% in 2008. Our policy count continued to grow, we maintained our retention ratios, and our margins remained consistent with 2008. Adversely, commercial businesses reduced or removed coverage on their existing assets waiting for the economy to recover and the purchase of new homes and cars seemed to be on hold. At the Bank we are beginning to see our portfolio volumes increase with the acquisition of AgriFinancial. As we direct our capital to the assets managed by Agrifinance loans and AgriCard we have seen our annualized margins increase from 2.2% in 2008 to 2.9% in 2009. With Western Life we continue to see growth in premium sales consistent with 2008 and have seen an increase in our investment income with our bond portfolio.

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
The Network							
Property & Casualty Commission	**$**	**67,039**	$	55,712	$	11,327	20%
Government auto		**14,433**		13,363		1,070	8%
Contingent income		**5,480**		4,514		966	21%
Other		**2,192**		1,835		357	19%
	$	**89,144**	$	75,424	$	13,720	18%
Premiums written		**395,357**	$	343,683			

The increase in Network revenue was primarily due to acquisitions contributing $10.1 million. HED was acquired on October 1, 2009 contributing $7.6 million to our revenue in the fourth quarter. The growth in same-store revenue of 4.2% represented an additional contribution of approximately $2.0 million, and an increase in government auto of $1.0 million. Finally we saw an increase in contingent income of $1.0 million, and an increase in the sale of financial services products of $600,000. Contingent profit agreements can vary by office, region and company and are not finalized by third party insurers until the following year, which may require an adjustment (positive or negative) to the amount previously estimated and recorded. Property and casualty commissions are earned on premiums written which vary by province and product and generally range from 5.0% to 25.0%.

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
Bank West							
Interest income	**$**	**24,556**	$	17,398	$	7,158	41%
Investment income		**190**		766		(576)	-75%
Other income		**768**		432		336	78%
	$	**25,514**	$	18,596	$	6,918	37%

Bank West's loan portfolio before provisions increased 31.7% to $360.5 million in 2009 from $273.4 million in 2008. This increase is due to the acquisition of AgriFinancial which closed January 30, 2009. The AgriFinance portfolios are cyclical and there has been an adverse impact due to the late seeding season due to weather conditions in 2009 compared to 2008. New business volumes in both AgriCard and Agrifinance portfolio for 2009 were fairly consistent with 2008, but fell below expectations. Concerns over harvest conditions and commodity prices have caused producers to remain cautious regarding new purchases. With the acquisition we have changed the mix of our loan portfolio resulting in a better diversification by product and geographically. We decreased our residential mortgages and redeployed capital to the agricultural loans, leases, credit card portfolios, and other consumer loans. With the slower than anticipated growth in agricultural loans we had higher than expected cash balances throughout the year causing lower than expected profits due to the lower yields on surplus cash compared to lending assets. However we were still able to increase our margins to 3.0% annualized compared to 2.6% in 2008.

As a result, Bank West's net interest and other revenue after provisions for loan losses saw a 37.1% increase to $8.3 million in 2009 compared to $6.1 million in 2008. We recorded provisions for loan losses in 2009 of $2.6 million compared to $940,000 in 2008. Our credit quality remained sound but non-performing loans increased as expected in view of the ongoing economic challenges. We saw non-performing loans increase to 2.0% compared to 1.1% at September 2009. Non-performing loans are expected to fluctuate with expectations of returning to historical levels as the economy recovers. We recorded higher loan losses in the fourth quarter primarily in commercial equipment leases and dealer finance.

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
Western Life							
Premium income	**$**	**37,491**	$	31,309	$	6,182	20%
Investment income		**3,200**		1,614		1,586	98%
	$	**40,691**	$	32,923	$	7,768	24%

Western Life contributed $40.7 million in total revenue. We had $37.5 million in net premium revenue as compared to $31.3 million with investment income of $3.2 million after recording realized losses of $700,000 on disposal of a portion of our equity portfolio.

Direct sales from the Network of $3.4 million in 2009 demonstrated the continued support and integration between Western Life and the Network year over year. In addition we began providing group business for clients of HED in the fourth quarter of 2008. In 2009 this added premiums of $7.2 million compared to $1.3 million in the fourth quarter of 2008.

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
SecuriCan							
Premium income	**$**	**8,975**		-		-	-
Investment income (loss)		**102**		-		-	-
	$	**9,077**		-		-	-

SecuriCan was acquired October 1, 2009. In the fourth quarter they contributed $9.1 million to our total revenue from the sale of pet health insurance.

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
Corporate and all other							
Commission and other customer revenue	**$**	**1,075**	$	1,161	$	(86)	-7%
Interest and investment income		**418**		412		6	2%
Dividend income		**157**		386		(229)	-59%
	$	**1,650**	$	1,959	$	(309)	-16%

Revenue in corporate and all other is derived mainly from our travel operations along with dividend and investment income at Corporate. Revenue from our corporate and all other segment decreased due to the decrease in our dividend income from our investments. Additionally we saw a decrease in interest and investment income with the decrease in interest rates resulting in a reduction in income from our daily cash balances offset by a realized gain on the sale of our preferred share investment portfolio of $400,000 held at Corporate.

OPERATING EXPENSES

YEARS ENDED DECEMBER 31							
Operating Expenses (in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
The Network	**$**	**63,261**	$	54,710	$	8,551	16%
Bank West		**8,249**		3,868		4,381	113%
Western Life		**15,565**		13,907		1,658	12%
SecuriCan		**3,052**		-		-	-
Corporate and all other		**9,692**		9,222		470	5%
	$	**99,819**	$	81,707	$	15,060	18%

The majority of the increase in total operating expenses is tied to operating expenses for the new acquisitions at the Network primarily HED, the acquisition of AgriFinancial at the Bank and, an increase in commissions and claims at Western Life due to the increase in premium sales, and the operating expenses of SecuriCan.

The Network's increases in expenses are normally the result of new acquisitions and the increase in activity levels as a result of new business. Acquisition activity increased our operating expenses by $6.7 million which primarily came from the operating expenses of HED for the fourth quarter in 2009. We saw an increase in salaries and wages before acquisitions of $2.4 million from performance increases, management's estimate for year-end bonuses, and we increased our employer benefits contribution from 50% matching to 75% matching in January 2009. As a percentage of revenue, salaries and wages including producer commissions increased to 52% compared to 51% in 2008. We expect salaries and wages as a percentage of revenue to generally run at approximately 50.0% on an annualized basis.

Bank West's operating expenses increased primarily with the acquisition of AgriFinance with $4.2 million of general expenses to support revenue of $9.4 million. We had an increase in salaries of $300,000 which was due to one- time severance costs, and with the implementation of our new banking platform and running parallel systems we increased our computer expense by $300,000 which was reduced beginning in the second quarter of 2009. We were able to partially off-set these costs by managing our expenses in other areas.

Western Life continues to demonstrate efficient control of expenses. Loss ratios increased slightly to 44.4% compared to 40.6% in 2008. This reflects the percentage of claims to new premiums written. Earlier in 2009 we experienced an increase in the number of health and dental claims mostly attributable to the uncertainty in the job markets at the time causing an increase in the utilization of health benefits and an the increase in our loss ratios. This trend seems to be now returning to levels seen prior to the economic downturn. Commission expenses correlate to the growth in premiums and accounted for $1.2 million of the increase.

Corporate and all other segment operating expenses increased primarily due to advertising expenses of $400,000 with our branding of Western Financial Group in the Network, and advertising through West magazine and media.

INCOME FROM EQUITY INVESTMENTS

Income from equity investments increased year over year by $690,000 which is in line with our expectations. These investments include Jennings Capital Inc., Harvard Western Ventures Inc., Falkins Insurance Group Limited, Hayhurst Elias Dudek Inc. which includes SecuriCan for the first nine months, and Archibald Clarke & Defieux Insurance Services Inc. Commencing in the fourth quarter HED and SecuriCan's results were consolidated and no longer included in income from equity investments.

(LOSS) GAIN ON SALE OF INVESTMENTS AND ASSETS, AND IMPAIRMENT ON EQUITY INVESTMENTS

YEARS ENDED DECEMBER 31 (in $ thousands)	2009	2008
Gain (loss) on sale of assets	$ 298	$ 1,263
Impairment on investments	$ -	$ (2,053)

In 2008 we realized a gain of $1.2 million on certain licenses and other assets that we sold which were originally acquired through acquisitions at the Network.

In 2008 we disposed of shares in one of our investments which are accounted for by the equity method. Under this method, as we recognize our share of the income in our investment the carrying value of the investment increases. In this case, when the shares were sold the transactions were done at our average cost resulting in a loss of $200,000 in 2008.

As at December 31, 2009 we reviewed the carrying value of our equity investment at Jennings Capital and determined that there had been no further impairment in value.

As at December 31, 2008 we reviewed the carrying value of our equity investment at Jennings Capital to determine whether there had been a decline in value that is other than temporary. As this investment is not publicly quoted management concluded that based on the current book value and expected future cash flows, that there was evidence of impairment at the balance sheet date and there had been a decline in the value of the investment that is other than temporary, resulting in an impairment loss of $2.1 million, which was recorded in net income.

At each reporting date, and more frequently when conditions warrant, the Company evaluates its AFS securities with unrealized losses and its equity investments to determine whether those unrealized losses are other than temporary. This determination is based on consideration of several factors including the length of time or extent to which the fair value has been less than its amortized cost, the significance of the decline below cost, the cause of the impairment and the financial condition and the near-term prospects of the issuer, default or delinquency in interest or principal payments, and other observable data. If the Company's assessment indicates that the impairment in value is other than temporary, impairment charges are recorded in net income.

INTEREST AND FINANCING COSTS ON DEBT

Interest expense increased in 2009 by $2.2 million to $4.3 million from $2.1 million. In April 2009 we issued $16.7 million in convertible unsecured subordinated redeemable debentures with interest payable semi-annually at 12% per annum. We incurred $1.4 million in interest expense in 2009 in relation to the issuance of debentures. Effective September 30, 2009 the Company entered into a new credit facility with a Canadian chartered bank increasing its borrowing capacity to $70.0

million from $50.0 million. In October the Company drew down an additional $19.3 million of the facility to fund the acquisition of HED. This increased our interest expense by $900,000 in 2009.

INCOME TAXES

Income taxes have decreased $1.6 million primarily due to favourable tax treatment we acquired with the acquisition of AgriFinancial. This tax treatment creates a future income tax asset and reduces the future income tax expense.

Subsequent to the acquisition of AgriFinancial in 2009, we now have a reasonable expectation that we will fully use the tax losses that we purchased with Ubiquity detailed in note 21 in the audited financial statements.

NET INCOME

YEARS ENDED DECEMBER 31							
(in $ thousands)		**2009**		2008	**Change from 2008 to 2009**		
Revenue	**$**	**166,076**	$	124,855		41,221	33%
Operating income		**23,981**		18,915		5,066	27%
Impairment of available-for-sale securities		**-**		(3,830)		3,830	-100%
Realized gain (loss) on sales of AFS assets		**392**		(217)		609	-281%
Income from equity investments		**2,859**		2,172		687	32%
Impairment on equity investments		**-**		(2,053)		2,053	-100%
Gain (loss) on sale of investments and capital assets		**298**		1,263		(965)	-76%
Interest and financing costs on long-term debt		**(4,308)**		(2,137)		(2,171)	102%
Amortization of intangible assets		**(3,163)**		(2,661)		(502)	19%
Amortization of capital assets		**(2,088)**		(1,262)		(826)	65%
Income before income taxes		**17,971**		10,190		7,781	76%
Income taxes		**(2,010)**		(3,642)		1,632	-45%
Net income for the year	**$**	**15,961**	$	6,548	$	9,413	144%

Net income increased $9.4 million in 2009 compared to 2008. This increase was due to the increase in our operating income, income from equity investments and reduction in tax expense. This increase was reduced by higher interest expense and amortization costs. In 2008 we recorded a loss from the impairment on equity investments and various other asset impairments as a result of the economic conditions that existed at the end of 2008 in our available for sale and equity investments and other non-recurring items in the sales of available for sale and other investments.

WESTERN FINANCIAL GROUP INC.

SELECTED QUARTERLY FINANCIAL INFORMATION

FOR THE QUARTERS ENDED 2009 (in $ thousands except per share amounts)	March 31	June 30	September 30	December 31
Total Revenue	$ 31,381	$ 40,878	$ 40,088	$ 53,728
Income before income tax	$ 328	$ 6,141	$ 5,198	$ 6,304
Net income	$ 914	$ 4,925	$ 4,147	$ 5,975
Earnings (loss) per share:				
Basic	$ 0.00	$ 0.08	$ 0.06	$ 0.08
Diluted	$ 0.00	$ 0.07	$ 0.06	$ 0.09

FOR THE QUARTERS ENDED 2008 (in $ thousands except per share amounts)	March 31	June 30	September 30	December 31
Total Revenue	$ 30,102	$ 34,371	$ 32,012	$ 32,417
Income before income tax	$ 3,156	$ 7,918	$ 3,232	$ (4,115)
Net income	$ 2,386	$ 5,839	$ 2,100	$ (3,777)
Earnings (loss) per share:				
Basic	$ 0.05	$ 0.08	$ 0.04	$ (0.12)
Diluted	$ 0.04	$ 0.08	$ 0.04	$ (0.11)

In the quarter ended December 31, 2009, our fourth quarter, we generated revenue of $53.7 million, a net income of $6.0 million, and earnings per share of $0.08. This compares to revenue of $32.4 million, net loss of $3.8 million and losses per share of $(0.12) in 2008. Total revenue is increased from on-going operations and acquisitions. We did not have the negative impact from the impairment on our equity investments and available for sale financial instrument in 2009 that was recorded in the fourth quarter of 2008. Net income and earnings per share had a significant adverse impact in the fourth quarter of 2008 from management's decision to record an other than temporary impairment on certain of our available for sale equity and preferred share investments amounting to a loss of $3.8 million and an impairment loss on one of our equity investments amounting to a loss of $2.1 million as detailed in the gain on sale of investment and capital assets. In the first quarter of 2009 we recorded a loss of $900,000 from a realized loss on the sale of available for sale assets and the change in fair value in held-for trading securities and we saw a slower first quarter at the Network. In the first quarter of 2009 we also had a loss of $300,000 in our income from equity investments compared to a $1.1 million gain in the second quarter.

EARNINGS PER SHARE

In 2009 we recorded $0.22 basic earnings per share compared to earnings per share of $0.05 in 2008. Our first preferred Series 2, 3, 4 and 5 shares are entitled to a fixed cumulative preferential cash dividend if as and when declared by our board of directors. The dividend payment is deducted from net income for the calculation of earnings per share. Dividends have been declared since issue and we are accruing for the dividend payment on a quarterly basis. Preferred share dividends for 2009 were $5.0 million compared to $3.9 million in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Total shareholders' equity at December 31, 2009 was $246.6 million compared to $203.7 million at December 31, 2008. We recorded an increase in share capital of $33.5 million from the issuance of 355,000 First Preferred Series 5 Shares net of costs, and an increase in retained earnings of $8.9 million.

We expect our capital resources will be sufficient to satisfy our financial requirements, which include business acquisitions, senior debt, dividends, interest payments and capital expenditures. Capital resources include cash, funds raised through equity financings, available senior bank debt and funds generated from operations.

We have a credit facility to a maximum of $70.0 million negotiated with a Canadian chartered bank. As at December 31, 2009, $62.2 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of $774,000 plus interest. Repayment of the credit facility is dependent upon annual renewal. In the event the chartered bank elects not to extend the initial period, the facility will convert to a two-year committed term facility for all amounts due there under. During 2009, the Company entered into two interest rate swap agreements to manage interest rate risk on $40.0 million of its bank debt. The actual amount of gain or loss on these hedges will fluctuate with current interest rates. The first agreement has a notional amount of $30.0 million and expires March 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.12% per annum. The second agreement has a notional amount of $10.0 million and expires November 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.78% per annum. At December 31, the actual interest rate on the underlying debt instrument for both was 5.0% per annum. During 2009, the average interest rate paid (fixed rate) was 5.01% and the average interest rate received (floating rate) was .41%. As part of our credit facility we maintain financial covenants that are reported quarterly with current ratios, debt service coverage, interest coverage, and funded debt to EBITDA. At December 31, 2009, and throughout the year we were in compliance with the financial and non-financial covenants of our senior credit facility.

We have $10.4 million of our senior credit facility repayable in monthly installments in 2010 that we expect to pay from our operating cash. Further repayments are detailed in note 16 of our audited financial statements.

At December 31, 2009, we had a total of $1.0 million of unsecured subordinated notes with interest payable semi-annually at 12% per annum. The notes are redeemable by us after March 1, 2010. Subsequent to year end the Company repaid the $1.0 million unsecured subordinated note.

In April 2009 we issued $16.7 million in convertible unsecured subordinated redeemable debentures with interest payable semi-annually at 12% per annum. The debentures will not be redeemable on or before April 21, 2012 and mature June 30, 2014.

At December 31 2009, we had cash and cash equivalents of $58.5 million as compared to $28.6 million at December 31, 2008. Operations contributed $17.9 million as compared to $8.8 million in 2008. We funded the acquisition of insurance brokerages at the Network for $6.8 million, and we funded the acquisition of AgriFinancial for $20.1 million and the acquisition of HED for $36.8 million. We increased our capital assets by $4.0 million primarily in leasehold improvements and technology. The advances on long-term debt, net of repayments was $26.4 million which was used for acquisitions and we received $16.5 million net of financing costs with the issue of our convertible unsecured subordinated debentures and gross proceeds of $33.5 million with the issuance of our First Preferred Series 5 Shares. The combined change in investments, debt acquired with the acquisition of Agrifinancial, mortgages and customer deposits decreased cash by $12.7 million. We paid total cash dividends of $6.1 million on common and preferred shares. All of these factors resulted in an increase in cash in 2009 of $29.9 million.

CONTINGENT OBLIGATIONS

(in thousands, except for per share amounts)

In the normal course of business the Bank issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $10.2 million (2008 - $3.2 million) with $2.5 million in Agricard products, $2.4 million in Agrifinance products, $3.6 million in Commercial products, and $1.7 million in Dealer finance. We expected that customers will draw on approximately 50% these commitments.

Under the terms of the purchase agreement related to HED additional consideration may be granted in June 2010 and is based on certain financial results, operational success, and management decisions. The amount and outcome of contingent cash consideration related to HED cannot be reasonably estimated and has not been recognized in the financial statements at this time it is based on certain financial results, operational success, and management decisions.

Under the terms of the investment agreement with Jennings Capital Inc. additional voting shares can be sold to the Company contingent on certain financial covenants being met by Jennings Capital with certain restrictions on the number of shares to be sold to the Company in any given year. The amount and outcome of contingent consideration related to Jennings Capital Inc. for 2010 and subsequent years cannot therefore be reasonably estimated and has not been recognized in the financial statements.

Under the terms of property leases expiring between 2010 and 2014, the Company is committed to the following annual lease payments:

2010	$	4,373
2011	$	3,900
2012	$	3,436
2013	$	3,031
2014	$	2,709
2015 and thereafter	$	6,565

RELATED PARTY TRANSACTIONS

(in thousands, except for per share amounts)

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount. The Company has a 35% ownership in Jennings Capital Inc., and had a 49% ownership of HED prior to October 1, 2009. The following represent our related party transactions.

- Dividend income on preferred shares of $20 (2008 - $188) and income from equity investments of $570 (2008 – loss of $920) were recorded with respect to the Company's investment in Jennings Capital Inc.
- Notes receivable of $1,890 (2008 - $1,680) due from Jennings Capital Inc. These notes receivable are non-interest bearing and due on demand. Repayment of these notes has been postponed and they are subordinated to all other debt offerings.
- Underwriting fees of $184 (2008 - nil) were paid to Jennings Capital Inc., in connection with their participation in the Company's First Preferred Share Offering.
- Premiums of $128 (2008 - $98) were received from Jennings Capital Inc. for insurance policies placed through the Network.

- During 2009, short term loans and advances of $nil (2008 - $300) were made to an officer of the Company supported by a share pledge agreement and a promissory note. The balance of these short term loans and advances at December 31, 2009 was $225.
- Commissions of $1,191 (2008 - $225) were paid to Hayhurst Elias Dudek Inc. prior to October 1, 2009.
- Premiums of $7,188 (2008 - $1,297) were received from Hayhurst Elias Dudek Inc. prior to October 1, 2009.

OUTSTANDING SHARE DATA

At December 31, 2009 the balance of issued common shares was 49,367,049, for a total value of $117.2 million compared to $117.0 million at December 31, 2008. At the date of this report the balance of issued common shares was 49,367,049.

We have a rolling stock option plan under which we may grant options to directors, officers, shareholders and consultants to a maximum of 4% of the issued and outstanding common shares on a non-diluted basis at any time. There were 645,000 options outstanding at December 31, 2009.

In September, we issued 355,000 first preferred shares, Series 5 for gross proceeds of $35.5 million. Net proceeds from the offering will be used for general corporate purposes and to fund ongoing capital requirements of our subsidiaries. This issue of preferred shares will be entitled to fixed cumulative preferential cash dividends, if, as and when declared by our board of directors at a rate of $9 per share per annum. The dividends accrue from the date of original issue and are payable in equal installments of $4.50 per share on March 31 and September 30 of each year until, and including, March 31, 2015. They are convertible into our common shares at any time at the holder's option at a price of $2.81 per common share. The shares are redeemable by us at our option only after September 30, 2012. Redemption from September 30, 2012 and prior to September 30, 2014 will be at a redemption price equal to $100 per preferred share plus all accrued or declared and unpaid dividends, provided that the common shares are trading at a price in excess of 135% of the conversion price. On or after September 30, 2014, the preferred shares are redeemable at our option at any time at a redemption price equal to $100 per preferred share plus all accrued or declared and unpaid dividends. If not redeemed, commencing March 31, 2015, the preferred shares will pay semi-annual a cumulative dividend if, as and when declared by the board of directors, at a rate per annum calculated as at March 31, 2015 and reset on each anniversary of such date in an amount equal to 6.28% above the five year Government of Canada benchmark bond rate.

At December 31, 2009, we had the following preferred equity securities outstanding: 141,327 first preferred Series 2 shares outstanding with a principal value of $14.1 million and convertible into a maximum of 3,925,750 common shares; 250,000 first preferred Series 3 shares outstanding with a principal value of $25.0 million and convertible into a maximum of 3,448,276 common shares; 200,000 first preferred Series 4 shares outstanding with a principal value of $20.0 million, and convertible into a maximum of 2,898,551 common shares; and 355,000 first preferred Series 5 shares outstanding with a principal value of $35.5 million and convertible into a maximum of 12,633,452 common shares.

CRITICAL FACTORS AFFECTING RESULTS

The level of revenue and earnings from our operations depends on several factors. At the Network our results are affected by the number and type of P&C insurance products sold impacting premium volumes, basic commission levels paid to us for the sale of P&C insurance products, the amount of contingent commissions paid by our main P&C insurance providers, our ability to sell additional financial products and services to the existing customer base. At Western Life the results are affected by the number and type of insurance products sold impacting premium volumes, our ability to provide competitive products, the diversity of our distribution network, and the valuation of our investment products which back our actuarial liabilities. At Bank West the critical factors are loan volumes and the mix of products, interest margins, credit quality and the level of loan loss provisions, and our ability to offer competitive products through our deposit and loan broker network. At SecuriCan the results are affected by the number and type of insurance products, our ability to provide competitive products, and the valuation of our investment portfolio. At Corporate, critical factors are the returns on our corporate and financial investments and our ability to control and manage expenses. In addition to these factors the current economic environment and market conditions also affect the results of our Company.

REVENUE

A significant element of our revenue is the receipt of basic commissions from our P&C insurance providers. Basic commission levels vary by province and product but generally range from 5.0% to 25.0% of the premiums written and are typically paid at a rate of 12.5% for premiums sold for automobile insurance and 20.0% for premiums sold for property and liability insurance. As part of our overall agreements with our larger P&C insurance providers, we have negotiated various levels of contingent commissions, which are based on previous years' business written with that particular P&C insurer and are usually determined by profitability and volume. Furthermore, the Network's sales of complementary financial products and services such as banking products, life and health insurance products, group benefits, mutual funds and investment products also continue to grow.

In addition we generate revenues from several other sources. Sales of Bank West products and agency banking products such as GICs, loans, and Agricard have been growing steadily and have become a meaningful source of revenue, as are premiums generated through Western Life for group and individual life insurance, group health coverage, and creditor insurance.

A factor that may affect our results is the slow economic recovery but this is not expected to be material other than its potential impact on loan losses should credit conditions in our portfolios deteriorate further.

EXPENSES

Our expenses consist primarily of salaries and wages expense (which include benefits and bonuses) as well as overhead and administrative expenses. As our single largest expense is employee salaries and wages, any significant changes in this area will have a meaningful impact on our overall expenses. The largest portion of our expenses relates to operating the Network. We monitor the expenses through local budgets that are set by each of our branch offices and segments. These expense budgets are approved by our senior management and are monitored on an ongoing basis. As the Network is a broker, it does not bear any expense as a result of a customer making an insurance claim. The financial impact of insurance claims is a potential decrease in the contingent commission paid to us. However, as contingent commissions are paid to us based on the aggregate number of policies placed with a P&C insurer, only a very large individual loss could impact the overall contingent commission paid.
We are able to manage this risk to a certain extent by placing quality business with the insurance companies but to the extent we have no control over events such as fire and losses related to weather condition we may be at risk of lower contingent commissions.

With the sale of life products actuarial liabilities are computed to properly match policy holder benefits and expenses to revenue. In negative economic conditions we may see an adverse impact from loan losses at Bank West. To mitigate these losses we monitor our loan portfolio and delinquencies weekly.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as at the financial year ended December 31, 2009. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2009 to provide reasonable assurance that material information relating to us, including its consolidated subsidiaries, would be made known to them by others within those entities. The Chief Executive Officer and the Chief Financial Officer will certify that the design and operating effectiveness of those disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As at the financial year ended December 31, 2009, the Chief Executive Officer and Chief Financial Officer evaluated the design of our internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operating effectiveness of internal control over financial reporting was effective as at December 31, 2009 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and the Chief Financial Officer will certify that the design of internal controls over financial reporting was effective.

There has been no change in our internal control over financial reporting that occurred during the most recent interim period ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CAPITAL MANAGEMENT

The objective of the Company's capital management policy is to maintain adequate levels of capital in order to meet regulatory capital requirements of its regulated subsidiaries, to support ongoing business growth and safeguard its ability to continue as a going concern so that it can continue to provide services to its customers and provide a return on its investments to its shareholders.

The Company's capital management framework is designed to:

- maintain adequate levels of capital in order to build long-term shareholder value;
- meet regulatory capital requirements of the Company's regulated subsidiaries;
- maintain leverage targets determined by the Board of Directors; and,
- support internal capital needs including funding of future business acquisitions.

Capital is comprised of common share capital, preferred share capital, contributed surplus, other paid in capital, and retained earnings. Regulatory capital includes the addition of subordinated debentures if certain thresholds are met, and is calculated based on the requirements of the regulations that are applicable to the particular business. Distributions of dividends by our regulated subsidiaries are restricted by regulatory capital rules.

The Company maintains capital levels above required needs to take account of normal business growth and increased volatility and uncertainty in current market conditions.

Bank West

The Office of the Superintendent of Financial Institutions Canada ("OSFI") requires banks to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is then calculated and compared to OSFI's standards for Canadian financial institutions. Off-balance sheet assets, such as the notional amount of derivatives and our credit commitments, are included in the calculation of risk-weighted assets. The credit risk equivalent and the risk-weighted calculations are prescribed by OSFI.

The current Basel II regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%; 4% of this must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). 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%. OSFI has also established an Asset to Regulatory Capital Multiple, which should not exceed a maximum level prescribed by OSFI, which varies from institution to institution.

		2009		2008
Tier 1 Capital				
Retained earnings (losses)	$	(1,938)	$	(1,604)
Capital stock		69,112		26,112
Less goodwill		(11,477)		(3,578)
Total		55,697		20,930
Tier 2 Capital				
Subordinated debentures		3,000		10,753
Total Regulatory Capital	**$**	**58,697**	$	31,683
Regulatory Capital to Risk-Weighted Assets				
Tier 1 Capital		17.7%		9.9%
Tier 2 Capital		1.0%		5.0%
Total Regulatory Capital Adequacy Ratio		**18.7%**		14.9%
Assets to Regulatory Capital Multiple		**6.9**		11.7

During the 4th quarter of 2009, the Bank's capital ratio did not meet the internal target capital level agreed with OSFI, although the capital ratio remained in excess of 10%. In December 2009, the Bank issued a subordinated note for $3.0 million to the Company which qualifies at Tier 2 capital. As at December 31, 2009, the Bank was in compliance with the internal target capital level. The Bank has established a process to ensure that the required capital level is maintained.

The Bank's capital management and regulatory compliance is monitored by the Board through its Audit and Risk Management Committee. The Board reviews and approves the securities portfolio management policies and lending policies and their impact on capital based on the recommendation of the Audit and Risk Management Committee and of ALCO. The investment strategy, holdings, limits and performance are monitored monthly by ALCO. Quarterly, management provides a detailed report of the loan, investment and securities portfolios and their performance and impact on capital. The Audit and Risk Management Committee reviews the securities portfolio and any non-compliance on a quarterly basis.

Western Life

The regulatory Minimum Continuing Capital and Surplus Requirements ("MCCSR") rules, set by OSFI, contain detailed instructions for determining the amount of regulatory capital that a life insurance company is required to maintain in respect of its business activities. Companies are required to maintain an MCCSR ratio of at least 150%. Western Life has an MCCSR of 230% and monitors its MCCSR on a monthly basis. Western Life was in compliance with these requirements throughout the year.

Coupled with monitoring its MCCSR, the Company performs a Dynamic Capital Adequacy Test ("DCAT"), as part of the annual business plan and budgeting process. The DCAT tests various financial scenarios and their potential impact on Western Life's capital and solvency. The 2009 DCAT performed by the Appointed Actuary, dated

October 27, 2009, reported no solvency concerns.

SecuriCan

As a result of being a Canadian property and casualty insurance company, SecuriCan is subject to regulation by OSFI. OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at December 31, 2009, SecuriCan had a MCT of 422% and was in compliance with the minimum capital required.

REGULATION

The industries in which we operate are regulated Federally and or Provincially for the sale of all P&C insurance, banking products, life and health insurance products, and investments. Changes in these regulations may significantly affect our operations and financial results.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Our consolidated financial statements are prepared in accordance with Canadian GAAP as further described in Note 2 of our audited financial statements. These accounting policies require our management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to impairment of investments, the allowance for loan losses, actuarial liabilities, the valuation of financial instruments measured at fair value, the valuation of goodwill and intangibles, the useful life of intangible assets, the allocation of purchase price to goodwill and intangible assets. Estimates are based on our management's experience, terms of contracts and policies, observation of industry trends and information provided by outside sources. These estimates are more fully discussed below.

ALLOWANCE FOR LOAN LOSSES

Bank West has an allowance for loan losses for the portfolio of mortgages and loans that it provides to individuals and businesses, which is management's best estimate of the credit losses inherent in the portfolio at the balance sheet date. Management's estimate will consider but is not limited to:

The size of the portfolio
Geographic concentration
Underwriting policies
Percentage of loan type compared to total portfolio
Credit requirements of each loan type
Loan to asset value when underwritten
Historical losses
Current changes in delinquencies
Current economic conditions
Guarantees, cash security or insurance
Collections
Credit documentation
Risk rating

Assessing and determining an allowance is challenging due to the number of uncertainties. A general allowance is provided for to address these uncertainties. At December 31, 2009 Bank West had a total allowance for credit losses of $5.4 million (2008- $2.0 million) which included a specific allowance of $2.4 million (2008- $600,000). The general allowance is re-assessed monthly and fluctuates as a result of various factors including changes in portfolio volumes, concentrations and risk profile and analysis of evolving trends. Changes in this estimate will impact the net interest income portion of revenue reported by Bank West.

IMPAIRMENT OF INVESTMENTS

The Company's policy is to assess impairment considering a number of factors such as existing market conditions, what economists are reporting for future market conditions, the type of security held, and the strategy to hold or divest of the investment. In addition management considers the percentage of the decline of fair value below cost and the length of time the investment has shown a decline and other factors listed on page 14.

ACTUARIAL LIABILITIES

The actuarial liabilities at Western Life have been determined by the Appointed Actuary using the Canadian Asset Liability Method involving the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of withdrawal. The actuarial liabilities at SecuriCan are based on a Selected Claims payment pattern. The process of determining actuarial liabilities necessarily involves the risk that actual results may vary from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Certain of our financial instruments are carried on the balance sheet at fair value. The initial recognition at fair value of the financial instrument is the consideration paid or received. Subsequent to initial recognition the financial instrument is re-measured at fair value by unadjusted quoted prices in active markets, inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, or inputs that are not based on observable market data. Management must determine if any impairment of AFS investments is other than temporary. Available for sale securities are assessed regularly to determine whether there is objective evidence that the asset is impaired and the decline in fair value is other than temporary (see "impairment of investments" above).

GOODWILL

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment at least annually by comparing the fair value of each reporting segment to its book value. The fair value of a reporting segment is estimated using revenue and earnings multiples that have been observed in the relevant industry, and the fair value of the reporting segment to its book value. An independent valuation was performed for the acquisition of AgriFinancial and HED which supported the fair values acquired including goodwill on acquisition. At December 31, 2009 our internal impairment valuation and an independent review of its results, confirmed there was no impairment to goodwill required in the financial statements.

INTANGIBLE ASSETS

Intangible assets relate primarily to purchased customer contracts and related customer relationships and are being amortized on a straight-line basis over the estimated life of the asset. For the Network, we have relied on our past experience with respect to customer retention in determining a 30-year average life for purchased customer contracts and the related relationships. Customer retention rates may change over time based on competition in our markets. Any changes in retention rates would result in changes to the useful life and annual amortization expense. For Bank West, intangibles acquired have been conservatively amortized over a 5-year life to reflect the average length of acquired customer contracts. We annually assess whether the life of the intangible asset is appropriate as well as test for impairment by comparing the carrying amount to its fair value. Indefinite-life assets are also subject to impairment tests under Canadian GAAP on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. An internal impairment test was performed along with an independent review and it was concluded that as at December 31, 2009 the fair value of the intangible exceeds the book value and has not been impaired.

ALLOCATION OF THE PURCHASE PRICE OF AN ACQUISITION

When we acquire a business, the purchase price allocated to the assets acquired and the liabilities assumed are based on their fair values. Any excess of purchase price over identified assets and liabilities is allocated to goodwill. The fair value of assets, including intangible assets, is determined using valuation methods including net realizable value and discounted cash flows. The use of assumptions, which are based on our management's judgment, is inherent in the application of these valuation methods. The use of different judgments, estimates and valuation methods may result in different allocations of the purchase price and, as a result, different results of operations. An independent valuation was obtained to support the valuation and allocation of the purchase price for the acquisition of AgrFinancial and HED.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangibles

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standard, Section 3064 – Goodwill and Intangibles, replacing section 3062 – Goodwill and Other Intangible Assets. The new standard establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. The adoption of the guidance did not result in a change in the treatment of the Company's intangible assets. This standard has been adopted retrospectively.

Credit Risk and Fair Value

Effective January 1, 2009, the Company adopted the CICA's Emerging Issues Committee ("EIC") Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Company's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

Financial Instruments – Disclosures

Effective January 1, 2009, the Company 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. See note 25 of our audited financial statements. The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as maturity analysis for derivative financial liabilities.

<u>Future Impact of Recently Issued Accounting Standards</u>

International Financial Reporting Standards ("IFRS")

The CICA will transition Canadian GAAP for publicly accountable entities to IFRS. The Company's consolidated annual and interim financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information for the prior year.

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

- Preliminary plan and scoping;
- detailed assessment, conversion planning and development;
- implementation and parallel reporting; and,
- ongoing monitoring and IFRS updates.

The preliminary plan and scoping phase is complete. In the detailed assessment, conversion planning and development phase the Company is in the process of:

- Identifying the significant differences between IFRS and Canadian GAAP;
- assessing the impact of the conversion on business portfolios, processes, systems and policies; and,
- identifying additional disclosure required.

In the detailed assessment, conversion planning and development phase of the project the initial high-level survey of potential impact areas for the Company includes the first time adoption of IFRS, financial statement disclosures and presentation, loan loss provisions, insurance contracts and disclosures, employee future benefits, classification of preferred shares and convertible subordinated debentures, stock based compensation, impairment of long lived assets, intangible assets and goodwill, and business combinations.

Management has focused on the initial analysis assessment on the above impact areas identifying those areas requiring changes to existing processes, systems, and disclosures. The initial evaluation and assessment has been completed and management has also completed its preliminary review of the quantitative impact of each area. We do not see a material impact except in the area of disclosure at this time.

Management is monitoring any corporate changes in financing, acquisitions, and dependencies on third parties for applicability in this review. This would include but is not limited to our key business application providers.

We also continue to monitor and review current external information for possible addition and inclusion of any other policy or statement that would be material to the Company.

We recognize that the IFRS are not static and that the International Accounting Standards Board (“IASB”) has been undertaking a significant program to reform many of the existing standards. The Company will need to ensure that it evaluates current standards as well as those standards that the IASB may change during the course of our project.

Although the Company has focused its evaluation and analysis of existing Policies and Statements it is prepared to adopt these changes and if required adapt its systems.

RISKS INHERENT IN OUR BUSINESS

Effective risk management is fundamental to our ability to protect the interest of our shareholders and is required in order to comply with various regulatory requirements applicable to our operations. Our management oversees and manages our risk along with oversight and advice from both our audit and risk committee and those of Bank West, Western Life, and SecuriCan. We perform an analytical review of our operations during our quarterly reviews and involve every level of our management in our monthly reporting.

ACQUISITIONS AND GROWTH RISK

Our growth plans depend in part upon the ongoing acquisition, at reasonable prices, of independent brokers and other businesses. To meet our growth plans an adequate number of acquisition candidates must be available at prices which will allow us to operate on a profitable basis. We may determine that current market or pricing conditions in the P&C insurance brokerage industry make future acquisitions uneconomical, or that the available acquisition opportunities are not sufficiently attractive to us. Moreover, we may not be able to finance such acquisitions as additional capital may not be available or may not be available on commercially acceptable terms.

To manage any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain our employees. There can be no assurance that we will be able to manage such growth effectively, that our management, personnel or systems will be adequate to support our operations or that we will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on our business, financial condition and results of operations.

As part of our growth strategy, we seek to cross-sell multiple lines of business to existing customers. This strategy may not result in achieving our desired growth. Due in part to the decentralized nature of our operations and regulatory rules which we may have difficulty executing with our employees on our sales management program and cross selling strategy. In addition, we may have difficulty integrating acquired operations and newly hired employees into our sales management program and cross selling strategy.

We have identified approximately 100 target communities (that we estimate have 400 brokers) for future expansion in the next two to four years. There is no assurance that we can complete acquisitions in any of these communities within the estimated time frame or at all. With the current market environment we expect our growth strategy to take longer than anticipated. We finance acquisitions through our senior credit facility and financings in the market. If capital is difficult to raise at a price that would make an acquisition accretive it would not be prudent in the current environment for us to proceed. Extending the time frame for the future expansion is not a risk to us.

Although we conduct due diligence in respect of the business and operations of each of the businesses we acquire, we may not have identified all material facts or risks concerning these businesses. Unanticipated events or liabilities relating to these businesses could have a material adverse effect on our financial condition. Furthermore, once we have integrated an acquired business, it may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. Our failure to succeed in our growth strategy or to integrate one or more acquired business so that it achieves our performance goals may have a material adverse effect on our results of operations and financial condition.

CAPITAL FUNDING RISK

We will, from time to time, require additional financing to continue to grow our business. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing, if needed, on terms satisfactory to us. If additional financing is raised by the issuance of common shares from treasury our control may change and our shareholders may suffer additional dilution. In the current economic environment it has become challenging to raise capital that would make an acquisition accretive. In addition, with the negative impact on share prices in the capital markets at this time, any issuance of equity by us could be excessively dilutive to existing shareholders. From time to time we may enter into transactions or expend funds in a manner which may be financed partially or wholly with debt and may increase our debt levels above industry standards.

CREDIT RISK

We are exposed to credit risk with respect to certain of our marketable securities, accounts receivable, and mortgages and loans receivable. We only invest in Canadian corporations and institutions with large capitalization to reduce credit risk; however, changing economic conditions or the change in the financial condition of the issuer of the securities can result in increased defaults by the issuer whose securities we own. Credit risk associated with our accounts receivable is minimized by our large and diverse customer base, which covers all consumer and business sectors in Western Canada. However, we cannot ensure that our debtors will pay our accounts receivable on a timely basis or at all which could have a material adverse effect on our results of operations and financial condition.

Credit risk associated with Bank West's mortgages and loans is mitigated through conservative underwriting policies, charges against real property and mortgage insurance; however, we cannot ensure that Bank West's borrowers will pay these loans or mortgages on a timely basis or at all or that any associated security held will be sufficient to cover the amount of any indebtedness. At December 31, 2009 approximately 3% of Bank West’s loans and mortgages were cash secured or government guaranteed. In 2009 we have increased our allowance for loan losses to reflect the current credit and market conditions along with the deterioration in creditworthiness of some of our borrowers. As a result, failure to repay these amounts could have a material adverse effect on our results of operations or financial condition.

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss. The most significant assets giving rise to credit risk is the mortgage, loan and lease portfolio. The Company’s maximum exposure to credit risk at December 31 is summarized in the following table, in $ thousands.

	2009	2008
Cash and cash equivalents	$ 58,463	$ 28,563
Securities - held-for-trading	61,373	53,091
Securities - available-for-sale	30,901	103,808
Mortgages, loans and leases	355,621	272,135
Interest rate swaps	90	-
Accounts receivable	51,114	23,999
Total balance sheet maximum credit exposure	557,562	481,596
Bank West credit commitments (Note 7)	10,155	3,235
Maximum credit exposure	$ 567,717	$ 484,831

Restricting both the type and the term of investments mitigates securities risk. To reduce credit risk, the Company only invests in Canadian corporations and institutions with large capitalization and acceptable liquidity. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee and management.

The credit quality of the Company's securities at December 31 is described in the following table, in $ thousands.

	2009		2008	
	Held For Trading	Available For Sale	Held For Trading	Available For Sale
Securities:				
Bonds - AAA rating	$ 15,432	$ 6,230	$ 12,552	$ 2,513
Bonds - AA rating	26,526	2,506	23,682	3,416
Bonds - A rating	16,906	4,081	13,718	513
Bonds - below A rating	-	209	-	-
Bonds - BBB rating	204	-	-	-
Pooled funds	-	3,630	-	-
Fixed income exchange funds	-	2,994	-	-
Equity pooled funds	-	-	-	9,882
Preferred shares - P-1 rating	-	-	-	2,836
Term deposits	-	7,574	-	-
Subordinated debentures	-	500	-	-
Treasury bills	2,305	3,177	3,139	84,648
	$ 61,373	$ 30,901	$ 53,091	$ 103,808

Income pooled funds are funds that invest in Canadian bonds, preferred shares, trusts and common stock. Fixed income exchange funds are funds that invest in Canadian government and high grade bonds. Equity pooled funds are funds for long-term capital gain and dividend income from larger Canadian companies. The term deposits are held at major Canadian financial institutions.

The credit quality of the Company's mortgage, loan and lease portfolio at December 31 is described in the following table, in $ thousands.

	Residential and commercial mortgages	Consumer loans	Commercial loans	Credit cards	Leases	Total
Mortgages and loans						
Neither past due nor impaired	$ 55,685	$ 184,807	$ 23,944	$ 30,395	$ 48,169	$ 342,999
Past due but not impaired						
Past due less than 90 days	1,530	1,330	981	4,204	2,422	10,467
Past due 90 to 179 days	-	196	-	-	58	254
Non-performing loans (past due greater than 90 days and other identified impaired loans)	2,768	1,701	268	263	2,275	7,275
Gross carrying value	59,983	188,034	25,193	34,862	52,924	360,996
Specific provision	225	850	263	96	920	2,354
General provision						3,021
Net carrying value at December 31, 2009						**$ 355,621**
Net carrying value at December 31, 2008						**$ 272,135**

$283 of the past due mortgages, loans and leases were renegotiated during 2009.

During 2009, loans with a carrying value of $7.3 million were determined to be impaired based on uncertainty as to the full repayment of the outstanding principal balance.

Credit risk with respect to mortgages, loans and leases is mitigated through conservative underwriting policies and charges against real property that reduce the Company's risk exposure on these loans. To diversify this risk, the Company limits exposure to a single borrower or associated borrowers, unless approved by the board of directors, to a specific maximum. The Company employs and is committed to a number of important principles to manage credit exposures, which include:

- a Credit & Risk Subcommittee whose duties include the approval of lending policies, establishment and delegation of lending limits;
- delegated lending authorities, clearly communicated to all 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 Credit & Risk Subcommittee;
- credit policies, guidelines and directives, which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;
- 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;
- early recognition of problem accounts and immediate implementation of steps to protect safety of Bank funds; 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.

The Company holds security related to mortgages, loans and leases in the form of real property, mortgage insurance, and liens on equipment and vehicles. Mortgages are fully collateralized by real property. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation amounting to $9.9 million (2008 - $18.8 million).

Credit risk with respect to accounts receivable is minimized by the Company's large customer base, which covers all consumer and business sectors in BC, AB, MB and SK. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics arising from factors such as economic or geographic regions or similar industries. The Company mitigates this risk through diversification requirements.

Western Life

Reinsurance risk is defined as the failure of reinsurers to honour their obligations resulting in losses to the Company. Maximum benefit amount limits per insured (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits. Reinsurance contracts do not relieve Western Life from its obligations to policyholders. Western Life has agreements with a number of reinsurers and evaluates the ratings of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As a result of reinsurance, actuarial liabilities have been reduced by $19.6 million (2008 - $16.7 million). At December 31, reinsurance companies assuming more than 10% of ceded liabilities were (in $ thousands):

	2009	2008
Optimum Reassurance Inc.	$ 11,373	$ 11,014
RGA Life Reinsurance Company of Canada	$ 7,640	$ 4,629

The following table summarizes the receivables due from Canadian reinsurers as at December 31 by risk rating in $ thousands.

Credit Rating	Reinsurance Receivable			
		2009		2008
A- (Excellent)	$	1,318		409
A+ (Superior)		725		209
A++ (Superior)		50		-
	$	**2,093**	**$**	**618**

Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. Western Life places its current new business with registered reinsurers. The group of reinsurers that Western Life cedes to has an A.M. Best rating from A- (Excellent) to A++ (Superior). No information has come to management's attention indicating weakness or failure of any of its current reinsurers therefore no provision has been made in the accounts for doubtful collection.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund all cash outflow requirements as they fall due.

The Company manages this risk through management of cash flows as well as its concentration and maturities of assets and liabilities. Operating liquidity needs of the Company are evaluated daily and projected forward 30 days. Long term liquidity needs are managed through cash flow analysis of assets and liabilities – forecasting earned and required yields, to ensure future cash flows to support obligations.

Based on the Company's historical cash flows and financial performance, management believes that the Company's cash flows from operations will continue to provide sufficient liquidity to satisfy its obligations.

The mandate of the Bank's Asset and Liability Committee ("ALCO") is to ensure proper and prudent liquidity management in accordance with industry and regulatory guidelines and Board policy. In order to actively manage liquidity risk, ALCO meets on a weekly basis to:

- construct and assess the probability of various scenarios involving shocks to liquidity and interest rates, and position the Bank to handle such scenarios and contingencies at minimum cost, while maintaining profitability;
- set lending and deposit rates from time to time;
- monitor current and projected Treasury cash flows and modify deposit/loan flows as appropriate to maintain liquidity;
- on an ongoing basis review policies established for investment and securities portfolio management; evaluate investment holdings performance for their support of investment strategy, and recommend revisions, where appropriate, to the Board through the Audit and Risk Management Committee;
- evaluate, on an ongoing basis, the mix and balance of the Bank's assets and liabilities, including capital, and adjust as appropriate to Board policy;
- report at each meeting of the Audit and Risk Management Committee (and through it to the board of directors) on the status of risk and liability management matters.
- approve terms, amortization, interest rates, commitment periods, early repayment privileges and other options for new asset and liability products which may impact liquidity or interest rate risks of the Bank.

Western Life's and SecuriCan's Investment Committees along with senior management ensures that prudent cash management and investment practices are followed in accordance with Board policy and statutory requirements.

The following table presents the contractual maturities of the Company's financial assets and liabilities, at December 31, in$ thousands.

	Within 1 year	Over 1 to 2 years	Over 2 to 4 years	Over 4 to 10 years	Over 10 years	Total
Cash and cash equivalents	$ 58,463	$ -	$ -	$ -	$ -	$ 58,463
Securities	21,420	12,196	13,362	16,130	29,166	92,274
Mortgages, loans and leases	118,292	40,022	107,224	93,693	-	359,231
Interest rate swap	-	-	-	90	-	90
Accounts receivable	51,114	-	-	-	-	51,114
	249,289	52,218	120,586	109,913	29,166	561,172
Customer deposits	136,536	95,424	85,796	197	-	317,953
Actuarial liabilities	221	723	1,954	5,430	31,704	40,032
Provision for unpaid and unreported claims	10,813	1,555	1,034	517	-	13,919
Accounts payable and accrued liabilities	82,700	-	-	-	-	82,700
Debt	10,417	9,406	18,821	41,127	-	79,771
Due to policyholders	-	-	-	-	20,392	20,392
	240,687	107,108	107,605	47,271	52,096	554,767
At December 31, 2009	**$ 8,602**	**$ (54,890)**	**$ 12,981**	**$ 62,642**	**$ (22,930)**	**$ 6,404**

See note 7 in our audited financial statements for cash flow commitments related to property leases.

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk, and other price risk.

The Company has no material exposure to foreign currency risk.

Interest rate risk, or sensitivity, is defined as the impact on net 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.

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. The Company's policy is to invest in quality rated bonds and short term investments, providing liquidity and appropriate asset matching.

The Company enters into interest rate swaps from time to time in order to reduce the impact of fluctuating interest rates on its debt. See note 16 in our audited financial statements. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company accounts for swaps as a cash flow hedge for accounting purposes. The effective portion of the change in value of the hedging derivative is recognized in OCI, net of tax, and any ineffective portion is recognized in net income. The amounts accumulated in OCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

During 2009, the Company entered into two interest rate swap agreements to manage interest rate risk on $40.0 million of its bank debt. The actual amount of gain or loss on these hedges will fluctuate with current interest rates.

The first agreement has a notional amount of $30.0 million and expires March 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.12% per annum. The second agreement has a notional amount of $10.0 million and expires November 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.78% per annum. At December 31, the actual interest rate on the underlying debt instrument for both was 5.0% per annum. As a result, the Company has recorded $1.1 million as interest expense for the year, related to these agreements. During 2009, the average interest rate paid (fixed rate) was 5.01% and the average interest rate received (floating rate) was .41%

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of the Bank that are scheduled to mature or re-price on particular dates. The Bank uses gap analysis to measure this risk. To manage interest risk, the ALCO establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's position and to decide future strategy. The goal is to manage the interest rate risk within prudent guidelines. Interest rate risk policies are reviewed at least annually by the Board, with quarterly reporting to the Board as to the gap position.

WESTERN FINANCIAL GROUP INC.

The gaps which existed, for the Bank, at December 31 based on the maturity date of interest rate sensitive instruments are detailed as follows, in $ thousands:

As at December 31, 2009

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets									
Cash and securities	$ 14,815	$ 5,004	$ -	$ 500	$ -	$ -	$ -	$ -	$ 20,319
Mortgages, loans and leases	21,718	96,034	40,022	59,213	48,011	44,479	39,540	6,064	355,081
Other assets	-	-	-	-	-	-	-	22,345	22,345
Total assets	$ 36,533	$ 101,038	$ 40,022	$ 59,713	$ 48,011	$ 44,479	$ 39,540	$ 28,409	$ 397,745
Liabilities and Equity									
Current liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,077	$ 16,077
Deposits	351	132,730	95,424	77,460	8,336	197	-	-	314,498
Shareholders' equity	-	-	-	-	-	-	-	67,170	67,170
Total liabilities and equity	$ 351	$ 132,730	$ 95,424	$ 77,460	$ 8,336	$ 197	$ -	$ 83,247	$ 397,745
Interest rate sensitive gap	$ 36,182	$ (31,692)	$ (55,402)	$ (17,747)	$ 39,675	$ 44,282	$ 39,540	$ (54,838)	$ -
Cumulative gap	$ 36,182	$ 4,489	$ (50,912)	$ (68,659)	$ (28,984)	$ 15,298	$ 54,838	$ -	
Cumulative gap as a percentage of total assets	9.10%	1.13%	-12.80%	-17.26%	-7.29%	3.85%	13.79%	0.00%	

9

As at December 31, 2008

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Cumulative gap	$ 123,150	$ 24,704	$ 1,396	$ (30,078)	$ (8,100)	$ 19,652	$ 964	$ -	-
Cumulative gap as a percentage of total assets	32.65%	6.55%	0.37%	-7.97%	-2.15%	5.47%	5.47%	0.00%	

Mortgage, loan and lease prepayments are assumed to be nil and the gap is sensitive to this assumption.

The effective, weighted average interest rates for each class of financial asset and liability are shown in the following table.

As at December 31, 2009

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets									
Cash and securities	0.0%	0.1%	0.0%	11.9%	0.0%	0.0%	0.0%	0.0%	1.8%
Mortgages, loans and leases	2.8%	8.6%	7.3%	7.6%	7.5%	7.3%	5.6%	0.0%	6.6%
Other assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total assets	2.8%	8.2%	7.3%	7.7%	7.5%	7.3%	5.6%	0.0%	6.6%
Liabilities									
Current liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits	0.8%	3.1%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Total liabilities	0.8%	3.1%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Interest rate sensitive gap	2.1%	5.1%	3.0%	3.6%	2.9%	3.4%	5.6%	0.0%	3.7%

As at December 31, 2008

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Total assets	3.1%	3.4%	6.3%	6.9%	7.6%	7.3%	6.3%	0.0%	5.0%
Total liabilities	0.8%	4.1%	4.5%	4.7%	4.8%	2.0%	0.0%	0.0%	3.3%
Interest rate sensitive gap	2.4%	-0.8%	1.9%	2.2%	2.7%	5.3%	6.3%	0.0%	1.7%

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would increase net interest income by approximately 5.5% or $485,000 (2008 – 14.4% or $868 increase to net interest income) and decrease other comprehensive income $36,000 (2008 - $8,000) net of tax, respectively over the following twelve months. A 100 basis point decrease in all interest rates would increase net interest income by approximately 80% or $7.2 million (2008 – 48% or $2.9 million decrease to net interest income) and decrease other comprehensive income $33,000 (2008 - $180,000) net of tax.

Western Life

The actuarial assumption most susceptible to change in the short run is future investment returns. Under the prescribed valuation method, CALM, alternate interest rate scenarios are tested producing alternate policy liabilities for Individual Life insurance. The liability that is held is based on the interest rate scenario that produces the highest liability. The sensitivity to interest rate changes is, therefore, reflected in the development of the policy liabilities.

The liability produced for the base scenario is $31.4 million (2008 - $30.4 million) compared to the highest liability produced of $34.1 million (2008 - $32.2 million) – an increase of $2.7 million (2008 - $1.8 million). The highest liability results from a temporary 2.0% reduction from current rate.

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would decrease net income by ($816,000) and decrease other comprehensive income by ($333,000), net of tax. A 100 basis point decrease in all interest rates would increase net income by $940,000 and increase other comprehensive income by $375,000.

SecuriCan

Because most of SecuriCan's securities portfolio is comprised of fixed income securities, changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. In addition, changes in interest rates will affect the market value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as available-for-sale, these increases and decreases in fixed income securities will result in corresponding increases and decreases in other comprehensive income until the securities are sold and any gain or loss is realized. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims and adjustment expenses. Consequently, changes in interest rates will affect the carrying value of the unpaid claims and adjustment expenses. During periods of rising interest rates, the carrying value of unpaid claims and adjustment expenses will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact of an increase of 100 basis points in the interest yields would decrease the unpaid claims and adjustment expenses provision and increase the income (pre-tax) of the Company by $3,000 (2008 - $3,000) and decrease investments and other comprehensive income before income taxes of the Company by $198,000 (2008 - $80,000). The approximate impact of a decrease of 100 basis points in the interest yields would increase the unpaid claims and adjustment expenses provision and decrease the income before income taxes of the Company by $3,000 (2008 - $3,000) and increase investments and other comprehensive income before taxes of the Company by $180,000 (2008 - $80,000).

Other price risk is the risk that the fair value and/or future cash flows of the Company's pooled fund holdings fluctuate because of changes in market prices. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee and management. The Company monitors its pooled fund holdings relative to equity market conditions and reviews the performance of pooled fund investments against relative benchmarks. A 5% change in price equates to an impact of $182,000 on the fair value, with an offsetting amount recorded in OCI (pre-tax).

In addition to credit risk, liquidity risk and market risk, the Company is also exposed to product and pricing risk and underwriting and liability risk through its subsidiary, SecuriCan.

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. SecuriCan prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

SecuriCan may choose to adjust pricing below what it feels is acceptable to maintain a competitive position. However, SecuriCan strives to maintain a pricing level that ensures it is able to produce an acceptable return.

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the adjudication of claims, and the management of contractual and non-contractual product options.

SecuriCan has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract in all jurisdictions. These guidelines are developed in consideration of provincial underwriting rules. SecuriCan continually reviews its underwriting rules and compliance with evolving provincial regulation on restricted criteria. SecuriCan considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

CONTINGENT COMMISSIONS

Many P&C insurance companies pay us contingent commissions for achieving profitability and premium volume goals set by them and/or based on the loss experience of the insurance we place with them. We generally receive contingent commissions in the first and second quarters of each year in respect of contingent commissions earned in the previous year. We are able to estimate the contingent commissions throughout the year based on the losses we incur in the year and our premium volumes. We are able to manage this risk to a certain extent by placing quality business with the insurance companies but to the extent we have no control over events such as fire and losses related to weather conditions we may be at risk of lower contingent commissions. We have no control over the ability of P&C insurance companies to estimate loss reserves, which is a factor that affects the amount of contingent commissions that we will ultimately receive. In addition, because no significant incremental operating costs are incurred when contingent commissions are realized, a significant decrease in contingent commissions can cause a corresponding decrease in net income and would consequently have a negative impact on our financial results. This could limit our ability to incur and service debt and comply with financial covenants in our existing credit facility and could have a material adverse effect on our business, financial condition and result of operations.

REGULATION

Our businesses are highly regulated through various Federal, Provincial, and Securities regulators.

Our insurance and investment operations depend on our continued good standing under the licenses and approvals pursuant to which we operate. In all jurisdictions, the applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities, and generally such authorities are vested with relatively broad and general discretion as to the granting, renewing and revoking of licenses and approvals. There can be no assurance that we will be able to obtain or retain all required licenses or that the cost of complying with these regulations will not increase. Any increase in the cost of complying with government regulation will have a negative effect on our operating results, as will the loss or inability to obtain any material license required to operate the business.

Changes to laws or regulations, including the adoption of generous consumer protection measures or other initiatives regarding contingent or other commissions or rates charged for automobile insurance or claims handling procedures, could materially adversely affect our business, results of operations and financial conditions.

Bank West, Western Life, and SecuriCan could be subject to regulatory actions, sanctions and fines if a regulatory authority believed they had failed to comply with any applicable law or regulation. Our businesses are required to comply with Anti-Money Laundering and Terrorist Financing (AMLATF) regulations. There are various levels of compliance and reporting dependent on the business of the subsidiary.

Where the Office of the Superintendent of Financial Institutions (OSFI) is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank or a federal insurance company, the Superintendent may direct the bank or insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a bank or insurance company or take control of the bank or insurance company. With the current events in the economy all regulated financial institutions have seen increased communication from OSFI primarily with monitoring of our liquidity and capital requirements. For 2009 we are in compliance with all capital requirements with Western Life and SecuriCan. During the 4th quarter of 2009, the Bank's capital ratio did not meet the internal target capital level agreed with OSFI, although the capital ratio remained in excess of 10%. In December 2009, the Bank issued a subordinated note for $3.0 million to the Company which qualifies at Tier 2 capital. As at December 31, 2009, the Bank was in compliance with the internal target capital level.

More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

INSURANCE PRODUCTS

Our operations and success depend in part upon access to products sold by Canadian and international insurance companies. Our existing brokerage contracts with certain insurance companies do not have a set term or expiry date, but may be terminated by either party with between 90-120 days' written notice, depending on the specific contract. To reduce this risk, we have entered into business development agreements with a number of major Canadian insurance companies. Our ability to carry on business is dependent on our continuing ability to attract and maintain relationships with these insurance companies. However, other than pursuant to these agreements, there can be no assurance that we will continue to have access to such insurance products.

An inability to maintain or obtain access to insurance products would have a negative impact on us. Although we can obtain replacement business for departing insurance companies, the loss of such business, particularly of a major current provider, could have a material adverse effect on our business, financial condition and results of operations.

Further, any significant decrease in the premium rates, volume, or basic or contingent commissions paid in the segments of the insurance industry in which we operate can adversely impact us.

COMPETITION

Our performance is impacted by the level of competition in the markets in which we operate. Each of our businesses operate 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.

DEPENDENCE ON KEY PERSONNEL

Our success is largely dependent on the performance of our key employees and senior management. Failure to retain our key employees or to attract and retain additional key employees with necessary skills could have a materially adverse impact on our growth and profitability. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

ERRORS AND OMISSIONS CLAIMS

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing insurance and handling claims. The placement of insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against us may allege our potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defence costs. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions we take may not be effective in all cases.

Our business, financial condition and/or results may be negatively affected if in the future our errors and omissions insurance prove to be inadequate or unavailable. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

UNPREDICTABLE CATASTROPHIC EVENTS

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines, including business interruption, business personal property and workers' compensation. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon contingent commissions which we would expect to receive from a P&C insurer who experienced significant losses, the result of which could have a material adverse effect on our net income and financial condition. Catastrophes could also cause loss of life where the actuarial liabilities calculated are not sufficient to meet the expenses from the loss. Catastrophes could also impact loan portfolio by way of our methodology for loan loss provisioning and specific write-downs.

CHANGES IN THE BUSINESS AND ECONOMIC ENVIRONMENT

Our business and results can be significantly affected by changes in the business and economic environment, including: changes in the level of demand for P&C insurance, life products and banking products. We operate primarily in Western Canada and changes in the business and economic environment in the four provinces could have an impact on our business along with the current economic down-turn and the prolonged economic uncertainty. This would include increases in the supply of P&C insurance as a result of new capital provided by recent or future market entrants or by existing P&C insurers; volatile and unpredictable developments (including catastrophes), fluctuations in short-term and long-term interest rates, price competition, credit quality and capital needs. The challenges with the economic down-turn and slow recovery from the recession, and the market uncertainty could have an impact on our core business. At this time we have not seen a significant negative impact other than in our investments in 2008.

FAILURE OF COMPUTER AND DATA PROCESSING SYSTEMS

Our business is dependent upon the successful and uninterrupted functioning of our computer and data processing systems. The failure of these systems and disaster recovery plans in place could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, system failures could result in the loss of existing or potential business relationships or could negatively affect our financial results.

DIVIDEND POLICY

The Corporation's common share dividend policy which, upon the satisfaction of certain conditions, provides for the payment of a quarterly dividend which began following the completion of the Corporation's 2006 fiscal year. The payment of dividends and the timing and amount of such dividends is subject to the discretion of the Board of Directors and depends on, among other things, our financial condition, general business conditions, restrictions regarding the payment of dividends by us or to us by our subsidiaries including regulatory restrictions and other factors that the Board of Directors may in the future consider to be relevant. It is expected that dividends will be paid to shareholders of record at March 31, June 30, September 30 and December 31 of each year.

COVENANTS OF THE COMPANY

In connection with our ongoing business activities, we have made and may make commitments to lenders, bondholders and regulatory authorities that may limit our flexibility to make, or influence, certain business decisions concerning the payment of dividends or the amount of dividends, raising capital, making acquisitions, and incurring additional debt. For our regulated subsidiaries there are restrictions on paying dividends which could limit our ability to distribute funds to Western to redistribute elsewhere or for general corporate purposes. We believe that these commitments are or would be comparable to those made by similar businesses to our own.

FINANCIAL INSTRUMENTS

We have entered into certain financial agreements that are considered to be financial instruments. Subordinated convertible debentures are considered to be compound financial instruments and accordingly, a portion of the debentures is recorded as equity in our audited financial statements and notes. We entered into these agreements to obtain the necessary capital to fund business acquisitions.

Financial instruments are subject to credit risk, liquidity risk and market risk as described in note 6 in our audited financial statements.

Additional information relating to our Company, including our current Annual Information Form, is available on SEDAR at www.sedar.com.