2010

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 Western Financial Insurance.

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 acquisitions of Hayhurst Elias Dudek Inc. (“HED”), which is now part of the Network, and of SecuriCan General Insurance Company (“SecuriCan”). HED was one of the largest independently-owned insurance brokers in Canada, with approximately 170 employees nationwide. HED’s head office and the majority of the employees are located in Winnipeg. HED, now called Western Group Insurance Solutions (“GIS”) specializes in progressive and unique commercial insurance and employee benefits products specifically designed for Canadian independent businesses and government entities that are aligned with associations or buying groups. SecuriCan is Canada’s largest and most profitable underwriter of pet health insurance. Effective June 1, 2010 SecuriCan changed its name to Western Financial Insurance Company (“WFIC”).

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 business in recreational vehicle, marine and auto dealership financing and also offers 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 (“Western Life”) 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. Western Life continues 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 48.4% equity interest.

As announced in a December 23, 2010 press release, Desjardins Financial Corporation Inc. ("Desjardins"), a member of Desjardins Financial Group, made an offer to purchase all of the issued and outstanding Common Shares at $4.15 per share; all of the issued and outstanding First Preferred Shares, Series Three at $100 per share; and all of the issued and outstanding First Preferred Shares, Series Four at $100 per share, of the Company. Other classes of Preferred shares can be converted, based on the Offer price, by the holders into common shares and tendered, should the holder wish to do so. The primary conditions of the offer are that 66 $^{2/3}$% of the common shares are tendered; all outstanding Options have been exercised, terminated or otherwise cancelled; appropriate regulatory approvals have been obtained, and the Company shall sell all of its interests in Jennings Capital Inc. The Company is in process of negotiating a sale of its interests in Jennings, and because the sale is not in the ordinary course of business but is to be arranged and completed in a short period of time as a condition of the Offer, it may not be possible for the Company to obtain full value for its holdings. As part of the purchase, all outstanding options and all outstanding ESOP shares will vest immediately before closing. Certain executives of the Company and its subsidiaries, as listed in the Offer, have change of control clauses in their employment agreements. The aggregate obligation of the company pursuant to the Change of Control Agreements in the circumstances of an involuntary termination or an election to terminate employment following a Change of Control, including the amounts that would be payable under the Long Term Incentive Plan, is approximately $3.5 million. The Company has agreed to pay Desjardins a Termination Payment of $10 million if any of certain events occur preventing the completion of the offer to purchase. The offer was open for acceptance until February 28, 2011. Further information regarding the offer is in the Directors' Circular and the Take-over bid Circular, both available on SEDAR at www.sedar.com.

On February 23, 2011 Desjardins extended its offer to allow appropriate regulatory approvals to be obtained. Desjardins has submitted information and is in discussion with relevant government entities in connection with obtaining the appropriate regulatory approvals. The offer is open for acceptance until March 21, 2011.

ACQUISITIONS AND INVESTMENTS

Effective May 1, 2010 we acquired, for $65,000 cash, 50% of the voting shares of AgShare Agency Ltd.

Effective July 1, 2010 we acquired, for approximately $1.1 million cash, all the issued and outstanding shares of Grimshaw Agencies Inc., located in Grimshaw, Alberta.

On August 1, 2010 we acquired, an additional 20% of Falkins Insurance Agencies Ltd. for cash of $4.6 million and reached an agreement to own the remaining 60% of the company by December 31, 2013.

Effective January 1, 2011 the Company acquired, for cash, all the issued and outstanding shares of Keenleyside Insurance Services Ltd., located in Terrace, BC. This purchase is estimated to be $2,700.

Effective February 1, 2011 the Company acquired, for cash, the general insurance business of Berwyn Insurance Ltd., located in Berwyn, AB. This purchase is estimated to be $400.

See note 9 in our audited financial statements for additional details regarding acquisitions.

In June 2010, the Company completed a public offering and a private placement. The public offering was of 6.5 million common shares at a price of $2.65 per common share for gross proceeds of approximately $17.3 million. The private placement was of 3.9 million common shares at a price of $2.65 per common share for gross proceeds of approximately $10.3 million.

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, 2010 and 2009.

CURRENT OUTLOOK

We expect there to be stability in the financial services industry, and in general, no material negative impact on the growth of Bank West, the Network, Western Life, or WFIC. Additionally we have not seen any significant changes since our current outlook reported November 9, 2010. In fact, we are encouraged by developing positive trends in Western Canada including a gradual improvement in employment rates and commodity prices. We recognize the continued slow recovery of the Canadian economy so we will monitor our business and market developments and continue to act prudently.

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Commercial Property and Casualty (“P&C”) insurance rates at the Network continued to be soft over the last quarter in 2010. Commercial premiums continue to be very competitive, and it is unknown when a hardening of the market will take place. We have seen some personal insurance premium increases that will continue on the property side of the business. The financial results of insurers have deteriorated in personal property insurance, due to rising claims costs. As a result, of the high cost of repairs 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 on the personal property lines. On the negative side, we will see decreased revenue in Alberta, where the Rate Board has announced a 5% premium reduction on Alberta auto mandatory coverage which was effective November 1, 2010. We continue to track our same store sales and saw modest increases in premium rates in 2010. With increased pricing we have seen no adverse impact on customer retention and as a result remain competitive in our market place. In 2010 retention rates have remained consistent with the prior year. We expect inflationary trends, particularly wage expenses, to abate somewhat.

Bank West will continue to develop relationships to find opportunities for ongoing quality lending. We expect continued challenges in credit quality with residential mortgages, personal loans and commercial leases as we experienced increased specific loan loss provisions in 2009 but have seen our non-performing loans decrease in 2010 while our portfolio volumes have remained consistent throughout 2010. Bank West will maintain disciplined underwriting practices along with diligent review of delinquencies and appropriate reserving levels. Our credit quality remains satisfactory in view of the ongoing economic challenges. Non-performing loans increased to 1.74% compared to 1.65% in the third quarter but are down from 2.01% at December 2009. At December 2010 our non-performing loans increased due to 2 larger commercial equipment leases where we hold the underlying assets for sale at this time. Non-performing loans are expected to fluctuate as economic recovery is expected to be slow. We would expect to see our non-performing loans decrease year over year in 2011.

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 and into 2010 we continued to develop new distribution channels and increased sales in the Network and our affiliated companies, resulting in improved diversification of our portfolio. We expect to continue to develop new distribution channels and increase Network sales in 2011.

We maintained our number one position in the Canadian Pet Insurance market in 2010 with approximately 55% market share. The Company also experienced its lowest annualized cancelation rate in over 10 years and will be pushing for continued improvement during 2011, net policy growth increased by 84% over 2009. Claims costs remained at anticipated levels and resulted in a significant underwriting profit. The Company added another white label brand in 2010 bringing the number of brands it underwrites to six. With the launch of a new operating system and investment into a number of marketing initiatives the Company expects 2011 to be a strong year. 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 in gross written premiums and the number of policies in Canada.

Our equity investments provide products and services similar to the Western Financial Group of companies except Jennings Capital Inc. (“Jennings”) which is an investment dealer. Revenues and earnings have improved since their low point in the second quarter of 2009 and improvement continued throughout 2010. Commencing in the fourth quarter of 2009, GIS and WFIC’s results were consolidated and no longer included in income from equity investments. The investment dealer industry continues to experience revenue and profit volatility but we did see positive results by the end of 2010. In 2010, our investment in our brokerage partners continued to provide positive contributions and we expect the same to follow in 2011. One of the conditions of the Offer to Purchase made by Desjardins is that Western will complete the sale of all of its interest in Jennings before the closing date.

With the Offer to Purchase from Desjardins we are confident that our acquisition by the Desjardins Financial Group, a rapidly expanding and innovative winner in Canadian financial services, will serve the interests of our shareholders, customers, employees and communities. At a time when other smaller financial services companies are being swallowed up into monolithic corporate entities, our special Western Financial Group brand -- a brand with deep roots in the heartlands of Canada – will be maintained and, indeed, enhanced, under the broad Desjardins umbrella. Our half-million customers, who always come first in our business priorities, will benefit from this transaction. They will have more choices at more competitive prices. Our staff can rest assured that, by keeping our distinctive Western brand and by maintaining our headquarters here in High River, we will have even greater opportunities to expand our market share as we benefit from being part of the Desjardins Financial Group. In all of the communities where we have offices, people will still be served by the knowledgeable Western Financial folk who are themselves proud and resourceful members of these communities.

This management's discussion and analysis is dated March 9, 2011 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; changes in 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 in 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 and WFIC 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 Office of the Superintendent of Financial Institutions Canada ("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 Canadian banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 10%, of which 7% is to be tier 1 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.

Retention Ratio measures the percentage of our clients we retain year over year.

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.

The table below shows our key business drivers.

	2010	2009	2008	2007	2006
Same-store Revenue (% change) (1)	**+4.3 %**	+4.2 %	+8.9 %	+ 7.7 %	+ 6.9 %
Products per customer account (PPCA)	**2.40**	2.41	2.31	2.30	2.29
Same-store Customer Count (year to date annualized, % change) (2)	**+1.5 %**	+1.1 %	+3.5 %	+ 4.3 %	+ 4.5 %
Western Life Policy/Certificate Count	**31,196**	29,901	28,284	25,374	22,064
Bank West Loan Book ($ millions)	**$ 364.3**	$ 360.5	$ 273.4	$ 286.8	$ 149.4
Return on Common Equity (ROE) (based on rolling four quarters net income)	**7.4 %**	7.0 %	1.8 %	8.1 %	7.9 %

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 and Issued common shares)	**2010**	2009	2008
Total revenues	**$ 229,453**	$ 166,076	$ 124,885
Net Income	**20,280**	15,961	6,548
Earnings per share - Basic	**0.24**	0.22	0.05
Earnings per share - Diluted	**0.24**	0.22	0.05
Total assets	**871,956**	816,326	677,620
Total long-term liabilities (2)	**221,284**	249,475	228,103
Total cash dividends paid	**9,764**	6,119	5,898
Per Common Share	**0.04**	0.04	0.04
Per First Preferred Series 2	**6.75**	6.75	6.75
Per First Preferred Series 3	**6.75**	6.75	6.75
Per First Preferred Series 4	**6.75**	6.75	6.75
Per First Preferred Series 5[1]	**9.68**	-	-
Issued common shares	**59,883,443**	49,367,049	49,333,127

Notes:

(1) First Preferred Series 5 were issued in September 2009

(2) Represents customer deposits less customer deposits maturing in one year plus long term debt less the current portion of long term debt.

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 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, Western Life, 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 WFIC.

WESTERN FINANCIAL GROUP INC.

Years Ended December 31 (in $ thousands except for per share amounts)		2010		2009
The Network [2]				
Commissions and other customer revenue	$	**110,060**	$	89,144
Operating expenses		**78,976**		63,261
Operating income [1]	$	**31,084**	$	25,883
Bank West				
Interest and investment income	$	**27,495**	$	25,514
Interest expense-customer deposits		**12,783**		15,165
Net interest and investment income		**14,712**		10,350
Provisions for credit losses		**2,166**		2,645
Operating expenses		**9,258**		8,249
Operating income (loss) [1]	$	**3,288**	$	(544)
Western Life				
Premium and investment income	$	**52,323**	$	40,691
Policyholder benefits		**25,269**		20,123
Operating expenses		**20,307**		15,565
Operating income [1]	$	**6,747**	$	5,003
Western Financial Insurance [2]				
Premium and investment income	$	**38,099**	$	9,077
Policyholder benefits		**16,524**		3,951
Operating expenses		**12,993**		3,052
Operating income [1]	$	**8,582**	$	2,074
Corporate and all other				
Other revenues	$	**1,476**	$	1,650
Operating expenses		**12,453**		9,692
Operating loss [1]	$	**(10,977)**	$	(8,041)
Total operating income [1]	$	**38,724**	$	24,373
Net income	$	**20,280**	$	15,961
Preferred dividends		**(7,218)**		(5,001)
Earnings available to common shareholders	$	**13,062**	$	10,960
Earnings per share				
- basic ($)	$	**0.24**	$	0.22
- diluted ($)	$	**0.24**	$	0.22

Notes:

(1) 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, therefore 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.

(2) The operating results for GIS and WFIC are included in the results of operations effective from the acquisition date of October 1, 2009.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2010 COMPARED TO THE YEAR ENDED DECEMBER 31, 2009

The operating results for GIS and WFIC are included in the results of operations effective from the acquisition date of October 1, 2009.

REVENUE

Years Ended December 31 Revenue (in $ thousands)	2010	2009	Change from 2009 to 2010	
The Network	$ 110,060	$ 89,144	$ 20,916	23%
Bank West	27,495	25,514	1,981	8%
Western Life	52,323	40,691	11,632	29%
Western Financial Insurance	38,099	9,077	29,022	320%
Corporate and all other	1,476	1,650	(174)	-11%
	$ 229,453	$ 166,076	$ 63,377	38%

Total revenue increased by $63.4 million, or 38%, to $229.5 million compared to $166.1 million in 2009. This was primarily a result of the acquisitions of GIS and WFIC. WLA also had increased revenue due to increased sales in group creditor and term life products.

Years Ended December 31 Revenue (in $ thousands)	2010	2009	Change from 2009 to 2010	
The Network				
Property & Casualty Commission	$ 84,345	$ 67,039	$ 17,306	26%
Government auto	15,225	14,433	792	5%
Contingent income	7,236	5,480	1,756	32%
Other	3,254	2,192	1,062	48%
	$ 110,060	$ 89,144	$ 20,916	23%
Premiums written	$ 509,124	$ 395,357		

We continue to meet our expectations at the Network and continue to see an increase in our operating results. The Network saw its same store sales increase to 4.3% compared to 4.2% in 2009. Our policy count continued to grow, we maintained our retention ratios, and our margins remained consistent in 2010 compared to 2009. The Network's revenue increased by $21 million to $110 million in 2010 compared to $89 million in 2009. This was primarily due to the acquisition of GIS contributing $23.5 million for the twelve months in 2010 compared to three months in 2009 of $7.6 million and the growth in same-store revenue of 4.3%, representing an additional contribution of approximately $2.6 million. We recorded an increase in our contingent income estimate of $1.7 million year over year based on the results of 2009 and our expectations in 2010. These 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 once final amounts are communicated to us by the insurance companies.

Years Ended December 31 Revenue (in $ thousands)	**2010**	2009	**Change from 2009 to 2010**	
Bank West				
Interest income	**$ 26,506**	$ 24,556	$ 1,950	8%
Investment income	**314**	190	124	65%
Other income	**675**	768	(93)	-12%
	$ 27,495	$ 25,514	$ 1,981	8%

Bank West's gross interest income increased by $1.9 million to $26.5 million in 2010 compared to $24.6 million in 2009.

Bank West’s loan portfolio before provisions increased 1.0% to $364.3 million in 2010 from $360.5 million in 2009. We saw higher margins increasing from 3.0% in 2009 to 4.1% in 2010 as a result of the change in our portfolio. As loans with lower margins matured we were able to replace this with higher margin business, which resulted in an increase in gross interest income of $2.0 million.

Customer deposits decreased by $5.2 million to $308.5 million in 2010 from $313.7 million in 2009 with maturing deposits higher than the funding of new loans. We saw a reduced cost of funds at 4.1% compared to 4.8% a year ago which improved our margins and operating income.

As a result, Bank West's net interest and other revenue after provisions for credit losses saw a 62.8% increase to $12.5 million in 2010 compared to $7.7 million in 2009. We saw provisions for credit losses in 2010 of $2.2 million compared to $2.6 million in 2009. Our credit quality remains sound and non-performing loans decreased to 1.74% compared to 2.01% of our total loan portfolio at December 31, 2009.

Years Ended December 31 Revenue (in $ thousands)	**2010**	2009	**Change from 2009 to 2010**	
Western Life				
Premium income	**$ 44,510**	$ 37,491	$ 7,019	19%
Investment income	**7,813**	3,200	4,613	144%
	$ 52,323	$ 40,691	$ 11,632	29%

Western Life contributed $52.3 million in total revenue. We had $44.5 million in net premium revenue as compared to $37.5 million in 2009, a 19% growth year over year.

Direct sales from the Network of $13.6 million in 2010 compared to $10.6 million a year ago demonstrated the continued support and integration between Western Life and the Network. All lines of business from sales in the Network continue to see growth.

Years Ended December 31 Revenue (in $ thousands)	2010	2009	Change from 2009 to 2010	
Western Financial Insurance				
Premium income	$ **37,261**	8,975	-	0%
Investment income	**838**	102	-	0%
	$ **38,099**	$ 9,077	-	0%

WFIC was purchased October 1, 2009 and therefore the 2009 amounts only include the last quarter of 2009.

Year over year the net earned premiums have increased 13.0% at WFIC. The revenues at WFIC have, in the past, been fairly evenly weighted over the four quarters, a trend we are currently experiencing in 2010.

Years Ended December 31 Revenue (in $ thousands)	2010	2009	Change from 2009 to 2010	
Corporate and all other				
Commission and other customer revenue	$ **1,424**	$ 1,075	$ 349	32%
Interest and investment income	**32**	418	(386)	-92%
Dividend income	**20**	157	(137)	-87%
	$ **1,476**	$ 1,650	$ (174)	-11%

Revenue from our Corporate and all other segment decreased $174,000 due to the decrease in our interest and investment income and dividend income, offset by other customer revenue.

Revenue in Corporate and all other is derived mainly from our travel operations along with dividend and investment income at Corporate.

OPERATING EXPENSES

Years Ended December 31 Operating Expenses (in $ thousands)	**2010**	2009	**Change from 2009 to 2010**	
The Network	**$ 78,976**	$ 63,261	$ 15,715	25%
Bank West	**9,258**	8,249	1,009	12%
Western Life	**20,307**	15,565	4,742	30%
Western Financial Insurance	**12,993**	3,052	9,941	326%
Corporate and all other	**12,453**	9,692	2,761	28%
	$ 133,987	$ 99,819	$ 34,167	34%

Total operating expenses increased by $34.2 million, or 34%, to $134 million in 2010 compared to $99.8 million in 2009. The majority of the increase is tied to operating expenses of the new acquisitions at the Network and WFIC, one additional month of expenses on the acquisition of AgriFinancial at the Bank, effective February 1, 2009 and, an increase in commissions at Western Life directly due to the increase in premium sales.

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 $11.8 million which came from the operating expenses of GIS. We saw an increase in salaries and wages before acquisitions of $3.4 million from performance increases, management's estimate for year-end bonuses based on our expected results for 2010, and we increased our employer benefits contribution from 75% matching to 100% matching in January 2010. As a percentage of revenue, salaries and wages including producer commissions remained consistent year over year at 52%. We expect salaries and wages as a percentage of revenue at the retail network to generally run at approximately 50.0% on an annualized basis.

Bank West's operating expenses increased $500,000 with an additional month of expenses in 2010 as the acquisition of AgriFinance closed on January 31, 2009. Salaries, membership fees and professional fees accounted for the balance of the change in expense.

Western Life operating expenses increased by $4.7 million or 30% to support the 29% growth in revenue. Western Life continues to demonstrate efficient control of expenses. Loss ratios decreased slightly to 40.5% compared to 44.4% compared to 2009. This reflects the percentage of claims to new premiums written. Additional commissions and third party administration expenses correlate to the growth in premiums and accounted for $4.4 million. Total policyholder benefits, comprising of provisions for actuarial liabilities, claims incurred and surrenders, increased $5.1 million but based on premium volume increases year over year we saw a decrease in our loss ratios.

Corporate and all other segment expenses increased $2.8 million to $12.5 million in 2010 compared to $9.7 million in 2009. The increase was primarily due to higher professional fees of $1.1 million associated with internal and external audit, business technology, acquisition consultants and legal fees. We had an increase in insurance expense of $150,000 and in education and meetings of $600,000. Salaries and wages increased $1.1 million as we increased our employer benefits contributions from 75% matching to 100% matching in January 2010, an increase in bonus accruals, employee share ownership participation and severances.

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

Years Ended December 31 (in $ thousands)	2010	2009
Gain on sale of assets	$ -	$ 298
Impairment on investments	$ -	$ -

At each reporting date, and more frequently when conditions warrant, the Company evaluates its available-for-sale (“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 the fair value has been less than its 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. Unrealized losses in AFS securities decreased to a $50,000 unrealized gain from an unrealized loss of $91,000 at December 31, 2009. There was no impairment charges reported in 2010.

INCOME FROM EQUITY INVESTMENTS

Income from equity investments increased year over year by $1.4 million to $4.3 million. These investments include Jennings Capital Inc., Harvard Western Ventures Inc., Falkins Insurance Group Limited, Archibald Clarke & Defieux Insurance Services Inc. and AgShare Share Agency Ltd. Commencing in the fourth quarter of 2009, GIS and WFIC’s results were consolidated and no longer included in income from equity investments; in 2009 GIS and WFIC contributed $1.1 million to equity investments.

INTEREST AND FINANCING COSTS ON DEBT

Interest expense increased in 2010 by $1.7 million to $6.0 million from $4.3 million. We are seeing the full effects of the $16.7 million in convertible unsecured subordinated redeemable debentures with interest payable semi-annually at 12% per annum that we issued in April 2009. We incurred $2.0 million in interest expense in 2010 in relation to the issuance of these 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. The amount drawn down on this facility increased our interest expense by $1.2 million in 2010.

INCOME TAXES

Income taxes have increased $8.2 million due to additional revenue and income in 2010, and our effective tax rate is at 33.8% compared to 11.2% for 2009. In 2009 we recorded a tax asset that we acquired with the acquisition of Ubiquity reducing our effective tax rate. We have effectively realized the benefit of this tax asset in 2009.

NET INCOME

Years Ended December 31 (in $ thousands)	2010	2009	Change from 2009 to 2010	
Revenue	**$ 229,453**	$ 166,076	63,377	38%
Operating income	**38,724**	23,981	14,743	61%
Income from equity investments	**4,276**	2,859	1,417	50%
Gain on sale of investments and capital assets	**-**	298	(298)	-100%
Interest and financing costs on long-term debt	**(5,967)**	(4,308)	1,659	39%
Amortization of capital assets	**(2,674)**	(2,552)	122	5%
Amortization of intangible assets	**(3,917)**	(2,699)	1,218	45%
Income before income taxes	**30,442**	17,579	12,863	73%
Income taxes	**(10,162)**	(2,010)	8,152	406%
Net income for the year	**$ 20,280**	$ 15,569	$ 4,711	30%

Net income increased $4.7 million in 2010 compared to 2009. This increase was due to the increase in our operating income. The increase in net income was reduced by higher interest expense, amortization costs and income taxes.

SELECTED QUARTERLY FINANCIAL INFORMATION

FOR THE QUARTERS ENDED 2010 (in $ thousands except per share amounts)	March 31	June 30	September 30	December 31
Total Revenue	$ 49,279	$ 61,302	$ 60,263	$ 58,610
Income before income tax	$ 3,432	$ 8,823	$ 7,431	$ 10,756
Net income	$ 2,269	$ 5,742	$ 5,101	$ 7,168
Earnings per share:				
Basic	$ 0.01	$ 0.08	$ 0.06	$ 0.09
Diluted	$ 0.01	$ 0.08	$ 0.06	$ 0.09

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 per share:				
Basic	$ 0.00	$ 0.08	$ 0.06	$ 0.08
Diluted	$ 0.00	$ 0.07	$ 0.06	$ 0.09

In the quarter ended December 31, 2010, our fourth quarter, we generated revenue of $58.6 million, a net income of $7.2 million, and earnings per share of $0.09. This compares to revenue of $53.7 million, net income of $6.0 million and earnings per share of $0.08 in 2009.

We had an increase in total revenue of $4.9 million in the fourth quarter of 2010 compared to the fourth quarter of 2009. This increase is due to the increase in revenue at WLA of $2.2 million and $1.2 million at WFIC both due to the increase in premium sales. Expenses increased in the fourth quarter year over year by $4.9 million. This increase is primarily due to corporate costs in the area of legal, consulting and salaries and wages. WLA had an increase in expenses of $1.8 million in commission expense due to the increase in premiums of $2.4 million in the quarter. Finally we had an increase in our income from equity investments of $3.0 million.

This accounted for a net income increase in the fourth quarter year over year of $1.2 million.

EARNINGS PER SHARE

In 2010 we recorded $0.24 basic earnings per share compared to earnings per share of $0.22 in 2009. Preferred share dividends for 2010 were $7.2 million compared to $5.0 million in 2009. This is due to the new Series 5 preferred shares that were issued in September 2009.

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.

LIQUIDITY AND CAPITAL RESOURCES

There has been a $36.7 million increase in total shareholders' equity from December 31, 2009 to December 31, 2010. This increase is due to the public share offering and share conversions of $26.4 million and net income less dividends for the period of $10.6 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, 2010, $55.6 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of $804,000 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 thereunder. 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 an original notional amount of $30.0 million and expires March 2014. The notional amount is amortizing at $358,000 per month and is $22.8 million at December 31, 2010 (2009 - $27.1 million). Under the terms of this agreement, the Company receives a variable rate of interest on the swap for a fixed rate payment of 1.97% per annum. The second agreement has a notional amount of $10.0 million and expires November 2014. The notional amount is amortizing at $119,000 per month and is $8.6 million at December 31, 2010 (2009 - $10.0 million). Under the terms of this agreement, the Company receives a variable rate of interest on the swap for a fixed rate of 2.63% per annum. At December 31, the actual interest rate on the underlying debt instrument for both was 5.25% per annum. As a result, the Company has recorded $485,000 (2009 - $447,000) as interest expense for the year, related to these agreements. During 2010, the average interest rate paid (fixed rate) was 4.6% (2009 – 4.6%) and the average interest rate received (floating rate) was .74% (2009 - .41%).

We have $9.8 million of our senior credit facility repayable in monthly installments in 2011 that we expect to pay from our operating cash. Further repayments are detailed in note 15 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 were repayable by us after March 1, 2010. The Company repaid the $1.0 million unsecured subordinated note in the 1st quarter.

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, 2010, we had cash and cash equivalents of $58.0 million as compared to $58.5 million at December 31, 2009. Operations contributed $45.8 million as compared to $17.9 million for the same period in 2009. We increased our investment in securities by $11.6 million, used $5.4 million to increase our equity investment in Falkins Insurance Agencies Ltd., and $19.4 million in insurance brokerage acquisitions and the GIS acquisition. We had an increase in capital asset purchases of $2.0 million, intangible assets of $3.5 million and other assets of $1.8 million. We had proceeds of $27.8 million from the issuance of common shares, and the advances on long-term debt, net of repayments decreased the amount owing under our senior credit facility by $8.1 million. Customer deposits decreased by $5.8 million and we funded an additional $6.2 million in loans. We paid total cash dividends of $9.8 million on common and preferred shares. All of these factors

resulted in a net decrease in cash in 2010 of $450,000.

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 $3.9 million (2009 - $10.2 million) with $2.3 million in AgriFinance products, $1.5 million in Commercial products, and $100,000 in Dealer finance. We expect that customers will draw on approximately 50% these commitments related to Commercial products and Dealer finance, and typically 100% of AgriFinance products.

Under the terms of the purchase agreement related to Hayhurst Elias Dudek ("HED"), additional cash consideration of $12.5 million was paid in the second quarter and an additional $5.3 million was accrued in the third quarter and paid in January 2011. The additional cash consideration was based on certain financial results, operational success, and management decisions. These amounts and additional costs of $507 related to the acquisition have been added to goodwill in the second and third quarters. Management is of the opinion that no further amounts are owing under the agreement.

On August 1, 2010 we acquired, an additional 20% of Falkins Insurance Agencies Ltd. for cash of $4.6 million and reached an agreement to own the remaining 60% of the company by December 31, 2013. Under the terms of the purchase agreement related to Falkins Insurance Agencies Ltd., the purchase price for the remaining 60% of the company cannot be estimated at this time as it is based on future financial results.

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 Company exercised its right and as a result our ownership has increase to 48%. The amount and outcome of share consideration related to Jennings Capital Inc. for subsequent years cannot be reasonably estimated and has not been recognized in the financial statements.

Certain executives of the Company and its subsidiaries, as listed in the Directors' Circular, have change of control clauses in their employment agreements. The aggregate obligation of the company pursuant to the Change of Control Agreements in the circumstances of an involuntary termination or an election to terminate employment following a Change of Control, including the amounts that would be payable under the Long Term Incentive Plan, is approximately $3.5 million. The Company has agreed to pay Desjardins a Termination Payment of $10.0 million if any of certain events occur preventing the completion of the offer to purchase.

The following table presents the potential outflows related to credit commitments and the cash flow commitment related to property leases.

At December 31, 2010	No later than 1 year	1 to 5 years	Over 5 years	Total
Credit commitments	$ 3,883	$ -	$ -	$ 3,883
Property lease commitments	4,157	11,693	3,725	19,575
Total	$ 8,040	$ 11,693	$ 3,725	$ 23,458

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 48% (2009 – 35%) ownership in Jennings Capital Inc., a corporation in which a director of the Company holds an interest.

- Dividend income on preferred shares of $20,000 (2009 - $20,000) and income from equity investments of $3.0 million (2009 - $570,000) were recorded with respect to the Company's investment in Jennings Capital Inc.
- Notes receivable of $2.1 million (2009 - $1.9 million) 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 of Jennings.
- Underwriting fees of $78,000 (2009 - $184,000) were paid to Jennings Capital Inc., in connection with their participation in the Company's 2009 Preferred Share and 2010 Common Share Offerings.
- Premiums of $97,000 (2009 - $128,000) were received from Jennings Capital Inc.
- Dividends receivable from Falkins Insurance Agencies Ltd. of $615,000 (2009 - $345,000).
- During 2010, short term loans and advances of $nil (2009 - $nil) 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, 2010 was $125,000 (2009 - $225,000). These short term loans and advances were repaid in full by the officer of the Company in January 2011.

OUTSTANDING SHARE DATA

At December 31, 2010 the balance of issued common shares was 59,883,443, for a total value of $143.5 million compared to $117.2 million at December 31, 2009. At the date of this report the balance of issued common shares was 62,900,463.

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 1.2 million options under this plan outstanding at December 31, 2010.

At December 31, 2010, 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 354,500 first preferred Series 5 shares outstanding with a principal value of $35.5 million and convertible into a maximum of 12,615,658 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 a slower than expected 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 are responsible for maintaining adequate disclosure controls and procedures (DC&P). DC&P are our controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by us, including our consolidated subsidiaries, in our annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in our annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our DC&P as at the financial year ended December 31, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our DC&P were effective as at December 31, 2010.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer are responsible for maintaining adequate internal controls over financial reporting (ICDR). ICFR is a process designed by or under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposed in accordance the Canadian GAAP. ICFR includes policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that our receipts and expenditures are being made only in accordance with the authorizations of management and our board of directors; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the annual financial statements or interim financial statements.

As at the financial year ended December 31, 2010, the Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of our internal control over financial reporting. In performing the evaluation the Chief Executive Officer and Chief Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our internal control over financial reporting was effective as at December 31, 2010.

There has been no change in our internal control over financial reporting that occurred during the most recent interim period ended on December 31, 2010 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 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; 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.

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

a) Bank West

Capital for Canadian financial institutions is management and reported in accordance with a capital management framework specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), commonly called Basel II. 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%. It may also prescribe higher capital levels on an institution- specific basis. OSFI has also established an Assets to Regulatory Capital Multiple, which should not exceed a maximum level prescribed by OSFI, which varies from institution to institution.

	2010	2009
Tier 1 Capital		
Retained earnings (losses)	$ (915)	$ (1,938)
Capital stock	69,112	69,112
Less goodwill	(11,477)	(11,477)
Total	56,720	55,697
Tier 2 Capital		
Subordinated debentures	5,500	3,000
Total Regulatory Capital	$ 62,220	$ 58,697
Regulatory Capital to Risk-Weighted Assets		
Tier 1 Capital	17.0%	17.7%
Tier 2 Capital	1.7%	1.0%
Total Regulatory Capital Adequacy Ratio	18.7%	18.7%
Assets to Regulatory Capital Multiple	7.4	6.9

During the year ended December 31, 2010 and as at December 31, 2009, the Bank was in compliance with the internal target capital level agreed with OSFI. During the 4th quarter of 2009, the Bank's capital ratio did not meet the internal target capital level, although the capital ratio remained in excess of 10%. During 2010, the Bank issued a subordinated note for $2.5 million (2009 - $3.0 million) to the Company, at a rate of 9% per year, maturing in 2020 which qualifies as Tier 2 capital.

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 polices and lending policies 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. ALCO meets on a weekly basis to review and assess Internal Capital Adequacy Assessment Process ("ICAAP") reports, and address any risk management shortcomings that might be identified. Quarterly, management provides a detailed report of the loan, investment and securities portfolios and their performance. The Bank has established a process to ensure that the required capital level is maintained.

b) 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 monitors its MCCSR on a quarterly basis and 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 2010 DCAT performed by the Appointed Actuary, dated November 10, 2010 reported no solvency concerns.

c) Western Financial Insurance

Western Financial Insurance 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. Western Financial Insurance's MCT was in compliance with the minimum capital required throughout the year.

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.

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.

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
- Changes in underwriting policies
- Percentage of loan type compared to total portfolio
- The type of loan
- Credit requirements of each loan type
- Loan to asset value when underwritten
- Historical losses
- Current changes in delinquencies
- Current economic conditions
- Industry concentration
- Portfolio mix
- 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, 2010 Bank West had a total allowance for credit losses of $5.2 million (2009 - $5.4 million) which included a specific allowance of $2.5 million (2009 - $2.4 million). 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 income portion of revenue reported by Bank West.

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 WFIC 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, 2010 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, 2010 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 AgriFinancial and HED.

CHANGES IN ACCOUNTING POLICIES

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.

During 2008, the Company 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 included the following phases:

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

In the detailed assessment, conversion planning and development phase the Company:

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

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

Management 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 we do not expect a material impact except in the area of disclosure. The following areas have been identified as having the most significant change on transition:

- loan loss provisions – both existing Canadian GAAP and IFRS calculate loan losses using the incurred loss model, but IFRS is more specific as to what qualifies as an "incurred event". IFRS requires objective evidence of impairment, must have a reliably measurable effect on the present value of estimated cash flows and be supported by currently observable data. IFRS requires that we discount future cash flows when determining the specific allowance. These differences do not have a significant impact on the calculation of the specific allowance, but impact the calculation of the general, called collective under IFRS, allowance. We have developed an appropriate IFRS methodology the amount of adjustments will not be significant upon transition.

- reinsurance – currently we report reinsurance on a net basis on our balance sheet. IFRS requires us to disclose reinsurance contracts on a gross basis and we have determined that this information is readily available and is $32 million at January 1, 2010.
- intangibles and goodwill – goodwill is allocated to cash generating units ("CGU"), under IFRS, to test for impairment. Although there are differences in the approach and methodology for impairment testing between IFRS and Canadian GAAP, we are currently allocating goodwill to the same CGUs as we propose to use under IFRS. At December 31, 2010, we prepared our impairment testing using the Canadian GAAP methodology and the IFRS methodology with no differences identified.
- business combinations – IFRS requires all acquisition and restructuring related costs to be expensed. Canadian GAAP permits the capitalization of certain of these costs. In addition, when consideration is paid to the seller in the form of shares issued by the buyer, the consideration is valued based on the market price of shares at the closing date unlike under Canadian GAAP which uses the market price of shares over a reasonable period before and after the date the terms of the acquisition are agreed to and announced. In addition, IFRS requires contingent future consideration to be estimated and recorded at the time of acquisition. These differences will impact the purchase price allocation, including the amount of goodwill recorded. IFRS allows a choice to either apply IFRS retrospectively to all past business acquisitions before a chosen date or apply it prospectively from the transition date. We have elected to apply IFRS related to business combinations prospectively from the transition date, resulting in IFRS to Canadian GAAP differences on acquisitions occurring in 2010.
- disclosure and presentation – the disclosure required by IFRS is more in-depth than that required by Canadian GAAP. We have reviewed the requirements and developed our disclosures and we have no difficulty gathering the information required.

In the last quarter of 2010 we implemented parallel reporting and have recalculated the first three quarters of 2010. This is necessary to enable us to report the 2010 comparative amounts, compliant with IFRS, for the first quarter of 2011. The chart below illustrates the adjustments that were necessary to the opening balance for the conversion from GAAP to IFRS.

	GAAP	Total YTD IFRS Adjustments	IFRS
	December 31, 2009	January 1, 2010	January 1, 2010
ASSETS			
Cash and cash equivalents	$ 58,463	$ -	$ 58,463
Held-for-trading securities	61,373	-	61,373
Available-for-sale securities	30,901	-	30,901
Mortgages, loans and leases	355,621	462	356,083
Interest rate swaps	90	-	90
Investment in associates	11,591	-	11,591
Property and equipment	15,524	(199)	15,325
Goodwill	148,205	17,796	166,001
Intangible assets	72,825	-	72,825
Accounts receivable	51,114	-	51,114
Prepaid expenses	7,231	-	7,231
Deferred income tax assets	1,102	-	1,102
Reinsurance contracts	-	31,802	31,802
Other assets	2,286	199	2,485
Total assets	$ 816,326	$ 50,060	$ 866,386
LIABILITIES			
Deposits from customers	$ 317,953	-	$ 317,953
Insurance liabilities	53,951	31,802	85,753
Debt	79,771	-	79,771
Due to policyholders	20,392	-	20,392
Trade and other payables	82,700	17,796	100,496
Current income tax liabilities	1,809	-	1,809
Deferred income tax liabilities	13,199	-	13,199
Total liabilities	569,775	49,598	619,373
EQUITY			
Share capital	206,905	-	206,905
Other paid in capital	268	-	268
Contributed surplus	2,041	56	2,097
Accumulated other comprehensive loss	(129)	(8)	(137)
Retained earnings	37,466	414	37,880
Total equity	246,551	462	247,013
Total liabilities and equity	$ 816,326	$ 50,060	$ 866,386

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 continues to monitor the International Accounting Standards Board's proposed changes to standards. These proposed changes may have a significant impact on the Company's implementation plan and future financial statements.

A training program has been implemented for key stakeholders. Training has been focused on raising awareness across the Company, providing in-depth training to finance, key support areas and IFRS governance members (including the Board of Directors and senior management). Training has also been provided to the Bank's credit and banking personnel, as they will be reviewing customer financial information prepared on different accounting bases (IFRS and Accounting Standards for Private Enterprises).

We have determined that our internal controls over financial reporting and our disclosure controls and procedures will be largely unaffected by the transition to IFRS. Effects will be limited primarily to the development of internal controls over tracking and communicating IFRS-based information for the IFRS comparative year and certain additional disclosure requirements in the notes to the financial statements. We also expect the methodology for our loan loss provisions under IFRS to require amended systems and processes to gather additional data.

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 WFIC. 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 the 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

Credit risk is the risk of suffering financial loss, should any of the Company's customers, clients or market counterparties fail to fulfill their contractual obligations to the Company. The most significant assets giving rise to credit risk is the mortgage, loan and lease portfolio. The Company is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities; accounts receivables and reinsurance contracts. The key areas in which our insurance companies are exposed to credit risk are:

- Reinsurer's share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

The Company’s maximum exposure to credit risk at December 31 is summarized in the following table.

	2010	2009
Mortgages, loans and leases, net of allowance for credit losses (Note 4)	359,696	355,621
Securities	112,637	92,274
Cash and cash equivalents	58,010	58,463
Accounts receivable	52,863	51,114
Reinsurance contracts, included in actuarial liabilities (Note 5)	28,809	19,646
Other assets	4,156	1,890
Interest rate swaps	-	90
Total balance sheet maximum credit exposure	616,171	579,098
Bank West credit commitments (Note 6)	3,883	10,155
Maximum credit exposure	$ 620,054	$ 589,253

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

i. Mortgages, Loans and Leases

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

	Residential and commercial mortgages	Consumer loans	Commercial loans	Credit cards	Leases	Total
Mortgages and loans						
Neither past due nor impaired	$ 42,566	$ 207,032	$ 22,148	$ 31,530	$ 46,526	$ 349,802
Past due but not impaired						
Past due less than 90 days	666	1,991	1,172	3,303	1,756	8,888
Past due 90 to 179 days	-	-	-	-	-	-
Non-performing loans (past due greater than 90 days and other identified impaired loans)	2,351	661	651	259	2,250	6,172
Gross carrying value	45,583	209,684	23,971	35,092	50,532	364,862
Specific provision	245	728	213	99	1,226	2,511
General provision						2,655
Net carrying value at December 31, 2010						**$ 359,696**
Net carrying value at December 31, 2009						**$ 355,621**

None of the past due but not impaired mortgages, loans and leases were renegotiated during 2010 (2009 - $283,000).

During 2010, loans with a carrying value of $6.2 million (2009 - $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 to a specified maximum. The Company employs and is committed to a number of important principles to manage credit exposures, which include:

a. a Credit & Risk Subcommittee whose duties include the approval of lending policies, establishment and delegation of lending limits;
b. 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;
c. credit policies, guidelines and directives, which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;
d. a standardized credit risk rating classification established for all credits and reviewed not less than annually;
e. annual reviews of individual credit facilities (except consumer loans and single-unit residential mortgages);
f. quarterly review of risk diversification by geographic area, industry sector and product measured against assigned portfolio limits;
g. early recognition of problem accounts and immediate implementation of steps to protect safety of Bank funds; and

h. 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.

Certain portfolios are collateralized by deposits withheld from the seller, ranging from a maximum of 22% and a minimum of 5% of the loan amount.

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 amounting to $3.9 million (2009 - $9.9 million) are insured through Canada Mortgage and Housing Corporation.

ii. Securities

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.

	2010		2009	
	Held For Trading	**Available For Sale**	**Held For Trading**	**Available For Sale**
Securities:				
Bonds - AAA rating	$ 10,725	$ 14,653	$ 15,432	$ 6,230
Bonds - AA rating	34,153	3,778	26,526	2,506
Bonds - A rating	22,991	2,832	16,906	4,081
Bonds - below A rating	-	-	-	209
Bonds - BBB rating	203	-	204	-
Corporate notes	-	750	-	-
Income Pooled funds	-	17,898	-	3,630
Fixed income exchange funds	-	-	-	2,994
Term deposits	-	2,011	-	7,574
Subordinated debentures	-	500	-	500
Preferred shares	-	1,014	-	-
Government of Canada Treasury bills	1,129	-	2,305	3,177
	$ 69,201	$ 43,436	$ 61,373	$ 30,901

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 that invest in larger Canadian companies for long-term capital gain and dividend income. The term deposits are held at major Canadian financial institutions.

iii. Accounts Receivable

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.

iv. Reinsurance Assets

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. Reinsure 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 $28.8 million (2009 - $19.6 million).

	Credit Rating	2010	2009
RGA Life Reinsurance Company of Canada	A+	$ 17,211	$ 7,640
Optimum Reassurance Inc.	A-	10,735	11,373
SCOR Canada Reinsurance Company	A-	456	109
Munich Reinsurance Company	A+	407	524
		$ 28,809	$ 19,646

The following table summarizes the balances outstanding from Canadian reinsurers as at December 31 by risk rating. These amounts are included in Accounts receivable on the balance sheet.

Credit Rating	Reinsurance Receivable	
	2010	2009
A- (Excellent)	$ 1,400	$ 1,318
A+ (Superior)	1,151	725
A++ (Superior)	-	50
	$ 2,551	**$ 2,093**

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.

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 have no control over the timing of the receipt of contingent commissions, but 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 WFIC 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 2010 we are in compliance with all capital requirements with the Bank, Western Life and WFIC.

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 operates in highly competitive markets. Customer retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and actions taken by competitors.

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.