SHARED VISION

WORKING TOGETHER TO REALIZE SUCCESS

Canadian Western Bank Group – Annual Report 2011

CWB
CANADIAN
WESTERN
BANK GROUP
BANK • TRUST • INSURANCE
WEALTH MANAGEMENT

Canadian Western Bank Group at a Glance

(October 31, 2011)

CWB
CANADIAN WESTERN BANK GROUP
BANK • TRUST • INSURANCE
WEALTH MANAGEMENT

Canadian Western Bank, along with its subsidiaries and operating divisions, comprise Canadian Western Bank Group

Canadian Western Bank Group

Employees†: 1,900+
Clients: 600,000+
Total assets: $14.7 billion+
President & CEO: Larry M. Pollock
Chairman: Allan W. Jackson

Canadian Western Bank

Employees†: 1,200+
Consecutive profitable quarters: 94
Number of branches: 40

Canadian Direct Financial

Established: 2008
Client deposits: $100 million+
Provinces and territories in Canada where products are offered (#): 12

Operating Division

Subsidiary (Affiliate) Companies

Canadian Direct Insurance

Employees†: 290+
Number of policies outstanding: 190,000+
Annual gross written premiums: $129 million+

Valiant Trust

Employees†: 40+
Client appointments in 2011 (#): 560+
Number of clients: 300+

Canadian Western Trust

Employees†: 70+
Investment accounts (#): 47,000+
Total assets under administration: $6.7 billion+

Optimum Mortgage

Employees†: 40+
Total mortgages: $930 million+
Number of client mortgages: 3,700+

Operating Division

Adroit Investment Management

Employees†: 10+
Total assets under management: $815 million+
Number of client relationships: 300+

Canadian Western Financial

Mutual fund representatives (#): 120+
Number of mutual fund clients: 3,000+

National Leasing

Employees†: 260+
Total leases under management: $770 million+
Number of leases outstanding: 60,000+

† Includes both full- and part-time employees

Five Year Financial Summary

($ thousands, except per share amounts)

	2011	2010	2009	2008	2007
Results of Operations					
Net interest income (teb) (1)	$ 384,683	$ 328,664	$ 236,354	$ 228,617	$ 210,659
Less teb adjustment	11,059	11,186	7,847	5,671	5,410
Net interest income per financial statements	373,624	317,478	228,507	222,946	205,249
Other income	106,331	105,595	91,612	70,240	62,821
Total revenues (teb)	491,014	434,259	327,966	298,857	273,480
Total revenues	479,995	423,073	320,119	293,186	268,070
Net income	178,149	163,621	106,285	102,019	96,282
Return on common shareholders' equity (2)	15.6%	17.1%	13.2%	15.9%	17.4%
Return on assets (3)	1.20	1.24	0.86	1.03	1.18
Per Common Share					
Average common shares outstanding (thousands)	72,205	65,757	63,613	63,214	62,354
Earnings per share					
Basic	$ 2.26	$ 2.26	$ 1.51	$ 1.61	$ 1.54
Diluted	2.12	2.05	1.47	1.58	1.50
Diluted cash (4)	2.18	2.09	1.49	1.59	1.50
Dividends	0.54	0.44	0.44	0.42	0.34
Book value	14.36	14.08	12.16	10.70	9.48
Market price					
High	31.75	26.59	23.00	32.20	30.86
Low	24.00	19.85	7.52	14.67	20.78
Close	28.50	25.36	21.38	18.44	30.77
Balance Sheet and Off-Balance Sheet Summary					
Assets	$ 14,772,035	$ 12,701,691	$ 11,635,872	$ 10,600,732	$ 9,525,040
Cash resources, securities and resale agreements	2,238,039	1,876,085	2,188,512	1,798,137	1,961,241
Loans	12,221,143	10,496,464	9,236,193	8,624,069	7,405,580
Deposits	12,499,689	10,812,767	9,617,238	9,245,719	8,256,918
Subordinated debentures	545,000	315,000	375,000	375,000	390,000
Shareholders' equity	1,293,566	1,148,043	986,499	679,148	595,493
Assets under administration	9,369,589	8,530,716	5,467,447	4,347,723	4,283,900
Assets under management	816,219	795,467	878,095	—	—
Capital Adequacy					
Tangible common equity to risk-weighted assets (5)	8.6%	8.5%	8.0%	7.7%	7.7%
Tier 1 ratio (6)	11.1	11.3	11.3	8.9	9.1
Total ratio (6)	15.4	14.3	15.4	13.5	13.7
Other Information					
Efficiency ratio (teb) (7)	45.3%	44.1%	48.2%	45.2%	44.6%
Efficiency ratio	46.3	45.3	49.4	46.1	45.5
Net interest margin (teb) (8)	2.82	2.74	2.10	2.30	2.58
Net interest margin	2.74	2.64	2.03	2.25	2.51
Provision for credit losses					
as a percentage of average loans	0.20	0.21	0.15	0.15	0.16
Net impaired loans as a percentage of total loans	0.21	0.62	0.68	0.19	(0.57)
Number of full-time equivalent staff (9)	1,796	1,716	1,339	1,284	1,185
Number of bank branches	40	39	37	36	35

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

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

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

(4) Diluted cash earnings per share is diluted earnings per common share excluding the after-tax amortization of acquisition-related intangible assets.

(5) Tangible common equity to risk-weighted assets is calculated as shareholders' equity less subsidiary goodwill divided by risk-weighted assets, calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI). As of November 1, 2007, OSFI adopted a new capital management framework called Basel II, and capital is managed and reported in accordance with those requirements. Capital ratios prior to fiscal 2008 have been calculated using the previous framework.

(6) Tier 1 and total capital adequacy ratios are calculated in accordance with guidelines issued by OSFI. As of November 1, 2007, OSFI adopted a new capital management framework called Basel II, and capital is managed and reported in accordance with those requirements. Capital ratios prior to fiscal 2008 have been calculated using the previous framework.

(7) Efficiency ratio is calculated as non-interest expenses divided by total revenues.

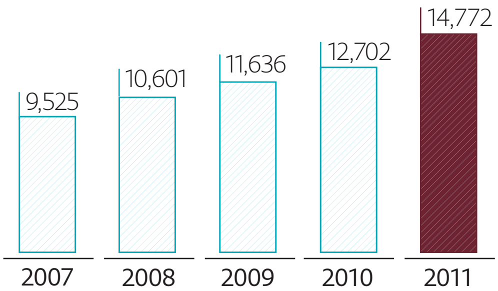
(8) Net interest margin is calculated as net interest income divided by average total assets.

(9) The significant increase in the number of full-time equivalent staff in 2010 compared to the prior year reflects CWB's acquisition of National Leasing Group Inc., effective February 1, 2010.

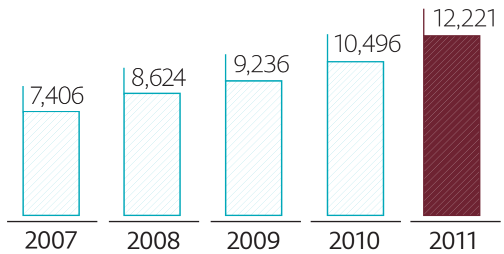
Our History of Financial Performance

www.cwbankgroup.com

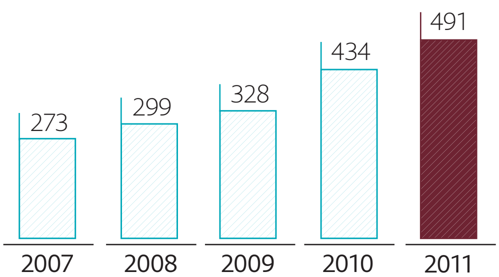
Total Assets ($ millions)



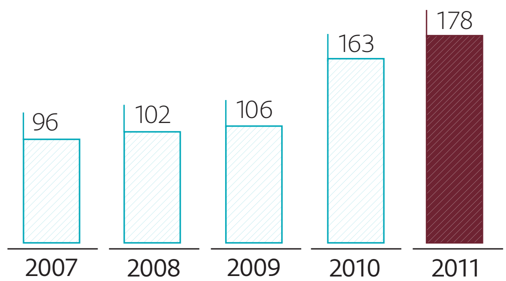
Total Loans ($ millions)



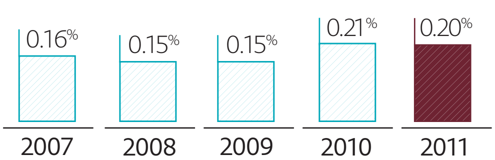
Total Revenue (teb) ($ millions)



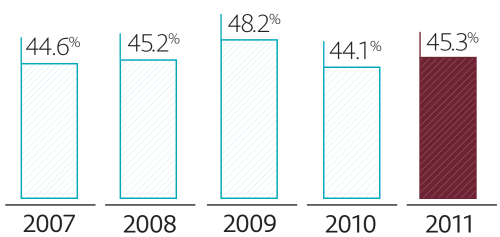
Net Income ($ millions)



Provision for Credit Losses
(as a percentage of average loans)



Efficiency Ratio (teb)
(expenses to revenues)



Performance Targets

	2011 Minimum Targets	2011 Performance	
Net income growth [1]	6%	9%	✓
Net income growth, before taxes (teb) [2]	10%	11%	✓
Total revenue (teb) growth	12%	13%	✓
Loan growth	10%	16%	✓
Provision for credit losses as a percentage of average loans	0.20 to 0.25%	0.20%	✓
Efficiency ratio (teb)	46% or less	45.3%	✓
Return on common shareholders' equity [3]	15%	15.6%	✓
Return on assets [4]	1.20%	1.20%	✓

(1) Net income before preferred share dividends.
(2) Net income before income taxes (teb), non-controlling interest in subsidiary and preferred share dividends.
(3) Return on common equity calculated as net income after preferred share dividends divided by average common shareholders' equity.
(4) Return on assets calculated as net income after preferred share dividends divided by average total assets.

Shared Vision

No matter what you want to achieve, it helps to work alongside people who share the same vision. Here at Canadian Western Bank Group (CWB Group), we're proud that our management teams and dedicated employees share a common vision of what a financial institution can, and should, be. This shared commitment to provide exceptional service and customized client solutions has shaped how we have done business since our inception almost 30 years ago, and it's how we continue to serve our clients and add value for shareholders today. It has created an organization that is focused, aligned and strong enough to both embrace opportunities and weather challenges. It has directed our success and growth, and allowed us to do what we do while always striving to do better.

In the pages that follow, you'll learn more about CWB Group's successes and initiatives over the past year. You'll see how our shared vision guided us as we achieved record financial performance despite uncertainties in the global economy and financial markets. You'll also discover how this vision shapes our strategies to deliver products and services that help our clients achieve their financial goals. We are confident that our pursuit of this shared vision will give CWB shareholders the best possible return on their investment over time.

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CWB Group

The ability to listen to and understand your clients' needs while helping them reach their goals is essential to building a successful financial services organization. You also need extraordinary employees who are guided by strong principles and who can deliver the right combination of products and services. Operating across multiple pillars of the financial services industry requires a group of companies that are driven by a common vision of what really matters. We believe we offer our clients and shareholders exactly that.

Our focus on taking care of our clients, employees and our communities has served us and our shareholders well for almost three decades. It has helped us grow and evolve, while ensuring we stay true to our fundamental values. It has guided us successfully through numerous economic cycles, including the fallouts of a global financial crisis. It has made us who we are today – and continues to shape who we will become.

CWB Group is made up of Canadian Western Bank (CWB or the Bank) and eight operating companies/divisions that offer services in the areas of banking, trust, insurance and wealth management. We currently serve clients across Canada through our network of 40 banking branches, corporate headquarters, a centralized equipment leasing office, eight trust locations, two insurance call centres and one wealth management location.

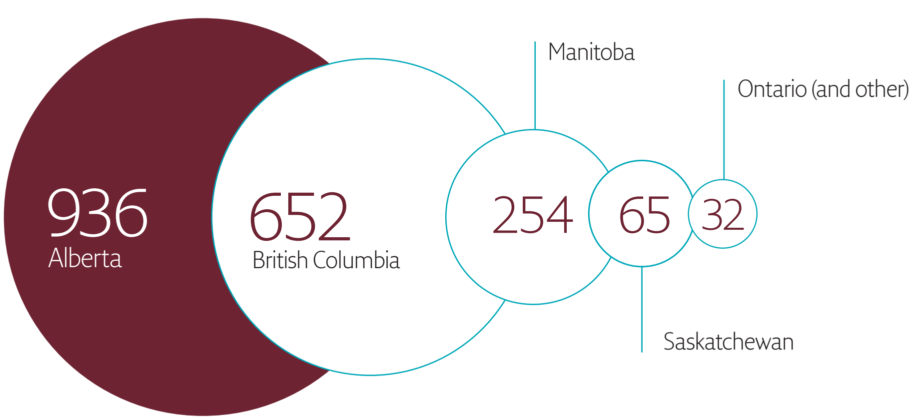
CWB's affiliate companies include National Leasing, Canadian Western Trust, Valiant Trust, Canadian Direct Insurance, Adroit Investment Management and Canadian Western Financial. Canadian Direct Financial is a division of the Bank, while Optimum Mortgage is a division of Canadian Western Trust. As Western Canada's largest publicly traded Canadian bank, we have combined balance sheet assets of almost $15 billion, including more than $12 billion of total loans. Our assets under administration surpassed $9 billion in 2011 and assets under management are approaching $1 billion. Together, the CWB Group now employs more than 1,900 people in 50-plus communities across Canada.

Do what we do, only better.

"CWB Group's strength is based on the talents and dedication of our diverse team of employees. We are not just a bank; together, we represent a growing financial institution that offers a full range of products that are delivered with the exceptional level of personal service that our clients have come to expect."

Tracey Ball, Executive Vice President
and Chief Financial Officer
Canadian Western Bank

CWB Group Employees by Province



Our shared vision

CWB Group's vision and mission guide how we work. We provide exceptional service and deliver customized client solutions in areas where we have proven expertise. We are headquartered in Western Canada and have a unique understanding of both the opportunities and challenges that exist in our key markets. We've also proven that the right mix of organic growth and carefully considered strategic acquisitions are an effective way to expand our client offerings and increase value for CWB shareholders. Finally, we know our conservative growth strategies – backed by high quality assets, a strong capital base and an ongoing focus on business fundamentals – have been integral to what we've achieved so far. As we look to the future, we believe this understanding makes us a smart choice for both clients and investors.

Make the whole worth more than the sum of the parts.

Our shared vision of what's important and what's possible has guided the development of CWB Group's vision to *"be crucial to our clients' futures."* It has also driven the development of our strategic plan which is based on two themes: "*do what we do, only better*," and "*make the whole worth more than the sum of the parts*." For us, this means continuing to improve upon the things that make us successful. We also recognize many of our clients don't realize most of their financial needs can be met right here – by people they already know and trust. This means we have to work harder to help clients recognize the full range of services CWB Group can provide.

CWB Group's Executive Team
Left to Right: Tracey Ball, Randy Garvey, Chris Fowler, Brian Young, Bill Addington and Larry Pollock

An Interview with Larry Pollock

President and Chief Executive Officer (CEO)

Q. The theme of this year's annual report is "Shared Vision." How has a shared vision contributed to CWB Group's historical success, and how important is it for the Group's future?

A. First of all, I believe it's crucial for everybody who works for this organization to share a similar set of core values and to appreciate the importance of our strong organizational culture. If you hire people or acquire companies that want or believe in something completely different, it's going to be very challenging to manage, let alone cultivate success. When everybody shares the same vision, we know we're all pulling in the same direction and very few changes are necessary. National Leasing is a good example of this. When they first joined us, the President asked, "What's going to change for us?" and I said, "The shareholder." That was all. We knew there were areas where we could help each other do better, but nothing else needed to change because we already shared a similar vision.

Q. CWB Group had another year of record performance in 2011. When you reflect on the past year, are there any particular highlights that stand out for you?

A. I think in order to reflect on our successes this past year, you need to look even further back to the recessionary period in 2008-2009. To support our clients through those tough times, we knew we should be highly liquid and have lots of capital because that's when many of them needed us the most. We also wanted to continue to grow, which we did, and it's really phenomenal because many other banks were shrinking during that period as they re-evaluated their priorities. In fact, over the past 22 years, we've never had a year where we didn't grow. And, of those 22 years, 21 were years with double-digit loan growth. We had tremendous 16 per cent loan growth in 2011 – which I believe was much higher than anyone else in the industry – and I think that's largely the result of what we did during the recession, when we stood by our clients and continued to lend. We also attracted a lot of new clients. Our commitment to continue to invest in the development of our people and infrastructure is also paying off nicely for us. We continue to focus on our core businesses, our people and our clients. We believe our success in taking care of these key factors is what will ultimately build value for CWB shareholders over time. That's why we developed our strategic theme of *"do what we do, only better."*

Q. The business strategies have always been focused on specific areas of financial services, whether you're speaking about product offerings or your primary geographic footprint in Western Canada. How has this focus contributed to CWB Group's success, and will you maintain this strategy in the future?

A. In order to be successful, we've always felt you need to be a little bit different, particularly when most of our competitors are much larger organizations. We like to think of ourselves as relationship builders. When we saw the industry moving away from relationship-based financial services many years ago, particularly on the business banking side, we knew it was an opportunity for us. When you call us, we answer the phone – every time. When you walk into one of our branches or offices, our goal is to provide thoughtful service right away, because a person's money or their business is very personal to them. Their time is important, too. People don't want to deal with some impersonal entity. We've also found that concentrating our efforts on doing certain things really well is a much more effective strategy than trying to be all things to all people. Being headquartered in Western Canada is definitely an advantage because it allows us to grow in our own backyard, a place where we are best positioned to identify the opportunities and challenges in our key markets. Our business focus also allows us to offer an increased level of expertise and a unique perspective on issues that are relevant to our clients. We are different, and we provide a different brand of service.

"We believe our success in taking care of our core businesses, our people and our clients is what will ultimately build value for CWB shareholders over time."

Q. The CWB Group is now comprised of several businesses that offer services across different pillars of the financial services industry. Can you explain some of the synergies among the companies in CWB Group and if there are additional opportunities to offer more services to existing clients?

A. People have a relationship with us, so our ability to offer clients a range of products and services across the different pillars of our business means they can get more of what they need directly from us, an organization they already know and trust. Clients really appreciate that. Our challenge is we haven't let many of our existing clients know about all the other products and services we offer. So we're working on that. Sometimes this can be as simple as asking our clients for the right to earn more of their business. We're also taking additional time to identify cross-partnering opportunities. These initiatives are the primary focus of our second strategic theme to "*make the whole worth more than the sum of the parts*."

Q. CWB Group has a long history of strong growth achieved through a combination of organic development and successful acquisitions. How is CWB Group positioned to maintain its strong organic growth?

A. Our business model has always been built on organic growth, whether it's the Bank or any of our affiliate companies. We still have lots of untapped potential across all our businesses. In addition to achieving record results this year within the Bank, National Leasing's earnings were far beyond their best year ever. Canadian Western Trust, which also includes Optimum Mortgage, had a record year as well. Valiant Trust continued to develop and is now much larger than when we acquired it. Canadian Direct Insurance continues to grow steadily and, in addition to contributing solid earnings growth, provides good diversification because it's less susceptible to economic swings.

People sometimes ask why our dividend payout ratio is low compared to the large Canadian banks. It's because we reinvest a much greater share of our earnings to build our capital and support growth. We also leave the capital in place within our various companies so we can say, "use it to grow." Because, if you have the raw materials to grow, you will. We know it works. In fact, we're projecting double-digit growth again for 2012.

Q. Are you currently looking at any acquisition opportunities?

A. We're always interested in purchasing high quality loan portfolios, but, when it comes to strategic acquisitions, you have to be more patient. We never budget for an acquisition. If it happens, it's great; if it doesn't, that's okay, too. We're looking for the prince among the frogs. As I mentioned, we believe we still have lots of growth potential organically, so we're happy to wait for an acquisition that we know is a good fit with both our culture and our current lines of business. We've learned over the years that patience is a huge benefit, and sometimes your best possible move when considering a potential acquisition is no move at all.

Q. In light of macroeconomic factors and ongoing uncertainty in the United States (U.S.) and globally, what are your thoughts on Canada's economic outlook? How do you expect this will impact CWB Group's businesses?

An Interview with Larry Pollock (Continued)

President & CEO

A. I think Canada is in great shape compared to the rest of the world, but we also have to be mindful of global economic risks outside our control. We've got a positive outlook, particularly for our key markets in Western Canada. However, if Europe goes into a further tailspin due to debt problems, or the U.S. goes back into recession, or if growth in China drops significantly, there's no doubt these types of circumstances would have an impact on our markets and our customers. So, we always closely monitor these things. We're prepared for challenges, but maintain a positive view. We have lots of capital, low leverage and we're ready to take advantage of opportunities. We're very pleased with our strategy, and it's working well for our clients and our shareholders.

Q. What would you say are the most significant risks faced by Canadian financial institutions in today's environment?

A. Risks and uncertainties with regard to global banking regulations are definitely something we're monitoring very closely. The industry is evolving toward much more stringent global capital and liquidity standards. The new rules will be implemented starting in 2013, and Canadian banks are generally very well positioned to meet the requirements, but I think regulators and governments have a very challenging job to ensure they maintain effective regulatory standards without inhibiting the ability of banks to support economic growth through lending. Regulations also need to ensure Canadian banks stay on a relatively level playing field with global banks that may be subject to less stringent rules. That being said, with change there's always opportunity. What are the potential advantages for us? Fortunately, CWB already meets the higher capital standards so, as we move forward, we need to determine how to better take advantage of this enviable position.

Q. Can you explain what you are currently seeing in your markets as it relates to competition?

A. We're seeing that growth is a challenge for many of our competitors and a lot of them, in order to achieve growth, are price cutting. And that puts additional pressure on margins in an already low interest rate environment. When stores have a lot of inventory and they need to sell more product, they have a sale. That's what we're seeing right now. There's an industry-wide focus on growing market share, so there's a sale on money. It certainly does affect us, but some of our business lines are a bit different, so we can manage the pressure more easily. Our heavy equipment financing is a good example. This is a big part of our business, but it's not an area that's top-of-mind for most of our larger banking competitors. And the competitors we do have – the factory finance companies and others – often don't offer the same full range of services we do, or have the same channels for funding. We can give clients products like a business bank account, preapproved lines of credit or payroll services, whereas many of our competitors are simply transactional. As I previously mentioned, the benefit we receive from the relationships built during the tough times is also significant.

Q. You have a very deep and highly experienced management team. How is the team structured under your leadership, and how do you see this talent contributing to the Group's ongoing success?

A. We have one chief operating officer and four executive vice presidents who report to me. Each one of them runs a part of our organization – I only provide direction to them. The head of National Leasing also reports to me. Our management structure works well by providing short lines of communication, so we all know what's going on and can make decisions quickly. We develop strategies as

"Our growth numbers are very impressive, as was the improvement in the quality of our loan portfolio, but I'm most proud of the incredible people we have working here."

a team, and the depth and experience of our management means I'm quite often just the last bounce to provide some additional perspective and a final answer. And I guarantee that when you ask me a question you will get an answer. That has been my management style for my entire career, and I can tell you it pays off. I may not always be right, but I'd hope others would see me as batting nine out of ten.

All members of the executive management team have been hand-picked for their jobs. And there's a solid layer of experience and talent behind them as well. There is a succession plan charted for every key position. We're fortunate we have exemplary employees at every level. Our people are self-motivated to do their best and care about the company in ways that go beyond their job descriptions. One good example this past year was when Marie Thompson, a telecommunications officer, found the Bank had been incorrectly charged for several years by one of our service providers. She took it upon herself to track down the appropriate information and succeeded in getting the Bank a refund. It was a significant amount, so this was no small task. We encourage people to make their own decisions and do what's right, and that's exactly what Marie did.

Q. You have been President and CEO for over 22 years. Can you speak a bit about your personal plans moving forward over the next few years?

A. At 22 years, I may just be the longest serving chief executive officer in Canada's banking industry. I'm quite proud of that. In the early days, the Bank was very small, and it was really a labour of love. I joined because I saw it as a tremendous opportunity to build something. I've been very fortunate to be a part of this. I always tell people the real satisfaction in life is doing something every day that you enjoy. And I'm definitely still enjoying every day of my time at CWB Group.

Once I step down from this role, I will stay on for another two years as a special consultant to the Board of Directors – so I'll be involved for awhile yet. I love business and the challenge of identifying opportunities and proposing solutions. And there are still many things I want to see accomplished here before I leave. A few years ago, we established five-year performance targets that included a goal to surpass $200 million of net income by the end of 2013. I'm optimistic that before I've completed my time as CEO we'll be positioned to adjust that target upward quite a bit.

Q. What were you most proud of during the year?

A. I think our growth numbers are very impressive, as was the improvement in the quality of our loan portfolio, but I'm most proud of the incredible people we have working here. They're the biggest part of our success. I'm particularly proud of the development of some of our younger people. I recently met with our equipment financing group and I asked how many came through our management associate program. I bet about 35 hands went up out of the 70 people in the room. That's just incredible, because we hired and trained most of these people right out of school. It's a great example of the benefits of both growing your own talent and giving people strong career opportunities.

Q. Looking ahead, what are CWB Group's key objectives for 2012 and beyond?

A. Our objective is to remain focused on our core businesses and build on our history of double-digit growth. Overall, we're very excited about our future, in both the short term and the long term. I'm looking forward to CWB Group posting another year of record performance in 2012 – that's what we've budgeted for – and we'll see where we go from there. The possibilities are pretty remarkable.

Marie Thompson receives recognition from CWB Group and Larry Pollock for going above and beyond in her role as telecommunications officer.

An Interview with Allan Jackson

Board Chair

Q. You've just completed your first full year as Chair of the Board of Directors (the Board) – what has been your main focus and how have things changed under your leadership?

A. Our main focus has always been on people and strategy, and I wouldn't say that has really changed. We try to spend most of our time on strategic questions – questions related to the businesses of CWB Group: What are the risks we face? How are our markets changing? What are we best at? What do our clients want? What can we do better?

Q. When you say the Board is focused on people, what does that mean?

A. It means we look at what our employees need to be happy and productive because – like any business – a company is only as good as its people. So we make it a priority to work with management to ensure we provide our people with the right tools, the right training and the opportunity to advance in their careers. We have to listen to feedback– both ideas and criticism – and be prepared to support change. We believe companies that focus on the needs of their clients, and their people, always succeed. And that means the shareholders succeed.

Q. How important is a shared vision to the Board and the work you do?

A. I believe it's vitally important to have a shared vision that guides where an organization is trying to go. Otherwise, it's very difficult to succeed. CWB's strategies are developed based on broad input from various levels throughout the Group. Once established and approved by the Board, we work together to ensure the strategies are effectively implemented. The Board and management also have to be open to identifying changed circumstances, and, if warranted, be ready to act. I'm proud to say I believe our Board members and management teams all share a similar set of core values, while still thinking independently about shared objectives.

Q. What do you think are CWB Group's most important competitive advantages?

A. Without doubt, I think our number one advantage is our people. There is just no substitute for talented, hard-working people. Even with a great idea, you need the right people to pull it off effectively, and that's what we have.

I think our second competitive advantage is we stay focused on doing what we understand, and doing it well. We're always open to new ideas, but we need to understand how something works or how it leverages our skills, or we don't go after it. When you look over the fence and see someone else making a lot of money at a particular business, it can be tempting to pursue it. At the end of the day, you need discipline to remain focused on what you do best. It means ignoring many potential distractions while still staying open to real opportunities in your markets.

Q. How do the contributions and expertise from the Bank's affiliate companies make CWB Group stronger?

A. Typically, when we expand through acquisition, we're dealing with a closely related business like National Leasing. National Leasing specializes in the small- and mid-ticket leasing business, which was a part of the leasing business we weren't in. We believed we could learn from each other. And we have.

It also works well when we find related businesses that can offer services to existing CWB Group clients. A good example is Adroit, which now provides investment management services to many banking clients, and to the Bank itself. Or Valiant Trust, which provides stock transfer and related shareholder services to public companies, some of which are also clients of the Bank. In both these situations, as well as others, there are also opportunities for the Bank to provide services to the clients of these businesses – so it works both ways.

"I'm proud to say I believe our Board members and management teams all share a similar set of core values, while still thinking independently about shared objectives."

"CWB Group once again met or exceeded all growth targets in all categories, across all divisions."

We are also very proud of the success of Canadian Western Trust and Canadian Direct Insurance. In fact, in 2011, Canadian Direct was named "Highest in Customer Satisfaction among Auto Insurers in Western Canada," by J.D. Power and Associates.

Our affiliate companies also bring great people into the CWB family. We've benefited from their talent while giving them more opportunities to grow and develop. In turn, both our financial performance and client service get better and better.

Q. CWB added three new members to its Board in 2011. What type of attributes and experience do you look for when recruiting new Board members?

A. We always start by looking for individuals who share a common view of what's important. For us, that means integrity with a firm belief in the importance of being service-oriented and people-focused – the attributes that underpin the values of the CWB Group. If you share these, you're very likely to buy into the vision. As a Board, we believe that providing a great place to work and offering a high level of customer service are what drives success and, ultimately, the bottom line.

We also look for individuals with a strong business background, a reputation for clear thinking, common sense and the strength to stand up for what they believe is right. Then we look for specific skills that we know will complement the skills of those who already serve on the Board.

Q. Has the Board made any recent changes in terms of corporate governance?

A. With the financial crisis that occurred in 2008, the entire banking industry worldwide and its regulators started focusing on better ways to identify and manage risk. CWB Group has always managed its risks wisely and, as a result, I think we came through the banking crisis as well as any bank. We're very proud of that. Even through the worst of the crisis, we were profitable every quarter. In fact, we posted record net income in 2008 and each year since. We've been profitable for 94 consecutive quarters, which is a phenomenal record. Still, we always strive to do better. Over the past year, we've been developing a more robust risk management framework that will help us better understand all the risks we face and how they are interrelated, and ensure we have the tools to identify and address emerging risks. However, it's important to note the objective is not to eliminate risk. Risk is the business we're in. The objective is to make sure it is managed prudently.

Q. Larry Pollock has been the President and CEO for more than 20 years – what are the Board's plans to identify CWB Group's next leader?

A. Larry has announced he will retire as President and CEO in March 2013, and we're already well along in our succession planning process. Larry has led the organization to become what it is today. Through that process, he has also built an incredibly talented management team that, like our Board, firmly believes in our shared values and vision of what's important for CWB Group and our clients. Whoever steps into Larry's role will be very fortunate to have a remarkably strong and committed team behind them, not only at the executive level, but at all levels within CWB Group.

Q. From your perspective, what was CWB Group's most significant achievement over the past year? Did anything surprise you?

A. I think our most significant achievement in 2011 is that CWB Group once again met or exceeded all growth targets in all categories, across all divisions. And no, it didn't surprise me. I'm always impressed, but I'm not surprised anymore by what the people in this organization can do.

Canadian Western Bank

cwbank.com • theworkingbank.ca

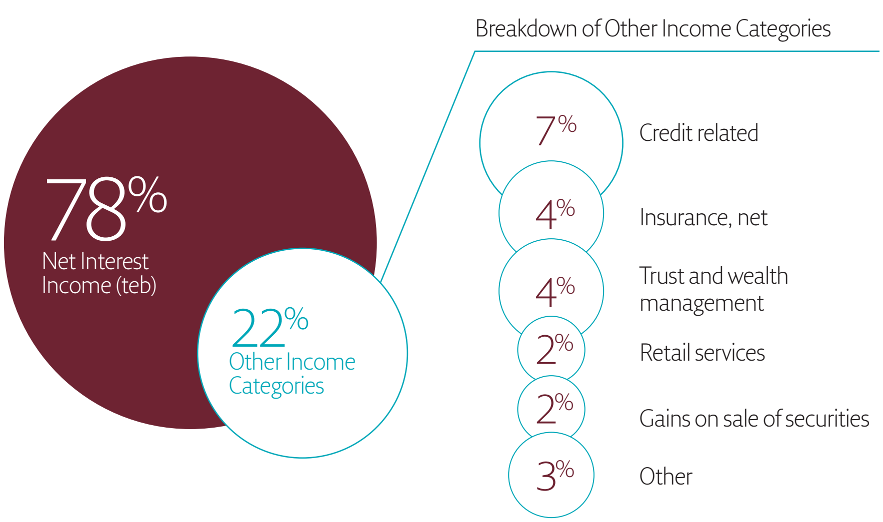
It's amazing how much you can accomplish in just over a quarter of a century. When we finished our first year of operations in 1984, we had only 25 employees and assets of just $50 million. Today, Canadian Western Bank (CWB or the Bank) has assets approaching $15 billion and is the seventh largest Schedule I bank in Canada measured by market capitalization.

We take a common-sense approach to banking, with most of our revenues earned through traditional spread lending. This means we take client deposits and responsibly use this money to offer sensible loans to businesses and individuals across Western Canada and other select regions. Simply put, the difference between what we earn on loans and what we pay on deposits is referred to as net interest income, or the spread on loans. While this may seem almost too straightforward in today's highly complex world, that's the way we like it.

We've proven that a relatively simple strategy can be highly effective.

This common-sense approach continued to serve us well throughout 2011. Despite market volatility and global economic uncertainties, we achieved record total revenues, on a taxable equivalent basis (teb), of $491 million, record net income of $178 million and exceptional annual loan growth of 16 per cent. Our provision for bad loans also remained very low, representing only 0.20 per cent of average loans outstanding. We realized our 94th consecutive profitable quarter, which marked almost 24 years of uninterrupted profitability. We also opened our 40th branch in Western Canada with a new full-service business and personal banking centre in Richmond, British Columbia (BC). Looking forward, we plan to further develop our infrastructure in a cost-effective manner that will both enhance service and facilitate future growth.

Composition of CWB Group 2011 Total Revenues (teb)



Scott Weiss, AVP, Real Estate Lending
Canadian Western Bank

CANADIAN WESTERN BANK
The *Working* Bank™

What we do best

Our focus from the start has been to build on our expertise in business banking for small- to mid-sized companies. We are positioned to understand the unique needs of business clients in Western Canada and we also recognize their significant potential. We specialize in general commercial lending, equipment financing and leasing, commercial real estate financing, real estate construction financing, and energy lending. A quick glance at this list shows that our areas of expertise are a reflection of the industries that drive much of Western Canada's economic prosperity. And that's no coincidence.

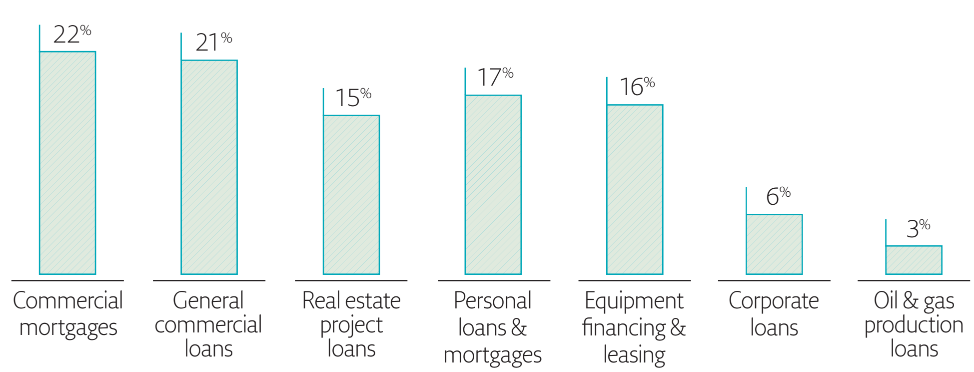
Our commitment to serving the banking needs of our business clients is reflected in our ongoing awareness advertising campaign. Now in its third year, "The Working Bank®" marketing and sales activities have created new business opportunities for CWB. The latest campaign theme, "The Way We Work," expands on the original messaging and increases awareness of what we do and what we offer in our key markets. We know what it takes for businesses to grow and succeed, and confirm this expertise by offering a series of customer testimonials and profiles in both our advertising and on our website **theworkingbank.ca**. We understand our clients' businesses and we share their entrepreneurial spirit.

In addition to our many business banking offerings, we also have a full range of personal banking products and services – everything from personal chequing/savings accounts to Guaranteed Investment Certificates (GICs), mortgages, personal lending and a wide range of third-party mutual funds. Many of our business clients are also personal clients because they recognize that our commitment to exceptional service and customized solutions applies to everything we do.

Whether it's a business looking for a bank that understands its needs, or individuals who appreciate a uniquely western Canadian banking experience, we work to build lasting professional relationships with our clients. We think the fact that so many of our first clients are still with us today speaks volumes about what we offer and the way we do business. And we're working hard to ensure they have every reason to stay with us for many years to come.

CWB Group Loans by Location of Security
(October 31, 2011)

Loans by Lending Portfolio (October 31, 2011)



Canadian Western Bank

cwbank.com • theworkingbank.ca

The right way to work

We've always held ourselves to the same standards our clients use to measure their success. We work hard and stay focused on what we understand and do best. We endeavour to make smart decisions and always look for ways to improve our efficiency and increase productivity. In fact, CWB has one of the best efficiency ratios in the financial services industry. The efficiency ratio measures how much we spend on operating costs to earn $1 of revenue. CWB's efficiency ratio of 45.3 per cent means we spent less than 46 cents to generate every $1 of revenues in 2011 – this compares to the average of Canada's six largest banks of 58.5 per cent. We believe our commitment to focus on what matters, while keeping expenses down and productivity up, matches how our clients run their businesses.

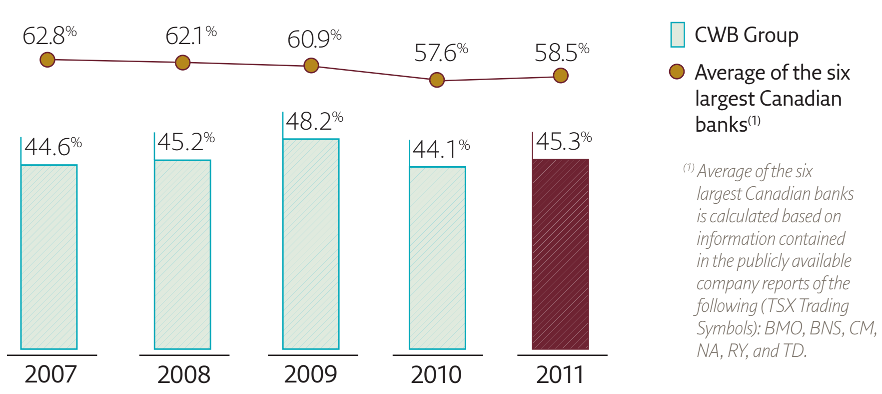
This year's implementation of our new loan origination system in all CWB branches is a good example of how we enhance our business and increase efficiency. This new system, named WAVE™, provides a streamlined credit application process that will allow us to make faster credit decisions and improve client response times. It will give our account managers more time to spend with clients, getting to know their business and building even better relationships. In addition to making the entire loan process quicker and more efficient, WAVE™ will also significantly enhance our tracking and portfolio management capabilities. This adds value for shareholders by giving us more tools to further optimize the Bank's credit profile and overall capital structure.

Our focus on efficiency is balanced with our efforts to grow and diversify the Bank's revenues. We plan to increase sources of fee-based income by enhancing product offerings and expanding our business banking relationships with existing clients. Our success in growing and diversifying the Bank's deposit base will ensure we can support sustained asset growth. This includes further developing our strong base of branch-raised deposits as well as other efficient funding sources. One significant success in further diversifying our funding base in 2011 was our first-ever issuance of floating rate deposits in the debt capital markets.

"When it comes to building long-term relationships, trust is essential. Our clients know who we are and what we stand for, and they can be confident that we'll be here in both the good times and the bad to support them in reaching their goals."

Randy Garvey
Executive Vice President
Canadian Western Bank

Efficiency Ratio (teb) – Industry Comparison



(1) Average of the six largest Canadian banks is calculated based on information contained in the publicly available company reports of the following (TSX Trading Symbols): BMO, BNS, CM, NA, RY, and TD.

> "We've always remained focused on the industries and opportunities we understand because our competitive advantages are centred on doing what we do best. That being said, we also recognize there are many ways we can do things better."

Chris Fowler
Chief Operating Officer
Canadian Western Bank

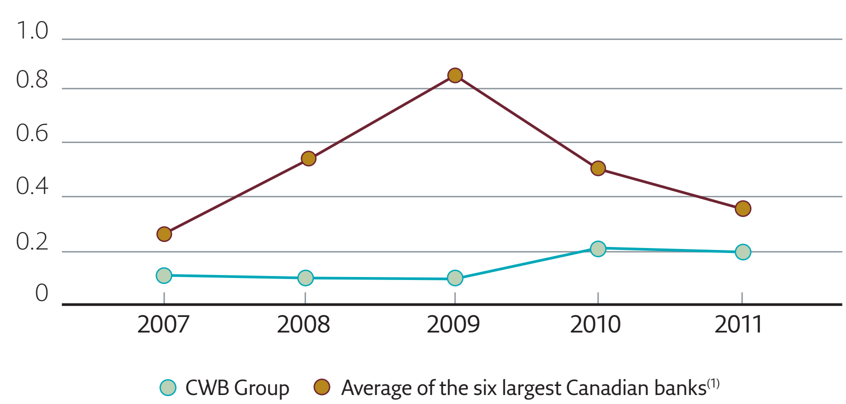
Dave Thomson (L), VP, Credit Risk Management, and Joe Matties (R), AVP, Real Estate Lending, regularly work together to help CWB clients get the business financing they need.

We constantly look for strategies to improve profitability while staying true to our service commitment. Many people come to us because they appreciate our ability to deliver outstanding service, competitive products and client-focused solutions. Once they've worked with us, they know we will recommend what we believe are the best ways for them to reach their goals. We view our clients as partners; we support them and value their choice to do business with us. And that, in turn, allows us to build value for CWB shareholders.

We also work to help our employees reach their professional and personal goals. We value their contributions and offer them a positive, diverse work environment that recognizes their successes, encourages their community involvement and creates opportunities for professional growth. Our commitment to being an employer of choice resulted in CWB being named one of the 50 Best Employers in Canada for the sixth consecutive year.

Additional key factors that allow us to maintain consistent profitability are our strong credit discipline and secured lending practices. We take pride in our ability to provide clients with the financing they need, while also ensuring we are not taking any undue risks for CWB's other key stakeholders. This requires us to understand the financial metrics and security behind every loan. We also work closely with our clients to quickly and effectively manage troubled accounts. This unwavering commitment to strong credit underwriting has led to lower loan losses for CWB compared to other Canadian banks when measured against total loans, and is another way we add value for CWB shareholders.

Provision for Credit Losses (as a % of average loans) - Industry Comparison

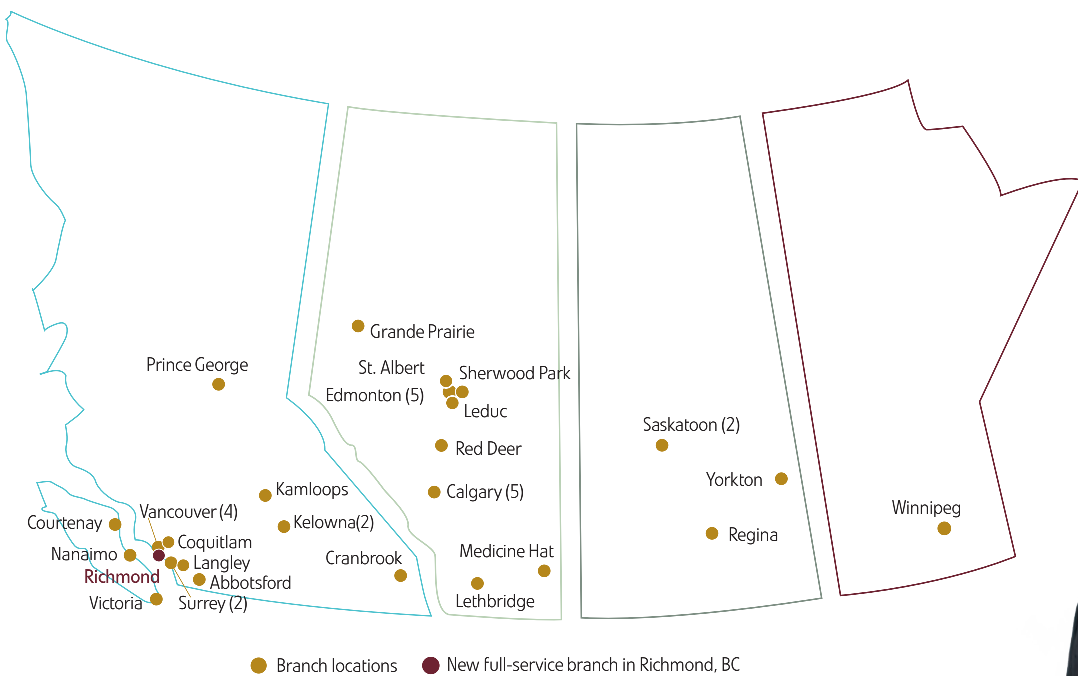


(1) Average of the six largest Canadian banks is calculated based on information contained in the publicly available company reports of the following (TSX Trading Symbols): BMO, BNS, CM, NA, RY and TD.

Canadian Western Bank

cwbank.com • theworkingbank.ca

CWB Branch Locations

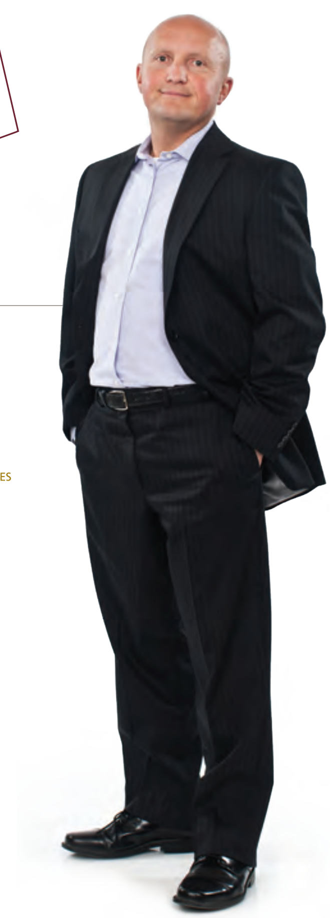


Canadian Western Financial

canadianwesternfinancial.com

CANADIAN WESTERN FINANCIAL
Canadian Western Bank Group
MUTUAL FUND SERVICES

Along with earning and saving, smart investing is crucial to our clients' financial well-being. Canadian Western Financial (CWF) is CWB Group's mutual fund dealer company that helps clients get the most out of their investments. CWF representatives work across CWB's branch network to offer clients sound investment advice and access to mutual fund products from more than 20 well-known third-party fund companies. Our representatives do not work on commission and always focus on recommending investments that are specifically suited to each individual client. Over the past year, the book value of mutual funds held by CWF clients increased 16 per cent. We also teamed up with Canadian Western Trust to deliver what we believe is one of the most unique and efficient Group Registered Retirement Savings Plans (RRSPs) in the marketplace. The plan is designed to meet the needs of small- and medium-sized employers and represents an excellent service option for many of CWB Group's key business clients.



Hilmar Lemke, AVP, Asset Management
Canadian Western Financial

Canadian Direct Financial

canadiandirectfinancial.com

Canadian Direct Financial

A better way to save®

CWB now has 40 branches in communities across Western Canada; however, we know not everyone has a branch close to home. Canadian Direct Financial (CDF) was created to make it easier for people to take advantage of our competitive interest rates, sensible products and exceptional service from wherever they live.

"Our products and great service are available to people any time, from anywhere."

Lawrence Lorimer, Manager
Canadian Direct Financial

User-friendly website

Through **canadiandirectfinancial.com**, CDF serves clients in every province and territory across Canada, with the exception of Quebec. "We are the Internet-banking division of CWB; however, we still have a dedicated customer service team that answers questions and offers clients personalized advice over the telephone. And because we're Internet-based, CDF is accessible any time, from anywhere," notes Peter Morrison, Vice President of Marketing and Product Development with CWB. "This means people can bank where and when they want, and get many of the same great types of products they would get in one of our branches."

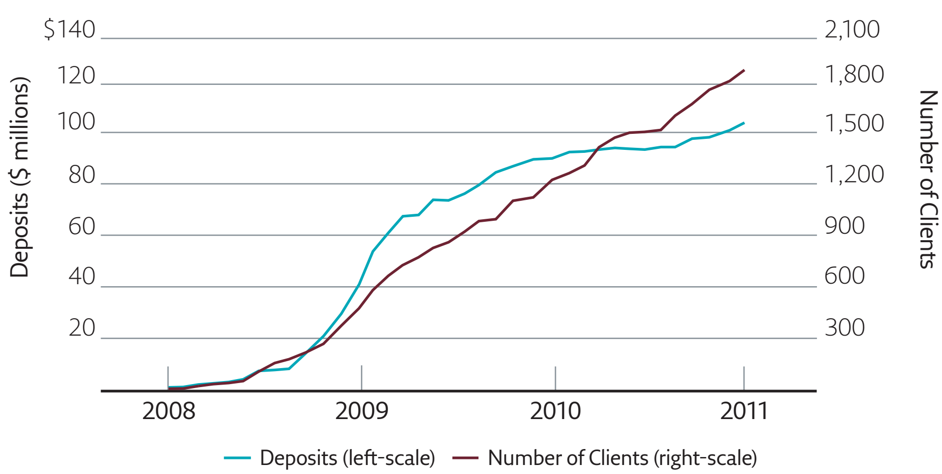
In addition to offering chequing accounts, savings accounts and GICs with highly competitive rates, CDF also offers RRSPs and a Tax-Free Savings Account (TFSA) as part of our *KeyReach*® suite of products.

New products and continued growth

CDF's no-nonsense products and outstanding service gives Canadians *A better way to save*®. This past year, we achieved deposit growth of 15 per cent and a 58 per cent increase in the number of clients. We also expanded our product offerings to include the *KeyFlex*® Mortgage Line, an easy-to-use line of credit that allows people flexibility to meet their changing borrowing needs using the equity in their home. With *KeyFlex*®, homeowners can borrow up to 80 per cent of the value of their home. Once approved, clients can decide when, if and how they want to use it – whether it's consolidating debt, renovating their home or helping their kids through post-secondary education.

As we move ahead, we're working to support CWB Group's shared vision by offering the types of competitive products that clients want and need. Our goal is to diversify and grow deposits across Canada by building on our reputation for offering competitive products and exceptional service.

Client & Deposit Growth (CDF)



National Leasing

nationalleasing.com

Whether a company is just starting out or is ready to reach the next stage of its evolution, having the right equipment is imperative for them to get to where they want to be. National Leasing is a leader in commercial equipment financing for a variety of industries, and offers lease financing solutions for deals that range anywhere from $5,000 to $2 million. In addition to general commercial leasing, we also specialize in medical and dental, golf and turf, and agricultural equipment financing. With the contributions of National Leasing, CWB Group has a presence in every province across Canada.

Our proprietary *FastCredit*™ scoring software allows us to make fair, accurate decisions fast – in fact, we guarantee a credit decision on applications up to $50,000 within four hours of receiving the necessary documentation. Headquartered in Winnipeg, Manitoba, with representation across Canada, we have more than 260 employees who understand the leasing business. We are also the only leasing company in Canada to be ISO 9001:2008 certified, a standard that helps us consistently meet or exceed client expectations while improving our processes and business practices. Not surprising, many of National Leasing's standards for service and quality mirror the vision and principles that guide the entire CWB Group.

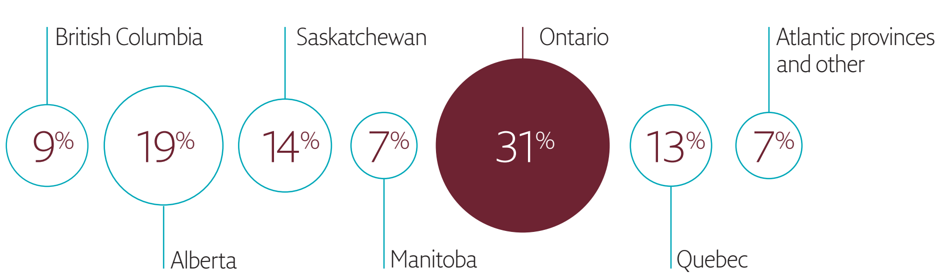
The first full year

"During our first full year as part of CWB Group, we worked to share resources and implement cross-partnering wherever possible, but we only integrated where it made sense," notes Nick Logan, President and CEO of National Leasing. The increased capital and improved funding sources provided by the Bank have added to our competitive advantages and allowed us to further expand our reach across different industries. We nearly doubled our annual earnings since 2009, based on both improved financing margins and a record volume of applications in 2011. Our leases under management reached almost $800 million, and our strategic plan is focused on surpassing the $1 billion milestone in the foreseeable future. National Leasing's success has made strong contributions to CWB Group's financial performance, diversification and future growth profile. Our success in cross-partnering with other CWB Group companies has also made it easier for certain clients to access a broader array of financial services options.

As we look forward, our goal is to build on National Leasing's reputation as Canada's premier provider of equipment lease financing solutions. We expect to achieve solid organic growth across all areas of our business and will continue to investigate opportunities to acquire lease portfolios from our competitors. Most important, we will continue to deliver the exceptional level of service and customized solutions that have made us successful throughout our history.

"Our goal is to be Canada's premier provider of equipment lease financing solutions."

Provincial Breakdown of Leases (October 31, 2011)



Candice Dowhaniuk, Account Manager
National Leasing

Canadian Western Trust

cwt.ca

CANADIAN WESTERN TRUST
Canadian Western Bank Group
Service you can trust.®

"We always offer a fast response, meticulous attention to detail, and a flexible, solutions-oriented approach."

Ryan Green, Corporate Trust Administrator
Canadian Western Trust

Canadian Western Trust (CWT) provides exceptional service and expertise on trustee and custodial solutions for financial advisors, corporations and individuals across Canada. We've been a leader in trust services since 1987 and currently operate two business units: Individual Retirement and Investment Services (IRIS) and Corporate and Group Services (CGS). Although each unit has a different focus, both offer the same high level of service and customized client solutions that are synonymous with CWB Group.

IRIS and CGS

IRIS focuses on providing a full range of trustee, custody and record-keeping services for independent financial advisors, mortgage brokers, individuals and group RRSP plans. Revenues within IRIS are largely driven by fee income earned from the various account and administrative services we provide. IRIS has more than 47,000 accounts and holds over $3.3 billion of assets under administration.

CGS provides similar trustee, custody and record-keeping services to pension plans, custody operations and investment managers. In addition, we offer high-end tax deferred products for small business owners and senior executives of large corporations. Revenues within CGS are comprised of both fee income and deposit interest income. CGS has over 690 direct clients, representing approximately 150,000 employees and individuals, and more than $3.3 billion of assets under administration.

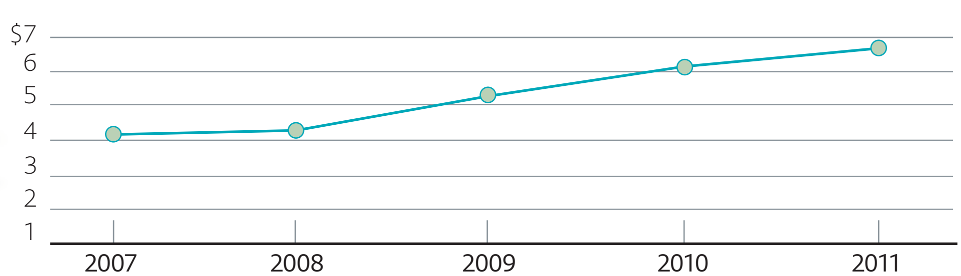
Continued growth

"In a time of change, uncertainty and consolidation within our chosen trust services markets, CWT continues to be a consistent and stable partner that our clients can depend on for the long term," notes Matt Colpitts, Vice President and General Manager of CWT. "For us, consistency means continually building on our reputation of providing great service and innovative products that our clients deserve." Our employees are highly engaged and committed to CWT's *Service you can trust*® philosophy. This philosophy makes sure we always offer a fast response, meticulous attention to detail, and a flexible, solutions-oriented approach.

We believe training, education and ongoing investment in our people puts us in the best position to continually grow and exceed our clients' expectations. We have also devoted considerable time and effort to further integrate and improve our systems. These technology improvements allow us to enhance our offerings for existing clients while also building our future service capacity.

With offices in Vancouver, Calgary, Edmonton and Toronto, CWT is poised to expand our reach and further diversify CWB Group's operations. We are also committed to help existing CWB Group clients understand the full scope of retirement, custodial and trustee services that are available to them.

CWT Assets Under Administration ($ billions)



Optimum Mortgage
optimummortgage.ca

OPTIMUM MORTGAGE
A Division of Canadian Western Trust
Sensible Lending®

When it comes to owning a home, finding the right mortgage often requires people who are willing to take the extra time to understand the specific circumstances of each individual client. Optimum Mortgage, a division of CWT, works with a team of more than 6,500 mortgage brokers located across Western Canada and select regions of southern Ontario. We offer our brokers a variety of financial solutions for their clients, including alternative mortgages, traditional mortgages, and high-ratio insured mortgages.

We know from experience that small business owners and other individuals who are self-employed often have challenges confirming their income. We also know there are many people who fall just outside the specific lending guidelines of more traditional mortgage providers. Our alternative (Alt-A) mortgage offerings were created specifically to meet the needs of these types of clients.

A more sensible approach

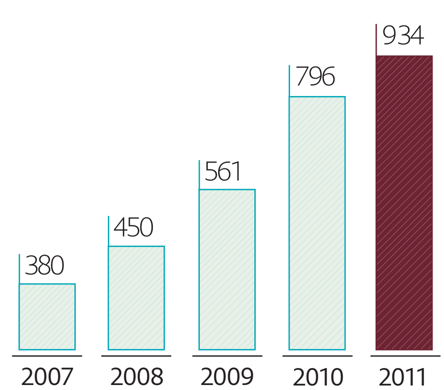
Optimum's *Sensible Lending*® approach goes well beyond just credit scores and debt ratios. It allows us to carefully review every potential deal and make common-sense credit decisions based on the merits of each application. Among other things, we consider the value of the property, the amount of the down payment and the borrower's job or other sources of income. We then use this information to make responsible lending decisions that help mortgage brokers offer their clients preferred mortgage options.

We take the same sensible approach in partnering with our network of mortgage brokers, offering personalized service and prompt, efficient responses to all applications. "Our brokers know that when they contact us, we'll answer their questions quickly and respond to their applications promptly – usually within 24 hours," states Les Shore, Vice President and Manager of Optimum Mortgage. "And they know that whenever they call, they'll talk directly to one of our more than 40 employees – without ever having to make their way through a maze of voice mail."

Our *Sensible Lending*® philosophy helped many Canadian homebuyers throughout 2011. Our total loans grew 17 per cent to reach $934 million at year end. Optimum's current portfolio is comprised of more than 3,700 mortgages on individual properties located throughout our key markets.

As we move into 2012 and beyond, we'll continue to deliver the products and services mortgage brokers need for their clients. We're also looking to further expand our Canadian broker network and are evaluating additional opportunities to provide mortgages directly to individuals via the Internet.

Total Optimum Mortgage Loans ($ millions)



"Mortgage brokers know that when they contact us, we'll answer their questions quickly and respond to their applications promptly."

Mitch Estrada, Manager,
Mortgage Administration
Optimum Mortgage

Valiant Trust

valianttrust.com

VALIANT TRUST
Canadian Western Bank Group

A reputation for getting things done.®

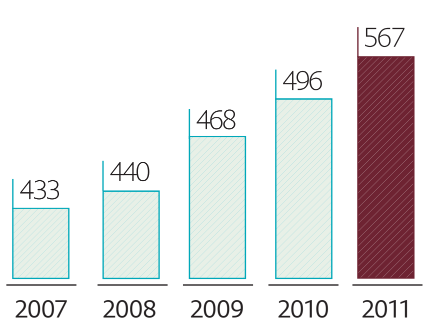
"Corporations and organizations choose us, and stay with us, because they know we can meet their needs."

Julia Yan, Director,
Business Development
Valiant Trust

Corporate clients who require responsive and reliable services can count on Valiant Trust; we have *A reputation for getting things done*®. With offices in Vancouver, Calgary, Edmonton and Toronto, we are a specialty trust services provider and federal deposit-taking institution that is focused on Canadian operations. We mainly provide trust services in the areas of stock transfer, corporate trust, escrow, and employee plan services to public and private corporations. Our stock transfer service has more than 152,000 active registered holders with a combined number of shares issued and outstanding of over $19 billion. We process more than 1,600 security registration transfers per month and, over the past six years, have distributed in excess of $21 billion in cash entitlements to security holders on behalf of our clients.

"We provide exceptional service and help our clients communicate clearly with their security holders and regulatory bodies. Corporations and organizations choose us, and stay with us, because they know we can meet their needs," says Adrian Baker, Chief Operating Officer of Trust Services and President of Valiant Trust. We take pride in our attention to detail and always act fast when clients make a request. We are responsive to questions and offer expert, professional advice. To maximize convenience for our clients, we've also created *VWeb*, an Internet-based service that provides secure, anytime access to essential company reports.

Number of Client Appointments



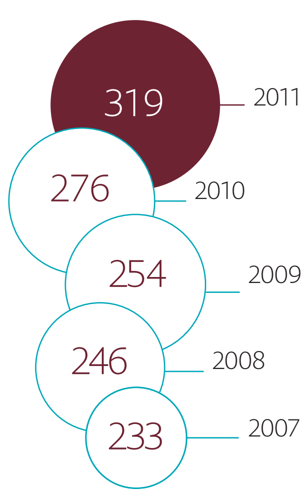
The number of client appointments is a primary driver of revenues and confirms Valiant's increased market presence.

Continued growth and expansion

Our goal is to continually expand our market presence by building on our reputation and earning business away from our key competitors. In 2011, we served more than 300 companies through 560-plus client appointments. We also realized significant successes from our targeted business development activities in Toronto, which represents a key market for Valiant's future growth.

Another highlight was Valiant's offering of GICs through CWB branches after obtaining a licence from the Canada Deposit Insurance Corporation (CDIC). Valiant's CDIC licence complements the deposit insurance already available through the Bank and CWT, and provides CWB Group with the capacity to offer clients an additional channel for insured deposits. Now that CWB, CWT and Valiant are each federal deposit-taking institutions, clients can "stack" CDIC insurance across multiple holdings. Adding this source of insured deposits to Valiant's balance sheet also allows us to better deploy our capital and increase the earnings potential for CWB Group.

Number of Clients



Canadian Direct Insurance

canadiandirect.com

Canadian Direct Insurance (Canadian Direct) offers customers in BC and Alberta more ways to save on their auto, home and travel insurance. By offering insurance products directly via the telephone and Internet, we lower costs for our customers.

We make it easy for customers to get quotes, ask questions, compare rates and secure the auto, home and travel insurance coverage they need – all without leaving the comfort of their home. In BC, customers can also choose to talk face-to-face with representatives from our select channel of auto insurance brokers.

Committed to customer satisfaction

Canadian Direct was built on the promise of delivering unparalleled customer service in an industry where service is often overlooked. This means we always work hard to meet and exceed expectations – we return calls promptly, answer questions clearly and crunch numbers with precision. Our customer satisfaction rates tell us we're doing things right.

We are very proud to be ranked "Highest in Customer Satisfaction among Auto Insurers in Western Canada" by J.D. Power and Associates* in their 2011 *Canadian Auto Insurance Study*SM. The study measures customer satisfaction across five factors: interaction; price; policy offerings; billing and payment; and claims.

Canadian Direct's current position as one of the fastest growing insurance companies in Western Canada didn't happen by chance, and we believe the positive feedback from our customers tells a good part of our story. "We think it speaks volumes about our service that so much of our new business is built on existing clients referring their friends and family to us," explains Brian Young, President and CEO of Canadian Direct. "People don't make those recommendations unless they're happy with the service and the rates they're getting."

During 2011, Canadian Direct surpassed 190,000 of policies outstanding by attracting clients through each of our three distribution channels. In addition to customer growth, strong net insurance revenues were realized by maintaining our disciplined insurance underwriting and efficient claims management processes. Our claims ratio, which measures claims expense as a percentage of revenue earned from premiums, was 64 per cent, and our expense ratio, which measures operating costs as a percentage of revenue earned from premiums, was 29 per cent. As we move into 2012 and beyond, we plan to achieve continued growth and profitability by offering affordable and relevant insurance products that meet the needs of our customers.

"We were built on the promise of delivering unparalleled customer service in an industry where service is often overlooked."

Suzanne Caldwell,
Senior Operations Assistant
Canadian Direct Insurance

Canadian Direct Highlights

Canadian Direct Highlights	2007	2008	2009	2010	2011
Policies outstanding	164,263	168,071	175,662	185,167	**190,994**
Gross written premiums ($ millions)	$104.8	$107.1	$116.8	$124.5	**$129.7**

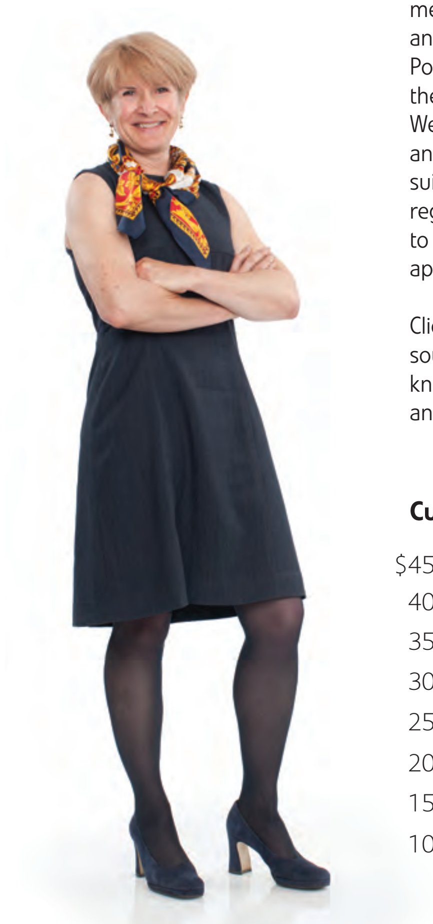
**Canadian Direct Insurance received the highest numerical score among auto insurance providers in Western Canada in the proprietary J.D. Power and Associates 2011 Canadian Auto Insurance Customer Satisfaction Study*SM*. Study based on 11,286 total responses measuring 11 providers in Western Canada (AB, BC, MB, SK) and measures consumer satisfaction with auto insurance providers. Proprietary study results are based on experiences and perceptions of consumers surveyed in July-August 2011. Your experiences may vary. Visit jdpower.com*

Adroit Investment Management

adroitinvestments.ca

ADROIT INVESTMENT MANAGEMENT
Canadian Western Bank Group
Sound decisions. Solid results.

"Clients know they can count on us to deliver sound decisions and solid advice."



Maria Holowinsky,
Executive Vice President
Adroit Investment Management

Knowing where to invest and how to do it right can be intimidating for many people. Adroit Investment Management (Adroit) is an investment counselling firm helping clients understand, build and maintain an investment portfolio that is right for them.

Our experienced investment professionals work directly with individuals, corporations and institutional clients (including non-profit organizations, colleges, foundations and endowment funds) to maintain an investment portfolio that meets their specific goals. We meet face-to-face with clients at the outset of any relationship to establish detailed Investment Policy Guidelines – a set of rules that spells out their long-term objectives and tolerance for risk. We then use this information to make decisions and build a diversified investment portfolio best suited for their unique interests. We also maintain regular communication with our existing clients to ensure the Investment Policy Guidelines appropriately reflect their current position.

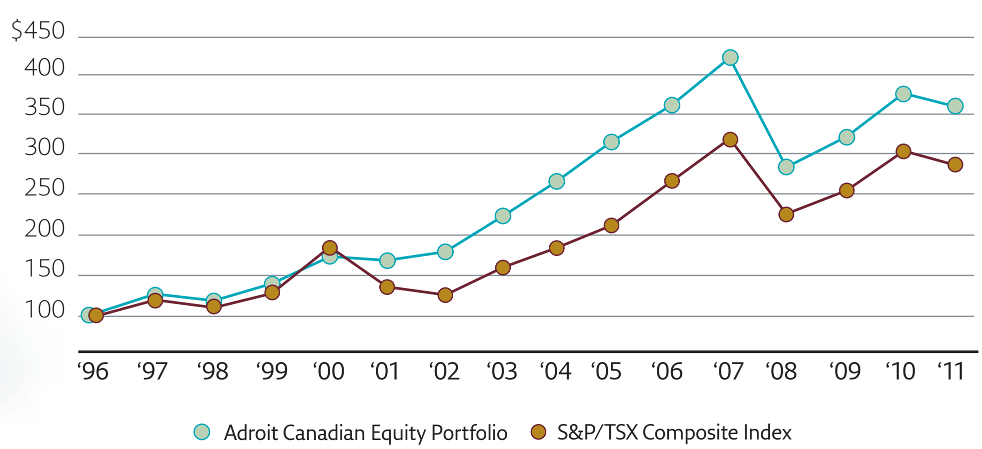
Clients know they can count on us to deliver sound decisions and solid advice. They also know we adhere to the highest ethical standards and will always maintain our conservative and consistent principles to achieve long-term investment growth. "We take our jobs, and the trust clients place in us, very seriously," explains David Schuster, President and CEO of Adroit. "Our investment philosophy and our reputation are based on integrity, trust and discipline – these basic principles guide everything we do on behalf of our clients."

Strong investment performance

Our conservative growth principles, exceptional service and customized client solutions have resulted in strong relative investment performance, even in the midst of ongoing volatility in global markets. Throughout 2011, we worked to adjust portfolios where required to ensure we maintained an optimal balance between risk and potential reward. Currently, our client assets under management are approaching $1 billion.

Our strategies for continued growth are based on helping clients achieve their investment goals while we work to expand our geographic reach. We devoted considerable time over the past year to enhance our business development strategy, which includes identifying more ways to help existing CWB clients across Western Canada.

Cumulative Value of $100 Invested on October 31, 1996



Corporate Social Responsibility

cwbankgroup.com/csr

CWB Group's shared vision of what matters and what's possible has always included our belief in the importance of being a good corporate citizen.

Although Corporate Social Responsibility (CSR) is now an industry standard, supporting our people, giving back to our communities, and creating sustainable processes and practices have been fundamental parts of our business from day one.

In the following pages, you'll find information about our economic impact, how we make our products and services more accessible, our environmental efforts, and how we support our employees in reaching their professional and personal potential. If you'd like to know more about our CSR activities, please visit **cwbankgroup.com/csr**.

Left to Right: Angela Saveraux (Manager, Community Investment), Janessa Donald (Sales & Service Representative), Russ Dalgetty (AVP, Commercial Banking), Andy Chen (Senior Internal Auditor & Green Team Member) and Pam Choi (Employee Relations Specialist)

Economic Impact

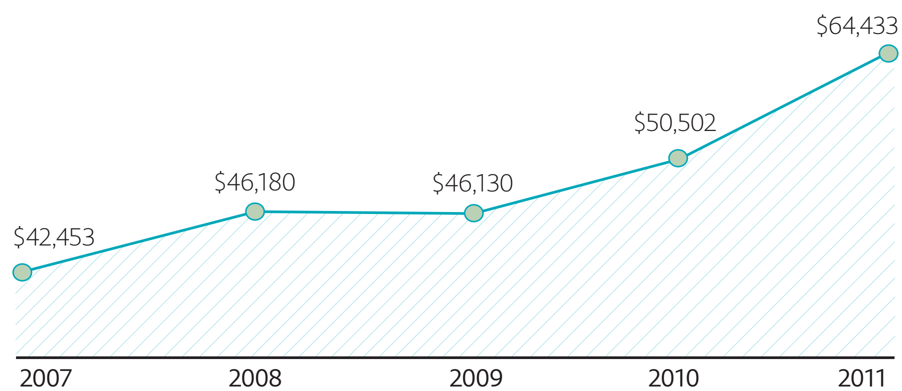
It's no surprise the largest publicly traded bank headquartered in Western Canada contributes to the economic health of western Canadian communities. CWB Group serves thousands of businesses each year, providing them with the financial products they need to grow their revenues and expand their opportunities. From loans and leases to other complementary financial services, we help business people do what they do best. In turn, they can strengthen the economy by investing in their companies and creating more jobs. At the same time, we work with personal clients to help them meet their financial goals, including offering the mortgage, insurance and wealth management services they need. Total loans outstanding to CWB Group clients grew by more than $1.7 billion in 2011. We created value for our shareholders, as demonstrated by our 2011 return on common shareholders' equity of 15.6 per cent. We also paid more than $54 million of dividends to CWB common and preferred shareholders.

Our spending

With more than 1,900 employees working in 50 different communities, the salaries and benefits earned by our people have a direct and measurable economic impact. Our employees reinvest their income in the communities where they live, shop, dine, play and pay taxes. In total, CWB Group invested more than $141 million in employee salaries and benefits in 2011. We also paid more than $64 million in government taxes, which included approximately $42 million in federal income taxes and more than $22 million in provincial income and capital taxes.

Our business practices and growth also create economic activity. In 2011 alone, we invested approximately $18 million in office leasing and maintenance. This past year, we opened a new branch in Richmond, BC and expanded our branch in Medicine Hat, Alberta to offer full-service banking. These projects, among many others, created activity that crossed numerous economic sectors and utilized dozens of local businesses. Each year, CWB Group spends more than $4 million on office supplies and travel costs. Add it all together – net new loans, dividends, compensation, taxes, and general corporate spending - and CWB Group injected more than $2 billion into businesses and the economy last year alone.

Total Federal and Provincial Income and Capital Taxes Paid ($ millions)



Corporate Social Responsibility

cwbankgroup.com/csr

Marketplace

We've always believed everyone deserves the chance to benefit from the products and services we offer – which includes the many Canadians living with low incomes. That's why we offer all our clients a flexible, low-cost chequing account for as little as $4/month. We waive monthly account fees for youth under 18 and students pursuing post-secondary studies. Our *Gold Leaf Plus*® account waives fees for our clients aged 57 or older. We help senior citizens by offering them an option to receive monthly interest payments on certain types of investments, as well as reduced fees on safety deposit box rentals.

CWB's new branch in Richmond, BC is one of our locations that provides financial services in multiple languages.

Removing barriers

We've made sure all our facilities are accessible to people with varying levels of mobility by making every branch wheelchair friendly and offering sit-down banking alternatives. And we've created more services in banking, trust and insurance that are accessible online and/or over the telephone to give our clients the flexibility to better manage their financial needs from the comfort of their home or office.

We know that new Canadians often struggle to receive the service and support they need, which can sometimes be a result of language barriers. The diversity and experience of our employees allows us to offer services in multiple languages. This makes it easier for clients to ask questions and share important information without fear of being misunderstood. It also creates a banking experience that is welcoming for everyone.

Our new branch in Richmond, BC is a great example of our commitment to offer financial services to culturally diverse clients. The branch is fully multilingual and can serve clients in both English and Chinese languages.

"Everyone deserves the chance to benefit from the products and services we offer."

Michael Yeung,
AVP and Branch Manager
Richmond Branch

"Our employees volunteer countless hours giving back to charities and other worthwhile organizations."

Carolyn Graham, Senior VP and Chief Accountant, received an Employee Volunteer Grant for her volunteer work with Habitat for Humanity.

Community

Giving back to the communities where we live and work has always been part of our vision to be a good corporate citizen. We invested approximately $1.6 million into our communities in 2011 through charitable donations and sponsorships that were mainly within our three target areas: health, wellness and caregiving; education; and community and civic services. The money was used to support dozens of community agencies, fundraising campaigns, charitable associations, scholarships, awards and programs throughout our key markets.

Volunteering time and energy

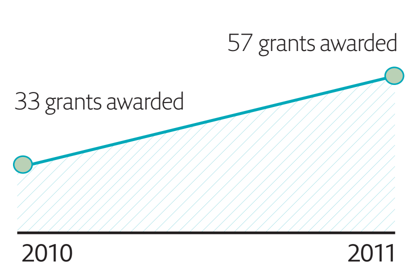
Our employees volunteer countless hours in their respective communities while also giving back to charitable and other worthwhile organizations. Just a few examples include Canadian Direct's employees in Vancouver who support the Greater Vancouver Food Bank and BC Children's Hospitals. In Winnipeg, National Leasing employees have built affordable homes for low income families through Habitat for Humanity. And in Calgary, employees from CWB have taken time out of their day to serve lunch at the Calgary Drop-In & Rehab Centre.

In recognition of the commitment our employees bring to volunteering, we created the *Western Spirit* program, which includes both our *Employee Volunteer* grant and *Funds for Fundraisers* grant. The *Employee Volunteer* program offers a $250 grant to an employee's charity of choice when they volunteer 50 hours or more of their own time within their community. The *Funds for Fundraisers* program matches the donations employees raise through various pledge-based charity events, dollar-for-dollar, to a maximum of $250 per individual and $1,500 per team. Over the past two years, we've donated more than $60,000 through the *Western Spirit* program, and we saw an 83 per cent increase in the number of grants awarded in 2011.

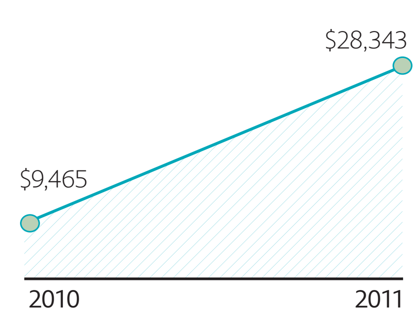
Encouraging community investment

Based on an idea submitted by one of our employees, we've created a way for our clients to invest in their communities while also strengthening their own financial future. During the months of September and October, for every dollar our clients invest in *The Greater Interest GIC®*, CWB makes a donation of 1/8 per cent to the local Big Brothers Big Sisters agency in the community where the deposits are raised. Since 2008, CWB has donated more than $840,000 to support mentorship opportunities for Canada's youth. In 2010, CDF introduced a similar product – the *KeyGiving GIC®* – which allows clients to invest in GICs online, with donations directed to the national office of Big Brothers Big Sisters. To increase the profile of CWB Group's work in the community, we now feature related information, updates and photos on the *CWB Group In the Community* Facebook page **(facebook.com/CWBcommunity)**.

Employee Volunteer Grants



Funds for Fundraisers Grants



Corporate Social Responsibility

cwbankgroup.com/csr

Environment

Environmental responsibility is more than good business – it's common sense. After all, we live, play and raise our families in the communities where we work and support economic growth. And whether it's as good corporate citizens or as responsible individuals, we all have a vested interest in creating a sustainable future.

CWB Group takes our commitment to environmental responsibility seriously, both in our actions as a successful financial services organization and as a facilitator and driver of economic growth. From using online statements, tools and processes to reduce our paper usage, to incorporating environmentally friendly design elements into our branches, we're making sustainability a part of the way we do business.

The new data centre at CWB Group's corporate office stores more data in less space, which saves money and reduces our impact on the environment.

The recent conversion of the data centre at our corporate office is an excellent example of the impact sustainable choices can make. Our new data centre utilizes server virtualization technology to store more data in less space. This change substantially lowered cooling and electrical costs, leading to estimated annual energy savings of 1,884,513 kWh.

We encourage CWB Group employees to explore environmental initiatives and projects at work and in their communities. In recent years, our employees have established environmental teams, like the *CWB Green Team* or Canadian Direct's *EcoSquad*, that focus on finding innovative ways to reduce our carbon footprint. In addition, employees have spearheaded office recycling programs, transitioned lunchrooms to ceramic cups and stainless steel cutlery, and provided all staff with monthly "Green Tips" through our Intranets.

Our commitment to the environment also guides our lending decisions. Our lending practices require us to perform due diligence to help identify the potential risks and environmental impacts of a client's business operations. If our process identifies any material risks, we encourage clients to revise their plans to reduce these risks. In instances where the issue can't be resolved to our satisfaction, we'll deny the application.

This Annual Report uses FSC certified paper that comes from well-managed forests. The paper used for the report contains 100% Post Consumer Recycled fiber instead of virgin paper and is produced using wind power. As a result, the following savings to our natural resources were realized:[1]

Eco Audit

Trees Saved
290

Energy Not Consumed
(Million BTU'S)
118

Wastewater
(Water Saved gals.)
132,736

Wood Saved (lbs.)
42 Tons

Net Greenhouse Gases Prevented
(lbs. Co2 Equiv.)
29,435

Solid Waste
(Landfill Reduced lbs.)
8,414

[1] Eco audit information is based on use of the following products: 11,000 sheets of 26 x 40 Lenza 92lb Cover 368M and 180,000 sheets of 23 x 35 Lenza 60lb Text 102M. Data research provided by environmentaldefence.org

People

"Our employees not only share our vision of what a good corporate citizen should be – they helped shape it."

Rejean Roberge of Optimum Mortgage was the first employee CWB Group hired through social media networks, which was a new effort by our human resources team this year.

Much of what we've accomplished over the past 27 years is because of the talent, dedication and enthusiasm our employees bring to their work. They not only share our vision of what a good corporate citizen should be – they helped shape it.

We hire people who share our values, our attitude and our commitment to delivering exceptional service. And once they're part of our team, we reward them with competitive salaries, outstanding benefits, and opportunities to grow and advance in their careers. We also offer initiatives like our *CWBalance*® program to promote a healthy work/life balance, and our Employee Share Purchase Plan (ESPP) that encourages employees to become CWB shareholders. Today, more than 94 per cent of our employees are CWB shareholders through the ESPP.

It's an approach that has helped us build a dynamic, loyal team that is invested in our success. It's also allowed us to continue to attract the best and the brightest. This past year, the number of full- and part-time employees increased by 111 people, bringing our total number of employees to 1,939.

Reaching potential employees

Although many of our new employees come to us through traditional hiring practices, a growing number come through our Employee Referral Incentive Program. The program, which offers employees a monetary payment for referrals that result in a successful hire, is based on the idea that the people who work here know exactly what we're looking for in new employees. They can also vouch for what we have to offer. In 2011, we received 308 referrals, which resulted in 125 hires. Over the past 10 years, we've hired a total of 757 new employees through this program.

This past year, for the first time ever, we began using social media platforms such as Twitter and LinkedIn as a way to reach potential employees. We received positive responses on these initiatives and were pleased to make our first new hire based on a social media referral. We're also encouraging employees to begin using social media as a way to connect with colleagues and clients, conduct research and share information on CWB Group's products and services.

Encouraging excellence

It's because we recognize how valuable our employees are that we've created training programs that encourage them to set and reach new goals. Two years ago, we launched the CWB Learning Centre, an internal website dedicated to providing management and leadership training for CWB Group employees. We also pay up to 100 per cent of tuition and other related costs for approved programs and courses offered by external sources, and will cover the cost of relevant professional dues. In total, we spent more than $1.7 million on training and development for our employees in 2011.

We devote time and resources to ask our employees what matters most to them when it comes to their compensation and benefits. Focus groups were held in Vancouver, Calgary and Edmonton this past year to gather input and ideas about our long-term compensation plan. Many of the ideas that come out of these focus groups are now being incorporated into our compensation planning process.

Our commitment to creating a rewarding working environment was recognized again in 2011 when we were named one of the *50 Best Employers in Canada* for the sixth year in a row. We're both humbled and grateful for the award, which lets us know our employees appreciate us as much as we appreciate them.

Corporate Governance

cwbankgroup.com/investor_relations/corporate_governance

CWB's Board of Directors (the Board) is responsible for developing and monitoring CWB Group's governance structure. The Board's objective is to effectively oversee operations for the benefit of customers, employees, shareholders and other stakeholders.

The Board

The Board is comprised of fourteen business and community leaders whose broad experience, individually and collectively, is invaluable in developing the strategic direction of CWB Group and ensuring appropriate levels of accountability are maintained. Thirteen of the fourteen directors are independent. Mr. Pollock, CWB's President and Chief Executive Officer, is the only non-independent director. It is a regulatory requirement that the President and Chief Executive Officer sit on the Board.

Requirements and best practices

The Board regularly reviews CWB Group's governance practices to ensure adherence to all legal and other regulatory requirements, including those of the Office of the Superintendent of Financial Institutions, the Canadian Securities Administrators and the Toronto Stock Exchange. The Board also supplements corporate governance requirements by evaluating and, where appropriate, implementing corporate governance practices advanced by groups that represent the interests of shareholders and other stakeholders.

Clearly defined roles

CWB Group's corporate governance framework is supported by clearly defined mandates for the Board and each of the Board Committees. In addition, the Board has adopted written mandates for the Chair of the Board and the Chairs of Board Committees. These mandates, which the Board reviews annually, outline areas of responsibility and provide for accountability at the Board level.

"It's important to note the objective is not to eliminate risk. Risk is the business we're in. The objective is to make sure it is managed prudently."

Allan Jackson
Board Chair
Canadian Western Bank

Left to Right: Robert Phillips, Gerald McGavin, Wendy Leaney (seated), Larry Pollock, Arnold Shell, Howard Pechet, Robert Manning, Allan Jackson, Linda Hohol, Raymond Protti, H. Sanford Riley, Alan Rowe, Albrecht Bellstedt (seated) and Ian Reid

Board of Directors

- **Albrecht W. A. Bellstedt, Q.C.**, President, A.W.A. Bellstedt Professional Corporation, Canmore, Alberta
- **Linda M.O. Hohol**, Corporate Director, Calgary, Alberta
- **Allan W. Jackson** (Chairman), President & Chief Executive Officer, ARCI Ltd., Calgary, Alberta
- **Wendy A. Leaney**, President, Wyoming Associates Ltd., Toronto, Ontario
- **Robert A. Manning**, President, Cathton Investments Ltd., Edmonton, Alberta
- **Gerald A.B. McGavin, C.M., O.B.C., FCA**, President, McGavin Properties Ltd., Vancouver, British Columbia
- **Howard E. Pechet**, President, Mayfield Consulting Inc., Rancho Mirage, California, USA
- **Robert L. Phillips, Q.C.**, President, R.L. Phillips Investments Inc., Vancouver, British Columbia
- **Larry M. Pollock**, President & Chief Executive Officer, Canadian Western Bank, Edmonton, Alberta
- **Raymond J. Protti, ICD.D**, Corporate Director, Victoria, British Columbia
- **Ian M. Reid**, Corporate Director, Edmonton, Alberta
- **H. Sanford Riley, C.M.**, President & Chief Executive Officer, Richardson Financial Group Limited, Winnipeg, Manitoba
- **Alan M. Rowe, CA**, Partner, Crown Realty Partners, Toronto, Ontario
- **Arnold J. Shell**, President, Arnold J. Shell Consulting Inc., Toronto, Ontario

Directors Emeritus

- Jack C. Donald
- John Goldberg
- Jordan L. Golding
- Arthur G. Hiller
- Peter M.S. Longcroft
- Alma M. McConnell-Kingston
- Dr. Maurice W. Nicholson
- Dr. Maurice M. Pechet

Fostering an ethical culture

The Board approves all major strategy and policy recommendations for CWB Group and ensures that management maintains a culture of integrity throughout the organization. CWB Group has codes of conduct for all directors, officers and employees, and the Board monitors compliance with these codes. In addition, a whistleblower policy allows for the anonymous reporting of complaints and concerns.

Risk management

The Board plays an integral role in CWB Group's enterprise risk framework and directly oversees risk management to ensure a comprehensive approach to risk.

CWB's director and executive compensation policies are also designed with risk management in mind. Directors and senior officers are required to maintain a minimum level of share ownership to ensure their decisions align with the interests of shareholders. Executive compensation policies are linked to CWB Group's performance and a recoupment or "clawback" policy discourages excessive risk taking.

For more information

The annual proxy circular contains information about each director, a detailed discussion of the responsibilities of the Board and each Board Committee, and a description of CWB's corporate governance practices.

The Corporate Governance section of the CWB Group website contains information on CWB Group's corporate governance practices, including the mandate of the Board, the mandates of each of the Board Committees, the Personal and Business Conduct Policy for CWB Group's officers and employees, and the Personal and Business Conduct Policy for directors.

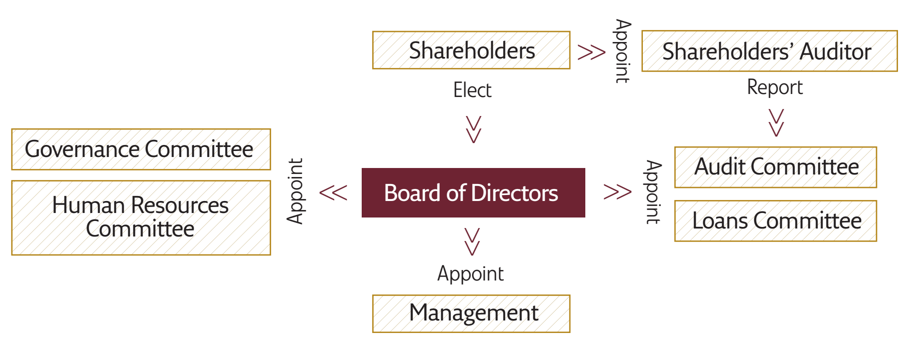
A higher standard – CWB Group's corporate governance initiatives

Fiscal 2011
CWB adopts a recoupment or "clawback" policy whereby senior executive bonuses, option grants and restricted share grants may be clawed back.

Fiscal 2010
CWB adopts a "say-on-pay" resolution, allowing shareholders to express an opinion on CWB's approach to executive compensation.

Fiscal 2009
CWB does away with "slate" voting, allowing shareholders to vote on individual directors.

Overview of Corporate Governance Structure



Corporate Governance

cwbankgroup.com/investor_relations/corporate_governance

Corporate governance highlights

- The Board is led by a non-executive chairman to ensure independent leadership.
- 13 of the 14 current directors are independent.
- Independent directors set aside time at each Board and Board Committee meeting for discussion without the presence of management.
- The Board and Board Committees each have the power to retain independent advisors, when they deem it necessary, to assist them in fulfilling their mandates.
- Shareholders vote for individual directors, not a slate. Directors who receive more "withhold" than "for" votes are required to tender their resignation for the Board's consideration.
- Director and executive officer compensation is reviewed annually. At the March 2011 annual shareholder meeting, CWB Group's approach to executive compensation received the support of more than 99 per cent of votes cast by shareholders.
- The Board prioritizes ongoing director education by actively participating in presentations by senior management and outside experts.
- The Board evaluates, in alternating years, the effectiveness of each director and the Board as a whole through a written assessment and feedback process. In 2011, the assessment and feedback process was reviewed and enhanced.
- CWB has established separate codes of conduct for directors and employees. All directors, officers and employees must annually certify they have read, understand and agree to abide by the applicable code.

Board Committees

Audit Committee Members:
Robert A. Manning (Chair), Wendy A. Leaney, Gerald A.B. McGavin, Robert L. Phillips, Raymond J. Protti, Ian Reid and Alan M. Rowe.

Responsibilities:

- Oversees the integrity of the CWB Group's financial reporting, internal controls, disclosure controls and internal audit function.
- Recommends the appointment of the external auditors and oversees the whistleblower procedures.

Governance Committee Members:
Albrecht W.A. Bellstedt (Chair), Linda M.O. Hohol, Allan W. Jackson, Wendy A. Leaney, Robert A. Manning, Raymond J. Protti and Arnold J. Shell.

Responsibilities:

- Reviews and monitors corporate governance trends and best practices.
- Monitors procedures regarding related party transactions, conflicts of interest, standards of business conduct, the handling of customer complaints, and recommends director compensation and director succession.

Loans Committee Members:
Gerald A.B. McGavin (Chair), Linda M.O. Hohol, Allan W. Jackson, Wendy A. Leaney, Howard E. Pechet, Robert L. Phillips (alternate), Larry M. Pollock, Ian Reid, H. Sanford Riley and Alan M. Rowe.

Responsibilities:

- Oversees the documentation, measurement and management of credit risk.
- Approves, declines or recommends approval to the Board of all credit applications in excess of a specified limit.

Human Resources Committee Members:
Alan M. Rowe (Chair), Albrecht W.A. Bellstedt, Allan W. Jackson, Robert A. Manning, Howard E. Pechet, Robert L. Phillips, H. Sanford Riley and Arnold J. Shell.

Responsibilities:

- Approves executive compensation and incentive compensation plans.
- Oversees CEO performance assessment and senior management succession.

CWB Group Executive Committee

Larry Pollock
President and
Chief Executive Officer (CEO)

With CWB Group since 1990
(22 years)

Key Areas of Responsibility
- CWB Group Executive Committee

Positions Held at CWB Group
- President & CEO

Positions Held Prior to CWB Group
- Regional Vice President, Lloyds Bank Canada (Calgary)
- Regional Vice President, Lloyds Bank Canada (Toronto)
- Assistant General Manager & Branch Manager, Continental Bank of Canada

Bill Addington, FCMA
Executive Vice President

With CWB Group since 1986
(26 years)

Key Areas of Responsibility
- Mergers and Acquisitions
- Corporate Initiatives
- Corporate Lending
- Adroit Investment Management

Positions Held at CWB Group
- Executive Vice President
- Senior Vice President, Strategic & Corporate Operations
- Senior Vice President, Treasury & Corporate Development
- Vice President, Treasury & Administration
- Vice President, Commercial Credit

Positions Held Prior to CWB Group
- Assistant Vice President, Canadian Commercial Bank

Tracey Ball, FCA
Executive Vice President
and Chief Financial Officer

With CWB Group since 1987
(25 years)

Key Areas of Responsibility
- Finance and Tax
- Investor Relations
- Legal
- Regulatory Compliance

Positions Held at CWB Group
- Executive Vice President & Chief Financial Officer
- Senior Vice President & Chief Financial Officer
- Vice President & Chief Financial Officer
- Vice President & Chief Accountant
- Assistant Vice President & Chief Accountant
- Manager, Finance & Administration; Chief Accountant

Positions Held Prior to CWB Group
- Audit Manager, KPMG LLP

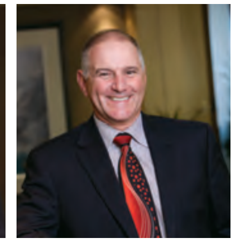
Chris Fowler
Chief Operating Officer

With CWB Group since 1991
(21 years)

Key Areas of Responsibility
- Banking Operations
- Credit Risk Management
- Optimum Mortgage
- Canadian Western Financial

Positions Held at CWB Group
- Chief Operating Officer
- Executive Vice President
- Senior Vice President, Credit Risk Management
- Vice President, Credit Risk Management
- Assistant Vice President, Credit Risk Management
- Manager, Commercial Banking

Positions Held Prior to CWB Group
- Senior Account Manager, Commercial Banking, HSBC Bank Canada
- Account Manager, Corporate Banking & Treasury Division, Lloyds Bank Canada



Randy Garvey, CFA, FCMA
Executive Vice President

With CWB Group since 2005
(7 years)

Key Areas of Responsibility
- Treasury
- Human Resources
- Information Services
- Internal Audit
- Marketing & Product Development
- Corporate Administration & Operations

Positions Held at CWB Group
- Executive Vice President
- Senior Vice President, Corporate Support

Positions Held Prior to CWB Group
- Vice President & CFO, Workers Compensation Board, Alberta
- Central Manager, Corporate Services & CFO, the City of Edmonton
- Director, Support Services, the City of Regina
- City Treasurer, the City of Regina

Brian Young
Executive Vice President

With CWB Group since 2004
(8 years)

Key Areas of Responsibility
- Canadian Direct Insurance
- Canadian Western Trust
- Valiant Trust

Positions Held at CWB Group
- Executive Vice President
- President & CEO, Canadian Direct Insurance (acquired by the Bank in 2004)

Positions Held Prior to CWB Group
- President & CEO, Canadian Direct Insurance
- Chief Operating Officer, Canadian Direct Insurance
- Vice President, Commercial Banking, HSBC Bank Canada
- Assistant Vice President, Commercial Banking, HSBC Bank Canada
- Senior Manager, Commercial Banking, Lloyds Bank Canada

CWB Group Senior Officers

- **Glen Eastwood**
  Senior Vice President and Regional General Manager
- **Richard Gilpin**
  Senior Vice President Credit Risk Management
- **Ricki Golick**
  Senior Vice President and Treasurer
- **Carolyn Graham, FCA**
  Senior Vice President and Chief Accountant
- **Michael Halliwell**
  Senior Vice President and Regional General Manager
- **Gail Harding, Q.C.**
  Senior Vice President, General Counsel and Corporate Secretary
- **Darrell Jones, CMA**
  Senior Vice President and Chief Information Officer
- **Uve Knaak**
  Senior Vice President Human Resources
- **Gregory Sprung**
  Senior Vice President and Regional General Manager
- **Jack Wright**
  Senior Vice President

National Leasing
- **Nick Logan**
  President and Chief Executive Officer

Canadian Western Trust & Valiant Trust
- **Adrian Baker**
  Chief Operating Officer, Trust Services

Canadian Direct Insurance
- **Brian Young**
  President and Chief Executive Officer

Adroit Investment Management
- **David Schuster, CFA**
  President and Chief Executive Officer

Ombudsman
- **R. Graham Gilbert**

Shareholder Information

CWB Group Corporate Headquarters
Canadian Western Bank
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423.8888
Fax: (780) 423.8897
cwbankgroup.com

Transfer Agent and Registrar
Valiant Trust Company
Suite 310, 606 - 4th Street S.W.
Calgary, Alberta T2P 1T1
Telephone: (866) 313.1872
Fax: (403) 233.2857
valianttrust.com

Stock Exchange Listings
The Toronto Stock Exchange (TSX)
Common Shares: CWB
Series 3 Preferred Shares: CWB.PR.A

Shareholder Administration
Valiant Trust Company, with offices in Calgary, Edmonton, Vancouver and Toronto, serves as Transfer Agent and Registrar for the common and preferred shares of CWB.

For dividend information, change in share registration or address, lost share certificates, tax forms or estate transfers, please write or call the Transfer Agent and Registrar, or email inquiries@valianttrust.com.

Duplicated Communications
If you receive, but do not require, more than one mailing for the same ownership, please contact the Transfer Agent and Registrar to combine the accounts.

Direct Deposit Services
Shareholders may choose to have cash dividends paid on CWB common and preferred shares deposited directly into accounts held at their financial institution. To arrange direct deposit service, please contact the Transfer Agent and Registrar.

Eligible Dividend Designation
CWB designates all common and preferred share dividends paid to Canadian residents as "eligible dividends", as defined in the *Income Tax Act (Canada)*, unless otherwise noted.

Dividend Reinvestment Plan
CWB's dividend reinvestment plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage and commission fees. For information about participation in the plan, please contact the Transfer Agent and Registrar.

Investor Relations
Shareholders, institutional investors or research analysts who would like additional financial information are asked to contact:
Investor Relations Department
Canadian Western Bank
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (800) 836.1886
Fax: (780) 969.8326
Email: Investorrelations@cwbank.com

More comprehensive investor information - including supplemental financial reports, quarterly financial releases, corporate presentations, corporate fact sheets and frequently asked questions - is available under the Investor Relations section on our website at cwbankgroup.com.

This 2011 Annual Report, along with our Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular, is available on our website. For additional printed copies of these reports, please contact the Investor Relations Department.

Filings are available on the Canadian Securities Administrator's website at www.sedar.com.

2012 Annual Meeting
The annual meeting of the common shareholders of Canadian Western Bank will be held in Edmonton, Alberta, on March 8, 2012 at The Fairmont Hotel Macdonald (Empire Ballroom) at 3:00 p.m. MT (5:00 p.m. ET).

Corporate Secretary
Gail L. Harding, Q.C.
Senior Vice President
General Counsel and Corporate Secretary
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Complaints or Concerns regarding Accounting, Internal Accounting Controls or Auditing Matters
Please contact either:
Tracey C. Ball
Executive Vice President and
Chief Financial Officer
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Fax: (780) 969.8326
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Chairman of the Audit Committee
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Award of Excellence Recipients for 2011

Hard Working – Enthusiastic – Responsive – Dedicated.

These are characteristics exemplified by the recipients of the Award of Excellence, an annual recognition for employees who, every day, live and breathe the qualities for which CWB Group is known.

Exceeding the expectations of both clients and colleagues, these individuals consistently take initiative, innovate and inspire.

Congratulations to the 2011 recipients of the Award of Excellence.

- **Tracy Bond**, CWB, Edmonton
- **Angela Chavez**, CWB, Regina
- **Maristela Cruz**, CDI, Vancouver
- **Adrienne Dickson**, Valiant Trust, Vancouver
- **Helen Do**, CWB, St. Albert
- **Donna Glor**, CDI, Edmonton
- **Tom Haarman**, CWB, Edmonton
- **Dustin Jones**, CWB, Calgary
- **Amanda Lemay**, CWB, Edmonton
- **Jenna McLean**, CWB, Vancouver
- **Jennifer Voth**, CWB, Abbotsford
- **Peter Yeung**, CWB, Edmonton

Management's Discussion and Analysis

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Business Profile and Strategy

Canadian Western Bank (CWB or the Bank) offers a diverse range of financial services and is the largest publicly traded Canadian bank headquartered in Western Canada. The Bank, along with its subsidiaries, National Leasing Group Inc. (National Leasing), Canadian Western Trust Company (CWT), Valiant Trust Company (Valiant), Canadian Direct Insurance Incorporated (Canadian Direct), Adroit Investment Management Ltd. (Adroit) and Canadian Western Financial Ltd. (CWF), are together known as Canadian Western Bank Group (CWB Group).

CWB Group currently operates in the financial services areas of banking, trust, insurance and wealth management. The Bank is primarily focused on its core business lending and personal banking services in Western Canada. National Leasing specializes in commercial equipment leasing for small and mid-sized transactions and is represented across Canada. CWT provides trustee and custody services to independent financial advisors, corporations, brokerage firms and individuals. CWT also underwrites and administers residential mortgages through its operating division, Optimum Mortgage. Valiant's operations include stock transfer and corporate trust services. Canadian Direct provides personal auto and home insurance to customers in British Columbia (BC) and Alberta. Adroit specializes in discretionary wealth management for individuals, corporations and institutional clients. Third-party mutual funds are offered through CWF, the Bank's mutual fund dealer subsidiary.

Vision

CWB Group is seen as crucial to our clients' futures.

Mission

To build a western Canadian-based financial services franchise through responsible delivery of:

- Entrepreneurial approaches to assist clients and support growth in the business areas of banking, trust, insurance and wealth management;
- Best-in-class client experiences that are responsive, resourceful and realistic;
- Relevant financial products that fit with demonstrated areas of expertise and chosen geographic markets;
- Progressive career opportunities that are engaging, educational and rewarding;
- Meaningful contributions to the communities where CWB Group operates; and,
- Consistent profitability and strong shareholder returns that reflect an industry-leading, growth-focused group of companies.

CWB's overall strategic plan is based on two overriding themes:

1) "Do what we do, only better."

2) "Make the whole worth more than the sum of the parts."

Additional strategic priorities include:

- Maintenance of a conservative risk profile and strong capital base while ensuring growth is focused, strategic and accretive for shareholders;
- Reinforcement of leadership in cost efficiency and low credit losses by enhancing service delivery capabilities and maintaining strong discipline in managing lending portfolios;
- Leveraging core profitability and further diversifying funding sources, which includes ongoing generation of internal core deposits raised through the branch network, trust operations and over the Internet;
- Improvement of revenue diversification by further developing non-interest revenue sources through both internal growth and potential strategic acquisitions;
- Supporting return on common shareholders' equity by maintaining strong operating performance, an efficient capital structure, and continued diversification into business areas with lower capital requirements;
- Recruiting, developing and retaining high quality employees, who embrace the Bank's culture, by offering a rewarding work environment that includes comprehensive employee benefits, career growth opportunities, a focus on work/life balance and competitive compensation packages. CWB believes that such employees are critical to build and maintain competitive advantages related to offering superior client service and relationship-based banking; and,
- Further building CWB's reputation and reinforcing public confidence through continued stakeholder communication, diligence in corporate governance practices, and high standards in corporate social responsibility, corporate reporting and accountability.

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

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

Forward-Looking Statements

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

By their very nature, forward-looking statements involve numerous assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that the Bank's predictions, forecasts, projections, expectations and conclusions will not prove to be accurate, that its assumptions may not be correct and that its strategic goals will not be achieved.

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

Additional information about these factors can be found in the Risk Management section of this Management's Discussion and Analysis (MD&A).

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

Assumptions about the performance of the Canadian economy in 2012 and how it will affect CWB's businesses are material factors the Bank considers when setting its objectives. In setting minimum performance targets for fiscal 2012, management's assumptions included:

- Modest economic growth in Canada aided by positive relative performance in the four western provinces;
- Relatively stable energy and other commodity prices;
- Sound credit quality with actual losses remaining within the Bank's historical range of acceptable levels; and,
- A lower net interest margin attributed to expectations for a prolonged period of very low interest rates due to uncertainties about the strength of global economic recovery and potential adverse effects from the ongoing European debt crisis.

Taxable Equivalent Basis (teb)

Most banks analyze revenue on a taxable equivalent basis to permit uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividends received is significantly lower than would apply to a loan or security of the same amount. The adjustment to taxable equivalent basis of $11.1 million (2010 – $11.2 million) increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. The taxable equivalent basis does not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other banks. Total revenues, net interest income and income taxes are discussed on a taxable equivalent basis throughout this MD&A.

Non-GAAP Measures

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

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

Group Financial Performance

Overview

Highlights of 2011 (compared to 2010)

- Record net income of $178.1 million, up 9%, marking 94 consecutive profitable quarters.
- Very strong loan growth of 16%.
- Record diluted earnings per common share of $2.12, up 3%. Record diluted cash earnings per common share of $2.18, up 4%.
- Record total revenues (teb) of $491.0 million, up 13%.
- Net interest margin (teb) of 2.82%, up eight basis points.
- Improved credit quality as evidenced by six consecutive quarterly reductions in the level of gross impaired loans; provision for credit losses measured as a percentage of average loans of 20 basis points, down one basis point.
- Return on common shareholders' equity of 15.6%, down 150 basis points.
- Return on assets of 1.20%, down four basis points.
- Efficiency ratio (teb) of 45.3%, a 120 basis point deterioration.
- Tangible common equity to risk-weighted assets ratio of 8.6%, up from 8.5%; Tier 1 capital ratio of 11.1%, down 20 basis points; total capital ratio of 15.4%, up from 14.3%.
- Cash dividends of $0.54 per share paid to common shareholders, up 23%.
- Surpassed $14 billion of total assets, $12 billion of total loans and $9 billion of total assets under administration.

TABLE 1 – SELECT ANNUAL FINANCIAL INFORMATION [1]
($ thousands, except per share amounts)

	2011	2010	2009	Change from 2010 $	Change from 2010 %
Key Performance Indicators					
Net income	$ 178,149	$ 163,621	$ 106,285	$ 14,528	9%
Earnings per share					
Basic	2.26	2.26	1.51	–	–
Diluted	2.12	2.05	1.47	0.07	3
Diluted cash [1]	2.18	2.09	1.49	0.09	4
Provision for credit losses as a percentage of average loans	0.20%	0.21%	0.15%		(1) bp[2]
Net interest margin (teb) [1]	2.82	2.74	2.10		8
Net interest margin	2.74	2.64	2.03		10
Efficiency ratio (teb) [1] [3]	45.3	44.1	48.2		120
Efficiency ratio	46.3	45.3	49.4		100
Return on common shareholders' equity	15.6	17.1	13.2		(150)
Return on assets	1.20	1.24	0.86		(4)
Other Financial Information					
Total revenues (teb)	$ 491,014	$ 434,259	$ 327,966	$ 56,755	13%
Total revenues	479,955	423,073	320,119	56,882	13
Total assets	14,772,035	12,701,691	11,635,872	2,070,344	16
Subordinated debentures	545,000	315,000	375,000	230,000	73
Common share dividends	0.54	0.44	0.44	0.10	23

(1) See page 35 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) A decrease in the ratio reflects improved efficiency, while an increase reflects deterioration.

Record net income of $178.1 million increased 9% ($14.5 million) over 2010 while diluted earnings per common share was $2.12 ($2.26 basic), up 3% from $2.05 ($2.26 basic) in the prior year. Diluted cash earnings per share, which excludes the after-tax amortization of acquisition-related intangible assets, was $2.18, up 4%. Record total revenues (teb) of $491.0 million grew 13% ($56.8 million), reflecting the combined benefit of very strong 16% ($1,725 million) loan growth, an eight basis point improvement in net interest margin (teb) to 2.82% and a 1% ($0.7 million) increase in other income. Margin expansion in the year was mainly due to improved deposit costs and lower average liquidity levels, partially offset by higher debenture expense. Credit quality improved consistent with expectations, and the provision for credit losses as a percentage of average loans remained relatively low at 20 basis points.

The efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb), of 45.3% deteriorated 120 basis points from last year as the benefit of strong percentage growth in total revenues was more than offset by a 16% ($31.0 million) increase in non-interest expenses. The increase in non-interest expenses was mainly attributed to additional staff complement and ongoing investment in branches, other infrastructure and technology to support continued business growth. The acquisition of National Leasing, effective February 1, 2010, impacted the change in both total revenues and non-interest expenses as fiscal 2011 represented the Bank's first full year of operations from this business.

The annual return on common shareholders' equity of 15.6% was down 150 basis points compared to 2010, while return on assets decreased four basis points to 1.20%. The reduction in these key profitability ratios was mainly due to the impact of additional common shares issued upon the exercise of warrants and a tax recovery from certain prior period transactions that increased 2010 net income by approximately $8.3 million. Total cash dividends paid to common shareholders of $0.54 per share increased 23% from $0.44 per share paid in the prior year.

Total assets increased 16% to reach $14,772 million, driven by loan growth. Each lending sector recorded strong growth for the year, reflecting positive performance across all of the Bank's geographic regions.

Total branch-raised deposits increased 9% ($602 million) compared to the previous year, while the demand and notice component within branch-raised deposits was up 13% ($461 million). Strong growth in branch-raised deposits, including the demand and notice component, reflects the success of ongoing strategies to further enhance and diversify the Bank's core funding sources. Total deposits grew 16% ($1,687 million) in the year to reach $12,500 million and kept pace with very strong loan growth. Additional personal fixed rate term deposits were raised through the deposit broker network and $250 million of fixed term floating rate notes were issued in the debt capital markets. Total branch-raised deposits represented 58% of total deposits at October 31, 2011, compared to 61% a year earlier. The demand and notice component comprised 32% of total deposits, down from 33% at October 31, 2010. The ratio of total deposits to total loans at October 31, 2011 was 1.02 times, down slightly from 1.03 times last year.

The maintenance of strong capital levels is fundamental to management's objectives to effectively manage risks, support strong loan growth and maintain adequate flexibility to pursue strategic opportunities that are accretive for CWB shareholders. The Bank's Tier 1 and total capital ratios at October 31, 2011 of 11.1% and 15.4%, respectively, remained well above both internal and regulatory minimums. The tangible common equity ratio, which represents the highest quality form of capital, was also strong at 8.6%, up from 8.5% twelve months ago. Application of the expected Basel III rules as prescribed by OSFI to the Bank's financial position at October 31, 2011 confirms management's view that CWB is already in compliance with the new minimum regulatory capital ratio requirements.

Minimum Performance Targets and Outlook

The performance targets established for the 2011 fiscal year, together with actual performance, and new minimum targets for fiscal 2012 are presented in Table 2. The 2012 minimum targets are calculated under Canadian GAAP. Starting in the first quarter of 2012, the Bank will transition to International Financial Reporting Standards (IFRS) and the following targets will change when calculated under IFRS. The Bank intends to pre-release the 2011 transition adjustments between GAAP and IFRS before the end of the first quarter 2012, and the minimum targets will be amended accordingly at that time.

TABLE 2 – PERFORMANCE TARGETS

	2011 Minimum Targets	**2011 Performance**	2012 Minimum Targets
Net income growth [1]	6%	**9%**	6%
Net income growth, before taxes (teb) [2]	10	**11**	n/a [5]
Total revenue (teb) growth	12	**13**	6
Loan growth	10	**16**	10
Provision for credit losses as a percentage of average loans	0.20 – 0.25	**0.20**	0.20 – 0.25
Efficiency ratio (teb)	46	**45.3**	46
Return on common shareholders' equity [3]	15	**15.6**	15
Return on assets [4]	1.20	**1.20**	1.10

(1) Net income before preferred share dividends.
(2) Net income before income taxes (teb), non-controlling interest in subsidiary and preferred share dividends.
(3) Return on common shareholders' equity calculated as net income after preferred share dividends divided by average common shareholders' equity.
(4) Return on assets calculated as net income after preferred share dividends divided by average total assets.
(5) n/a – not applicable.

CWB exceeded or met all of its fiscal 2011 minimum performance targets, led by very strong loan growth of 16%. Growth in both total revenues (teb) and net income was well above the respective targets due to loan growth, a relatively stable net interest margin and significant gains on sale of securities realized in the first two quarters. Strong loan growth was apparent across each of the Bank's lending sectors and all geographic markets. Measured in dollars, the strongest loan growth by lending sector was in general commercial loans, closely followed by equipment financing. Overall credit quality improved throughout the year and, as a result, the provision for credit losses was at the low end of the target range. The return on common shareholders' equity was slightly above expectations while return on assets was on par with the target.

Management believes Canada will see modest growth in 2012 despite ongoing impacts of the European debt crisis and economic uncertainties in the United States (U.S.). The Bank's key markets in Western Canada are expected to perform well relative to the rest of Canada largely owing to strong capital investment related to a favourable long-term outlook for commodities, including the positive impact on demand from developing economies. The Bank will maintain its focus on quality, secured loans that offer a fair and profitable return. While certain challenges will persist related to increased competition and uncertainty about the strength of economic recovery, the volume in the pipeline for new loans remains solid. The 2012 target for loan growth has been set at 10%. Overall credit quality is within expectations and the provision for credit losses is targeted between 20 to 25 basis points of average loans. Targets for growth in total revenues and net income reflect confidence in CWB's proven business model and overall strategic direction, but also consider ongoing challenges. The growth target for total revenues (teb) of 6% compares to actual growth achieved in 2011 of 13%; the difference largely reflects a comparatively higher starting point that includes a full year of revenue recognition from National Leasing, as well as expectations for limited gains on sale of securities in 2012. Net interest margin is also expected to be lower in 2012. Minimum targets for return on common shareholders' equity and return on assets have been established at 15% and 1.10%, respectively. One of management's key priorities is to maintain effective control of costs while ensuring the Bank is positioned to deliver continued strong growth. In consideration of targeted revenue growth and planned expenditures, the 2012 efficiency ratio (teb) is expected to remain at 46% or less.

Ongoing strong performance is expected within each company of the CWB Group, and the development of each business will remain a key priority to further diversify operations. With its strong capital position, CWB is well positioned to take advantage of opportunities and manage unforeseen challenges that may arise. Management will maintain its focus on creating value and growth for shareholders over the long term. While potential adverse impacts from the European debt crisis and global economic uncertainties will continue to be closely monitored, the current overall outlook for 2012 and beyond is positive.

Net Interest Income

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

Highlights of 2011

- Record net interest income (teb) increased 17% to $384.7 million based on 14% growth in average total interest earning assets.
- Net interest margin (teb) was up eight basis points to 2.82%.

TABLE 3 – NET INTEREST INCOME (teb)[1]
($ thousands)

	2011				2010			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Assets								
Cash, securities and deposits with regulated financial institutions	$ 1,902,370	14%	$ 58,382	3.07%	$ 1,767,193	15%	$ 56,627	3.20%
Securities purchased under resale agreements	94,403	1	916	0.97	163,390	2	872	0.53
Loans								
Residential mortgages	2,794,172	20	119,800	4.29	2,319,765	19	103,371	4.46
Other loans	8,534,996	63	477,485	5.59	7,486,043	62	407,903	5.45
	11,329,168	83	597,285	5.27	9,805,808	81	511,274	5.21
Total interest bearing assets	13,325,941	98	656,583	4.93	11,736,391	98	568,773	4.85
Other assets	307,310	2	–	0.00	270,379	2	–	0.00
Total Assets	$ 13,633,251	100%	$ 656,583	4.82%	$ 12,006,770	100%	$ 568,773	4.74%
Liabilities								
Deposits								
Demand	$ 569,709	4%	$ –	0.00%	$ 461,662	4%	$ –	0.00%
Notice	3,286,379	24	35,668	1.09	2,970,970	25	21,274	0.72
Fixed term	7,437,030	55	202,937	2.73	6,642,576	55	194,258	2.92
Deposit from CWB Capital Trust	105,000	1	6,745	6.42	105,000	1	6,745	6.42
	11,398,118	84	245,350	2.15	10,180,208	85	222,277	2.18
Other liabilities	455,119	3	98	0.02	430,468	3	79	0.02
Subordinated debentures	523,639	4	26,452	5.05	318,729	3	17,753	5.57
Shareholders' equity	1,256,375	9	–	0.00	1,077,365	9	–	0.00
Total Liabilities and Equity	$ 13,633,251	100%	$ 271,900	1.99%	$ 12,006,770	100%	$ 240,109	2.00%
Total Assets/Net Interest Income	$ 13,633,251		$ 384,683	2.82%	$ 12,006,770		$ 328,664	2.74%

(1) See page 35 for a discussion of teb and other non-GAAP measures.

Record net interest income (teb) of $384.7 million increased 17% ($56.0 million) for the year, reflecting the combined positive impact of 14% ($1,590 million) growth in average interest earning assets, a slightly higher overall asset yield and lower deposit costs. Growth in average interest earning assets was mainly driven by very strong growth in total average loans of 16% ($1,523 million). Net interest margin increased eight basis points to 2.82% based on lower average costs on fixed rate term deposits, a slight increase in average loan yields (with the exception of residential mortgages), a 17% ($179 million) increase in the average balance of shareholders' equity and 23% ($108 million) growth in the average balance of zero cost demand deposits. The improvement in margin was partially offset by the impact of higher average liquidity measured as a percentage of average assets, increased expense related to the higher balance of subordinated debentures and lower yields on securities. Margin further benefited from increased yields on fixed rate loans reflecting a generally favourable pricing environment and a full-year contribution from National Leasing. The average yield on residential mortgages was down for the year, mainly due to changes in benchmark bond rates and competitive factors.

The current very low interest rate environment, the relatively flat shape of the interest rate curve, increased competitive influences and higher average liquidity levels have a negative impact on net interest margin. Generally, increases in the prime interest rate positively impact the Bank's net interest margin because prime-based loans reprice more quickly than deposits, which subsequently expands the interest spread earned on the Bank's assets. The prime rate averaged 3.00% compared to 2.46% last year. The prime rate as at October 31, 2011 was 3.00%, up slightly from its historic low of 2.25% established in April 2009, but unchanged throughout fiscal 2011.

Outlook for Net Interest Income

Fiscal 2012 net interest income is expected to increase with the targeted 10% loan growth. The current very low interest rate environment and relatively flat shape of the interest rate curve will limit the Bank's ability to enhance margins from current levels, particularly on low and no-cost deposits where margin is diminished. In a more normal interest rate environment, a steeper upward sloping interest rate curve would be observed that would allow for a significant incremental earnings benefit from the Bank's growing base of core deposits that are less interest sensitive. In addition, a steeper curve provides a more meaningful positive differential between the incremental price on loans and the cost of matched funding based on the duration of certain portfolios. Increased competition currently encountered in certain business areas also lowers overall loan pricing. The Bank expects to carry higher than normal liquidity due to elevated global economic uncertainties, including concerns about the ongoing European debt crisis. Higher liquidity generally pressures net interest margin due to the increased level of lower yielding assets. The foregoing factors support management's current expectations that net interest margin (teb) will continue to be pressured in 2012, consistent with what was observed in the latter part of 2011.

Other Income

Highlights of 2011

- Other income increased 1% as growth in trust and wealth management services, credit-related fee income and foreign exchange gains was largely offset by lower gains on sale of securities and a reduction in net insurance revenues reflecting the impact of the Alberta auto risk sharing pools and the catastrophic wildfire in Slave Lake, Alberta.
- Other income represented 22% of total revenues (teb), compared to 24% in 2010, reflecting relatively stronger growth in net interest income due to very strong loan growth and a slightly improved margin.

TABLE 4 – OTHER INCOME
($ thousands)

			Change from 2010	
	2011	2010	$	%
Insurance				
Net earned premiums	**$ 117,632**	$ 111,368	$ 6,264	6%
Commissions and processing fees	**1,869**	2,347	(478)	(20)
Net claims and adjustment expenses	**(74,734)**	(68,641)	(6,093)	9
Policy acquisition costs	**(24,517)**	(23,358)	(1,159)	5
Net insurance revenues	**20,250**	21,716	(1,466)	(7)
Credit related	**32,821**	31,550	1,271	4
Trust and wealth management services	**19,050**	17,316	1,734	10
Gains on sale of securities, net	**10,306**	12,447	(2,141)	(17)
Retail services	**9,486**	9,017	469	5
Securitization revenue	**3,969**	4,285	(316)	(7)
Foreign exchange	**3,488**	2,422	1,066	44
Other [1]	**6,961**	6,842	119	2
Total Other Income	**$ 106,331**	$ 105,595	$ 736	1%

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

Other income of $106.3 million was up 1% ($0.7 million), led by strong results across CWB's core banking and trust operations, including National Leasing's revenue contributions, which commenced in the second quarter of 2010. Strong 10% ($1.7 million) growth in trust and wealth management services and 4% ($1.3 million) higher credit-related fee income more than offset the impact of $2.1 million lower gains on sale of securities. Fees related to trust and wealth management services reflected solid performance in each of CWT, Valiant and Adroit, while growth in credit fee income was mainly related to increased lending activity. Despite the decrease in the level of gains on sale of securities, contributions from this category of other income continued to exceed normal historical amounts as significant gains were realized in the first half of the year due to a repositioning of investments in common equities and preferred shares. Management's decision to sell certain preferred shares issued by financial institutions reflects forthcoming changes under the new regulatory capital framework known as Basel III, which requires a deduction from regulatory capital of amounts over a certain threshold for this type of investment. Unusually high gains realized in 2010 reflected market conditions and investment strategies that allowed the Bank to capitalize on opportunities to realize gains while maintaining relatively comparable yields on reinvestment in other high quality investment grade securities.

Net insurance revenues were down $1.5 million as the positive impact of 6% growth in net earned premiums was more than offset by the combined impact of increased claims expense and a $2.5 million lower before tax earnings contribution from Canadian Direct's share of the Alberta auto risk sharing pools. Increases in foreign exchange gains and retail services fee income of $1.1 million and $0.5 million, respectively, more than offset a $0.3 million decline in National Leasing's securitization revenue. The 'other' category within other income was relatively unchanged and mainly included lease administration revenues and changes in fair value of National Leasing's interest rate swaps. The 'other' category of other income also included approximately $1.9 million attributed to the fourth quarter sale of a relatively small portfolio of residential mortgages by Optimum Mortgage.

Other income as a percentage of total revenues (net interest income and other income) declined to 22%, compared to 24% in the prior year. The change was mainly attributed to comparatively higher growth in net interest income due to very strong loan growth and a slightly improved net interest margin.

Outlook for Other Income

CWB's objective is to grow non-interest revenues through the generation of new business with both existing and potential clients, an enhanced market presence and expanded product offerings. The achievement of this objective will be supported by plans for continued expansion of CWB's branch network and further development of insurance, trust services, wealth management and other complementary fee-based businesses. Management also expects to continue to evaluate opportunities to expand sources of other income through acquisition.

Growth is expected across all core categories of other income, reflecting double-digit loan growth and the Bank's continued focus on enhancing transactional services and other sources of fee income. Based on the current composition of the securities portfolio, interest rate curves and elevated volatility in financial markets due to global uncertainties, management expects the future level of gains on sale of securities will be significantly lower than has been achieved in the past three years. The IFRS transition in 2012 will introduce additional potential for volatility in other income as it relates to accounting for both unrealized losses in the available-for-sale securities portfolio and any change in fair value of the acquisition-related contingent consideration for National Leasing. The 'other' category of other income is expected to be lower in future periods, partially reflecting a reduction in lease administration revenues due to the termination of a servicing contract.

The trust companies, including Optimum Mortgage, expect solid growth in 2012 resulting from increased market share and ongoing business development in both core western markets and select areas in Ontario. Net insurance revenues should benefit from continued policy growth supported by Canadian Direct's sound underwriting practices and continued focus on building a well balanced book of business. However, increased volatility in the claims ratio could result from seasonal storm activity, particularly in the winter months, and by the strategic decision to increase the retention limit on Canadian Direct's catastrophe reinsurance treaty to $5 million (2011 – $2 million). Adroit had good success in the year introducing its services to many CWB banking clients and this positive trend is expected to continue.

Non-interest Expenses and Efficiency

Highlights of 2011

The efficiency ratio (teb) of 45.3% represented a 120 basis point deterioration compared to 2010 as the positive impact of strong 13% growth in total revenues was offset by a 16% increase in non-interest expenses.

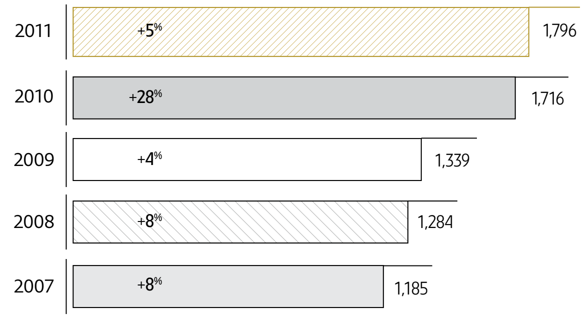
TABLE 5 – NON-INTEREST EXPENSES AND EFFICIENCY RATIO
($ thousands)

			Change from 2010	
	2011	2010	$	%
Salaries and Employee Benefits				
Salaries	**$ 118,323**	$ 103,273	$ 15,050	15%
Employee benefits	**23,542**	20,699	2,843	14
	141,865	123,972	17,893	14
Premises				
Rent	**14,929**	13,564	1,365	10
Depreciation	**4,736**	3,697	1,039	28
Other	**2,975**	2,208	767	35
	22,640	19,469	3,171	16
Equipment and Furniture				
Depreciation	**7,609**	6,335	1,274	20
Other	**6,489**	5,644	845	15
	14,098	11,979	2,119	18
General				
Professional fees and services	**6,979**	5,122	1,857	36
Marketing and business development	**6,973**	5,220	1,753	34
Amortization of intangibles	**6,000**	4,068	1,932	47
Banking charges	**3,222**	2,907	315	11
Postage and stationery	**2,845**	2,458	387	16
Regulatory costs	**2,439**	1,916	523	27
Travel	**2,375**	1,636	739	45
Communications	**1,631**	998	633	63
Capital and business taxes	**1,588**	1,979	(391)	(20)
Community investment	**1,140**	1,158	(18)	(2)
General insurance	**970**	1,280	(310)	(24)
Other	**7,686**	7,318	368	5
	43,848	36,060	7,788	22
Total Non-interest Expenses	**$ 222,451**	$ 191,480	$ 30,971	16%
Efficiency Ratio (teb) (1) (2)	**45.3%**	44.1%		120 bp (3)

(1) Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income). See page 35 for a discussion of teb and other non-GAAP measures.
(2) A decrease in this ratio reflects improved efficiency, while an increase reflects deterioration.
(3) bp – basis points.

Total non-interest expenses of $222.5 million increased 16% ($31.0 million) largely driven by a 14% ($17.9 million) increase in salary and employee benefits due to a combination of increased staff complement and annual salary increments. The number of full-time equivalent employees (FTEs) grew 5% (80 FTEs) from October 31, 2010, reflecting staffing requirements for additional bank branches, corporate support services and other business expansion. For comparison purposes, results for fiscal 2010 included only nine months of National Leasing's operations. Excluding the impact of National Leasing for both years, including related amortization of intangible assets, total non-interest expenses were up 11% ($18.9 million). Premises and equipment expenses, including depreciation, increased 17% ($5.3 million) and reflected the impact of two new full-service branches opened near the end of 2010, the ongoing development and expansion of existing branches, and one new full-service branch opened in September 2011. Other premises and technology infrastructure investment such as the Bank's new loan origination system and corporate office data centre also contributed to the increase. The new loan origination system is expected to provide considerable efficiencies at both the branch and corporate office level, which include improving the turnaround time of credit approvals and affording lenders more time to assist clients. It also offers enhanced statistical tracking and portfolio management capabilities. General non-interest expenses increased 22% ($7.8 million) reflecting costs to manage the ongoing growth and development of CWB's businesses and the first full year of National Leasing's operations. Excluding National Leasing and the related amortization of intangibles, general non-interest expenses were up 14% (4.3 million).

FIGURE 1 – NUMBER OF FULL-TIME EQUIVALENT STAFF



The efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb), was 45.3%, compared to 44.1% last year as percentage growth in non-interest expenses exceeded percentage growth in total revenues. Non-interest expenses as a percentage of average assets of 1.6% was unchanged compared to 2010.

Outlook for Non-interest Expenses and Efficiency

One of management's key priorities is to maintain effective control of costs while ensuring the Bank is positioned to deliver strong growth over the long term. Effective execution of CWB's strategic plan will continue to require increased investment in certain areas. Significant anticipated expenditures relate to additional staff complement as well as expanded infrastructure and further technology upgrades. Investment in these areas is an integral part of the Bank's commitment to maximize shareholder value and is expected to provide material benefits in future periods. A new full-service branch is expected to open in Winnipeg, Manitoba in 2012. Other potential new branch locations are currently under consideration. Upgrades and expansion of existing branch infrastructure will also continue. Lower provincial capital tax payments combined with expectations for modest inflationary pressures in 2012 will help moderate growth in non-interest expenses.

Anticipated growth in total revenues (teb) should largely offset the impact of increased investment necessary for effective execution of CWB's strategic plan. However, expected pressures on net interest margin, as previously discussed, will limit the potential for a meaningful improvement in the efficiency ratio in 2012. Overall, CWB expects to achieve an efficiency ratio (teb) of 46% or better in fiscal 2012.

Income and Capital Taxes

The effective income tax rate (teb) was 27.6%, up 130 basis points from 2010, while the tax rate before the teb adjustment was 24.2%, or 180 basis points higher. The provision in 2010 included a reduction to income taxes of $7.5 million related to taxation authorities' confirmation of certain transactions that occurred in a prior year; the 2010 effective tax rate (teb) excluding the tax recovery would have been 29.9%, or 230 basis points higher than the current year. The lower tax rate, excluding the unusual item, mainly reflects a 150 basis point decrease in the basic federal income tax rate and a 50 basis point reduction in the provincial income tax rate in BC, both effective January 1, 2011.

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

Capital losses of $11.1 million (2010 – $11.1 million) are available to apply against future capital gains and have no expiry date. The tax benefit of these capital losses has not been recognized.

Capital taxes applicable to CWB for 2011 were lower than prior years. In the past two years, capital tax has been eliminated for CWB in both BC and Manitoba, while Alberta has not had a capital tax for several years. CWB remains subject to provincial capital tax in Saskatchewan. Capital taxes for 2011 totaled $1.4 million, representing a 10% decline from 2010. Provincial capital taxes in 2011 include final payments to provinces where CWB's capital tax requirements have been eliminated.

Outlook

CWB's expected income tax rate (teb) for fiscal 2012 is approximately 27.0%, or 23.5% before the teb adjustment. Total provincial capital taxes will decline significantly as only CWB's Saskatchewan operations will be subject to capital tax. Capital taxes in Saskatchewan will increase with the ongoing retention of earnings and any potential impact from the issuance of new capital, if material.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI), all net of income taxes. CWB's OCI includes unrealized gains and losses on available-for-sale cash and securities, and, in 2010, fair value changes for derivative instruments designated as cash flow hedges.

Comprehensive income totaled $159.1 million for the year, compared to $167.4 million last year. Lower OCI in 2011 reflects $11.7 million of unrealized losses on available-for-sale securities, compared to $14.3 million of unrealized gains last year. The significant change in unrealized gains/losses mainly reflects the negative impact on equity prices from a broad sell-off in financial markets in the latter part of the year due to escalating concerns about the European debt crisis. The decrease in OCI was partially offset by $14.5 million higher net income compared to 2010, as previously mentioned.

TABLE 6 – COMPREHENSIVE INCOME
($ thousands)

	2011	2010	Change from 2010
Net Income	**$ 178,149**	$ 163,621	$ 14,528
Other Comprehensive Income (Loss)			
Available-for-sale securities			
Gains (losses) from change in fair value, net of tax	**(11,710)**	14,285	(25,995)
Reclassification to other income, net of tax	**(7,340)**	(8,868)	1,528
	(19,050)	5,417	(24,467)
Derivatives designated as cash flow hedges			
Gains from change in fair value, net of tax	**–**	17	(17)
Reclassification to net interest income, net of tax	**–**	(1,613)	1,613
	–	(1,596)	1,596
	(19,050)	3,821	(22,871)
Total Comprehensive Income	**$ 159,099**	$ 167,442	$ (8,343)

Cash and Securities

Cash, securities and securities purchased under resale agreements totaled $2,238 million at October 31, 2011, compared to $1,876 million one year ago. Total net unrealized gains before tax recorded on the balance sheet at October 31, 2011 were $5.4 million, compared to $32.1 million last year. The significant change in net unrealized gains mainly reflects fluctuations in the market value of common and preferred equities, as well as net gains realized through the income statement. The portfolio of preferred shares included net unrealized gains of $6.9 million at year end, down from $18.3 million a year earlier. The common equities portfolio showed net unrealized losses of $3.0 million, compared to net unrealized gains of $7.7 million at October 31, 2010. The cash and securities portfolio is mainly comprised of high quality debt instruments and a comparatively smaller component of preferred and common equities. Securities are not held for trading purposes and, where applicable, are typically held until maturity. Fluctuations in the value of securities, other than common equities, are generally attributed to changes in interest rates, movements in market credit spreads and shifts in the interest rate curve. Volatility in financial markets directly affects the value of common and preferred equities and, while the combined value of these investments is relatively small in relation to total liquid assets, it does increase the potential for comparatively larger fluctuations in OCI. The Bank's common equity portfolio is mainly comprised of Canadian large market capitalization entities and is managed under a mandate to achieve dividend income with reasonable long-term capital appreciation. The IFRS transition in 2012 will introduce additional potential for volatility in reported earnings as it relates to accounting for unrealized losses on available-for-sale securities.

In the past three years, the Bank capitalized on opportunities to realize gains on sale of securities resulting from a combination of investment strategies and market conditions. Realized net gains on sale of securities in 2011 were $10.3 million, a $2.1 million decline compared to the prior year, but still well above the Bank's longer term historical average. Based on the current composition of the securities portfolio, interest rate curves and elevated volatility in financial markets due to global uncertainties, management expects the level of gains on sale of securities in 2012 will be significantly lower than has been achieved in each of the past three years.

CWB has no direct credit exposure to sovereign debt outside of Canada. CWB also has no direct exposure to any credit default swaps, collateralized debt obligations, non-bank sponsored asset-backed commercial paper or monoline insurers.

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

Cash and securities are managed in conjunction with CWB's overall liquidity; additional information and management's outlook for 2012 is included in the Liquidity Management discussion of this MD&A.

Loans

Highlights of 2011

- Loan growth of 16% was driven by very strong performance in all lending sectors and across each of the Bank's geographic markets.
- Double-digit loan growth; an achievement realized in 21 of the past 22 years (the exception being 2009 when loan growth was 7%).

TABLE 7 – OUTSTANDING LOANS BY PORTFOLIO
($ millions)

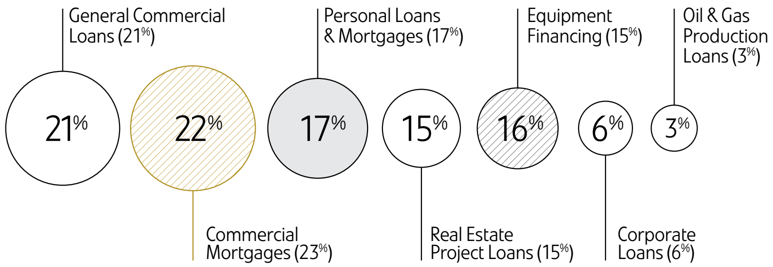
			Change from 2010	
	2011	2010	$	%
Commercial mortgages	**$ 2,700**	$ 2,458	$ 242	10%
General commercial	**2,606**	2,197	409	19
Personal loans and mortgages	**2,020**	1,794	226	13
Equipment financing	**2,006**	1,624	382	24
Real estate project loans	**1,888**	1,576	312	20
Corporate loans	**709**	660	49	7
Oil & gas production	**363**	266	97	36
Total Outstanding Loans	**$ 12,292**	$ 10,575	$ 1,717	16%

Total loans, excluding the allowance for credit losses, increased 16% ($1,717 million) to reach $12,292 million at year end. Measured by loan type as shown in Table 7, growth in general commercial loans of 19% ($409 million) represented the strongest source of loan growth in dollar terms. Based on industry sector as shown in Table 8, general commercial loans includes categories such as manufacturing, finance and insurance, wholesale and retail trade, and others. Oil and gas production loans had the best percentage growth at 36% ($97 million). The equipment financing portfolio, which includes the Bank's heavy equipment financing business and the small and mid-ticket leasing business of National Leasing, increased 24% ($382 million). Real estate project loans increased 20% ($312 million) reflecting strong activity in both residential and commercial construction. Commercial mortgages, an area where loan pricing continued to be highly competitive, grew 10% ($242 million). Personal loans and mortgages, which include combined lending activity in CWB branches and the Bank's broker-sourced residential mortgage business, Optimum Mortgage, also showed solid results with 13% ($226 million) growth. Corporate loans represent a diversified portfolio that is centrally sourced and administered through a designated lending group located in Edmonton. These loans include participation in select syndications structured and led primarily by the major Canadian banks, but exclude participation in various other syndicated facilities sourced through relationships developed at CWB branches. Syndicated facilities that are sourced in branches are primarily real estate project loans and oil and gas production loans and are included under the related classifications in Table 7.

Loans in Optimum Mortgage increased 17% ($138 million) over October 31, 2010 to reach $934 million, reflecting growth in both alternative mortgages and high ratio insured mortgages. Uninsured mortgages continue to be secured via conventional residential first mortgages carrying a weighted average loan-to-value ratio at initiation of approximately 70%, and represented about 62% of Optimum Mortgage's total portfolio at year end. Management remains committed to further developing this mortgage business as it continues to produce solid returns while maintaining an acceptable risk profile. The level of new lending opportunities in this business could moderate going forward, reflecting increased competitive pressure and overall slower growth in demand for residential mortgages.

While the mix of the portfolio remained relatively unchanged during the year (see Figure 2), the distribution did shift slightly from commercial mortgages to equipment financing. Based on the location of security, Alberta and BC represented 46% and 33% of total loans at year end, respectively. The geographic distribution of loans (see Figure 3 of this MD&A) shifted slightly from Alberta to "other" provinces reflecting the broader geographic footprint of National Leasing's portfolio, increased participation in syndicated facilities led by other Canadian banks and growth of Optimum Mortgage's business in Ontario.

FIGURE 2 – OUTSTANDING LOANS BY PORTFOLIO
(October 31, 2010 in brackets)



Outlook for Loans

The Bank expects to maintain double-digit loan growth and has set its fiscal 2012 minimum loan growth target at 10%. While there is increased competition in certain areas, management believes market share will be gained from the combined positive influences of an expanded market presence, increased brand awareness in core geographic markets due in part to targeted marketing initiatives, and the effective execution of CWB's strategic plan, which is focused on further enhancing existing competitive advantages.

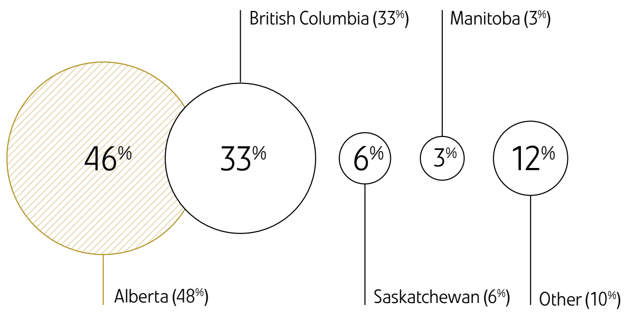
Canada's domestic economy is expected to grow modestly in 2012 despite impacts from the ongoing European debt crisis and U.S. economic uncertainties. The Bank's key markets in Western Canada are expected to perform well relative to the rest of Canada, largely owing to strong capital investment related to a favourable long-term outlook for commodities. In Alberta, the forecast for 2012 is supported by significant long-term capital investment in the oilsands, as well as a relatively positive outlook for activity related to conventional oil production. Activity related to the resource sector in BC has also remained solid due to current favourable energy and commodity prices. Construction activity (both residential and non-residential) largely attributed to ongoing in-migration, as well as exports to Pacific Rim countries, including China, are expected to remain key economic drivers for BC in 2012. Growth in Saskatchewan will be supported by the region's growing energy sector, potash production and the potential for improvement in agriculture output. Manitoba's economy is diverse with positive economic growth contributions mainly expected from agriculture production, mining, and energy. Prices for natural gas have been very low for several years and no meaningful change is expected in the foreseeable future. This will likely continue to adversely affect companies that rely on activities related to natural gas exploration and production, drilling activity and supporting services. Relatively stable employment, real income growth, the expected very low interest rate environment, and continued migration of individuals and families toward Western Canada will help maintain an adequate balance between supply and demand for residential real estate.

While strong competition from domestic banks and other financial services firms is expected to persist, the current overall outlook for new loans is encouraging. Major risks that would have a material adverse impact on the Bank's economic expectations include a global economic recession spurred by the European debt crisis, a prolonged recession in the U.S., or a meaningful slowdown in China's economic growth.

Diversification of Portfolio

Total advances based on location of security.

FIGURE 3 – GEOGRAPHICAL DISTRIBUTION OF LOANS (1)
(October 31, 2010 in brackets)



(1) Includes letters of credit.

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

TABLE 8 – TOTAL ADVANCES BASED ON INDUSTRY SECTOR (1)
(% at October 31)

	2011	2010
Real estate operations	**22%**	22%
Construction	**19**	20
Consumer loans and residential mortgages (2)	**15**	16
Hotel/motel	**6**	5
Health and social services	**5**	6
Transportation and storage	**5**	5
Finance and insurance	**5**	4
Oil and gas production	**3**	3
Manufacturing	**3**	3
Retail trade	**3**	3
Oil and gas service	**2**	2
Wholesale trade	**2**	2
Other services	**2**	1
Logging/forestry	**1**	1
All other	**7**	7
Total	**100%**	100%

(1) Table is based on the North American Industry Classification System (NAICS) codes.
(2) Residential mortgages in this table include only single-family properties.

The loan portfolio is focused on areas of demonstrated lending expertise, while concentrations measured by geographic area and industry sector are managed within specified tolerance levels. The portfolio is well diversified with a mix of commercial and personal business. Heavy equipment financing is primarily sourced within branches or through stand-alone equipment financing centres, while small- and mid-sized leases are offered across Canada through National Leasing. Oil and gas production lending is conducted by specialists located in Calgary. Real estate specialists are established in the major centres of Edmonton, Calgary and Vancouver. Optimum Mortgage maintains centralized administration based in Edmonton and sources residential mortgages throughout Western Canada and select regions of Ontario through an established network of mortgage brokers.

Outlook for Diversification of Portfolio

Solid loan growth is expected to continue across all lending sectors and portfolio diversification by geography will likely remain relatively consistent with October 31, 2011. The proportion of total loans in general commercial mortgages could reduce slightly in 2012, reflecting increased competition and comparatively faster growth in other areas such as oil and gas production loans, general commercial loans and equipment financing.

Credit Quality

Highlights of 2011

- Credit quality improved significantly and remained within expectations.
- The provision for credit losses was $22.2 million and represented 20 basis points of average loans, the low end of the 2011 target range of 20 to 25 basis points of average loans.
- The dollar level of gross impaired loans decreased $46.2 million or 32% from the prior year.
- Gross impaired loans measured as a percentage of total loans represented 79 basis points, compared to 135 basis points one year ago.

Impaired Loans

As shown in Table 9, gross impaired loans totaled $97.0 million and represented 0.79% of outstanding loans, compared to $143.2 million, or 1.35% of total loans last year. The ten largest accounts classified as impaired, measured by dollars outstanding, represented approximately 48% of total gross impaired loans at quarter end, down from 56% a year earlier. New formations of impaired loans totaled $94.6 million, compared to $165.8 million last year and $158.1 million in 2009. While the trends are positive, management expects the dollar level of gross impaired loans will fluctuate from the current level until global uncertainties subside and overall economic conditions strengthen further. The dollar level of gross impaired loans fluctuates as loans become impaired and are subsequently resolved and does not directly reflect the dollar value of expected write-offs given the tangible security held against the Bank's lending positions.

TABLE 9 – CHANGE IN GROSS IMPAIRED LOANS
($ thousands)

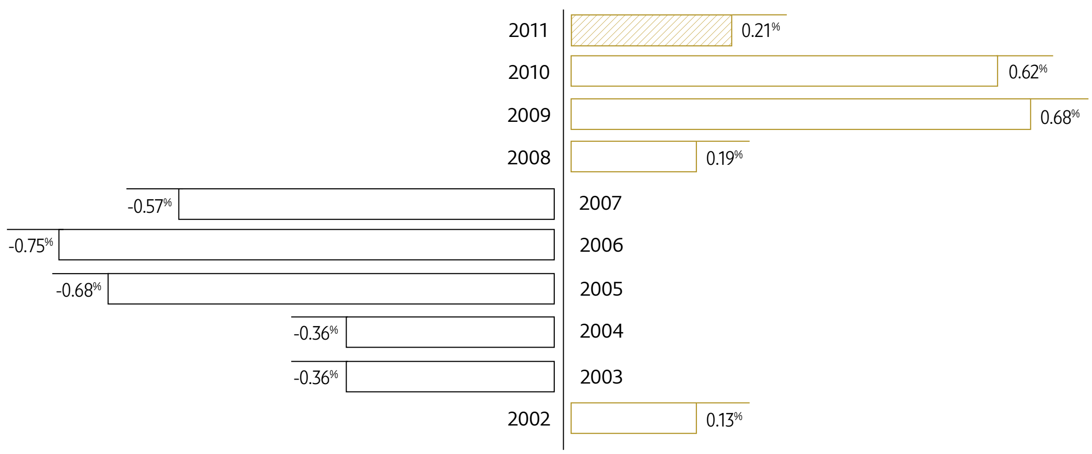
	2011	2010	2009	Change from 2010 $	Change from 2010 %
Gross impaired loans, beginning of period	**$ 143,207**	$ 137,944	$ 91,636	$ 5,263	4
New formations	**94,601**	165,833	158,129	(71,232)	(43)
Reductions, impaired accounts paid down or returned to performing status	**(108,747)**	(135,971)	(97,979)	27,224	(20)
Write-offs	**(32,074)**	(24,599)	(13,842)	(7,475)	30
Total, end of period [1]	**$ 96,987**	$ 143,207	$ 137,944	$ (46,220)	(32)
Balance of the ten largest impaired accounts	**$ 46,884**	$ 79,721	$ 76,101	$ (32,837)	(41)
Total number of accounts classified as impaired [2]	**153**	189	224	(36)	(19)
Total number of accounts classified as impaired under $1 million	**137**	163	199	(26)	(16)
Gross impaired loans as a percentage of total loans [3]	**0.79%**	1.35%	1.49%	–	(56) bp [4]

(1) Gross impaired loans includes foreclosed assets held for sale with a carrying value of $3,241 (2010 – $867).
(2) Total number of accounts excludes National Leasing accounts.
(3) Total loans do not include an allocation for credit losses or deferred revenue and premiums.
(4) bp – basis point change.

The level of gross impaired loans decreased compared to the prior two years reflecting the ongoing resolution of impaired accounts and improved economic conditions. The Bank's ability over the past three years to manage a much higher level of gross impaired loans with relatively consistent loss experience demonstrates the benefits of CWB's secured lending practices, as well as the ongoing success of loan realization efforts and work-out programs. The current estimates of expected write-offs for existing loans classified as impaired are reflected in the specific provisions for credit losses, which totaled $10.4 million at year end, compared to $19.0 million a year earlier. The Bank establishes its current estimates of expected write-offs through detailed analyses of both the overall quality and ultimate marketability of the security held against impaired accounts. In addition to the foregoing explanation, comparatively higher write-offs in 2011 and, in part, the lower level of 2011 specific provisions for credit losses, reflect a change in the Bank's internal process where loans are now written off in the quarter that the finalized loss is determined. Under the previous internal process, loans were written off in the quarter following when the finalized loss was determined. Consequently, the reported amount of 2011 write-offs reflects five quarters of finalized losses. This is a change in timing only and is expected to improve both data quality and efficiency.

The 2011 provision for credit losses in dollar terms of $22.2 million increased 9% ($1.8 million) over the previous year and represented 20 basis points of average loans, compared to 21 basis points in 2010. The slightly lower provision when measured against average loans reflects a combination of very strong 2011 loan growth and overall improved credit quality. At October 31, 2011, gross impaired loans exceeded the total allowance for credit losses by $26.2 million, representing 21 basis points (2010 – 62 basis points) of net loans outstanding (see Figure 4). In the five years prior to fiscal 2008, a relatively consistent dollar provision for credit losses together with an exceptionally low level of impaired loans resulted in the total allowance for credit losses exceeding gross impaired loans. The general allowance represented 50 basis points of risk-weighted assets at year end (2010 – 57 basis points). The allowance for credit losses as a percentage of gross impaired loans (coverage ratio) was 73%, up from 55% in 2010.

FIGURE 4 – NET IMPAIRED LOANS AS A PERCENTAGE OF NET LOANS OUTSTANDING



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

Outlook for Impaired Loans

Overall credit quality is expected to remain satisfactory in view of management's current economic outlook and actual losses should be within CWB's range of acceptable levels. The level of gross impaired loans has returned to more normal levels, but is expected to continue to fluctuate from this point. Lending exposures will continue to be closely monitored and management remains confident in the strength, diversity and underwriting structure of the overall loan portfolio.

Allowance for Credit Losses

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

TABLE 10 – ALLOWANCE FOR CREDIT LOSSES
($ thousands)

	2011 Opening Balance	Provision for Credit Losses	Write–Offs, net of Recoveries (1)	**2011 Ending Balance**
Specific Allowance				
Commercial	$ 2,655	$ 6,170	$ (7,456)	**$ 1,369**
Real estate	4,880	8,369	(10,733)	**2,516**
Equipment financing	10,215	4,762	(9,656)	**5,321**
Consumer and personal	1,288	2,052	(2,167)	**1,173**
	19,038	21,353	(30,012)	**10,379**
General Allowance	59,603	826	–	**60,429**
Total	$ 78,641	$ 22,179	$ (30,012)	**$ 70,808**

(1) Recoveries in 2011 totaled $2,062 (2010 – $600).

The allowance for credit losses is maintained to absorb both identified and unidentified losses in the loan portfolio and, at October 31, 2011, consisted of $10.4 million of specific allowances and $60.4 million in the general allowance for credit losses. Specific allowances include the accumulated allowances for losses required on identified impaired accounts to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit risk includes allowances for losses inherent in the portfolio that are not presently identifiable on an account-by-account basis. The general allowance at year end represented 49 basis points of gross outstanding loans (2010 – 56 basis points) and 50 basis points of risk-weighted assets (2010 – 57 basis points). An assessment of the adequacy of the general allowance is conducted quarterly and measured against the three-, five- and ten-year loan loss averages. In addition, a method of applying a progressive (increasing with higher risk) loss ratio range against groups of loans with a common risk rating is utilized to test the adequacy of the general allowance. The dollar level of the general allowance increased in four of the past five years as the provision for credit losses exceeded the amount allocated to specific credits. The exception was 2010 when challenging economic conditions contributed to a decrease in the general allowance.

Policies and methodology governing the management of the general allowance are in place. The loan portfolio is delineated through the assignment of internal risk ratings to each borrower. The rating is based on assessments of key evaluation factors for the nature of the exposure applied on a consistent basis across the portfolio. The rating system has 12 levels of risk and ratings are updated at least annually for all loans, with the exception of consumer loans and single-unit residential mortgages. At October 31, 2011, the general allowance for credit losses met all of management's tests of adequacy.

Outlook for Allowance for Credit Losses

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

A new more robust methodology has been developed to estimate the adequacy of the collective (i.e. general) allowance for credit losses under IFRS. No material change is expected regarding the amount of the allowance. However, the new methodology does have potential to increase the quarterly volatility of the provision for credit losses.

Provision for Credit Losses

The provision for credit losses represented 20 basis points of average loans in 2011 (see Table 11), an increase from both the three-year average of 19 basis points and the five-year average of 17 basis points. The increase in the provision as a percentage of average loans over the past two years reflects both the characteristics of National Leasing's portfolio and less robust economic conditions compared to earlier years. Net new specific provisions represented 19 basis points of average loans in 2011.

These results compare to the three-, five- and ten-year trends when the net new specific provisions for credit losses averaged 19, 14 and 13 basis points of average loans, respectively. The Bank has a long history of strong credit quality and low loan losses, both of which compare very favourably to the Canadian banking industry. External factors that may impact Western Canada and the sectors in which the Bank's customers operate are continually analyzed.

TABLE 11 – PROVISION FOR CREDIT LOSSES
($ thousands)

	2011	2010	2009	2008	2007
Provision for credit losses (1)	**0.20%**	0.21%	0.15%	0.15%	0.16%
Net new specific provisions (net of recoveries) (2)	**0.19**	0.27	0.14	0.09	0.04
General allowance	**$ 60,429**	$ 59,603	$ 61,153	$ 60,527	$ 55,608
Coverage ratio (3)	**73%**	55%	55%	82%	299%

(1) As a percentage of average loans.
(2) Portion of the year's provision for credit losses allocated to specific provisions as a percentage of average loans.
(3) Allowance for credit losses as a percentage of gross impaired loans.

Outlook for the Provision for Credit Losses

The provision for credit losses in 2012 is expected to be 20 to 25 basis points of average loans, consistent with the target range established for 2011. The expected provision reflects the Bank's current assessment based on assumptions about the economic outlook, expected loan growth, the overall quality of the portfolio and its underlying security, and the adequacy of the general allowance for credit losses. This assessment is ongoing and the Bank's updated expectations are communicated no less than quarterly.

Deposits

Highlights of 2011

- Personal deposits, which represent an important part of the Bank's lower cost core funding, increased 14%.
- Business and government deposits increased 12%.
- Branch and trust generated demand and notice deposits increased 13%.
- Branch and trust generated deposits were 58% of total deposits, down from 61% a year earlier, mainly reflecting growth in fixed rate term deposits raised through the deposit broker network to help fund very strong loan growth.
- Obtained a credit rating on deposits and senior debt from DBRS Limited of A (low) with a stable outlook.
- Completed a $250 million offering of senior deposit notes representing the Bank's first issue of floating rate senior debt in the capital markets.
- Began offering Valiant deposits through CWB branches.

TABLE 12 – DEPOSITS
($ thousands)

	Demand	Notice	Term	2011 Total	% of Total
Personal	$ 30,440	$ 2,086,231	$ 6,229,158	$ 8,345,829	67%
Business and government	552,827	1,321,359	1,916,674	3,790,860	30
Capital markets	–	–	250,000	250,000	2
Deposit-taking institutions	–	–	8,000	8,000	–
Deposit from CWB Capital Trust (1)	–	–	105,000	105,000	1
Total Deposits	$ 583,267	$ 3,407,590	$ 8,508,832	$ 12,499,689	100%
% of Total	5%	27%	68%	100%	

	Demand	Notice	Term	2010 Total	% of Total
Personal	$ 23,308	$ 1,840,026	$ 5,462,231	$ 7,325,565	68%
Business and government	507,300	1,159,573	1,713,329	3,380,202	31
Capital markets	–	–	–	–	–
Deposit-taking institutions	–	–	2,000	2,000	–
Deposit from CWB Capital Trust (1)	–	–	105,000	105,000	1
Total Deposits	$ 530,608	$ 2,999,599	$ 7,282,560	$ 10,812,767	100%
% of Total	5%	28%	67%	100%	

(1) The senior deposit note of $105 million issued to Canadian Western Bank Capital Trust (CWB Capital Trust) is reflected as a deposit payable on a fixed date. This senior deposit note bears interest at an annual rate of 6.199% until December 31, 2016 and, thereafter, at the CDOR 180-day Bankers' Acceptance Rate plus 2.55%. This note is redeemable at the Bank's option, in whole or in part, on and after December 31, 2011, or earlier in certain specified circumstances, both subject to the approval of OSFI. Each one thousand dollars of WesTS note principal is convertible at any time into 40 non-cumulative redeemable CWB First Preferred Shares Series 1 of the Bank at the option of CWB Capital Trust. CWB Capital Trust will exercise this conversion right in circumstances in which holders of WesTS exercise their holder exchange right. See the Capital Management discussion of this MD&A or Note 15 to the consolidated financial statements for more information on WesTS and CWB Capital Trust.

Total deposits at year end of $12,500 million increased 16% ($1,687 million) over 2010 reflecting, 14% ($1,020 million) growth in personal deposits, 12% ($411 million) growth in business and government deposits, and a $250 million issuance of senior deposit notes representing the Bank's first issue of floating rate senior debt in the capital markets. Consistent with the Bank's commercial focus, a considerable portion of branch deposits are generated from corporate clients that tend to hold larger balances compared to personal retail clients (See the Liquidity Management section of this MD&A). Subsequent to year end, $150 million of senior deposit notes were issued to a broad group of investors.

TABLE 13 – DEPOSITS BY SOURCE
(as a percentage of total deposits at October 31)

	2011	2010	2009	2008	2007
Branches	58%	61%	64%	63%	64%
Deposit brokers	39	38	34	34	33
Capital markets	2	–	–	–	–
Deposit from CWB Capital Trust	1	1	1	1	1
Corporate wholesale	–	–	1	2	2
Total	100%	100%	100%	100%	100%

Deposits are primarily generated from the branch network (including CWT and Valiant) and a deposit broker network. Increasing the level of retail deposits is an ongoing focus as success in this area provides the most reliable and stable source of funding. CWT raises deposits through notice accounts (comprised primarily of cash balances held in self-directed registered accounts), corporate trust deposits and through the Bank's branch network, in addition to deposits generated through the deposit broker network. Valiant's status as a federal deposit-taking institution adds a third Canada Deposit Insurance Corporation (CDIC) licence and provides an additional channel to raise insured deposits. Valiant deposits are currently offered only in CWB branches. Management is optimistic about the potential for Canadian Direct Financial® to provide an enhanced source of funding in the future. Canadian Direct Financial® currently offers deposits and registered saving products via the Internet to customers in all provinces and territories except Quebec. Insured deposits raised through deposit brokers remain a valued funding source. Although these funds are subject to commissions, this cost is countered by a reduced dependence on a more extensive branch network and the benefit of generating insured fixed term retail deposits over a wide geographic base. Corporate wholesale deposits represent larger deposits raised through CWB's corporate office rather than the branch network.

Growth in total branch-raised deposits, which includes deposits raised through trust operations, was 9% in 2011. The demand and notice component within branch-raised deposits increased 13% and comprised 32% of total deposits at year end, down from 33% the previous year. Branch-raised deposits comprised 58% of total deposits, compared to 61% in the previous year, with the decrease reflecting growth in fixed rate term deposits raised through the deposit broker network and $250 million of senior deposit notes raised in the debt capital markets. The level of growth in demand and notice deposits reflects ongoing execution of strategies to further enhance and diversify the Bank's core funding sources as well as CWT's success in generating deposits through its fiduciary trust business.

Outlook for Deposits

A strategic focus on increasing branch-raised deposits (including CWT and Valiant) will continue in 2012, with emphasis on the demand and notice component, which is often lower cost and provides associated transactional fee income. CWB's expanded market presence, which includes the opening of three new full-service branches since September 2010, also supports objectives to generate branch-raised deposits. The Bank's deposit broker network remains a valued source for raising insured fixed term retail deposits and has proven to be an extremely effective and efficient way to access funding and liquidity over a wide geographic base. Selectively utilizing the debt capital markets is also part of management's strategy to further diversify the Bank's funding base over time. Provided costs remain satisfactory, National Leasing is planning to utilize securitization channels for a portion of its funding requirements in 2012 to broaden overall funding sources. Management continues to evaluate the benefits of using loan securitization and/or whole loan sales as additional sources of funding for certain other types of portfolios, most notably residential mortgages.

Other Assets and Other Liabilities

At October 31, 2011, other assets totaled $313 million (2010 – $329 million). The decrease from last year primarily reflects a receivable outstanding at October 31, 2010 related to redemptions of securities that were not settled until the first business day in November of that year. Net property and equipment as shown on the balance sheet increased $7 million, mainly due to ongoing investment in both physical infrastructure and technology. Insurance related other assets were $57 million (2010 – $60 million) and consisted primarily of instalment premiums receivable as well as the reinsurers' share of unpaid claims. Other assets at October 31, 2011 included goodwill and intangible assets of $38 million and $37 million, respectively.

Other liabilities totaled $434 million at October 31, 2011 (2010 – $426 million). Insurance related other liabilities were $149 million (2010 – $149 million) and consisted primarily of provisions for unpaid claims and adjustment expenses and unearned premiums. Other liabilities at October 31, 2011 also include a $31 million provision for contingent consideration and $44 million of other liabilities related to National Leasing.

Liquidity Management

Highlights of 2011

- Maintained a strong liquidity position and conservative investment profile.
- For much of the year, relative stability in Canadian capital markets allowed for a reduction in liquid assets to more normal levels. Liquidity was augmented in the fourth quarter of the year due to potential market disruptions related to the European debt crisis.
- In November 2010, received a credit rating from DBRS Limited on senior debt/deposits A (low) and subordinated debentures BBB (high); both ratings were issued indicating a stable trend. The ratings and trend were confirmed in October 2011. Maintaining this competitive credit rating is important for the Bank's strategies to selectively utilize the debt capital markets as a supplementary source of cost-effective funding.

A schedule outlining the consolidated securities portfolio at October 31, 2011 is provided in Note 4 to the consolidated financial statements. A conservative investment profile is maintained by ensuring:

- all investments are high quality and include government debt securities, short-term money market instruments, preferred shares and other marketable securities;
- specific investment criteria and procedures are in place to manage the securities portfolio;
- regular review, monitoring and approval of investment policies is completed by management's Asset Liability Committee (ALCO); and,
- quarterly reporting to the Board of Directors (the Board) on the composition of the securities portfolio, further supported by the Board's annual review and approval.

CWB has no direct credit exposure to sovereign debt outside of Canada. CWB also has no direct exposure to any credit default swaps, collateralized debt obligations, non-bank sponsored asset-backed commercial paper or monoline insurers.

The Bank's liquidity management is a comprehensive process that includes, but is not limited to:

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

TABLE 14 – LIQUID ASSETS
($ thousands)

	2011	2010	Change from 2010
Cash and non-interest bearing deposits with financial institutions	$ 73,318	$ 8,965	$ 64,353
Deposits with regulated financial institutions	233,964	168,998	64,966
Cheques and other items in transit	5,053	9,981	(4,928)
Total Cash Resources	312,335	187,944	124,391
Securities purchased under resale agreement	–	177,954	(177,954)
Government of Canada treasury bills	384,721	434,383	(49,662)
Government of Canada, provincial and municipal bonds, term to maturity 1 year or less	173,723	128,799	44,924
Government of Canada, provincial and municipal bonds, term to maturity more than 1 year	465,943	89,990	375,953
Preferred shares	497,130	511,228	(14,098)
Common shares	100,642	89,243	11,399
Other debt securities	303,545	256,544	47,001
Total Securities Purchased or Sold Under Resale Agreements and Marketable Securities	1,925,704	1,688,141	237,563
Total Liquid Assets	$ 2,238,039	$ 1,876,085	$ 361,954
Total Assets	$ 14,772,035	$ 12,701,691	$ 2,070,344
Liquid Assets as a Percentage of Total Assets	15%	15%	–%
Total Deposit Liabilities	$ 12,499,689	$ 10,812,767	$ 1,686,922
Liquid Assets as a Percentage of Total Deposit Liabilities	18%	17%	1%

As shown in Table 14, liquid assets comprised of cash, interbank deposits, securities purchased under resale agreements and marketable securities totaled $2,238 million at October 31, 2011, an increase of $362 million compared to a year earlier. The Bank carried more liquidity at year end than it would in a more normal market environment with reduced global economic uncertainties. Liquid assets represented 15% (2010 – 15%) of total assets and 18% (2010 – 17%) of total deposit liabilities at year end.

Compared to October 31, 2010, the Bank shifted the composition of total liquid assets in response to the current interest rate environment and elevated market risks attributed to the European debt crisis. This strategy resulted in significant increases in the balance of total cash resources and government securities with maturities greater than one year. Highlights of the composition of liquid assets at October 31, 2011 are as follows:

- maturities within one year decreased to 40% (2010 – 49%) of liquid assets, or $892 million (2010 – $921 million);
- Government of Canada, provincial and municipal debt securities increased to 46% (2010 – 35%) of liquid assets;
- deposits with regulated financial institutions, including Bankers' Acceptances, increased to 14% (2010 – 9%) of liquid assets;
- preferred shares decreased to 22% (2010 – 27%) of liquid assets; and,
- other marketable securities remained constant at 18% of liquid assets.

When applicable, securities purchased under resale agreements are included in liquid assets. These represent short-term loans to securities dealers that require subsequent repurchase of the securities given as collateral, typically within a few days. CWB may also enter into reverse resale agreements, which are included in other liabilities. These are short-term advances from securities dealers, typically no more than a few days in duration, and require the bank to repurchase the securities. Collateral securities are comprised of government or other high quality liquid securities. Short-term uncommitted and committed facilities have been arranged with a number of financial institutions. The government insured/guaranteed mortgage portfolios held by the Bank also represent a potential source of liquidity; this was confirmed in the fourth quarter of 2011 with the sale of a relatively small portfolio of residential mortgages by Optimum Mortgage. Total liquid assets contained no securities purchased under resale agreements at October 31, 2011. This compares to October 31, 2010 when securities purchased under resale agreements totaled $178 million. These agreements are primarily used for cash management purposes.

A significant portion of branch-generated deposits comes from corporate clients that tend to hold larger balances that are typically subject to greater fluctuations compared to deposits generated from personal retail clients.

The primary source of incremental new funding is the issuance of deposit instruments.

A summary of outstanding deposits by contractual maturity date is presented in Tables 15 and 16.

TABLE 15 – DEPOSIT MATURITIES WITHIN ONE YEAR
($ millions)

October 31, 2011	Within 1 Month	1 to 3 Months	3 Months to 1 Year	Cumulative Within 1 Year
Demand deposits	$ 583	$ –	$ –	$ 583
Notice deposits	3,408	–	–	3,408
Deposits payable on a fixed date	893	1,009	2,912	4,814
Total	$ 4,884	$ 1,009	$ 2,912	$ 8,805
October 31, 2010 Total	$ 4,574	$ 892	$ 1,951	$ 7,417

TABLE 16 – TOTAL DEPOSIT MATURITIES
($ millions)

October 31, 2011	Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	More than 5 Years	Total
Demand deposits	$ 583	$ –	$ –	$ –	$ –	$ –	$ 583
Notice deposits	3,408	–	–	–	–	–	3,408
Deposits payable on a fixed date	4,814	2,046	893	376	275	–	8,404
Note to CWB Capital Trust	–	–	–	–	–	105	105
Total	$ 8,805	$ 2,046	$ 893	$ 376	$ 275	$ 105	$ 12,500
October 31, 2010 Total	$ 7,417	$ 1,555	$ 796	$ 557	$ 383	$ 105	$ 10,813

A breakdown of deposits by source is provided in Table 13. Target limits by source have been established as part of the overall liquidity policy and are monitored to ensure an acceptable level of funding diversification is maintained. The Bank continues to aggressively pursue deposits through the branch network as its core funding source. At the same time, the total dollar value of broker-generated deposits is expected to increase to support asset growth or when higher levels of liquidity are required. Insured deposits raised through deposit brokers remain a highly effective and valued funding source. At October 31, 2011, CWT's notice account balances totaled $1,124 million (2010 – $993 million), reflecting ongoing business and client growth.

In addition to deposit liabilities, CWB has subordinated debentures outstanding as presented in the table below:

TABLE 17 – SUBORDINATED DEBENTURES OUTSTANDING
($ thousands)

Interest Rate	Maturity Date	Earliest Date Redeemable by CWB at Par	2011	2010
4.389% (1)	November 30, 2020	November 30, 2015	**$ 300,000**	$ –
5.070% (2)	March 21, 2017	March 22, 2012	**120,000**	120,000
5.571% (3)	March 21, 2022	March 22, 2017	**75,000**	75,000
5.950% (4)	June 27, 2018	June 28, 2013	**50,000**	50,000
5.426% (5)	November 21, 2015	November 22, 2010	**–**	70,000
Total			**$ 545,000**	$ 315,000

(1) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 193 basis points.

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

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

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

(5) These conventional debentures had a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate would have reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points. On November 22, 2010, these conventional debentures were redeemed by the Bank.

Outlook for Liquidity Management

The Bank continues to refine its methodologies for measuring and monitoring liquidity risk. Use of dynamic scenario analysis has allows for a reduction in the level of liquid asset coverage while continuing to maintain prudent liquidity standards. In view of elevated market risks mainly attributed to the European debt crisis, the composition of liquid assets will continue to include a higher balance of cash resources and low yielding government securities compared to what would be held in a more normal market environment. This strategy has a negative impact on net interest margin but is considered appropriate in response to increased market uncertainties.

The Bank for International Settlements (BIS) finalized liquidity proposals initially described in its document "International Framework for Liquidity Risk, Measurement, Standards and Monitoring." The proposals as outlined remain subject to significant transition and monitoring activities, and revisions are expected. The new liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are presently subject to an observation period and will include a review clause to address any unintended consequences. It is too early to tell how this framework will impact CWB. BIS is currently expected to introduce the LCR effective January 1, 2015 and the NSFR effective January 1, 2018.

Contractual Obligations

In addition to the obligations related to deposits and subordinated debentures discussed in the Deposits and Liquidity Management sections of this MD&A, as well as Notes 14, 18, 21 and 29 of the consolidated financial statements, the following contractual obligations are outstanding at October 31, 2011.

TABLE 18 – CONTRACTUAL OBLIGATIONS
($ thousands)

	Within 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Lease commitments	**$ 10,932**	**$ 21,760**	**$ 18,580**	**$ 23,745**	**$ 75,017**
Purchase obligations for capital expenditures	**1,267**	**147**	**–**	**–**	**1,414**
October 31, 2011	**$ 12,199**	**$ 21,907**	**$ 18,580**	**$ 23,745**	**$ 76,431**
October 31, 2010	$ 8,975	$ 16,454	$ 15,173	$ 19,636	$ 60,238

Capital Management

Highlights of 2011

- Maintained strong Tier 1 and total capital adequacy ratios of 11.1% and 15.4%, respectively.
- Supported very strong loan growth while maintaining the ratio of tangible common equity to risk-weighted assets at 8.6%, up from 8.5%.
- Issued $300 million and redeemed $70 million of subordinated debentures.
- Cash dividends of $0.54 per share paid to common shareholders, up 23%.
- Purchased and canceled one million warrants through an approved Normal Course Issuer Bid (NCIB); on August 31, 2011, redeemed all 4.2 million outstanding warrants (TSX: CWB.WT) for cash of $72.5 million.
- On October 31, 2011, announced an approved NCIB for the Bank to purchase, for cancelation, up to 2,261,434 common shares (purchases under the NCIB were eligible to begin on November 2, 2011 and will end no later than November 1, 2012).

Subsequent Highlights

- In December 2011, the Board of Directors declared a quarterly cash dividend of $0.15 per common share, an increase of 7% ($0.01) over the previous quarterly cash dividend and 15% ($0.02 per share) over the quarterly cash dividend declared one year earlier. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share.

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors. Capital management takes into account forecasted capital needs with consideration of anticipated profitability, asset growth, market and economic conditions, regulatory changes and dividends. The overriding goal is to remain well capitalized in order to protect customer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the capital markets, all while providing a satisfactory return for common shareholders. Consistent with Basel II guidelines described below, CWB has implemented an Internal Capital Adequacy Assessment Process (ICAAP) to ensure capital levels remain adequate in relation to current and anticipated future risks.

The Bank provides a share incentive plan to officers and employees who are in a position to materially impact the longer term financial success of the Bank, as measured by share price appreciation and dividends. Note 20 to the consolidated financial statements details the number of options outstanding, the weighted average exercise price and the amounts exercisable at year end. Holders of CWB's common shares and holders of any other class of shares deemed eligible by the Bank's Board of Directors are offered the choice to direct cash dividends paid toward the purchase of common shares through a dividend reinvestment plan (DRIP). Further details regarding the Bank's DRIP are available on the Bank's website at www.cwbankgroup.com/investor_relations.

Basel II Capital Adequacy Accord

The Office of the Superintendent of Financial Institutions Canada (OSFI) currently requires banks to measure capital adequacy in accordance with published guidelines commonly referred to as Basel II for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. CWB currently uses the Standardized Approach under Basel II to calculate risk-weighted assets for both credit and operational risk. The Standardized Approach for credit risk applies a weighting of 0% to 150% based on the deemed credit risk for each type of asset. As an example, a loan that is fully insured by Canada Mortgage and Housing Corporation (CMHC) is applied a risk weighting of 0% as the Bank's risk of loss is nil, while typical uninsured commercial loans are assigned a risk weighting of 100% to reflect the higher level of risk associated with this type of asset. The ratio of regulatory capital to risk-weighted assets is calculated and compared to CWB's ICAAP thresholds and standards for Canadian financial institutions as established by OSFI. Off-balance sheet items, such as the notional amount of derivatives and some credit commitments, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk-weighted calculations are prescribed by OSFI. National Leasing's off-balance sheet securitized asset portfolio is reflected in a deduction from both Tier 1 and total capital. As Canadian Direct is subject to separate OSFI capital requirements specific to insurance companies, the Bank's investment in this company is deducted from total capital and Canadian Direct's assets are excluded from the calculation of risk-weighted assets.

Current regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. CWB's Tier 1 capital is primarily comprised of common shareholders' equity, preferred shares and innovative capital, while Tier 2 capital primarily includes subordinated debentures and the general allowance for credit losses (to a prescribed regulatory maximum). Refer to Table 19 for additional details on CWB's capital structure and regulatory capital ratios.

The Bank complied with all internal and external capital requirements in 2011.

TABLE 19 – CAPITAL STRUCTURE AND BASEL II REGULATORY RATIOS AT YEAR END

($ thousands)

	2011	2010	Change from 2010
Tier 1 Capital			
Retained earnings	**$ 650,028**	$ 614,710	$ 35,318
Common shares	**408,014**	279,352	128,662
Preferred shares	**209,750**	209,750	–
Contributed surplus	**21,884**	21,291	593
Innovative capital instrument (1)	**105,000**	105,000	–
Non-controlling interest in subsidiary	**225**	180	45
Less goodwill of subsidiaries	**(37,852)**	(37,723)	(129)
Less securitization	**(6,583)**	(8,880)	2,297
Total	**1,350,466**	1,183,680	166,786
Tier 2 Capital			
General allowance for credit losses (Tier 2A) (2)	**60,429**	59,603	826
Accumulated unrealized gains on available-for-sale securities, net of tax (3)	**1,509**	16,119	(14,610)
Subordinated debentures (Tier 2B) (4)	**545,000**	315,000	230,000
Total	**606,938**	390,722	216,216
Less investment in insurance subsidiary	**(80,941)**	(68,993)	(11,948)
Less securitization	**(6,583)**	(8,880)	2,297
Total Regulatory Capital	**$ 1,869,880**	$ 1,496,529	$ 373,351
Regulatory Capital to Risk-Weighted Assets			
Tier 1 capital	**11.1%**	11.3%	(0.2)%
Tier 2 capital	**5.0**	3.7	1.3
Less investment in insurance subsidiary and securitization	**(0.7)**	(0.7)	–
Total Regulatory Capital Adequacy Ratio	**15.4%**	14.3%	1.1%
Assets to Regulatory Capital Multiple (5)	**7.9**	8.5	(0.6)

(1) The innovative capital instrument consists of CWB's WesTS and may be included in Tier 1 capital to a maximum of 15% of net Tier 1 capital. Any excess innovative capital outstanding is included in Tier 2B capital.

(2) Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. At October 31, 2011, the Bank's general allowance represented 0.50% (2010 – 0.57%) of risk-weighted assets.

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

(4) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital. Any excess Tier 2B capital is included in capital as net Tier 1 capital increases. All subordinated debentures are currently included in Tier 2B capital.

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

TABLE 20 – RISK-WEIGHTED ASSETS

($ thousands)

	Cash, Securities and Resale Agreements	Loans	Other Items	2011 Total	2011 Risk–Weighted Assets
Corporate	$ 115,818	$ 9,344,142	$ –	$ 9,459,960	$ 9,051,686
Sovereign	1,012,718	17,028	–	1,029,746	15,440
Bank	367,230	38,963	–	406,193	151,042
Retail residential mortgages	–	1,879,366	–	1,879,366	655,470
Other retail					
Excluding small business entities	–	183,346	–	183,346	133,753
Small business entities	–	849,395	–	849,395	648,935
Equity	541,018	–	–	541,018	344,301
Undrawn commitments	–	234,961	–	234,961	229,788
Operational risk	–	–	56,443	56,443	705,542
Other	–	56,600	293,383	349,983	224,954
As at October 31, 2011	**$ 2,036,784**	**$12,603,801**	**$ 349,826**	**$14,990,411**	**$12,160,911**
As at October 31, 2010	$ 1,748,459	$ 10,778,761	$ 351,705	$ 12,878,925	$ 10,489,618

TABLE 21 – RISK-WEIGHTED CATEGORY

($ thousands)

	0%	20%	35%	50%	75%	100%	150% and greater	2011 Balance	2011 Weighted
Corporate	$ 34,381	$ 13,115	$ –	$ 776,585	$ –	$8,586,092	$ 49,787	$9,459,960	$9,051,686
Sovereign	952,548	77,198	–	–	–	–	–	1,029,746	15,440
Bank	–	312,080	–	10,973	–	83,140	–	406,193	151,042
Retail residential mortgages	378,758	–	1,194,624	–	274,531	31,453	–	1,879,366	655,470
Other retail									
Excluding small business entities	184	7,983	–	–	174,117	49	1,013	183,346	133,753
Small business entities	2,562	3,902	–	–	788,548	49,662	4,721	849,395	648,935
Equity	–	245,897	–	–	–	295,121	–	541,018	344,301
Undrawn commitments	–	–	–	–	20,694	214,267	–	234,961	229,788
Operational risk	–	–	–	–	–	–	56,443	56,443	705,542
Other	118,795	5,252	–	–	8,129	217,807	–	349,983	224,954
As at October 31, 2011	**$ 1,487,228**	**$ 665,427**	**$ 1,194,624**	**$ 787,558**	**$ 1,266,019**	**$ 9,477,591**	**$ 111,964**	**$14,990,411**	**$12,160,911**
As at October 31, 2010	$ 1,155,071	$ 678,500	$ 1,227,085	$ 527,016	$ 900,345	$ 8,251,862	$ 139,046	$12,878,925	$10,489,618

At as October 31, 2011, the Basel II Tier 1 capital adequacy ratio was 11.1% (2010 – 11.3%). The total capital adequacy ratio was 15.4% (2010 – 14.3%). Tier 1 regulatory capital increased $167 million over 2010, mainly resulting from:

- earnings, net of common and preferred dividends, of $124 million;
- common shares issued upon the exercise of warrants of $116 million; partially offset by,
- total costs for the purchase of warrants for cancellation of $88 million.

Total regulatory capital increased $373 million over 2010, mainly resulting from the factors mentioned above and:

- the issuance of $300 million and redemption of $70 million of subordinated debentures;
- a decrease of $12 million in the deduction for investment in insurance subsidiary; partially offset by
- a $15 million lower capital impact related to accumulated after-tax unrealized gains on available-for-sale securities.

Basel III Capital Adequacy Accord

The Basel Committee on Banking Supervision of the BIS (the Committee) has published the Basel III rules text supporting more stringent global standards on capital adequacy and liquidity, and OSFI has confirmed its intent to implement the Basel III rules for Canadian banks. OSFI also issued guidance and advisories on its implementation plan for all Canadian financial institutions, including transition allowances and details about the treatment of non-viability contingent capital (NVCC).

Significant capital changes most relevant to CWB include:

- increased focus on tangible common equity;
- all forms of non-common equity, such as conventional subordinated debentures and preferred shares, must be NVCC compliant. Compliant NVCC instruments include a clause that would require conversion to common equity in the event that OSFI deems the institution to be insolvent or a government is ready to inject a "bail out" payment;
- innovative Tier 1 instruments, such as CWB's WesTS, will no longer qualify;
- an investment in an insurance subsidiary is no longer deducted from capital except for any amount that exceeds 15% of tangible common equity; and,
- changes in the risk weighting or capital treatment for investments in the regulatory capital of other financial institutions.

OSFI has publicly stated that all Canadian banks must comply with the Basel III standards and maintain minimum capital ratios of 7.0% tangible common equity Tier 1, 8.5% Tier 1 and 10.5% total capital by January 1, 2013. The only available transition is related to the 10-year phase out of non-qualifying capital instruments. Pro forma Basel III calculations for CWB confirm that the Bank already complies with the new ratios owing to its very strong base of tangible common equity, as well as its relatively straightforward operations and composition of capital. Application of the proposed 2019 Basel III standards to the Bank's financial position at October 31, 2011 results in a 7.9% tangible common equity Tier 1 ratio, an 8.6% Tier 1 ratio and a 12.8% total capital ratio. The foregoing estimates are based on the Bank's current capital structure and composition of risk-weighted assets, and will change depending on management strategies, the composition of regulatory capital and financial performance in the future. Management will maintain its practice of prudent capital planning, which includes a comprehensive ICAAP.

Outlook for Capital Management

Management expects the Bank to maintain its strong capital position, which is particularly important in view of the future Basel III changes and elevated global uncertainties primarily related to the European debt crisis that could affect the economic outlook in CWB's markets. The Bank's strong capital ratios are currently well above the targeted ICAAP ranges, assuming a normal operating environment, and have the Bank well positioned to manage future unexpected events. The ongoing retention of earnings should support capital requirements associated with the anticipated achievement of the 2012 minimum performance targets. Management continues to evaluate alternatives to deploy capital for the long-term benefit of CWB shareholders, which includes the potential for strategic acquisitions.

Additional strategies are under development to further optimize the Bank's existing capital structure and the redemption of CWB's warrants in 2011 reflects this focus. Implementation of the new loan origination system in all branches, completed in the third quarter of 2011, will enhance statistical tracking and portfolio management capabilities, and was also a preliminary step in the plan for the Bank's possible transition to an Advanced Internal Ratings Based (AIRB) methodology for calculating risk-weighted assets. Although the potential implementation of an AIRB methodology is a few years away and requires the approval of OSFI, the eventual transition is expected to meaningfully enhance the data available to manage credit risk associated with the Bank's growing loan portfolio. The transition would also likely reduce capital requirements for certain types of risk-weighted assets and provide additional capital flexibility for management to pursue accretive growth opportunities in the future. Management recently engaged a third-party consultant to help identify existing gaps and develop a road map for the Bank's potential compliance with AIRB requirements.

The Bank's target capital ratios under Basel III, including an appropriate capital buffer over and above the prescribed OSFI minimums, will be established through development of the 2012 ICAAP. The transition to IFRS is not expected to have a material impact on the Bank's regulatory capital ratios.

Financial Instruments and Other Instruments

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

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

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

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

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

Derivative Financial Instruments

More detailed information on the nature of derivative financial instruments is shown in Note 12 to CWB's consolidated financial statements. The notional amounts of derivative financial instruments are not reflected on the consolidated balance sheets.

TABLE 22 – DERIVATIVE FINANCIAL INSTRUMENTS
($ thousands)

	2011	2010
Notional Amounts		
Interest rate contracts (1)	$ 19,400	$ 47,550
Foreign exchange contracts (2)	6,384	57,032
Equity contract (3)	–	500
Total	$ 25,784	$ 105,082

(1) Interest rate contracts are used as economic hedging devices to manage interest rate risk. The outstanding contracts mature between November 2012 and April 2014.
(2) U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. Forward foreign exchange contracts outstanding mature between November 2011 and April 2012.
(3) The equity contract was used to offset the return paid to depositors on certain deposit products where the return was linked to a stock index.

The active use of interest rate contracts remains an integral component in managing the Bank's short-term gap position; however, the volume of outstanding contracts (measured by the notional amount) continues to decrease. During 2010, CWB allowed outstanding interest rate swaps designated as cash flow hedges for interest rate risk to mature without replacement. This strategy positions CWB to benefit further in a period of increasing interest rates while maintaining interest rate risk within prudent policy guidelines. Derivative financial instruments are entered into only for the Bank's own account and CWB does not act as an intermediary in this market. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review, including an assessment of the credit worthiness of the counterparty. Policies regarding the use of derivative financial instruments are approved, reviewed and monitored on a regular basis by ALCO and reviewed and approved by the Board of Directors at least annually.

Acquisitions

On February 1, 2010, the Bank acquired 100% of the outstanding common shares of National Leasing in exchange for $53 million in cash, 2,065,088 common shares of the Bank (equating to an equivalent dollar value of $43 million) and contingent consideration for a total cost of $127 million. Both the Bank and the vendors have the option to trigger payment of the contingent consideration no earlier than November 1, 2012. The final amount of the contingent consideration is not yet determinable and, under Canadian GAAP, any change would be recognized as an adjustment to goodwill in the period in which the contingency is resolved. Under IFRS, contingent consideration related to a business combination is accounted for as a financial liability and fair valued at the time of the acquisition. An adjustment of the liability to current fair value is recorded through net income every period thereafter until settlement (refer to Future Changes in Accounting Policies in this MD&A for additional information on accounting for business combinations and contingent consideration under IFRS).

National Leasing is a commercial equipment leasing company headquartered in Winnipeg, Manitoba that specializes in small to mid-size transactions. The average size of each lease transaction has historically been approximately $20,000. The average size of each lease transaction since the acquisition has increased to approximately $25,000, and this upward trend could continue as a result of an expected shift in the allocation of National Leasing's portfolio. The company has representation across Canada with the largest concentration of leases sourced in Ontario.

Details of the fair values of assets and liabilities acquired are as follows:

TABLE 23 – ASSETS AND LIABILITIES ACQUIRED AT FAIR VALUE
($ thousands)

Leases	$	322,512
Intangible assets		40,708
Goodwill		27,937
Retained interest in securitized assets		19,109
Long-term debt		(270,630)
Future income tax liabilities		(10,611)
Other items, net		(2,407)
Net Assets Acquired	$	126,618

Intangible assets include customer relationships, computer software, non-competition agreements, lease administration contracts and trademarks. The trademarks were assigned an estimated value of $1.6 million and are not subject to amortization. National Leasing's financial results, the goodwill and other intangible assets related to the acquisition are included in the banking and trust segment. The total amount of goodwill and intangible assets are not deductible for income tax purposes. The long-term debt was repaid immediately after the acquisition.

Off-Balance Sheet Arrangements

Off-balance sheet items include assets under administration and assets under management. Total assets under administration, including both trust assets under administration and third-party service agreements for leases and residential mortgages, totaled $9,370 million at October 31, 2011, compared to $8,531 million one year ago. Assets under management held within Adroit Investment Management Ltd. were $816 million at year end, compared to $795 million last year. The gross amount of securitized assets at year end attributed to National Leasing was $91 million, compared to $199 million one year ago. On the adoption of IFRS in fiscal 2012, securitized assets will be reported on-balance sheet.

Other off-balance sheet items are comprised of standard industry credit instruments (guarantees, standby letters of credit and commitments to extend credit), and deposit instruments issued by the non-consolidated variable interest entity. CWB does not utilize, nor does it have exposure to, collateralized debt obligations or credit default swaps. For additional information regarding off-balance sheet items, refer to Notes 8, 15 and 21 of the audited consolidated financial statements for 2011.

Operating Segment Review

CWB operates in two business segments: 1) banking and trust, and 2) insurance. Segmented information is also provided in Note 33 of the consolidated financial statements.

Banking and Trust

Highlights of 2011

- Realized record net income of $166.0 million, an increase of 10%.
- Achieved record total revenues (teb) of $462.5 million, an increase of 14%.
- Surpassed $12 billion of total loans based on very strong loan growth of 16%.
- Surpassed $14 billion of total assets and $9 billion of total assets under administration.
- Realized improved credit quality as evidenced by a $46.2 million (32%) reduction in total gross impaired loans.
- Maintained a provision for credit losses of 20 basis points of average loans while realizing a $0.8 million increase in the dollar level of the general allowance for credit losses.
- Increased branch and trust generated deposits 9%, with the demand and notice component up13%.
- Reported an efficiency ratio (teb) of 45.4%, a slight deterioration from 44.4%.
- Opened a new full-service business and retail banking centre in Richmond, BC, bringing CWB's total number of branches to 40.
- Expanded CWB's existing branch in Medicine Hat, Alberta to offer full-service business and retail banking.
- Implemented the Bank's new loan origination system in all CWB branches.
- Obtained a credit rating on deposits and senior debt from DBRS Limited of A (low) with a stable outlook; the rating issued on subordinated debentures was BBB (high), also with a stable outlook.
- Completed a $250 million offering of senior deposit notes representing the Bank's first issue of floating rate senior debt in the capital markets.
- CWB recognized as one of the 50 Best Employers in Canada for a sixth consecutive year.

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

Customer access is provided through a network of 40 client-focused branches in select locations across the four western provinces. Canadian Direct Financial® is an Internet-based division of the Bank that mainly offers a range of deposit and registered savings products directly to customers in all provinces and territories except Quebec. Optimum Mortgage sources residential mortgages through a network of mortgage brokers in Western Canada and select markets in Ontario. National Leasing specializes in small and mid-sized commercial equipment leases and has representation across Canada. CWT provides trustee and custody services to independent financial advisors, corporations, brokerage firms and individuals. Valiant's operations include stock transfer and corporate trust services. Adroit specializes in discretionary wealth management for individuals, corporations and institutional clients.

TABLE 24 – BANKING AND TRUST HIGHLIGHTS [1]
($ thousands)

	2011	2010	Change from 2010
Net interest income (teb)	$ 376,781	$ 321,640	17%
Other income	85,706	83,393	3
Total revenues (teb)	462,487	405,033	14
Provision for credit losses	22,179	20,413	9
Non-interest expenses	210,193	179,734	17
Provision for income taxes (teb)	63,848	53,438	19
Non-controlling interest in subsidiary	228	215	6
Net Income	**$ 166,039**	$ 151,233	10%
Efficiency ratio (teb)	45.4%	44.4%	100 bp [2]
Efficiency ratio	46.5	45.5	100
Net interest margin (teb)	2.81	2.73	8
Net interest margin	2.74	2.64	10
Average loans ($ millions) [3]	$ 11,329	$ 9,806	16%
Average assets ($ millions) [3]	13,398	11,792	14

(1) See page 35 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) Loans and assets are disclosed on an average daily balance basis as this measure is most relevant to a financial institution and is the measure reviewed by management.

Record banking and trust net income of $166.0 million was up 10% ($14.8 million) over 2010 on 14% ($57.5 million) growth in total revenues (teb). Growth in total revenues (teb) reflects net interest income (teb) that was 17% ($55.1 million) higher compared to the prior year due to the positive contributions from very strong 16% loan growth and an eight basis point improvement in net interest margin (teb) to 2.81%. Loan growth reflected performance across all lending sectors and each of the Bank's key geographic regions. The increase in net interest margin was mainly driven by improved deposit costs and lower average liquidity, partially offset by increased debenture expense. Other income increased 3% ($2.3 million) as strong results across CWB's core banking operations, including a full-year contribution from National Leasing, a 10% ($1.7 million) increase in trust and wealth management fee income and $1.1 million higher foreign exchange gains more than offset the combined impact of a $2.0 million decline in gains on sale of securities and slightly lower securitization revenue. Non-interest expenses increased 17% ($30.5 million) mainly due to additional staff complement and ongoing investment in premises and technology infrastructure to support continued business growth. Excluding the impact of National Leasing in both years, including related amortization of intangible assets, the year-over-year increase in non-interest expenses was $18.9 million (11%). Very strong growth in total revenues (teb) was slightly offset by the impact of higher non-interest expenses and led to a 100 basis point deterioration in the efficiency ratio (teb) to 45.4%.

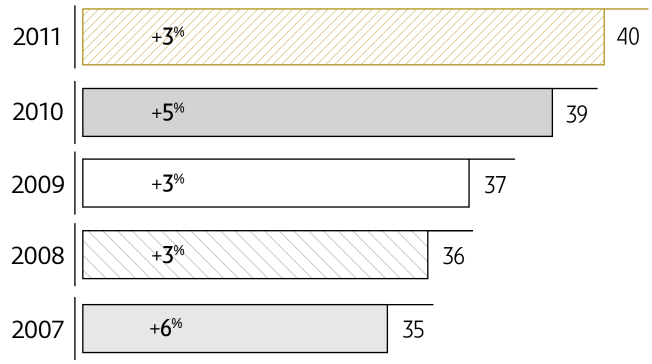
Overall credit quality remained satisfactory and showed continuous improvement throughout the year. Gross impaired loans totaled $97.0 million at year end, compared to $143.2 million a year earlier. The annual provision for credit losses exceeded net new specific provisions and led to a $0.8 million increase in the dollar level of the general allowance for credit losses compared to last year.

Significant infrastructure and technology initiatives completed in 2011 included the opening of a new full-service branch in Richmond, BC, implementation of the Bank's new loan origination system in all CWB branches and completion of a new data centre at the Bank's corporate offices in Edmonton. Further upgrades and expansions to systems and existing premises were also completed.

The balance of total branch and trust deposits grew 9% ($603 million), while the demand and notice component of branch and trust deposits was up 13% ($461 million). Growth in branch and trust generated deposits reflect ongoing execution of strategies to further enhance and diversify the Bank's core funding sources, as well as CWT's continued success in generating deposits through its fiduciary trust business.

Total assets under administration, including both trust assets under administration and third-party service agreements for leases and residential mortgages, surpassed the $9 billion milestone to reach $9,370 million at October 31, 2011, compared to $8,531 million a year earlier. Growth in assets under administration mainly reflects strong business performance in CWT. A portion of assets under administration are held in investment accounts, including self-directed RRSP and RRIF accounts, which numbered 47,842 (2010 – 46,009), an increase of 4% from one year ago. Assets under management were $816 million at October 31, 2011, compared to $795 million one year ago, reflecting an increasing level of success in offering more comprehensive wealth management services to existing banking clients. Assets under administration and assets under management are not reflected in the consolidated balance sheets (see Note 27 to the consolidated financial statements). The gross amount of securitized assets at year end, which are attributed to National Leasing, was $91 million, compared to $199 million one year ago.

FIGURE 5 – NUMBER OF BANK BRANCHES



Outlook for Banking and Trust

The outlook for 2012 includes expectations for solid performance across all business lines. The achievement of management's 10% minimum loan growth target is expected to be supported by modest economic growth in Canada and comparatively stronger economic performance in the four western provinces. The volume in the pipeline for new loans remained solid at the end of 2011 despite global uncertainties and potential effects of the European debt crisis. Growth will further benefit from an expected increase in market share that will be supported by the Bank's expanding market presence and an ongoing commitment to relationship-based business banking. Advertising and communication initiatives intended to improve client awareness within key geographic regions will also continue. Management is optimistic about opportunities to continue to build National Leasing's business by strengthening its market position and further diversifying the lease portfolio. While residential sales activity has moderated, Optimum Mortgage expects to achieve continued growth by maintaining its primary focus on alternative mortgages. In view of the current very low interest rate environment, a flat interest rate curve, ongoing competitive influences on loan pricing and expected higher liquidity levels, net interest margin will likely be under pressure in 2012, as was evidenced by actual results in the fourth quarter of fiscal 2011. Credit and retail services fee income is expected to grow in line with increased lending activity and an expanded branch network.

Gains on the sale of securities are expected to be significantly lower in fiscal 2012, reflecting the current composition of the securities portfolio, interest rate curves and elevated volatility in financial markets due to global uncertainties. The IFRS transition in 2012 will introduce additional potential for volatility in other income as it relates to accounting for unrealized losses in the available-for-sale securities portfolio. The acquisition-related contingent consideration for National Leasing will add further volatility as the amount will be fair valued each period going forward under IFRS.

Ongoing growth in CWT's trust business will positively contribute to both fee income and deposit growth, as this company continues to gain market share and deliver solid overall performance. Valiant has been successful in growing its client base across each of its geographic regions. Adroit is also expected to make positive contributions as the Bank continues to build its presence in wealth management services.

The Bank will maintain its focus on disciplined credit underwriting and direct appropriate resources towards continued realization efforts and the ongoing resolution of problem accounts. The dollar level of gross impaired loans is expected to fluctuate from the current level. Largely owing to the Bank's secured lending practices and an overall positive, yet cautious, economic outlook for key geographic markets, actual loan losses are expected to remain within CWB's historical range of acceptable levels.

One of management's key priorities is to maintain effective control of costs while ensuring the Bank is positioned to deliver strong growth over the long term. Effective execution of CWB's strategic plan will continue to require increased investment in certain areas. Significant expenditures relate to additional staff complement as well as expanded premises and technology upgrades. Anticipated revenue growth supported by planned capital investment and higher non-interest expenses necessary for continued business growth should translate to a 2012 efficiency ratio (teb) that is relatively consistent with that achieved in fiscal 2011.

Insurance

Highlights of 2011

- Net income of $12.1 million, down 2%; net income, excluding the impact of the Alberta auto risk sharing pools, was up 14%.
- Record gross written premiums of $130 million.
- Claims loss ratio of 64% and a combined ratio of 93%.
- Balanced profit contribution between underwriting and investment income.
- Very strong Minimum Capital Test ratio of 361%.
- Customer retention rate of 86% and very high customer satisfaction ratings.
- CDI Direct for home sales launched, taking the next step in providing home products over the Internet.
- Online claims estimating system implemented to improve customer service and efficiency.

Canadian Direct provides auto and home insurance products in BC and Alberta and has more than 190,000 policies outstanding. Policy distribution channels include two dedicated call centres, the Internet and, for customers in BC, the option to purchase auto insurance through select broker networks. Offering enhanced electronic fulfillment of Canadian Direct's products and services is an important part of the overall business strategy, and continued development of this technology will remain a priority.

Canadian Direct's mission is to provide customers with attractively priced products and a high level of customer service – "better insurance for less money." The core strategy includes the use of sophisticated underwriting techniques to offer more competitively priced insurance to better risk customers. The Canadian Direct Insurance brand is marketed through several media channels, including television, radio, newspapers and the Internet. A very high level of awareness has been established in the BC market and the level of awareness in Alberta continues to grow. All claims are administered by Canadian Direct's head office in BC using imaging technology and effective workflow management to maintain a paperless office environment. Canadian Direct's use of technology helps to maintain a favourable expense ratio without compromising customer satisfaction. Canadian Direct currently retains a high percentage of its customers (2011 – 86%), a measure that confirms its success in providing quality products and services at competitive prices.

TABLE 25 – INSURANCE HIGHLIGHTS (1)
($ thousands)

	2011	2010	Change from 2010
Net interest income (teb)	$ 7,902	$ 7,024	13%
Other income			
Net earned premiums	117,632	111,368	6
Commissions and processing fees	1,869	2,347	(20)
Net claims and adjustment expenses	(74,734)	(68,641)	9
Policy acquisition costs	(24,517)	(23,358)	5
Insurance revenues (net)	20,250	21,716	(7)
Gains on sale of securities	375	486	(23)
Total revenues (teb)	28,527	29,226	(2)
Non-interest expenses	12,258	11,746	4
Provision for income taxes (teb)	4,159	5,092	(18)
Net income	$ 12,110	$ 12,388	(2)%
Policies outstanding at October 31	190,994	185,167	3%
Gross written premiums	$ 129,671	$ 124,451	4
Claims loss ratio	64%	62%	200 bp (2)
Expense ratio	29	29	–
Combined ratio	93	91	200
Alberta automobile insurance risk sharing pools impact on net income before tax	$ 729	$ 3,255	(78)%
Average total assets ($ millions) (3)	235	215	9

(1) See page 35 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) Average total assets are disclosed on an average daily balance basis as this measure is more relevant to a financial institution and is the measure reviewed by management.

Canadian Direct reported net income of $12.1 million, down 2% ($0.3 million) from 2010, as the positive revenue impact of 6% growth in net earned premiums was offset by higher net claims expense. Growth in net earned premiums was attributed to 3% growth in policies outstanding and a higher average premium per policy in the home product lines of business. Net claims expense in Alberta increased due to higher frequency and severity in auto claims and $1.8 million of losses in the home product line related to a catastrophic wildfire in Slave Lake. Net claims expense was also higher for Canadian Direct's share of the Alberta auto risk sharing pools (the Pools), as 2010 results included a $1.5 million reduction to unpaid claims reserves specifically related to a December 2009 decision by the Supreme Court that denied leave to appeal the cap on minor injuries suffered in an automobile accident. Following the Supreme Court decision, the Pools' unpaid claims reserves were reduced. Excluding the Pools' impact in both years, 2011 net income was $11.5 million, up 14% ($1.4 million) over 2010. Net claims experience in BC was favourable compared to the prior year.

The claims ratio and the combined ratio of 64% and 93%, respectively, each increased 200 basis points from the prior year. The home and auto product lines were both profitable for the year. Gross written premiums were relatively balanced between the BC auto, Alberta auto, and the home product lines.

Outlook for Insurance Operations

The outlook for 2012 reflects expectations for continued growth in premiums written, while cost increases will be kept in line with revenue growth. Canadian Direct plans to drive growth in the BC auto product line through careful expansion of the broker distribution networks to meet challenges brought about by the pricing strategies of the Insurance Corporation of British Columbia. In Alberta, the Auto Insurance Rate Board (AIRB) announced that rates effective November 1, 2011 for basic coverage on private passenger vehicles will remain unchanged from the prior year. Effects of this announcement will reduce, but not reverse, the downward pressure on premium revenue attributed to 5% rate reductions mandated by the AIRB in each of the past two years. In the home product lines, Canadian Direct will review the coverage it provides and likely increase rates to help cover costs of the increasing frequency of storms and water-related losses.

The 2012 net claims loss ratio is expected to be in the mid-range between 60% and 70%. This is consistent with recent years' results. The loss ratio can be negatively impacted by seasonal storm activity, particularly in the winter months. Earnings volatility may also increase reflecting the strategic decision to place a higher retention limit of $5 million (2011 – $2 million) on Canadian Direct's catastrophe reinsurance treaty. The target for the combined ratio is 93%. Canadian Direct will continue to develop its Internet-based technology platform, which will facilitate growth opportunities and enhance the customer experience by making more products and services available online.

Summary of Quarterly Results and Fourth Quarter

Quarterly Results

The financial results for each of the last eight quarters are summarized in Table 26. In general, CWB's performance reflects a consistent growth trend, although the second quarter contains three fewer revenue-earning days.

The Bank's quarterly financial results are subject to some fluctuation due to its exposure to property and casualty insurance. Insurance operations, which are primarily reflected in other income (refer to Operating Segment Review – Insurance), are subject to seasonal weather conditions, including higher claims experience during winter driving months, cyclical patterns of the industry and natural catastrophes. Mandatory participation in the Alberta auto risk sharing pools can also result in unpredictable quarterly fluctuations. Quarterly results can also fluctuate due to the recognition of periodic income tax items, as was the case in the third quarter of 2010 when an income tax recovery and related interest receipt from certain prior period transactions increased net income by approximately $8.3 million.

The acquisition of National Leasing was effective February 1, 2010 and the results of its operations and financial position are consolidated as part of the Bank's overall financial performance beginning with the second quarter of that year. The acquisition had a positive impact on all categories included in Table 26 except for the provision for credit losses. The impact of the higher loan loss experience inherent in National Leasing's portfolio compared to the Bank's core lending business is more than offset by the relatively higher yield earned on its portfolio.

Gains on sale of securities, reflected in other income, were unusually high in 2010 and the first two quarters of 2011. Gains on sale of securities in 2010 and prior periods mainly resulted from a steep interest rate curve and wide credit spreads that allowed the Bank to capitalize on specific investment strategies. The majority of gains on sale of securities in the current year resulted from the repositioning of common equities and preferred shares within the investment portfolio. Based on the current composition of the securities portfolio and elevated volatility in financial markets resulting from global uncertainties, management expects the level of net gains on sale of securities will be significantly reduced in future periods.

Detailed management's discussion and analysis along with unaudited interim consolidated financial statements for each quarter, except for the fourth quarter of fiscal 2011, are available for review on SEDAR at www.sedar.com and on the Bank's website at www.cwbankgroup.com. Copies of the quarterly reports to shareholders can also be obtained, free of charge, by contacting the Bank's Investor Relations department via email at InvestorRelations@cwbank.com.

TABLE 26 – QUARTERLY FINANCIAL HIGHLIGHTS [1]
($ thousands, except per share amounts)

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (teb)	$ 99,842	$ 98,133	$ 93,282	$ 93,426	$ 89,206	$ 85,020	$ 80,132	$ 74,306
Less teb adjustment	3,133	2,797	2,385	2,744	3,179	2,782	2,662	2,563
Net interest income per financial statements	96,709	95,336	90,897	90,682	86,027	82,238	77,470	71,743
Other income	24,452	24,952	28,506	28,421	22,364	26,025	30,840	26,366
Total revenues (teb)	124,294	123,085	121,788	121,847	111,570	111,045	110,972	100,672
Total revenues	121,161	120,288	119,403	119,103	108,391	108,263	108,310	98,109
Net income	45,046	44,711	44,440	43,952	39,107	46,595	37,884	40,035
Earnings per common share								
Basic	0.55	0.55	0.58	0.59	0.53	0.64	0.52	0.57
Diluted	0.54	0.52	0.53	0.54	0.48	0.59	0.47	0.52
Diluted cash	0.55	0.54	0.54	0.55	0.49	0.60	0.48	0.52
Return on common shareholders' equity (ROE)	15.2%	14.6%	16.3%	16.4%	15.1%	19.1%	16.3%	18.0%
Return on average total assets (ROA)	1.12	1.18	1.25	1.24	1.13	1.40	1.17	1.25
Efficiency ratio (teb)	45.1	45.3	45.5	45.2	46.6	44.4	45.0	40.0
Efficiency ratio	46.3	46.4	46.4	46.3	47.9	45.5	46.1	41.0
Net interest margin (teb)	2.72	2.83	2.87	2.88	2.84	2.78	2.76	2.56
Net interest margin	2.64	2.75	2.80	2.79	2.74	2.69	2.67	2.47
Provision for credit losses as a percentage of average loans	0.18	0.18	0.19	0.23	0.21	0.23	0.23	0.16

(1) See page 35 for a discussion of teb and non-GAAP measures.

Fourth Quarter of 2011

CWB posted strong fourth quarter performance marking its 94th consecutive profitable quarter. Fourth quarter net income of $45.0 million was up 15% ($5.9 million) compared to the same quarter last year, while diluted earnings per common share increased 13% to $0.54 (diluted cash earnings per share of $0.55 increased 12%). Fourth quarter total revenues, measured on a taxable equivalent basis, grew 11% ($12.7 million) to reach a record $124.3 million as the combined positive impact of very strong 16% loan growth and 9% ($2.1 million) higher other income more than offset the impact of a 12 basis point decline in net interest margin (teb) to 2.72%. Measured by business segment, banking and trust net income of $42.3 million grew 14%, driven by record total revenues (teb) of $117.5 million, up 12%. Insurance segment net income of $2.7 million was up $0.6 million from the fourth quarter last year, mainly reflecting 6% growth in net earned premiums and improved claims experience.

Compared to the third quarter, net income increased 1% ($0.3 million) as the positive revenue contribution from 2% quarterly loan growth was partially offset by the combined impact of an 11 basis point reduction in net interest margin (teb), 2% ($0.5 million) lower other income and slightly higher non-interest expenses. Diluted earnings per common share increased 4% ($0.02) over the prior quarter while diluted cash earnings per share was up 2% ($0.01). Higher percentage growth in diluted earnings per common share compared to growth in net income reflects the positive impact from the redemption of warrants completed on August 31, 2011.

Net interest margin (teb) of 2.72% was down from 2.84% in the fourth quarter last year, with the difference largely resulting from lower yields on both loans and securities as well as increased expense related to subordinated debentures issued in the first quarter of 2011. The 11 basis point reduction in net interest margin (teb) compared to the prior quarter mainly reflected a combination of lower loan yields due to the very low interest rate environment and heightened competitive pressures. The Bank's higher average liquidity maintained during the fourth quarter in response to elevated global uncertainties also negatively impacted margin.

The quarterly return on common shareholders' equity of 15.2% increased 10 basis points compared to a year earlier and 60 basis points over the prior quarter. Fourth quarter return on assets of 1.12% was down slightly from 1.13% a year earlier and 1.18% in the previous quarter.

Total loans of $12,221 million grew 2% ($274 million) based on positive performance across all lending sectors. Quarterly loan growth was also evident across all of the Bank's key geographic regions. The overall volume in the pipeline for new loans remained solid.

Overall credit quality remained satisfactory and continued to show improvement. Gross impaired loans totaled $97.0 million at quarter end, compared to $107.9 million in the third quarter and $143.2 million a year earlier. This represented the sixth consecutive quarter of declining gross impaired loans. The quarterly provision for credit losses exceeded net new specific provisions and led to a $2.8 million increase in the dollar level of the general allowance for credit losses compared to the third quarter.

The fourth quarter efficiency ratio (teb) improved to 45.1%, compared to 46.6% a year earlier and 45.3% in the previous quarter.

Accounting Policies and Estimates

Critical Accounting Estimates

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

Allowance for Credit Losses

An allowance for credit losses is maintained to absorb probable credit-related losses in the loan portfolio based on management's estimate at the balance sheet date. In assessing existing credit losses, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These matters include economic factors, developments affecting particular industries and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be significantly different than current assessments and may require an increase or decrease in the allowance for credit losses. Establishing a range for the allowance for credit losses is difficult due to the number of uncertainties involved. The general allowance for credit losses is intended to address this uncertainty. At October 31, 2011, the Bank's total allowance for credit losses was $70.8 million (2010 – $78.6 million), which included a specific allowance of $10.4 million (2010 – $19.0 million) and a general allowance of $60.4 million (2010 – $59.6 million). Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of Credit Quality in this MD&A and in Note 7 to the consolidated financial statements. This critical accounting estimate relates to CWB's banking and trust segment.

Provision for Unpaid Claims and Adjustment Expenses

A provision for unpaid claims is maintained, with the provision representing the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. A provision for adjustment expenses is also maintained, which represents the estimated expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions. The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. Changes in circumstances may cause future assessments of unpaid claims and adjustment expenses to be significantly different than current assessments and may require an increase or decrease in the provision. In estimating the provision for unpaid claims and adjustment expenses, a number of uncertainties are taken into account and assumptions made, which makes it difficult to estimate a range for the provision. Further, as noted above, the provision includes a margin for adverse deviations in assumptions. At October 31, 2011, the provision for unpaid claims and adjustment expenses totaled $76.9 million (2010 – $80.1 million). Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Note 22 to the consolidated financial statements. This critical estimate relates to CWB's insurance segment.

Financial Instruments Measured at Fair Value

Cash resources, securities, securities purchased under resale agreements, securities sold under repurchase agreements, retained interest in securitized assets and derivative financial instruments are reported on the consolidated balance sheets at fair value.

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

The following table summarizes the significant financial assets and liabilities reported at fair value at October 31, 2011.

TABLE 27 – VALUATION OF FINANCIAL INSTRUMENTS
($ thousands)

		Valuation Technique	
	Fair Value	Quoted Market Prices	Model with Observable Market Data
Financial assets			
Cash resources	$ 312,335	$ 272,704	$ 39,631
Securities	1,925,704	1,925,704	–
Retained interest in securitized assets	7,767	–	7,767
October 31, 2011	$ 2,245,806	$ 2,198,408	$ 47,398
October 31, 2010	$ 1,885,922	$ 1,691,330	$ 194,592

Financial liabilities			
Derivative related	$ 436	$ –	$ 436
October 31, 2011	$ 436	$ –	$ 436
October 31, 2010	$ 992	$ –	$ 992

Notes 3, 4, 5, 12 and 30 to the consolidated financial statements provide additional information regarding these financial instruments. This critical accounting estimate relates to both operating segments.

Changes in Accounting Policies

There were no changes in accounting policies during 2011.

CWB has no direct credit exposure to sovereign debt outside of Canada. CWB also has no direct exposure to any credit default swaps, collateralized debt obligations, non-bank sponsored asset-backed commercial paper or monoline insurers.

Future Changes in Accounting Policies

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (CICA) has transitioned Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS) for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for the prior year. As a result, the Bank's consolidated financial statements will be prepared in accordance with IFRS in effect at October 31, 2012 for the 2012 fiscal year, and will include comparative information for the 2011 fiscal year.

The information provided below will allow investors and others to obtain a better understanding of management's IFRS transition plan and the resulting estimated effects on the Bank's financial statements. Readers are cautioned, however, that it may not be appropriate to use this information for any other purpose.

Several accounting standards are in the process of being amended by the IFRS standard setter, the International Accounting Standards Board (IASB). Therefore, management continues to monitor IASB projects for developments. However, the Bank does not presently anticipate the issuance of new or revised accounting standards requiring adoption during 2012.

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

IFRS Transition Plan

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

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

Progress Towards Transition Plan

The final implementation phase of the transition plan is now substantially complete. The following table is a summary of the Bank's progress towards completion of selected key activities of the IFRS transition plan:

	Activity	Milestones	Status
Financial Statement – Preparation	Identify applicable differences in Canadian GAAP/IFRS accounting policies and practices and design and implement solutions. Select IFRS 1 choices. Develop financial statement and related note disclosure format. Quantify effects of transition.	Senior management and Steering Committee sign-off for all key IFRS accounting policy choices. Development and review of draft financial statement format.	The Diagnostic phase and Design & Planning phases are complete, which involved a detailed impact assessment of the differences between Canadian GAAP and IFRS. Completed the analysis of accounting policy choices. The development of the annual and quarterly IFRS financial statement and note disclosure formats is substantially complete.
Training	Define and introduce appropriate level of IFRS expertise for each of the following: • Finance group • CWB lenders • Audit Committee & Board of Directors	Timely training provided to align with work under transition – all training completed by the third quarter of 2011. Communication of effects of transition in time for 2012 financial reporting process.	Participated in industry IFRS specialist groups. Finance group, Audit Committee and Board of Directors training occurred from 2007 to 2011. Regular status reports continue. Finance resources are available to all lenders. Engaged a third-party subject matter expert to assist in certain IFRS topics and training.
Information Systems	Identify and address IFRS differences that require changes to financial systems. Evaluate and select methods to address need for dual record-keeping during 2011 (i.e. IFRS and Canadian GAAP) for comparatives.	Confirmation that business processes and systems are IFRS compliant throughout the project. Confirmation that systems can address 2011 dual record-keeping processing requirements.	Diagnostic analysis regarding current systems completed; no significant business processes or system changes required. Dual record-keeping process confirmed during first quarter of 2009.
Control Environment	Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2011. Design and implement internal controls with respect to one-time transition adjustments and related communications.	Assessment of all key control and design effectiveness implications throughout 2010. Documentation of changes during the third and fourth quarter of 2011.	Completed analysis of control requirements and there was no significant impact on the Bank's internal controls over financial reporting or disclosure controls and procedures.

Impact on Financial Reporting and Accounting Policies

The Bank's detailed impact assessment identified the following significant accounting policy differences on initial transition to IFRS for the Bank:

1) **Business Combinations** – Under IFRS, contingent consideration related to a business combination is accounted for as a financial liability and fair valued at the time of the acquisition. An adjustment of the liability to current fair value is recorded through net income every period thereafter until settlement. Under Canadian GAAP, when the amount of contingent consideration cannot be reasonably estimated or the outcome of the contingency cannot be determined without reasonable doubt, the liability is not recognized until the contingency is resolved and consideration is issued or becomes issuable and, at such time, the consideration is recorded as an adjustment of goodwill.

   Since the Bank expects to apply IFRS 3 – Business Combinations retrospectively to the National Leasing acquisition (see IFRS 1 below for additional discussion), the associated contingent consideration will be fair valued at the acquisition date of February 1, 2010. The expected retrospective restatement will increase IFRS goodwill by $8 million.

   The effect of the contingent consideration is currently estimated to decrease retained earnings by $10 million at November 1, 2010, which represents the estimated fair value change from the February 1, 2010 acquisition date to the IFRS transition date. The expected net effect on 2011 consolidated net income, as the obligation is revalued, is a reduction of $12 million.

2) **Derecognition of Securitized Financial Assets** – The Bank expects that National Leasing's securitized leases (totaling $91 million at October 31, 2011 and $199 million at November 1, 2010) will be reported as loans on the balance sheet, which would increase loans and debt and have an insignificant impact on net income throughout fiscal 2011.

   The currently estimated effect of these securitization transactions is a decrease to Canadian GAAP retained earnings of $2 million at November 1, 2010, representing the elimination of cumulative securitization gains and losses realized under Canadian GAAP, less recognition of interest income and expense under IFRS. The currently estimated net effect on 2011 consolidated net income is an increase of $1 million.

3) **Consolidation** – Under IFRS, a variable interest entity (VIE) is consolidated if the entity is deemed to control it, as determined under specific criteria. Canadian Western Bank Capital Trust will be consolidated under IFRS, which will decrease deposits and increase total equity by $105 million. For more information about this special purpose entity see Note 15 to the consolidated financial statements.

   The currently estimated net effect on 2011 consolidated net income is an increase of $7 million as the deposit interest expense under Canadian GAAP is treated as an equity dividend payment under IFRS. However, the effect on net income attributable to shareholders of the Bank is nil.

4) **Impairment of Available-for-Sale Securities** – Under both Canadian GAAP and IFRS, available-for-sale securities are reported on the balance sheet at fair value with changes in fair value generally reported in other comprehensive income. An unrealized loss is recognized in net income when a security is considered impaired; a subsequent recovery in the value of an equity security is not reversed through net income until the security is either sold or redeemed. Under Canadian GAAP, a significant or prolonged decline in the fair value of an investment below its cost is assessed in the context of whether the decline is considered an "other than temporary impairment" (OTTI). Under IFRS, the concept of OTTI does not exist and either a significant or prolonged decline in fair value is considered objective evidence of impairment. This difference between Canadian GAAP and IFRS will generally result in earlier recognition of impairment losses through net income under IFRS.

   The currently estimated impact of the transition will result in no change in shareholders' equity at November 1, 2010 and a $2 million reduction in 2011 net income.

5) **IFRS 1** – IFRS 1: First Time Adoption of IFRS provides a framework for the transition to IFRS. Generally, retroactive application is applied to the opening balance sheet at November 1, 2010 as though the Bank had always applied IFRS. However, IFRS 1 permits both mandatory exceptions to retroactive application and optional exemptions from other IFRS standards. The Bank has evaluated all optional exemptions under IFRS 1, with the most significant potential exemption relating to business combinations. The Bank expects to elect not to apply IFRS 3 – Business Combinations retrospectively to acquisitions that occurred before February 1, 2010 (further described above).

6) **Loan loss accounting** – Although both existing Canadian GAAP and IFRS calculate loan losses using the incurred loss model, IFRS is more specific as to what qualifies as an "incurred event." Under IFRS, incurred losses require 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. The Bank has developed an IFRS compliant methodology, and management currently estimates no difference between the specific or general (collective under IFRS) allowances for credit losses between Canadian GAAP and IFRS.

TABLE 28 - RECONCILIATION OF CONDENSED CONSOLIDATED BALANCE SHEET

As at November 1, 2010 (Unaudited)
($ millions)

		IFRS Adjustments					
		(1)	(2)	(3)	(4)		
	Canadian	Business			AFS		**Pro Forma**
Assets	**GAAP**	Combinations	Derecognition	Consolidation	Impairment	Other [(1)]	**IFRS**
Cash resources, securities and securities under resale agreements	**$ 1,876**	$ –	$ –	$ –	$ –	$ –	**$ 1,876**
Loans	**10,496**	–	196	–	–	(15)	**10,677**
Other assets	**330**	8	(10)	–	–	4	**332**
Total assets	**$ 12,702**	$ 8	$ 186	$ –	$ –	$ (11)	**$ 12,885**
Liabilities							
Deposits	**$ 10,813**	$ –	$ –	$ (105)	$ –	$ –	**$ 10,708**
Other liabilities	**426**	18	(14)	–	–	–	**430**
Debt	**315**	–	202	–	–	–	**517**
Total liabilities	**11,554**	18	188	(105)	–	–	**11,655**
Shareholders' equity	**1,148**	(10)	(2)	–	–	(11)	**1,125**
Non-controlling interest	**–**	–	–	105	–	–	**105**
Total equity	**1,148**	(10)	(2)	105	–	(11)	**1,230**
Total liabilities and equity	**$ 12,702**	$ 8	$ 186	$ –	$ –	$ (11)	**$ 12,885**

TABLE 29 – RECONCILIATION OF NET INCOME

For the year ended October 31, 2011 (Unaudited)
($ millions)

		IFRS Adjustments					
		(1)	(2)	(3)	(4)		
	Canadian	Business			AFS		**Pro Forma**
	GAAP	Combinations	Derecognition	Consolidation	Impairment	Other [(1)]	**IFRS**
Net income (non-controlling interest and shareholders of the Bank)	**$ 178**	$ (12)	$ 1	$ 7	$ (2)	$ –	**$ 172**
Net income attributable to non-controlling interests	**–**	–	–	7	–	–	**7**
Net income attributable to shareholders of the Bank	**$ 178**	$ (12)	$ 1	$ –	$ (2)	$ –	**$ 165**

(1) Other Reclassifications – Certain other financial statement reclassifications have been made on transition. Examples include the method of recognition of certain credit-related fees and the presentation of the non-controlling interest in Adroit Investment Management.

Impact on Capital Adequacy Requirements

As at October 31, 2010, the pro forma Basel II Tier 1 regulatory capital ratio is currently estimated to decline 30 basis points, and the total regulatory capital ratio is currently estimated to decline 30 basis points under IFRS to 11.0% and 14.0%, respectively. Both ratios, after considering IFRS transition adjustments, are currently expected to remain well above the minimum regulatory capital ratio requirements and the Bank's internal thresholds.

On an IFRS basis, leases securitized and sold by National Leasing are accounted for as secured borrowings, which results in recognition of the securitized assets on the consolidated balance sheet and, therefore, an increase in the regulatory asset-to-capital multiple. As at October 31, 2010 the Bank's asset-to-capital multiple, after considering IFRS transition adjustments, is expected to remain well within regulatory guidelines.

Risk Management

The shaded areas of this MD&A represent a discussion of risk management policies and procedures relating to credit, market and liquidity risks as required under the CICA Handbook section 3862, Financial Instruments – Disclosures, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented on pages 76 to 80 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2011.

Overview

CWB's risk management processes have been designed to complement the organization's overall philosophy regarding risk. A strong risk culture which emphasizes transparency and accountability continues to be a cornerstone of CWB's approach to risk management. Selectively taking and managing risks has been integral to the ability to continually grow profitability in both favourable and more adverse market conditions.

CWB, like other financial institutions, is exposed to risk factors that could adversely affect its operating environment, financial condition and financial performance, and which may also influence an investor's decision to buy, sell or hold CWB shares, deposits or other securities. CWB has demonstrated its ability to effectively manage risks through conservative management practices, a strong risk culture and disciplined risk management approach, but many risk factors are beyond CWB's direct control. The Bank actively monitors and manages sources of potential risk. Economic uncertainties that began with the global financial crisis in 2008, and continue today with the European debt crisis, have significantly increased the level of active management related to regulatory risks applicable to CWB's operations.

Each of CWB's businesses is subject to certain risks that require unique mitigation strategies to manage them effectively. To provide a more proactive and structured risk management approach across all areas of CWB's businesses, the Group Risk Management function was established to implement a formalized risk management process across all companies. CWB is utilizing the ISO 31000 Standard for Risk Management as a comprehensive framework to help ensure risk is managed effectively and efficiently across CWB and its subsidiaries. This international standard provides principles and guidelines for managing risk in a systematic, transparent and credible manner. A complementary element of the risk management process is stress testing. Stress testing is a technique used to assist management in developing sound business strategy and making informed risk management and capital planning decisions.

Risk Management Principles

Effective risk management is central to the Bank's ability to remain financially sound and profitable, and includes identifying, assessing, managing and monitoring all aspects of risk that have the potential to positively or negatively affect CWB's businesses. The following principles guide the management of risks on a company-wide basis:

- Effective balancing of risk and reward by aligning business strategy with risk appetite, diversifying risk, pricing for risk appropriately, and mitigating risk through preventive and detective controls;
- An ongoing focus on "plain vanilla" banking, complemented by extensive knowledge and experience in CWB's chosen business sectors and geographic regions;
- An enterprise-wide view of risk and the acceptance of risks required to build the business only if those risks do not harm the CWB brand;
- The belief that every employee is essentially a risk manager and must be knowledgeable of the risks inherent in their day-to-day activities;
- Use of common sense, sound judgment and fulsome risk-based discussions; and,
- Recognition that "knowing your clients" reduces risks by ensuring that the services provided are suitable for, and understood by, all clients.

In addition to a strong values-based risk culture, the foundation for solid risk management requires a well defined risk appetite and clearly understood and documented risk governance.

Risk Appetite

Risk appetite is simply the formalization of basic business principles such as making decisions based on risk-reward tradeoffs, understanding potential outcomes of different decisions, and deciding whether the organization is comfortable with the risk associated with different decisions. It provides a context to discuss risks and reach a shared understanding of appropriate risk thresholds. Setting these risk tolerances is dynamic and requires flexible processes as well as continuous guidance from both management and the Board.

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

The Loans Committee of the Board, which maintains a close working relationship with the Credit Risk Management group, is responsible for the:

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

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

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

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

The Bank's Operations Committee is comprised of supervisory and management personnel from all areas of banking operations. The Committee meets regularly and is chaired by a member of senior management. Key responsibilities are to develop appropriate policies and procedures, including internal controls, respecting routine day-to-day banking operations.

The internal audit group performs audits in all areas of the Bank, audits all subsidiaries, and reports the results directly to senior management, as well as the Bank's CEO and Audit Committee.

Identifying, measuring and monitoring risks are key components of effective enterprise-wide risk management. While by no means exhaustive, the following discussions summarize what management believes are the most important risks applicable to CWB's current operations. While each of the risks on the following pages is described independently, readers are cautioned that many of the factors and risks discussed may also be interrelated.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to CWB or its subsidiaries. Credit risk is managed through lending policies and procedures, the establishment of lending limits and a defined approval process. Risk diversification is addressed by establishing portfolio limits by geographic area, industry sector and product. CWB's policy is to limit connected corporate borrowers' loan authorizations to not more than 10% of the Bank's shareholders' equity. Generally, the Bank's loan limit is $50 million for a single risk exposure. However, for certain quality connections with more than one risk exposure, the limit is $75 million. CWB customers with larger borrowing requirements can be accommodated through loan syndications with other financial institutions.

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

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

Environmental Risk

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

Portfolio Quality

The Bank's strategy is to maintain a quality, secured portfolio. Efforts are directed toward achieving a diversified loan portfolio by engaging experienced personnel who provide a hands-on approach in credit granting, account management and quick action when problems develop. The lending focus within the Bank is primarily directed to small and medium-sized businesses with operations conducted in the four western provinces, and to individuals. Relationship banking and "knowing your clients" are important tenets of account management. An appropriate financial return on the level of risk is fundamental. Geographic diversification in the loan portfolio outside of Western Canada is achieved through participation in syndicated lending facilities primarily led by other Canadian banks, National Leasing's representation across all provinces and territories of Canada, and residential mortgages in select regions of Ontario that are underwritten and serviced by Optimum Mortgage.

Liquidity Risk

Liquidity risk is the risk that the Bank cannot meet a demand for cash or fund its financial obligations in a cost efficient or timely manner as they come due. These financial obligations can arise from withdrawals of deposits, debt maturities, and commitments to provide credit. Effective liquidity management ensures that adequate cash is available to honour all cash outflow obligations while limiting the opportunity cost of holding short-term assets. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Liquidity policies include:

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

Key features of liquidity management are:

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

Credit ratings

On November 22, 2010, DBRS Limited issued credit ratings on the Bank's senior debt and deposits, and subordinated debentures of A (low) and BBB (high), respectively, both with a stable outlook. The same ratings and outlook were subsequently confirmed on October 28, 2011.

Credit ratings do not comment on market price or suitability of any financial instrument for a particular investor and are not recommendations to purchase, sell or hold securities. Ratings are subject to revision or withdrawal at any time by the rating organization. Credit ratings are largely determined by the quality of the Bank's earnings, the adequacy of capital and the effectiveness of risk management programs. There can be no assurance that CWB's credit ratings and rating outlooks will not be lowered or that rating agencies will not issue adverse commentaries about CWB, potentially resulting in adverse consequences for the Bank's funding capacity or access to capital markets. A lowering of CWB's credit ratings may also affect the Bank's ability, and the cost, to enter into normal course derivative or hedging transactions. Management believes the ratings will increase the breadth of clients and investors who can participate in CWB's deposit and debt offerings while also lowering the Bank's overall cost of capital.

Market Risk

Market risk is the impact on earnings resulting from changes in financial market variables such as interest rates and foreign exchange rates. Market risk arises when making loans, taking deposits and making investments. CWB itself does not undertake trading activities and, therefore, does not have direct risks related to those activities, such as market making, arbitrage or proprietary trading. The Bank maintains a diversified securities portfolio primarily comprised of high quality debt instruments, preferred shares and common shares that are subject to price fluctuation based on volatility in financial markets, but CWB's material market risks are mainly confined to interest rates and foreign exchange, as discussed below.

Interest Rate Risk

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

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

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

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

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured at least monthly. Note 29 to the consolidated financial statements shows the gap position at October 31, 2011 for select time intervals.

The gap analysis in Note 29 is a static measurement of interest rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates, as well as the size and maturity structure of the cumulative interest rate gap position and management of those positions over time.

During the year, the one-year and under cumulative gap decreased to -0.8% from 1.5% at October 31, 2010, while the one-month and under gap increased to 9.0% from 7.8% a year earlier. To the extent possible within the Bank's acceptable parameters for risk, the asset/liability position will continue to be managed such that changing interest rates would generally be relatively neutral to net interest income.

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

Of the $4,814 million in fixed term deposit liabilities maturing within one year from October 31, 2011, approximately $2,702 million (22% of total deposit liabilities) mature by April 30, 2012. The term in which maturing deposits are retained will have an impact on the future asset liability structure and, hence, interest rate sensitivity. Approximately $306 million of the fixed term deposit liabilities maturing within one month are deposits redeemable at any time.

The estimated sensitivity of net interest income to a change in interest rates is presented in Table 30. The amounts represent the estimated change in net interest income over the time period shown resulting from a one-percentage point change in interest rates. The estimates are based on a number of assumptions and factors, which include:

- a constant structure in the interest sensitive asset liability portfolio;
- floor levels for various deposit liabilities;
- interest rate changes affecting interest sensitive assets and liabilities by proportionally the same amount and applied at the appropriate repricing dates; and,
- no early redemptions.

At October 31, 2011, a one-percentage point increase in interest rates is estimated to increase net interest income by 3.0% over the following twelve months; this compares to October 31, 2010 when a one-percentage point increase in interest rates was expected to increase net interest income by 2.3% over the following twelve months. At October 31, 2011, a one-percentage point decrease in interest rates is estimated to decrease net interest income by 3.7% over the following twelve months; this compares to October 31, 2010 when a one-percentage point decrease in interest rates was expected to decrease net interest income by 1.5% over the following twelve months.

TABLE 30 – ESTIMATED SENSITIVITY OF NET INTEREST INCOME AS A RESULT OF ONE-PERCENTAGE POINT CHANGE IN INTEREST RATES
($ thousands)

Impact of 1% increase in interest rates		
Period	**2011**	2010
90 days	**$ 4,015**	$ 2,378
1 year	**11,024**	7,372
1 year percentage change	**3.0%**	2.3%

Impact of 1% decrease in interest rates		
Period	**2011**	2010
90 days	**$ (4,786)**	$ (1,694)
1 year	**(13,436)**	(4,703)
1 year percentage change	**(3.7)%**	(1.5)%

Based on the current interest rate gap position, it is estimated that a one-percentage point increase in all interest rates is estimated to decrease annual other comprehensive income by $9.0 million (2010 – $9.8 million), net of tax. A one-percentage point decrease in all interest rates is estimated to increase annual other comprehensive income by a similar amount.

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract desired assets and liabilities, as well as through the use of interest rate swaps or other appropriate hedging techniques (see discussion under Derivative Financial Instruments on page 61). Assets and liabilities having a term to maturity in excess of five years are subject to specific review and control, and, with the exception of subordinated debentures and the deposit from CWB Capital Trust, were not material. The subordinated debentures, which are typically redeemed (subject to OSFI approval) after five years, and the deposit from CWB Capital Trust are discussed in Notes 18 and 15 to the consolidated financial statements.

Foreign Exchange Risk

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in a foreign currency. In providing financial services to its customers, the Bank has assets and liabilities denominated in U.S. dollars. At October 31, 2011, assets denominated in U.S. dollars were 1.1% (2010 – 1.6%) of total assets and U.S. dollar liabilities were 1.2% (2010 – 1.6%) of total liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific customer needs and, therefore, the Bank has virtually no exposure to currencies other than U.S. dollars.

Policies have been established that include limits on the maximum allowable differences between U.S. dollar assets and liabilities. The difference is measured daily and managed by use of U.S. dollar forward contracts or other means. Policy respecting foreign exchange exposure is reviewed and approved at least annually by the Board of Directors and deviations from policy are reported to the Board and ALCO.

Insurance Risk

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

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

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

The risk that Canadian Direct might be exposed to large claims or to an accumulation of claims resulting from a natural catastrophe, such as a weather-related or seismic event, is mitigated by reinsurance treaties that protect Canadian Direct from such risks. Reinsurance risk includes the risk that reinsurance counterparties are not financially strong and that underwriting strategies are inappropriately matched with reinsurance programs. Canadian Direct performs financial due diligence procedures on prospective reinsurers and only purchases coverage from a list of approved companies. Reinsurers must also meet a certain minimum security rating and these ratings are monitored on a regular basis. Canadian Direct's reinsurance treaties are matched to underwriting strategies through participation of senior underwriting staff in the process. Canadian Direct is dependent on the availability and pricing of its external reinsurance arrangements and this availability and global markets may impact pricing. If Canadian Direct is unable to renew such arrangements at favourable rates and to adequate limits, then Canadian Direct may need to modify its underwriting practices or commitments. For fiscal 2012, the Bank made a strategic decision to place a higher retention limit of $5 million (2011 – $2 million) on Canadian Direct's catastrophe reinsurance treaty.

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

Operational Risk

Operational risk is inherent in all business activities, including banking, trust, wealth management and insurance operations and is embedded in the processes that support other risks, like credit, liquidity and market risk. It is the potential for loss as a result of external events, human error or inadequacy, or failure of processes, procedures or controls. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory penalties. CWB is exposed to operational risk from internal business activities, external threats and activities that are outsourced. While operational risk cannot be completely eliminated, proactive operational management is a key strategy to mitigate this risk. The financial measure of operational risk is actual losses incurred. No material losses occurred in 2011.

The Basel II framework includes capital requirements related to operational risk in the banking and trust operating segment. Under Basel II, CWB uses the Standardized Approach (TSA) for operational risk. Group Risk Management is responsible for the continual enhancement of the group-wide Operational Risk Framework and the ongoing evolution of CWB's approach to operational risk management with oversight by ALCO and the Board of Directors.

Following is a summary of strategies and factors that help minimize operational risk:

Management

- Knowledgeable and experienced management team committed to sound management and the preservation of a highly ethical culture;
- Very clear communication of "tone at the top," which supports effective risk management reporting;
- Flat organization structure with management close to their operations, which facilitates effective internal communication;
- Organizational surveys on employee engagement and corporate culture;
- Communication of the importance of effective risk management to all levels of CWB through training and policy implementation; and,
- Management that is well versed on the Bank's operational risk tolerance and appetite.

Framework and supporting policies

- A mature company-wide Operational Risk Framework that uses a common language of risk coupled with programs and methodologies for identification, measurement, control, reporting and management of operational risk;
- Implementation of policies and procedural controls appropriate to address identified risks and which include segregation of duties and built-in checks and balances;
- An annual anonymous employee survey on the internal control environment;
- Adoption of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) for Smaller Business framework for internal control assessment;
- Ongoing enhancements to CWB's fraud prevention processes and policies;
- Regular meetings of ALCO, Canadian Direct's Operational Risk Committee and the risk committees of CWT and Valiant;
- Regular meetings of the Bank's Operations Committee;
- Established "whistleblower" processes and employee codes of conduct;
- Certification of National Leasing under ISO 9001 standards for quality management and quality management systems;
- Operational risk assessments conducted by business managers closest to the identified risks that are annually reviewed and reported to ALCO and the Board;
- Regular internal audits for compliance and the effectiveness of procedural controls by a strong, independent internal audit group;
- Centralized reporting of operating losses to senior management and the Board;
- Maintenance of a company-wide outsourcing risk management program;
- Continual assessment and benchmarking of the amount and type of business insurance to ensure coverage is appropriate;
- Use of technology via automated systems with built-in controls;
- Effective change management processes supported by a designated committee comprised of both executive and senior management;
- Continual review and upgrading of systems and procedures; and,
- Continual updating and testing of procedures and contingency plans for disaster recovery and business continuity (including pandemic planning).

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

General Business and Economic Conditions

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

Level of Competition

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

Regulatory and Legal Risk

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

Over the past several years, the level of supervisory oversight of all federally regulated Canadian financial institutions has increased significantly in terms of both regulation and new standards. This includes amplified supervisory activities, more frequent data and information requests from regulators, and expected early adoption of the more stringent requirements of Basel III capital and liquidity standards. Global standards created under Basel III to more closely manage and monitor risks for internationally active banks will likely be applied uniformly to all Canadian banks, including much smaller institutions like CWB that are not internationally active. These regulations also impact CWB's ability to compete against non-OSFI regulated entities. Effective management of regulatory risk and compliance in the current environment requires, and is expected to continue to require, considerable internal resources. Notwithstanding the additional resources, the volume and pace of new and amended regulations and standards increases the risk of unintended non-compliance.

Accuracy and Completeness of Information on Customers and Counterparties

CWB and its subsidiaries depend on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions with customers and counterparties, CWB and its subsidiaries may rely on information furnished by them, including financial statements, appraisals, external credit ratings and other financial information. CWB and its subsidiaries may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on the reports of auditors. CWB's financial condition and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP, that are materially misleading, or that do not fairly present, in all material respects, the financial condition and results of operations of the customer or counterparties.

Ability to Execute Growth Initiatives

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

Information Systems and Technology

CWB and its subsidiaries are highly dependent upon information technology systems. Various third-parties provide key components of infrastructure and applications. Disruptions in the Bank's information technology systems, whether attributed to internal or external factors, and including potential disruptions in the services provided by various third parties, could adversely affect the ability of CWB and its subsidiaries to conduct regular business and/or deliver products and services to customers. The Bank has a number of significant technology projects underway, including the eventual replacement of CWB's core banking system.

Reputation Risk

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

Other Factors

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

Updated Share Information

As at December 1, 2011, there were 75,463,313 common shares outstanding. Also outstanding were employee stock options, which are or will be exercisable for up to 3,532,272 common shares for maximum proceeds of $75.4 million.

On December 5, 2011, the Board of Directors declared a quarterly cash dividend of $0.15 per common share payable on January 4, 2012 to shareholders of record on December 22, 2011. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share payable on January 31, 2012 to shareholders of record on January 20, 2012.

Controls and Procedures

As of October 31, 2011, an evaluation was carried out of the effectiveness of the Bank's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also at October 31, 2011, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that the design and operating effectiveness of internal controls over financial reporting were effective.

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

There were no changes in the Bank's internal controls over financial reporting that occurred during the year ended October 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

This Management's Discussion and Analysis is dated December 5, 2011.

Financial Statements

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

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

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

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

Larry M. Pollock
President and Chief Executive Officer

December 5, 2011

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

Independent Auditors' Report

To the Shareholders of Canadian Western Bank

We have audited the accompanying consolidated financial statements of Canadian Western Bank, which comprise the consolidated balance sheets as at October 31, 2011 and October 31, 2010 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canadian Western Bank as at October 31, 2011 and October 31, 2010, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants
Edmonton, Alberta

December 5, 2011

Consolidated Balance Sheets

As at October 31
($ thousands)

		2011	2010
Assets			
Cash Resources	(Note 3)		
Cash and non-interest bearing deposits with financial institutions		$ 73,318	$ 8,965
Deposits with regulated financial institutions		233,964	168,998
Cheques and other items in transit		5,053	9,981
		312,335	187,944
Securities	(Note 4)		
Issued or guaranteed by Canada		644,356	564,694
Issued or guaranteed by a province or municipality		380,031	88,478
Other securities		901,317	857,015
		1,925,704	1,510,187
Securities Purchased Under Resale Agreements	(Note 5)	–	177,954
Loans	(Note 6)		
Residential mortgages		3,008,545	2,479,957
Other loans		9,283,406	8,095,148
		12,291,951	10,575,105
Allowance for credit losses	(Note 7)	(70,808)	(78,641)
		12,221,143	10,496,464
Other			
Property and equipment	(Note 9)	72,674	65,978
Goodwill	(Note 10)	37,852	37,723
Intangible assets	(Note 10)	37,420	43,420
Insurance related	(Note 11)	56,734	59,652
Derivative related	(Note 12)	–	134
Other assets	(Note 13)	108,173	122,235
		312,853	329,142
Total Assets		$ 14,772,035	$ 12,701,691
Liabilities and Shareholders' Equity			
Deposits	(Note 14)		
Payable on demand		$ 583,267	$ 530,608
Payable after notice		3,407,590	2,999,599
Payable on a fixed date		8,403,832	7,177,560
Deposit from Canadian Western Bank Capital Trust	(Note 15)	105,000	105,000
		12,499,689	10,812,767
Other			
Cheques and other items in transit		45,986	39,628
Insurance related	(Note 16)	149,130	149,396
Derivative related	(Note 12)	436	992
Other liabilities	(Note 17)	238,228	235,865
		433,780	425,881
Subordinated Debentures			
Conventional	(Note 18)	545,000	315,000
Shareholders' Equity			
Preferred shares	(Note 19)	209,750	209,750
Common shares	(Note 19)	408,014	279,352
Contributed surplus		21,884	21,291
Retained earnings		650,028	614,710
Accumulated other comprehensive income		3,890	22,940
		1,293,566	1,148,043
Total Liabilities and Shareholders' Equity		$ 14,772,035	$ 12,701,691
Contingent Liabilities and Commitments	(Note 21)		

Allan W. Jackson
Chair

Larry M. Pollock
President and Chief Executive Officer

Consolidated Statements of Income

For the Year Ended October 31
($ thousands, except per share amounts)

		2011	2010
Interest Income			
Loans		$ 597,285	$ 511,274
Securities		44,177	40,785
Deposits with regulated financial institutions		4,062	5,528
		645,524	557,587
Interest Expense			
Deposits		245,448	222,356
Subordinated debentures		26,452	17,753
		271,900	240,109
Net Interest Income		373,624	317,478
Provision for Credit Losses	(Note 7)	22,179	20,413
Net Interest Income after Provision for Credit Losses		351,445	297,065
Other Income			
Credit related		32,821	31,550
Insurance, net	(Note 22)	20,250	21,716
Trust and wealth management services		19,050	17,316
Gains on sale of securities, net		10,306	12,447
Retail services		9,486	9,017
Securitization revenue		3,969	4,285
Foreign exchange gains		3,488	2,422
Other		6,961	6,842
		106,331	105,595
Net Interest and Other Income		457,776	402,660
Non-Interest Expenses			
Salaries and employee benefits		141,865	123,972
Premises and equipment		36,738	31,448
Other expenses		42,449	34,511
Provincial capital taxes		1,399	1,549
		222,451	191,480
Net Income before Income Taxes and Non-Controlling Interest in Subsidiary		235,325	211,180
Income Taxes	(Note 25)	56,948	47,344
		178,377	163,836
Non-Controlling Interest in Subsidiary		228	215
Net Income		$ 178,149	$ 163,621
Preferred Share Dividends		15,208	15,208
Net Income Available to Common Shareholders		$ 162,941	$ 148,413
Average number of common shares (in thousands)		72,205	65,757
Average number of diluted common shares (in thousands)		76,705	72,329
Earnings Per Common Share	(Note 26)		
Basic		$ 2.26	$ 2.26
Diluted		2.12	2.05

Consolidated Statements of Changes in Shareholders' Equity

For the Year Ended October 31
($ thousands)

		2011	2010
Retained Earnings			
Balance at beginning of year		$ 614,710	$ 511,784
Net income		178,149	163,621
Dividends - Preferred shares		(15,208)	(15,208)
- Common shares		(39,177)	(28,929)
Warrants purchased and cancelled	(Note 19)	(88,446)	(16,453)
Issuance costs on common shares		–	(105)
Balance at end of year		650,028	614,710
Accumulated Other Comprehensive Income (Loss)			
Balance at beginning of year		22,940	19,119
Other comprehensive income (loss)		(19,050)	3,821
Balance at end of year		3,890	22,940
Total retained earnings and accumulated other comprehensive income		653,918	637,650
Preferred Shares	(Note 19)		
Balance at beginning and end of year		209,750	209,750
Common Shares	(Note 19)		
Balance at beginning of year		279,352	226,480
Issued on exercise of warrants		115,716	323
Issued under dividend reinvestment plan		5,941	2,922
Transferred from contributed surplus on the exercise or exchange of options		4,009	3,181
Issued on exercise of options		2,996	3,864
Issued on acquisition of subsidiary	(Note 34)	–	42,582
Balance at end of year		408,014	279,352
Contributed Surplus			
Balance at beginning of year		21,291	19,366
Amortization of fair value of options	(Note 20)	4,602	5,106
Transferred to capital stock on the exercise or exchange of options		(4,009)	(3,181)
Balance at end of year		21,884	21,291
Total Shareholders' Equity		$ 1,293,566	$ 1,148,043

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended October 31
($ thousands)

	2011	2010
Net Income	$ 178,149	$ 163,621
Other Comprehensive Income (Loss), net of tax		
Available-for-sale securities		
Gains (losses) from change in fair value (1)	(11,710)	14,285
Reclassification to other income (2)	(7,340)	(8,868)
	(19,050)	5,417
Derivatives designated as cash flow hedges		
Gains from change in fair value (3)	–	17
Reclassification to net interest income (4)	–	(1,613)
	–	(1,596)
	(19,050)	3,821
Comprehensive Income for the Year	$ 159,099	$ 167,442

(1) Net of income tax benefit of $4,731 (2010 – tax expense of $5,647).
(2) Net of income tax benefit of $2,966 (2010 – $3,579).
(3) Net of income tax expense of nil (2010 – $7).
(4) Net of income tax benefit of nil (2010 – $672).

Consolidated Statements of Cash Flows

For the Year Ended October 31
($ thousands)

		2011	2010
Cash Flows from Operating Activities			
Net income		$ 178,149	$ 163,621
Adjustments to determine net cash flows:			
Provision for credit losses		22,179	20,413
Depreciation and amortization		19,748	13,816
Current income taxes receivable and payable		5,036	(2,164)
Amortization of fair value of employee stock options		4,602	5,107
Accrued interest receivable and payable, net		2,529	(4,012)
Future income taxes, net		(11,212)	556
Gain on sale of securities, net		(10,306)	(12,447)
Other items, net		35,048	41,148
		245,773	226,038
Cash Flows from Financing Activities			
Deposits, net		1,686,922	1,195,528
Common shares issued	(Note 19)	124,653	7,109
Debentures issued	(Note 18)	300,000	–
Debentures redeemed	(Note 18)	(70,000)	(60,000)
Dividends		(54,385)	(44,137)
Warrants purchased and cancelled	(Note 19)	(88,446)	(16,453)
Securities sold under repurchase agreements, net		–	(300,242)
Issuance costs on share capital		–	(105)
Long-term debt repaid	(Note 34)	–	(270,630)
		1,898,744	511,070
Cash Flows from Investing Activities			
Interest bearing deposits with regulated financial institutions, net		(65,414)	95,168
Securities, purchased		(4,725,843)	(2,966,470)
Securities, sales proceeds		2,095,077	2,717,950
Securities, matured		2,192,675	617,444
Securities purchased under resale agreements, net		177,954	(177,954)
Loans, net		(1,746,858)	(957,478)
Property and equipment		(19,041)	(21,079)
Acquisition of subsidiaries		–	(53,531)
		(2,091,450)	(745,950)
Change in Cash and Cash Equivalents		53,067	(8,842)
Cash and Cash Equivalents at Beginning of Year		(20,682)	(11,840)
Cash and Cash Equivalents at End of Year*		$ 32,385	$ (20,682)
***Represented by:**			
Cash and non-interest bearing deposits with financial institutions		$ 73,318	$ 8,965
Cheques and other items in transit (included in Cash Resources)		5,053	9,981
Cheques and other items in transit (included in Other Liabilities)		(45,986)	(39,628)
Cash and Cash Equivalents at End of Year		$ 32,385	$ (20,682)
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year		$ 268,272	$ 251,739
Amount of income taxes paid in the year		63,034	48,953

($ thousands, except per share amounts)

1. BASIS OF PRESENTATION

These consolidated financial statements of Canadian Western Bank (CWB or the Bank) have been prepared in accordance with subsection 308 (4) of the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below and in the following notes. These accounting policies conform, in all material respects, to Canadian GAAP.

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

a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as entities whose operations are controlled by the Bank and are corporations in which the Bank is the beneficial owner. See Note 35 for details of the subsidiaries and affiliate.

b) Business Combinations

Business acquisitions are accounted for using the purchase method.

c) Translation of Foreign Currencies

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

d) Specific Accounting Policies

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

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

e) Future Accounting Changes

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

Initial Transition:

The Bank has substantially completed a four phase project underway to identify and evaluate the impact of the transition to IFRS on the consolidated financial statements and develop a plan to complete the transition. The project plan includes the following phases – diagnostic, design and planning, solution development, and implementation. The Bank is currently working on the final implementation phase.

The quantitative impact of the transition to IFRS on the Bank's consolidated financial statements for current standards has not yet been finalized. However, the most significant accounting differences identified include business combinations, derecognition of securitized financial assets, consolidation, and impairment of available–for–sale securities.

Future IFRS Changes:

CWB continues to monitor the International Accounting Standards Board's proposed changes to standards. Although not expected to materially impact the Bank's 2012 consolidated financial statements, these proposed changes may have a significant impact on the Bank's future financial statements.

2. FINANCIAL INSTRUMENTS

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

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

The use of financial instruments exposes the Bank to credit, liquidity and market risk. A discussion of how these are managed can be found in the Risk Management section of the 2011 Annual Report.

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

3. CASH RESOURCES

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

Included in deposits with regulated financial institutions are available–for–sale financial instruments reported on the consolidated balance sheets at the fair value of $233,964 (2010 – $168,998), which is $815 (2010 – $2,104) higher than amortized cost.

4. SECURITIES

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

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

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

	Maturities				2011 Total Carrying Value	2010 Total Carrying Value
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		
Securities issued or guaranteed by						
Canada	$ 409,806	$ 117,262	$ 117,288	$ –	$ 644,356	$ 564,694
A province or municipality	148,638	58,838	171,280	1,275	380,031	88,478
Other debt securities	105,160	171,493	16,109	10,783	303,545	256,544
Equity securities						
Preferred shares	18,057	264,434	196,417	18,222	497,130	511,228
Common shares	–	–	–	100,642	100,642	89,243
Total	$ 681,661	$ 612,027	$ 501,094	$ 130,922	$ 1,925,704	$ 1,510,187

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

	2011				2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities issued or guaranteed by								
Canada	$ 645,001	$ 25	$ 670	$ 644,356	$ 564,833	$ 69	$ 208	$ 564,694
A province or municipality	380,510	522	1,001	380,031	87,755	737	14	88,478
Other debt securities	301,718	2,087	260	303,545	253,132	3,493	81	256,544
Equity securities								
Preferred shares	490,218	10,448	3,536	497,130	492,897	20,614	2,283	511,228
Common shares	103,637	5,718	8,713	100,642	81,574	9,305	1,636	89,243
Total	$ 1,921,084	$ 18,800	$ 14,180	$ 1,925,704	$ 1,480,191	$ 34,218	$ 4,222	$ 1,510,187

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

5. SECURITIES PURCHASED UNDER RESALE AGREEMENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

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

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

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

6. LOANS

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

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

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

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

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

	2011				2010			
	Gross Amount	**Gross Impaired Amount**	**Specific Allowance**	**Net Impaired Loans**	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Consumer and personal	**$ 2,018,627**	**$ 24,983**	**$ 1,173**	**$ 23,810**	$ 1,793,181	$ 24,534	$ 1,288	$ 23,246
Real estate [1]	**4,730,693**	**46,638**	**2,516**	**44,122**	4,124,235	82,799	4,880	77,919
Equipment financing	**2,412,864**	**15,325**	**5,321**	**10,004**	1,943,716	27,918	10,215	17,703
Commercial	**3,129,767**	**10,041**	**1,369**	**8,672**	2,713,973	7,956	2,655	5,301
Total [2]	**$ 12,291,951**	**$ 96,987**	**$ 10,379**	**86,608**	$ 10,575,105	$ 143,207	$ 19,038	124,169
General allowance [3]				**(60,429)**				(59,603)
Net impaired loans after general allowance				**$ 26,179**				$ 64,566

(1) Multi-family residential mortgages are presented as real estate loans in this table.
(2) Gross impaired loans include foreclosed assets with a carrying value of $3,241 (2010 – $867) which are held for sale.
(3) The general allowance for credit risk is not allocated by loan type.

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

	2011			2010		
	Gross Impaired Amount	**Specific Allowance**	**Net Impaired Loans**	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Alberta	**$ 53,674**	**$ 5,157**	**$ 48,517**	$ 98,973	$ 14,515	$ 84,458
British Columbia	**35,738**	**1,417**	**34,321**	38,543	1,259	37,284
Saskatchewan	**2,771**	**785**	**1,986**	2,109	1,114	995
Manitoba	**934**	**309**	**625**	329	233	96
Other	**3,870**	**2,711**	**1,159**	3,253	1,917	1,336
Total	**$ 96,987**	**$ 10,379**	**86,608**	$ 143,207	$ 19,038	124,169
General allowance [1]			**(60,429)**			(59,603)
Net impaired loans after general allowance			**$ 26,179**			$ 64,566

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

During the year, interest recognized as income on impaired loans totaled $2,620 (2010 – $3,392).

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

As at October 31, 2011	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**More than 90 days**	**Total**
Residential mortgages	**$ 9,464**	**$ 6,574**	**$ 349**	**$ 242**	**$ 16,629**
Other loans	**14,506**	**9,850**	**1,447**	**110**	**25,913**
	$ 23,970	**$ 16,424**	**$ 1,796**	**$ 352**	**$ 42,542**
As at October 31, 2010					
Residential mortgages	$ 5,762	$ 7,933	$ 3,912	$ –	$ 17,607
Other loans [1]	17,877	33,938	5,731	4	57,550
	$ 23,639	$ 41,871	$ 9,643	$ 4	$ 75,157

(1) Amounts at October 31, 2010 did not include National Leasing.

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

OCTOBER 31, 2011 ($ millions)	British Columbia	Alberta	Saskatchewan	Manitoba	Other	Total(1)	Composition Percentage
Loans to Individuals							
Residential mortgages (2)	$ 1,325	$ 1,138	$ 180	$ 71	$ 295	$ 3,009	24%
Other loans	72	112	12	3	1	200	2
	1,397	1,250	192	74	296	3,209	26
Loans to Businesses							
Commercial	905	1,625	125	103	347	3,105	25
Construction and real estate (3)	1,450	1,646	240	71	158	3,565	29
Equipment financing	378	821	150	72	629	2,050	17
Energy	–	363	–	–	–	363	3
	2,733	4,455	515	246	1,134	9,083	74
Total Loans	$ 4,130	$ 5,705	$ 707	$ 320	$ 1,430	$ 12,292	100%
Composition Percentage	33%	46%	6%	3%	12%	100%	

OCTOBER 31, 2010 ($ millions)	British Columbia	Alberta	Saskatchewan	Manitoba	Other	Total(1)	Composition Percentage
Loans to Individuals							
Residential mortgages (2)	$ 1,046	$ 1,040	$ 145	$ 68	$ 181	$ 2,480	23%
Other loans	66	104	14	3	1	188	2
	1,112	1,144	159	71	182	2,668	25
Loans to Businesses							
Commercial	753	1,447	111	95	291	2,697	26
Construction and real estate (3)	1,272	1,517	223	70	184	3,266	31
Equipment financing	329	710	118	58	464	1,679	16
Energy	–	265	–	–	–	265	2
	2,354	3,939	452	223	939	7,907	75
Total Loans	$ 3,466	$ 5,083	$ 611	$ 294	$ 1,121	$ 10,575	100%
Composition Percentage	33%	48%	6%	3%	10%	100%	

(1) This table does not include an allocation of the allowance for credit losses or deferred revenue and premiums.
(2) Includes single- and multi-unit residential mortgages and project (interim) mortgages on residential property.
(3) Includes commercial term mortgages and project (interim) mortgages for non-residential property.

7. ALLOWANCE FOR CREDIT LOSSES

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

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

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

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

	2011			2010		
	Specific Allowance	General Allowance for Credit Losses	Total	Specific Allowance	General Allowance for Credit Losses	Total
Balance at beginning of year	$ 19,038	$ 59,603	$ 78,641	$ 14,306	$ 61,153	$ 75,459
Provision for credit losses	21,353	826	22,179	26,135	(5,722)	20,413
Write-offs	(32,074)	–	(32,074)	(24,599)	–	(24,599)
Recoveries	2,062	–	2,062	600	–	600
Acquisition of subsidiary	–	–	–	2,596	4,172	6,768
Balance at end of year	$ 10,379	$ 60,429	$ 70,808	$ 19,038	$ 59,603	$ 78,641

8. SECURITIZATION

As a result of the acquisition of National Leasing Group Inc. (National Leasing) on February 1, 2010 (see Note 34), the Bank participates in securitization activities. Securitization consists of the transfer of equipment leases to an independent trust or other third party, which buys the leases and may issue securities to investors. Securitizations are accounted for as sales as the Bank surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets.

When the Bank has an entitlement to participate in future cash flows, the retained interests, net of estimated servicing costs, are classified by the Bank as available-for-sale and included in other assets. When the Bank has received the full proceeds in cash, a reserve for estimated credit and prepayment losses and a reserve for future servicing costs are included in other liabilities. The retained interests represent the maximum exposure to losses on the securitized assets. On a quarterly basis, the fair value of the retained interests in securitized assets is reviewed for impairment. Fair value is subject to credit, prepayment and interest rate risks.

Gains on the sale of leases and servicing revenues are reported in other income – securitization revenue. In determining the gain, the carrying amount of the leases sold is allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. The Bank estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions - credit losses, prepayment speeds and discount rates commensurate with the risks involved. There have been no securitizations during 2011 or 2010.

The leases are sold on a fully serviced basis. Accordingly, upon each securitization a servicing liability is recorded to recognize the potential reduction in cash flows receivable as if an amount was paid by the securitizor to a replacement servicer. The estimated fees that would otherwise be payable to a replacement servicer form the basis of determination of the fair value of the servicing liability that is charged against the gain at the time of recognition of the sale of securitized assets.

Cash flows received from securitization activities were as follows:

	For the year ended October 31, 2011	For the nine months ended October 31, 2010
Proceeds from new securitizations	$ –	$ –
Cash flow received from retained interests	8,326	8,300
Losses reimbursed to securitizor	(1,162)	(2,520)
Early termination option payments	–	(13,141)
Total	$ 7,164	$ (7,361)

The following table presents information about off-balance sheet gross impaired leases and net write-offs for securitized assets as at October 31, 2011, which are not included in Note 6 – Loans and Note 7 – Allowance for Credit Losses:

	Gross Leases	Gross Impaired Leases	Write-offs, Net of Recoveries
Equipment financing securitization			
As at October 31, 2011	**$ 91,293**	**$ 562**	**$ 1,280**
As at October 31, 2010	$ 199,097	$ 1,143	$ 2,306

As at October 31, 2011, key economic assumptions and the sensitivity of the current fair value (FV) of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

	Key Economic Assumptions	Impact on FV of 10% Adverse Change	Impact on FV of 20% Adverse Change
Fair value of retained interests	**$ 5,899**		
Weighted-average life (in years)	**0.88**		
Annual prepayment rate	**7.50%**	**$ 42**	**$ 85**
Expected credit losses	**1.90%**	**41**	**82**
Residual cash flows discount rate	**3.08%**	**16**	**32**

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the above table, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

9. PROPERTY AND EQUIPMENT

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

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

	Cost	Accumulated Depreciation and Amortization	2011 Net Book Value	2010 Net Book Value
Land	**$ 4,265**	**$ –**	**$ 4,265**	$ 4,265
Buildings	**19,174**	**4,975**	**14,199**	14,206
Computer equipment	**55,075**	**39,240**	**15,835**	13,009
Leasehold improvements	**50,050**	**22,122**	**27,928**	25,329
Office equipment and furniture	**28,345**	**17,898**	**10,447**	9,169
Total	**$ 156,909**	**$ 84,235**	**$ 72,674**	$ 65,978

Depreciation and amortization for the year amounted to $12,345 (2010 – $10,033).

10. GOODWILL AND INTANGIBLE ASSETS

Goodwill is the excess of the purchase price paid for the acquisition of a subsidiary over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill and other intangibles with an indefinite life are not amortized, but are subject to a fair value impairment test at least annually. Other intangibles with a finite life are amortized to the consolidated statements of income over their expected lives not exceeding 15 years. These intangible assets are tested for impairment whenever circumstances indicate that the carrying amount may not be recoverable. Any impairment of goodwill or other intangible assets will be charged to the consolidated statements of income in the period of impairment.

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Goodwill	$ 37,852	$ –	$ 37,852	$ 37,723
Identifiable intangible assets				
Customer relationships	37,668	7,856	29,812	32,506
Non-competition agreements	5,731	2,726	3,005	4,137
Trademarks	2,206	–	2,206	2,206
Others	5,578	3,181	2,397	4,571
	51,183	13,763	37,420	43,420
Total	$ 89,035	$ 13,763	$ 75,272	$ 81,143

Amortization of customer relationships and other intangible assets for the year amounted to $6,000 (2010 – $4,067). The trademarks have an indefinite life and are not subject to amortization. Goodwill includes $34,598 (2010 – $34,469) related to the banking and trust segment and $3,254 (2010 – $3,254) related to the insurance segment. During 2011, goodwill increased $129 due to the contingent consideration settlement related to Adroit Investment Management Ltd. There were no writedowns of goodwill or intangible assets due to impairment.

11. INSURANCE RELATED OTHER ASSETS

	2011	2010
Instalment premiums receivable	$ 31,361	$ 29,391
Deferred policy acquisition costs	11,011	10,510
Recoverable on unpaid claims	6,196	6,326
Reinsurers' share of unpaid claims and adjustment expenses	6,153	10,949
Due from reinsurers	2,013	2,476
Total	$ 56,734	$ 59,652

12. DERIVATIVE FINANCIAL INSTRUMENTS

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

Designated Hedges

The Bank designates certain derivative financial instruments as either a hedge of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), or a hedge of highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges). On an ongoing basis, the Bank assesses whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items. If a hedging transaction becomes ineffective or if the derivative is not designated as a cash flow hedge, any subsequent change in the fair value of the hedging instrument is recognized in earnings. As at October 31, 2011 and October 31, 2010, the Bank had no derivative financial instruments outstanding that were designated as a fair value or cash flow hedge.

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

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

Fair Value
Derivative financial instruments are recorded on the balance sheet at fair value as either other assets or other liabilities with changes in fair value related to the effective portion of cash flow interest rate hedges recorded in other comprehensive income, net of income taxes. Changes in fair value related to the ineffective portion of a designated hedge, a derivative not designated as a hedge and all other derivative financial instruments are reported in other income on the consolidated statements of income.

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

Derivative financial instruments primarily used by the Bank include:

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

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

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

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

	2011					2010				
	Notional Amount	Replacement Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-Weighted Balance	Notional Amount	Replacement Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-Weighted Balance
Interest rate swaps	$ 19,400	$ –	$ 97	$ 97	$ 19	$ 47,550	$ –	$ 234	$ 234	$ 49
Foreign exchange contracts	6,384	62	64	126	53	57,032	132	570	702	181
Equity contracts	–	–	–	–	–	500	2	30	32	6
Total	$ 25,784	$ 62	$ 161	$ 223	$ 72	$ 105,082	$ 134	$ 834	$ 968	$ 236

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

	2011				2010			
	Favourable Contracts		**Unfavourable Contracts**		Favourable Contracts		Unfavourable Contracts	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps not designated as hedges	**$ –**	**$ –**	**$ 19,400**	**$ (420)**	$ –	$ –	$ 47,550	$ (930)
Foreign exchange contracts	**3,189**	**–**	**3,195**	**(16)**	51,739	132	5,293	(59)
Equity contracts	**–**	**–**	**–**		500	2	–	–
Embedded derivatives in equity linked deposits	**–**	**–**	**–**	**–**	n/a	–	n/a	(3)
Other forecasted transactions	**–**	**–**	**–**	**–**	–	–	–	–
Total	**$ 3,189**	**$ –**	**$ 22,595**	**$ (436)**	$ 52,239	$ 134	$ 52,843	$ (992)

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

The average fair values of the derivative financial instruments on hand during the year are set out in the following table:

	2011	2010
Favourable derivative financial instruments (assets)	**$ 192**	$ 625
Unfavourable derivative financial instruments (liabilities)	**$ 722**	$ 1,168

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

	2011				2010			
	Maturity				Maturity			
	1 Year or Less		**More than 1 Year**		1 Year or Less		More than 1 Year	
	Notional Amount	**Contractual Interest Rate**	**Notional Amount**	**Contractual Interest Rate**	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate
Interest rate swaps not designated as hedges (1)	**$ –**	**–**	**$ 19,400**	**3.39%**	$ 750	4.19%	$ 46,800	2.73%
Foreign exchange contracts (2)	**6,384**		**–**		57,032		–	
Equity contracts	**–**		**–**		500		–	
Total	**$ 6,384**		**$ 19,400**		$ 58,282		$ 46,800	

(1) The Bank pays interest at a fixed contractual rate and receives interest on the one-month (30-day) Canadian Bankers' Acceptance rate. Interest rate swaps not designated as hedges mature between November 2012 and April 2014.

(2) The contractual interest rate is not meaningful for foreign exchange contracts. Foreign exchange contracts mature between November 2011 and April 2012.

During the year, no net unrealized after tax gains (2010 – $17) were recorded in other comprehensive income for changes in fair value of the effective portion of derivatives designated as cash flow hedges, and no amounts (2010 – nil) were recorded in other income for changes in fair value of the ineffective portion of derivatives classified as cash flow hedges. Amounts accumulated in other comprehensive income are reclassified to net income in the same period that interest on certain floating rate loans (i.e. the hedged items) affects income. During the year, no amounts (2010 – net gains after tax of $1,613) were reclassified to net income.

13. OTHER ASSETS

		2011	2010
Accrued interest receivable		$ 40,665	$ 39,566
Accounts receivable		27,917	46,477
Future income tax asset	(Note 25)	18,121	14,758
Retained interests	(Note 8)	5,899	6,418
Prepaid expenses		4,898	7,536
Financing costs (1)		4,685	2,910
Income taxes receivable		3,902	293
Other		2,086	4,277
Total		**$ 108,173**	$ 122,235

(1) Amortization for the year amounted to $1,403 (2010 – $1,374).

14. DEPOSITS

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

	Individuals	Business and Government	Financial Institutions	2011 Total
Payable on demand	$ 30,440	$ 552,827	$ –	$ 583,267
Payable after notice	2,086,231	1,321,359	–	3,407,590
Payable on a fixed date	6,229,158	2,166,674	8,000	8,403,832
Deposit from CWB Capital Trust (1)	–	105,000	–	105,000
Total	**$ 8,345,829**	**$ 4,145,860**	**$ 8,000**	**$ 12,499,689**

	Individuals	Business and Government	Financial Institutions	2010 Total
Payable on demand	$ 23,308	$ 507,300	$ –	$ 530,608
Payable after notice	1,840,026	1,159,573	–	2,999,599
Payable on a fixed date	5,462,231	1,713,329	2,000	7,177,560
Deposit from CWB Capital Trust (1)	–	105,000	–	105,000
Total	$ 7,325,565	$ 3,485,202	$ 2,000	$ 10,812,767

(1) The senior deposit note of $105 million from CWB Capital Trust is reflected as a Business and Government deposit payable on a fixed date. This senior deposit note bears interest at an annual rate of 6.199% until December 31, 2016 and, thereafter, at the CDOR 180-day Bankers' Acceptance rate plus 2.55%. This note is redeemable at the Bank's option, in whole or in part, on and after December 31, 2011, or earlier in certain specified circumstances, both subject to the approval of OSFI. Each one thousand dollars of CWB Capital Trust Capital Securities Series 1 (WesTS) principal is convertible at any time into 40 non-cumulative redeemable CWB First Preferred Shares Series 1 of the Bank at the option of CWB Capital Trust. CWB Capital Trust will exercise this conversion right in circumstances in which holders of WesTS exercise their holder exchange rights. See Note 15 for more information on WesTS and CWB Capital Trust.

15. CAPITAL TRUST SECURITIES

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

CICA Accounting Guideline (AcG-15) provides a framework for identifying Variable Interest Entities (VIEs) and requires the consolidation of a VIE if the Bank is the primary beneficiary of the VIE. The only special purpose entity in which the Bank participates is CWB Capital Trust. Although CWB owns the unit holder's equity and voting control of CWB Capital Trust through Special Trust Securities, the Bank is not exposed to the majority of CWB Capital Trust losses and is, therefore, not the primary beneficiary under AcG-15. Accordingly, CWB does not consolidate CWB Capital Trust and the WesTS issued by CWB Capital Trust are not reported on the consolidated balance sheets, but the senior deposit note is reported in deposits (see Note 14) and interest expense is recognized on the senior deposit note.

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

CWB Capital Trust will be distributed to the Bank as holder of the residual interest in CWB Capital Trust.

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

The following information presents the outstanding WesTS:

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

The significant terms and conditions of the WesTS are:

1) Subject to the approval of OSFI, CWB Capital Trust may, in whole (but not in part), on the redemption date specified above, and on any distribution date thereafter, redeem the WesTS without the consent of the holders.

2) Subject to the approval of OSFI, upon occurrence of a special event as defined, prior to the redemption date specified above, CWB Capital Trust may redeem all, but not part, of the WesTS without the consent of the holders.

3) The WesTS may be redeemed for cash equivalent to (i) the early redemption price if the redemption occurs prior to December 31, 2016 or (ii) the redemption price if the redemption occurs on or after December 31, 2016. Redemption price refers to an amount equal to one thousand dollars plus the unpaid distributions to the redemption date. Early redemption price refers to an amount equal to the greater of (i) the redemption price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the redemption date with a maturity date of December 31, 2016, plus 0.50%.

4) Holders of WesTS may, at any time, exchange each one thousand dollars of principal for 40 First Preferred Shares Series 1 of the Bank. CWB's First Preferred Shares Series 1 pay semi-annual non-cumulative cash dividends with an annual yield of 4.00% and will be redeemable at the option of the Bank, with OSFI approval, on or after December 31, 2011, but not at the option of the holders. This exchange right will be effected through the conversion by CWB Capital Trust of the corresponding amount of the deposit note of the Bank. The WesTS exchanged for the Bank's First Preferred Shares Series 1 will be cancelled by CWB Capital Trust.

5) Each WesTS will be exchanged automatically without the consent of the holders for 40 non-cumulative redeemable CWB First Preferred Shares Series 2 upon occurrence of any one of the following events: (i) proceedings are commenced for the winding up of the Bank, (ii) OSFI takes control of the Bank, (iii) the Bank has a Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%, or (iv) OSFI has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction. Following the occurrence of an automatic exchange, the Bank would hold all of the Special Trust Securities and all of the WesTS, and the primary asset of CWB Capital Trust would continue to be the senior deposit note. The Bank's First Preferred Shares Series 2 pay semi-annual non-cumulative cash dividends with an annual yield of 5.25% and will be redeemable at the option of the Bank, with OSFI approval, on or after December 31, 2011, but not at the option of the holders.

6) For regulatory capital purposes, WesTS are included in Tier 1 capital to a maximum of 15% of net Tier 1 capital with the remainder included in Tier 2 capital. All of the outstanding WesTS amounts are currently included in Tier 1 capital.

7) The non-cumulative cash distribution on the WesTS will be 6.199% paid semi-annually until December 31, 2016 and, thereafter, at CDOR 180-day Bankers' Acceptance rate plus 2.55%.

16. INSURANCE RELATED OTHER LIABILITIES

		2011	2010
Unpaid claims and adjustment expenses	(Note 22)	**$ 76,892**	$ 80,086
Unearned premiums		**69,584**	66,444
Due to insurance companies and policyholders		**2,087**	2,305
Unearned commissions		**567**	561
Total		**$ 149,130**	$ 149,396

17. OTHER LIABILITIES

		2011	2010
Accrued interest payable		$ 101,557	$ 97,929
Accounts payable		88,420	82,712
Acquisition contingent consideration		30,870	31,155
Future income tax liability	(Note 25)	9,767	17,549
Leasehold inducements		3,297	2,446
Deferred revenue		2,708	3,437
Income taxes payable		1,609	637
Total		$ 238,228	$ 235,865

18. SUBORDINATED DEBENTURES

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

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

Interest Rate	Maturity Date	Earliest Date Redeemable by CWB at Par	2011	2010
4.389% (1)	November 30, 2020	November 30, 2015	$ 300,000	$ –
5.070% (2)	March 21, 2017	March 22, 2012	120,000	120,000
5.571% (3)	March 21, 2022	March 22, 2017	75,000	75,000
5.950% (4)	June 27, 2018	June 28, 2013	50,000	50,000
5.426% (5)	November 21, 2015	November 22, 2010	–	70,000
Total			$ 545,000	$ 315,000

(1) These conventional debentures have a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 193 basis points.

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

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

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

(5) These conventional debentures had a 10-year term with a fixed interest rate for the first five years. Thereafter, the interest rate would have reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 180 basis points. On November 22, 2010, these conventional debentures were redeemed by the Bank.

19. CAPITAL STOCK

Authorized:

- An unlimited number of common shares without nominal or par value;
- 33,964,324 class A shares without nominal or par value; and
- 25,000,000 first preferred shares without nominal or par value, issuable in series, of which, 4,200,000 first preferred shares Series 1 and 4,200,000 first preferred shares Series 2 have been reserved (see Note 15). In addition, 8,390,000 first preferred shares Series 3 have been issued and are convertible to first preferred shares Series 4 as noted below.

Issued and fully paid:

		2011			2010		
		Number of Shares		**Amount**	Number of Shares		Amount
Preferred Shares – Series 3							
Outstanding at beginning and end of year		**8,390,000**	**$**	**209,750**	8,390,000	$	209,750
Common Shares							
Outstanding at beginning of year		**66,641,362**		**279,352**	63,903,460		226,480
Issued on exercise of warrants		**8,265,424**		**115,716**	23,068		323
Issued on exercise or exchange of options		**341,541**		**2,996**	524,151		3,864
Issued under dividend reinvestment plan		**213,654**		**5,941**	125,595		2,922
Transferred from contributed surplus on exercise or exchange of options		**–**		**4,009**	–		3,181
Issued on acquisition of subsidiary	(Note 34)	**–**		**–**	2,065,088		42,582
Outstanding at end of year		**75,461,981**		**408,014**	66,641,362		279,352
Share Capital			**$**	**617,764**		$	489,102

The Bank is prohibited by the Bank Act from declaring any dividends on common shares when the Bank is or would be placed, as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the Act. In addition, should CWB Capital Trust fail to pay the semi-annual distributions in full on the CWB Capital Trust Securities Series 1 (see Note 15), the Bank has contractually agreed to not declare dividends on any of its common and preferred shares for a specified period of time. These limitations do not restrict the current level of dividends.

a) Preferred Shares

During 2009, the Bank issued 8.4 million preferred units at $25.00 per unit, for total proceeds of $209.8 million. The preferred units issued by way of the private placement and the public offering each consist of one Non-Cumulative 5-Year Rate Reset Preferred Share, Series 3 (Series 3 Preferred Shares) in the capital of the Bank with an issue price of $25.00 per share and 1.7857 and 1.7800 common share purchase warrants, respectively. Each warrant was exercisable at a price of $14.00 to purchase one common share in the capital of the Bank until March 3, 2014. As at October 31, 2011, no warrants remain outstanding (2010 – 13,471,611).

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

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

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

b) Warrants to Purchase Common Shares

Each warrant was exercisable at a price of $14.00 to purchase one common share in the capital of the Bank until March 3, 2014.

Number of Warrants	2011	2010
Outstanding at beginning of year	13,471,611	14,964,356
Exercised	(8,265,424)	(23,068)
Purchased and cancelled	(4,206,187)	–
Purchased and cancelled under Normal Course Issuer Bids	(1,000,000)	(1,469,677)
Outstanding at end of year	–	13,471,611

During 2011, holders of the Bank's common share purchase warrants approved a resolution to amend the terms of the warrant indenture, which allowed the Bank to redeem all of the outstanding warrants. The Bank immediately redeemed for cash 4,206,187 warrants for an aggregate cost of $72,461, which was charged to retained earnings.

The Bank received approval from the Toronto Stock Exchange on January 18, 2011 to institute a Normal Course Issuer Bid (NCIB) to purchase and cancel up to 1,029,108 of its warrants. The NCIB commenced January 20, 2011 and was extinguished on August 19, 2011 in conjunction with the warrant redemption discussed above. During 2011, the Bank purchased and cancelled 1,000,000 warrants at an aggregate cost of $15,985, which was charged to retained earnings.

The Bank received approval from the Toronto Stock Exchange on January 18, 2010 and subsequently amended on September 30, 2010 to institute a NCIB to purchase and cancel up to 1,469,677 of its warrants. The NCIB commenced January 20, 2010 and was completed in October 2010. During 2010, the Bank purchased and cancelled 1,469,677 warrants fulfilling all available purchases under this NCIB at an aggregate cost of $16,453, which was charged to retained earnings.

c) Dividend Reinvestment Plan

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

At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price based on the closing prices of a board lot of common shares on the Toronto Stock Exchange for the five trading days immediately preceding the dividend payment date, with a discount of between 0% to 5% at the Bank's discretion. The Bank also has the option to fund the plan through the open market at market prices. During the year, 213,654 (2010 – 125,595) common shares were issued under the plan from the Bank's treasury at a 2% (2010 – 2%) discount.

d) Common Share Normal Course Issuer Bid

On October 31, 2011, the Bank received approval from the Toronto Stock Exchange to institute a NCIB to purchase and cancel up to 2,261,434 of its common shares. The NCIB commenced November 2, 2011 and will expire November 1, 2012. No common shares have been purchased under this NCIB as at October 31, 2011.

20. STOCK BASED COMPENSATION

a) Stock Options

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

The Bank has authorized 4,982,778 common shares (2010 – 5,324,319) for issuance under the share incentive plan. Of the amount authorized, options exercisable into 3,542,072 shares (2010 – 3,834,433) are issued and outstanding. The options generally vest within three years and are exercisable at a fixed price equal to the average of the market price on the day of and the four days preceding the grant date. All options expire within five to seven years of date of grant. Outstanding options expire from December 2011 to June 2016.

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

Options	2011 Number of Options		2011 Weighted Average Exercise Price	2010 Number of Options		2010 Weighted Average Exercise Price
Balance at beginning of year	**3,834,433**	**$**	**19.93**	4,394,605	$	18.66
Granted	**729,314**		**30.10**	632,386		22.67
Exercised or exchanged	**(943,399)**		**22.13**	(1,085,435)		16.24
Forfeited	**(78,276)**		**23.68**	(107,123)		21.04
Balance at end of year	**3,542,072**	**$**	**21.36**	3,834,433	$	19.93
Exercisable at end of year	**687,570**	**$**	**26.45**	1,109,850	$	22.84

Further details relating to stock options outstanding and exercisable follow:

Range of Exercise Prices	Options Outstanding: Number of Options	Options Outstanding: Weighted Average Remaining Contractual Life (years)		Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number of Options		Options Exercisable: Weighted Average Exercise Price
$8.58 to $11.76	**909,100**	**2.1**	**$**	**11.72**	**–**	**$**	**–**
$16.89 to $21.46	**737,840**	**2.1**		**18.83**	**132,790**		**21.46**
$22.09 to $26.38	**983,683**	**2.5**		**23.87**	**367,500**		**25.88**
$28.11 to $31.18	**911,449**	**3.3**		**30.32**	**187,280**		**31.13**
Total	**3,542,072**	**2.5**	**$**	**21.36**	**687,570**	**$**	**26.45**

The terms of the share incentive plan allow the holders of vested options a cashless settlement alternative whereby the option holder can either (a) elect to receive shares by delivering cash to the Bank in the amount of the option exercise price or (b) elect to receive the number of shares equivalent to the excess of the market value of the shares under option, determined at the exercise date, over the exercise price. Of the 943,399 (2010 – 1,085,435) options exercised or exchanged, option holders exchanged the rights to 810,899 (2010 – 842,025) options and received 209,041 (2010 – 280,741) shares in return under the cashless settlement alternative. Salary expense of $4,602 (2010 – $5,106) was recognized relating to the estimated fair value of options granted. The fair value of options granted was estimated using a binomial option pricing model with the following variables and assumptions: (i) risk-free interest rate of 2.1% (2010 – 2.6%), (ii) expected option life of 4.0 (2010 – 4.0) years, (iii) expected volatility of 36% (2010 – 44%), and (iv) expected dividends of 1.8% (2010 – 2.1%). The weighted average fair value of options granted was estimated at $7.69 (2010 – $7.36) per share.

During the year, $4,009 (2010 – $3,181) was transferred from contributed surplus to share capital, representing the estimated fair value recognized for 943,399 (2010 – 1,085,435) options exercised during the year.

b) Restricted Share Units

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

During the year, salary expense of $8,351 (2010 – $4,628) was recognized related to RSUs. As at October 31, 2011, the liability for the RSUs held under this plan was $8,922 (2010 – $6,335). At the end of each period, the liability and salary expense are adjusted to reflect changes in the market value of the Bank's common shares.

Number of RSUs	**2011**	2010
Balance at beginning of year	**469,941**	285,197
Granted	**259,820**	287,591
Vested and paid out	**(183,573)**	(92,997)
Forfeited	**(10,419)**	(9,850)
Balance at end of year	**535,769**	469,941

c) Deferred Share Units

Under the Deferred Share Unit (DSU) plan, non-employee directors receive at least 50% of their annual retainer in DSUs. The DSUs are not redeemable until the individual is no longer a director and must be redeemed for cash. Common share dividend equivalents accrue to the directors in the form of additional units. The expense related to the DSUs is recorded in the period the award is earned by the director.

During the year, non-interest expenses "other expenses" included $1,048 (2010 – $358) related to the DSUs. As at October 31, 2011, the liability for DSUs held under this plan was $1,467 (2010 – $610). At the end of each period, the liability and expense are adjusted to reflect changes in the market value of the Bank's common shares. As at October 31, 2011, 51,463 DSUs were outstanding (2010 – 24,046).

21. CONTINGENT LIABILITIES AND COMMITMENTS

a) Credit Instruments

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

	2011	2010
Credit instruments		
Guarantees and standby letters of credit	**$ 276,323**	$ 261,438
Commitments to extend credit	**4,101,250**	3,375,690
Total	**$ 4,377,573**	$ 3,637,128

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

Commitments to extend credit to customers also arise in the normal course of business and include undrawn availability under lines of credit and commercial operating loans of $1,590,678 (2010 – $1,468,325) and recently authorized but unfunded loan commitments of $2,510,572 (2010 – $1,907,365). In the majority of instances, availability of undrawn commercial commitments is subject to the borrower meeting specified financial tests or other covenants regarding completion or satisfaction of certain conditions precedent. It is also usual practice to include the right to review and withhold funding in the event of a material adverse change in the financial condition of the borrower. From a liquidity perspective, undrawn credit authorizations will be funded over time, with draws in many cases extending over a period of months. In some instances, authorizations are never advanced or may be reduced because of changing requirements. Revolving credit authorizations are subject to repayment which, on a pooled basis, also decreases liquidity risk.

b) Lease Commitments

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

2012	$	10,932
2013		11,049
2014		10,711
2015		10,721
2016		7,859
2017 and thereafter		23,745
Total	$	75,017

c) Guarantees

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

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

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

The Bank issues personal and business credit cards through an agreement with a third party card issuer. The Bank has indemnified the card issuer from loss if there is a default on the issuer's collection of the business credit card balances. The Bank has provided no indemnification relating to the personal or reward credit card balances. The issuance of business credit cards and establishment of business credit card limits are approved by the Bank and subject to the same credit assessment, approval and monitoring as the extension of direct loans. At year end, the total approved business credit card limit was $12,996 (2010 – $13,153), and the balance outstanding was $2,933 (2010 – $2,927).

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

d) Legal and Regulatory Proceedings

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

22. INSURANCE OPERATIONS

Premiums Earned and Deferred Policy Acquisition Costs

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

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

Anticipated investment income is considered in determining whether a premium deficiency exists. Premium deficiencies are recognized by writing down the deferred policy acquisition cost asset.

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

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

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

a) Insurance Revenues, Net

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

	2011	2010
Net earned premiums	**$ 117,632**	$ 111,368
Commissions and processing fees	**1,869**	2,347
Net claims and adjustment expenses	**(74,734)**	(68,641)
Policy acquisition costs	**(24,517)**	(23,358)
Insurance revenues, net	**$ 20,250**	$ 21,716

b) Unpaid Claims and Adjustment Expenses

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

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

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

Provision for Unpaid Claims and Adjustment Expenses
An annual evaluation of the adequacy of unpaid claims is completed at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established.

The results of this comparison and the changes in the provision for unpaid claims and adjustment expenses follow:

	2011	2010
Unpaid claims and adjustment expenses, net, beginning of year	$ 62,811	$ 63,281
Claims incurred		
In the current year	75,694	70,098
In prior periods	(960)	(1,457)
Claims paid during the year	(73,002)	(69,111)
Unpaid claims and adjustment expenses, net, end of year	64,543	62,811
Reinsurers' share of unpaid claims and adjustment expenses	6,153	10,949
Recoverable on unpaid claims	6,196	6,326
Unpaid claims and adjustment expenses, net, end of year	**$ 76,892**	$ 80,086

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries are discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The investment rate of return used for all cash flow periods and all lines of business was 2.76% (2010 – 2.96%). However, that rate was reduced by a 0.75% (2010 – 1.00%) provision for adverse deviation in discounting the provision for unpaid claims and adjustment expenses and related reinsurance recoveries. The impact of this provision for adverse deviation results in an increase of $790 (2010 – $901) in unpaid claims and adjustment expenses and related reinsurance recoveries.

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

	2011		2010	
	Automobile	Home	Automobile	Home
Unpaid claims and adjustment expenses	$ 63,371	$ 13,521	$ 65,486	$ 14,600
Reinsurers' share of unpaid claims and adjustment expenses	6,132	21	9,967	982
Unearned premiums	47,922	21,662	46,622	19,822

c) Underwriting Policy and Reinsurance Ceded

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

Reinsurance with a limit of $300,000 (2010 – $200,000) is obtained to protect against certain catastrophic losses. Retention on catastrophic events and property and liability risks is generally $2,000 (2010 – $1,000). For the British Columbia automobile insurance product, retentions are further reduced by the underlying mandatory coverage provided by the provincially governed Crown corporation. Reinsurance coverage is diversified across many reinsurers in order to spread risk and reduce reinsurer concentration risk in the event of a very large loss, such as an earthquake. The reinsurers selected to participate in the program have a minimum rating of A- from Standard & Poor's or A.M. Best. In addition, reinsurance treaties have a special termination clause allowing the Bank to change a reinsurer during the term of the agreement if their rating falls below the specified level.

At October 31, 2011, $6,153 (2010 – $10,949) of unpaid claims and adjustment expenses were recorded as recoverable from reinsurers. Failure of a reinsurer to honour its obligation could result in losses. The financial condition of reinsurers is regularly evaluated to minimize the exposure to significant losses from reinsurer insolvency.

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

	2011	2010
Premiums earned reduced by	$ 8,898	$ 8,947
Claims incurred reduced by	102	5,723

23. DISCLOSURES ON RATE REGULATION

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

The authorities that regulate automobile insurance rates, in the provinces in which Canadian Direct is writing that business, are listed below. Automobile direct written premiums in Alberta totaled $40,800 in 2011 (2010 – $39,500) and represented 49% (2010 – 49%) of direct automobile premiums written.

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

While regulatory authorities generally approve rates and rate adjustments prospectively, in some circumstances retroactive rate adjustments in respect of historical results may be required, which could result in a regulatory asset or liability for the Bank. As at October 31, 2011, the Bank had no such regulatory asset or liability.

24. EMPLOYEE FUTURE BENEFITS

All employee future benefits are accounted for on an accrual basis. The Bank's contributions to the group retirement savings plan and employee share purchase plan totaled $10,217 (2010 – $8,864).

25. INCOME TAXES

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

The provision for income taxes consists of the following:

	2011	2010
Consolidated statements of income		
Current	**$ 60,397**	$ 63,493
Future	**(3,449)**	(16,149)
	56,948	47,344
Shareholders' equity		
Future income tax expense related to:		
Unrealized gains (losses) on available-for-sale securities	**(7,697)**	2,159
Gains (losses) on derivatives designated as cash flow hedges	**–**	(636)
	(7,697)	1,523
Total	**$ 49,251**	$ 48,867

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

		2011			2010	
Combined Canadian federal and provincial income taxes and statutory tax rate	$	63,816	27.1%	$	60,327	28.6%
Increase (decrease) arising from:						
Tax-exempt income		(8,849)	(3.7)		(9,480)	(4.5)
Stock-based compensation		1,236	0.5		1,451	0.7
Resolution of outstanding issues		–	–		(7,488)	(3.6)
Other		745	0.3		2,534	1.2
Provision for income taxes and effective tax rate	$	56,948	24.2%	$	47,344	22.4%

Future income tax balances are comprised of the following:

		2011		2010
Net future income tax assets				
Allowance for credit losses	$	13,659	$	14,240
Deferred loan fees		4,556		4,365
Deferred deposit broker commission		(3,843)		(3,688)
Leasing income		967		(2,800)
Other temporary differences		2,782		2,641
	$	18,121	$	14,758
Net future income tax liabilities				
Intangible assets	$	9,736	$	11,459
Leasing income		–		5,733
Other temporary differences		31		357
	$	9,767	$	17,549

The Bank has approximately $11,140 (2010 – $11,140) of capital losses that are available to apply against future capital gains and have no expiry date. The tax benefit of these losses has not been recognized in the consolidated financial statements.

26. EARNINGS PER COMMON SHARE

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

The calculation of earnings per common share follows:

	2011	2010
Numerator		
Net income available to common shareholders	$ 162,941	$ 148,413
Denominator		
Weighted average of common shares outstanding – basic	72,205,180	65,756,653
Dilutive instruments:		
Warrants	3,328,444	5,796,819
Stock options (1)	1,171,801	775,360
Weighted average number of common shares outstanding – diluted	76,705,425	72,328,832
Earnings per Common Share		
Basic	$ 2.26	$ 2.26
Diluted	2.12	2.05

(1) At October 31, 2011, the denominator excludes 911,449 (2010 – 832,830) employee stock options with an average adjusted exercise price of $30.32 (2010 – $27.23) where the exercise price, adjusted for unrecognized stock-based compensation, is greater than the average market price.

27. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Assets under administration of $9,369,589 (2010 – $8,530,716) and assets under management of $816,219 (2010 – $795,467) represent the fair value of assets held for personal, corporate and institutional clients as well as third party leases and residential mortgages subject to service agreements. The assets are kept separate from the Bank's own assets. Assets under administration and management are not reflected in the consolidated balance sheets and relate to the banking and trust segment.

28. RELATED PARTY TRANSACTIONS

The Bank makes loans, primarily residential mortgages, to its officers and employees at various preferred rates and terms. The total amount outstanding for these types of loans is $111,474 (2010 – $107,160). The Bank offers deposits, primarily fixed term deposits to its officers, employees and their immediate family at preferred rates. The total amount outstanding for these types of deposits is $187,733 (2010 – $162,805).

29. INTEREST RATE SENSITIVITY

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

ASSET LIABILITY GAP POSITIONS
($ millions)

October 31, 2011	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	More than 5 Years	Non-Interest Sensitive	Total
Assets								
Cash resources and securities	$ 267	$ 540	$ 389	$ 1,196	$ 804	$ 134	$ 104	$ 2,238
Loans	5,639	575	1,417	7,631	4,548	84	(42)	12,221
Other assets [(2)]	–	–	–	–	–	–	313	313
Derivative financial instruments [(1)]	20	–	–	20	–	–	6	26
Total	5,926	1,115	1,806	8,847	5,352	218	381	14,798
Liabilities and Equity								
Deposits	4,508	1,273	2,972	8,753	3,665	105	(23)	12,500
Other liabilities [(2)]	3	6	26	35	34	8	356	433
Debentures [(3)]	–	–	120	120	350	75	–	545
Shareholders' equity	–	–	–	–	–	–	1,294	1,294
Derivative financial instruments [(1)]	–	–	–	–	20	–	6	26
Total	4,511	1,279	3,118	8,908	4,069	188	1,633	14,798
Interest Rate Sensitive Gap	$ 1,415	$ (164)	$ (1,312)	$ (61)	$ 1,283	$ 30	$ (1,252)	$ –
Cumulative Gap	$ 1,415	$ 1,251	$ (61)	$ (61)	$ 1,222	$ 1,252	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	9.6%	8.5%	(0.4)%	(0.4)%	8.3%	8.5%	–	–
October 31, 2010								
Total assets	$ 5,498	$ 719	$ 1,420	$ 7,637	$ 4,593	$ 232	$ 345	$ 12,807
Total liabilities and equity	4,496	912	2,039	7,447	3,698	187	1,475	12,807
Interest Rate Sensitive Gap	$ 1,002	$ (193)	$ (619)	$ 190	$ 895	$ 45	$ (1,130)	$ –
Cumulative Gap	$ 1,002	$ 809	$ 190	$ 190	$ 1,085	$ 1,130	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	7.8%	6.3%	1.5%	1.5%	8.5%	8.8%	–	–

(1) Derivative financial instruments are included in this table at the notional amount.
(2) Accrued interest is excluded in calculating interest sensitive assets and liabilities.
(3) Potential prepayments of fixed rate loans and early redemption of redeemable fixed term deposits have not been estimated. Redemptions of fixed term deposits where depositors have this option are not expected to be material. The majority of fixed rate loans, mortgages and leases are either closed or carry prepayment penalties.

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

WEIGHTED AVERAGE EFFECTIVE INTEREST RATES
(%)

October 31, 2011	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	More than 5 Years	Total
Total assets	**4.0%**	**2.4%**	**4.6%**	**3.9%**	**5.2%**	**5.1%**	**4.4%**
Total liabilities	**1.2**	**1.9**	**2.5**	**1.7**	**2.8**	**5.8**	**2.1**
Interest Rate Sensitive Gap	**2.8%**	**0.5%**	**2.1%**	**2.2%**	**2.4%**	**(0.7)%**	**2.3%**
October 31, 2010							
Total assets	3.9%	2.8%	4.9%	4.0%	5.5%	5.2%	4.6%
Total liabilities	1.2	2.0	2.6	1.7	3.2	5.8	2.3
Interest Rate Sensitive Gap	2.7%	0.8%	2.3%	2.3%	2.3%	(0.6)%	2.3%

Based on the current interest rate gap position, it is estimated that a one-percentage point increase in all interest rates would increase net interest income by approximately 3.0% or $11,024 (October 31, 2010 – 2.3% or $7,372) and decrease other comprehensive income $9,017 (October 31, 2010 – $9,796) net of tax, respectively, over the following twelve months. A one-percentage point decrease in all interest rates would decrease net interest income by approximately 3.7% or $13,436 (October 31, 2010 – 1.5% or $4,703) and increase other comprehensive income $9,017 (October 31, 2010 – $9,796) net of tax.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial assets recorded on the consolidated balance sheets at fair value (cash, securities, securities purchased under resale agreements, retained interest in securitized assets and derivatives) was determined using published market prices quoted in active markets (referred to as Level 1) and estimated using a valuation technique based on observable market data (referred to as Level 2). The fair value of liabilities recorded on the consolidated balance sheets at fair value (derivatives) was determined using a valuation technique based on observable market data. There were no financial instruments measured using unobservable market data (referred to as Level 3).

	Fair Value	Valuation Technique Level 1	Valuation Technique Level 2	Valuation Technique Level 3
Financial Assets				
Cash resources	**$ 312,335**	**$ 272,704**	**$ 39,631**	**$ –**
Securities	**1,925,704**	**1,925,704**	**–**	**–**
Retained interest in securitized assets	**7,767**	**–**	**7,767**	**–**
October 31, 2011	**$ 2,245,806**	**$ 2,198,408**	**$ 47,398**	**$ –**
October 31, 2010	$ 1,885,922	$ 1,691,330	$ 194,592	$ –
Financial Liabilities				
Derivative related	**$ 436**	**$ –**	**$ 436**	**$ –**
October 31, 2011	**$ 436**	**$ –**	**$ 436**	**$ –**
October 31, 2010	$ 992	$ –	$ 992	$ –

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

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

		2011			2010		
		Book Value	**Fair Value**	**Fair Value Over (Under) Book Value**	Book Value	Fair Value	Fair Value Over (Under) Book Value
Assets							
Cash resources	(Note 3)	**$ 312,335**	**$ 312,335**	**$ –**	$ 187,944	$ 187,944	$ –
Securities	(Note 4)	**1,925,704**	**1,925,704**	**–**	1,510,187	1,510,187	–
Securities purchased under resale agreements		**–**	**–**	**–**	177,954	177,954	–
Loans [1]		**12,262,982**	**12,325,365**	**62,383**	10,550,380	10,583,395	33,015
Other assets [2]		**120,038**	**120,038**	**–**	142,524	142,524	–
Derivative related		**–**	**–**	**–**	134	134	–
Liabilities							
Deposits [1]		**12,514,774**	**12,579,770**	**64,996**	10,826,670	10,883,873	57,203
Other liabilities [3]		**314,717**	**314,717**	**–**	302,479	302,479	–
Subordinated debentures		**545,000**	**566,917**	**21,917**	315,000	320,056	5,056
Derivative related		**436**	**436**	**–**	992	992	–

(1) Loans and deposits exclude deferred premiums and deferred revenue, which are not financial instruments.
(2) Other assets exclude property and equipment, goodwill and other intangible assets, reinsurers' share of unpaid claims and adjustment expenses, future income tax asset, prepaid and deferred expenses, financing costs and other items that are not financial instruments.
(3) Other liabilities exclude future income tax liability, deferred revenue, unearned insurance premiums and other items that are not financial instruments.
(4) For further information on interest rates associated with financial assets and liabilities, including derivative instruments, refer to Note 29.

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

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

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

31. RISK MANAGEMENT

As part of the Bank's risk management practices, the risks that are significant to the business are identified, monitored and controlled. The most significant risks include credit risk, liquidity risk, market risk, insurance risk, operational risk, and regulatory and legal risk. The nature of these risks and how they are managed is provided in the Risk Management section of the Management Discussion and Analysis (MD&A).

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

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

32. CAPITAL MANAGEMENT

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

The Bank has a share incentive plan that is provided to officers and employees who are in a position to materially impact the longer term financial success of the Bank as measured by share price appreciation and dividend yield. Note 20 to the consolidated financial statements details the number of shares under options outstanding, the weighted average exercise price and the amounts exercisable at year end.

Significant capital transactions during 2011 include the redemption of $70,000 and issue of $300,000 of conventional subordinated debentures, which qualify as Tier 2 regulatory capital. In addition, proceeds from the 2011 exercise of warrants by the holders, net of warrants purchased and cancelled under the NCIBs and the cash redemption of all remaining outstanding warrants (see Note 19), increased Tier 1 regulatory capital by $27,270.

Basel II Capital Adequacy Accord

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

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

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

CAPITAL STRUCTURE AND REGULATORY RATIOS AT YEAR END
($ thousands)

	2011	2010
Tier 1 Capital		
Retained earnings	$ 650,028	$ 614,710
Common shares	408,014	279,352
Preferred shares	209,750	209,750
Contributed surplus	21,884	21,291
Innovative capital instrument (1)	105,000	105,000
Non-controlling interest in subsidiary	225	180
Less goodwill of subsidiaries	(37,852)	(37,723)
Less securitization	(6,583)	(8,880)
Total	1,350,466	1,183,680
Tier 2 Capital		
General allowance for credit losses (Tier 2A) (2)	60,429	59,603
Accumulated unrealized gains on available-for-sale equity securities, net of tax (3)	1,509	16,119
Subordinated debentures (Tier 2B) (4)	545,000	315,000
Total	606,938	390,722
Less investment in insurance subsidiary	(80,941)	(68,993)
Less securitization	(6,583)	(8,880)
Total Regulatory Capital	$ 1,869,880	$ 1,496,529
Regulatory Capital to Risk-Weighted Assets		
Tier 1 capital	11.1%	11.3%
Tier 2 capital	5.0	3.7
Less investment in insurance subsidiary and securitization	(0.7)	(0.7)
Total Regulatory Capital Adequacy Ratio	15.4%	14.3%
Assets to Regulatory Capital Multiple (5)	7.9	8.5

(1) The innovative capital instrument consists of CWB's WesTS and may be included in Tier 1 capital to a maximum of 15% of net Tier 1 capital. Any excess innovative capital outstanding is included in Tier 2B capital.

(2) Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. At October 31, 2011, the Bank's general allowance represented 0.50% (2010 – 0.57%) of risk-weighted assets.

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

(4) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital. Any excess Tier 2B capital is included in capital as net Tier 1 capital increases. At October 31, 2011 and 2010, all subordinated debentures are included in Tier 2B capital.

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

33. SEGMENTED INFORMATION

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

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

	Banking and Trust		Insurance		Total	
	2011	2010	**2011**	2010	**2011**	2010
Net interest income (teb) (1)	**$ 376,781**	$ 321,640	**$ 7,902**	$ 7,024	**$ 384,683**	$ 328,664
Less teb adjustment	**10,025**	10,285	**1,034**	901	**11,059**	11,186
Net interest income per financial statements	**366,756**	311,355	**6,868**	6,123	**373,624**	317,478
Other income (2)	**85,706**	83,393	**20,625**	22,202	**106,331**	105,595
Total revenues	**452,462**	394,748	**27,493**	28,325	**479,955**	423,073
Provision for credit losses	**22,179**	20,413	**–**	–	**22,179**	20,413
Non-interest expenses (3)	**210,193**	179,734	**12,258**	11,746	**222,451**	191,480
Income taxes	**53,823**	43,153	**3,125**	4,191	**56,948**	47,344
Non-controlling interest in subsidiary	**228**	215	**–**	–	**228**	215
Net income (4)	**$ 166,039**	$ 151,233	**$ 12,110**	$ 12,388	**$ 178,149**	$ 163,621
Total average assets ($ millions) (5)	**$ 13,398**	$ 11,792	**$ 235**	$ 215	**$ 13,633**	$ 12,007

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

(2) Other income for the insurance segment is presented net of claims, adjustment costs and policy acquisition costs (see Note 22) and also includes the gain on the sale of securities.

(3) Amortization of intangible assets of $5,875 (2010 – $3,817) is included in the banking and trust segment and $125 (2010 – $250) in the insurance segment. Amortization of property and equipment total $10,383 (2010 – $8,450) for the banking and trust segment and $1,962 (2010 – $1,583) for the insurance segment while additions amounted to $17,518 (2010 – $19,274) for the banking and trust segment and $1,523 (2010 – $1,816) for the insurance segment. Goodwill of $34,598 (2010 – $34,469) is allocated to the banking and trust segment and $3,254 (2010 – $3,254) to the insurance segment.

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

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

34. ACQUISITION OF SUBSIDIARY

On February 1, 2010, the Bank acquired 100% of the outstanding common shares of National Leasing in exchange for $52,826 in cash, 2,065,088 common shares of the Bank ($42,582) and estimated contingent consideration for a total cost of $126,618. Both the Bank and the vendors have the option to trigger the payment of the contingent consideration no earlier than November 1, 2012. The final amount of the contingent consideration is not yet determinable and, under Canadian GAAP, any change will be recognized as an adjustment to goodwill in the period in which the contingency is resolved.

National Leasing is a commercial equipment leasing company for small to mid-size transactions headquartered in Winnipeg, Manitoba.

Details of the fair values of assets and liabilities acquired are as follows:

Assets and Liabilities Acquired at Fair Value

Leases	$	322,512
Intangible assets		40,708
Goodwill		27,937
Retained interest in securitized assets		19,109
Long-term debt		(270,630)
Future income tax liabilities		(10,611)
Other items, net		(2,407)
Net assets acquired	$	126,618

Intangible assets include customer relationships, computer software, non-competition agreements, lease administration contracts and trademarks. The trademark, which has an estimated value of $1,610, is not subject to amortization. National Leasing's financial results, the goodwill and other intangible assets related to the acquisition are included in the banking and trust segment. The total amount of goodwill and intangible assets are not deductible for income tax purposes. The long-term debt was repaid immediately after the acquisition.

35. SUBSIDIARIES AND AFFILIATE

CANADIAN WESTERN BANK SUBSIDIARIES[1]

(annexed in accordance with subsection 308[3] of the Bank Act)
October 31, 2011

	Address of Head Office		Carrying Value of Voting Shares Owned by the Bank[2]
National Leasing Group Inc.	1525 Buffalo Place Winnipeg, Manitoba	$	159,216
Canadian Western Trust Company	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta		96,610
Canadian Direct Insurance Incorporated	Suite 600, 750 Cambie Street Vancouver, British Columbia		84,330
Valiant Trust Company	Suite 310, 606 4th St. S.W. Calglary, Alberta		15,083
Canadian Western Bank Leasing Inc.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta		10,109
Adroit Investment Management Ltd.	Suite 1250, 10303 Jasper Avenue Edmonton, Alberta		6,756
Canadian Western Financial Ltd.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta		1,621
Canadian Western Bank Capital Trust[3]	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta		1,000

(1) The Bank owns 100% of the voting shares of each entity, with the exception of Adroit Investment Management Ltd. (76.25% ownership).
(2) The carrying value of voting shares is stated at the Bank's equity in the subsidiaries.
(3) In accordance with accounting standards, this entity is not consolidated as the Bank is not the primary beneficiary.

36. COMPARATIVE FIGURES

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

Locations

Canadian Western Bank

Regional Offices

- *British Columbia*
  2200, 666 Burrard Street
  Vancouver
  (604) 669.0081
  Greg Sprung
- *Northern Alberta*
  3000, 10303 Jasper Avenue
  Edmonton
  (780) 423.8888
  Michael Halliwell
- *Prairies*
  606 - 4 Street S.W.
  Calgary
  (403) 262.8700
  Glen Eastwood
- Equipment Financing
  300, 5222 - 130 Avenue S.E.
  Calgary
  (403) 257.8235
  Jim Burke

Alberta

Edmonton

- *Edmonton Main*
  11350 Jasper Avenue
  (780) 424.4846
  Mike McInnis
- *103 Street*
  10303 Jasper Avenue
  (780) 423.8801
  Gary Mitchell
- *Old Strathcona*
  7933 - 104 Street
  (780) 433.4286
  Donna Austin
- *South Edmonton Common*
  2142 - 99 Street
  (780) 988.8607
  Wayne Dosman
- *West Point*
  17603 - 100 Avenue
  (780) 484.7407
  David Hardy

Calgary

- *Calgary Main*
  606 - 4 Street S.W.
  (403) 262.8700
  Jeff Bowling
- *Calgary Chinook*
  6606 MacLeod Trail S.W.
  (403) 252.2299
  Lew Christie
- *Calgary Foothills*
  6127 Barlow Trail S.E.
  (403) 269.9882
  James Comstock
- *Calgary Northeast*
  2810 - 32 Avenue N.E.
  (403) 250.8838
  June Lavigueur
- *Calgary South Trail Crossing*
  300, 5222 - 130 Avenue S.E.
  (403) 257.8235
  Rick Vandergraaf
- *Broker Buying Centre*
  285, 2880 Glenmore Trail S.E.
  (403) 720.8960
  David Miller

Grande Prairie
11226 - 100 Avenue
(780) 831.1888
Todd Kramer

Leduc
5407 Discovery Way
(780) 986.9858
George Bawden

Lethbridge
744 - 4 Avenue South
(403) 328.9199
Don Grummett

Medicine Hat
102, 1111 Kingsway Avenue S.E.
(403) 527.7321
Les Erickson

Red Deer
4822 - 51 Avenue
(403) 341.4000
Don Odell

Sherwood Park
251 Palisades Way
(780) 449.6699
Blair Zahara

St. Albert
300 - 700 St. Albert Trail
(780) 458.4001
Jeff Suggitt

British Columbia

Vancouver

- *Kitsilano*
  3190 West Broadway
  (604) 732.4262
  Demetra Papaspyros
- *Park Place*
  100, 666 Burrard Street
  (604) 688.8711
  Rob Berzins
- *Vancouver Real Estate*
  2200, 666 Burrard Street
  (604) 669.0081
  Mario Furlan
- *West Broadway*
  110, 1333 West Broadway
  (604) 730.8818
  Jules Mihalyi

Abbotsford
100, 2548 Clearbrook Road
(604) 855.4941
Hugh Ellis

Coquitlam
310, 101 Schoolhouse Street
(604) 540.8829
Ron Baker

Courtenay
200, 470 Puntledge Road
(250) 334.8888
Jason Zaichkowsky

Cranbrook
2nd Floor, Suite A
828 Baker Street
(250) 426.1140
Mike Eckersley

Kamloops
101, 1211 Summit Drive
(250) 828.1070
Joshua Knaak

Kelowna

- 1674 Bertram Street
  (250) 862.8008
  Bob Brown
- *Kelowna Industrial*
  101, 1505 Harvey Avenue
  (250) 860.0088
  Jim Kruiper

Langley
100, 19915 - 64 Avenue
(604) 539.5088
Craig Martin

Nanaimo
101, 6475 Metral Drive
(250) 390.0088
Russ Burke

Prince George
300 Victoria Street
(250) 612.0123
David Duck

Richmond
4991 No. 3 Road
(604) 238.2800
Michael Yeung

Surrey

- *Panorama Ridge*
  103, 15230 Highway 10
  (604) 575.3783
  Greg Noga
- *Strawberry Hill*
  1, 7548 - 120 Street
  (604) 591.1898
  Bob Duffield

Victoria
1201 Douglas Street
(250) 383.1206
Bob Granger

Saskatchewan

Regina
100, 1881 Scarth Street
The Hill Center Tower II
(306) 757.8888
Kelly Dennis

Saskatoon

- *City Centre*
  244 - 2 Avenue
  (306) 477.8888
  Ron Kowalenko
- *North Landing*
  101, 2803 Faithfull Avenue
  (306) 244.8008
  Dwayne Demeester

Yorkton
45, 277 Broadway Street East
(306) 782.1002
Barb Apps

Manitoba

Winnipeg

- *Winnipeg*
  230 Portage Avenue
  (204) 956.4669
  Robert Bean
- *Winnipeg Business Centre*
  1525 Buffalo Place
  (204) 452.0933
  Christopher Voogt

Canadian Direct Financial

- Edmonton
  2200, 10303 Jasper Avenue
  (780) 441.2249
  www.canadiandirectfinancial.com

Canadian Western Trust

- Calgary
  310, 606-4 Street S.W.
  (403) 717.3145
- Edmonton
  3000, 10303 Jasper Avenue
  (780) 969.8332
- Toronto
  1800, 130 King Street West
  (416) 360.1301
- Vancouver
  600, 750 Cambie Street
  (604) 685.2081

Optimum Mortgage

- Edmonton
  3000, 10303 Jasper Avenue
  (780) 423.9748
  (Representation across Western Canada and in Ontario)

Canadian Direct Insurance

- Edmonton
  500, 10115 - 100A Street
  (780) 413.5933
- Vancouver
  600, 750 Cambie Street
  (604) 699.3678

Valiant Trust

- Calgary
  310, 606-4 Street S.W.
  (403) 233.2801
- Edmonton
  3000, 10303 Jasper Avenue
  (780) 441.2267
- Toronto
  710, 130 King Street West
  (416) 360.1481
- Vancouver
  600, 750 Cambie Street
  (604) 699.4880

Adroit Investment Management

- Edmonton
  1250, 10303 Jasper Avenue
  (780) 429.3500

National Leasing

- Winnipeg
  1525 Buffalo Place
  (204) 954.9000
  (Representation across all provinces and territories in Canada)

Canadian Western Financial

- Edmonton
  3000, 10303 Jasper Avenue
  (780) 423.8888

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