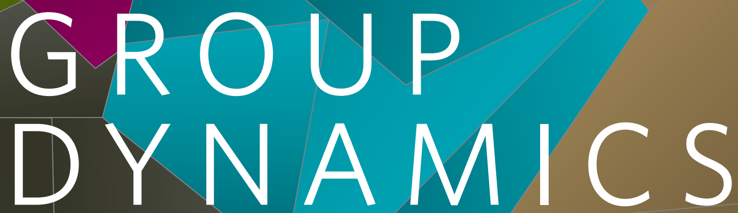
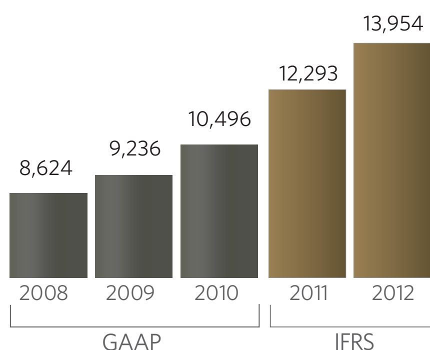
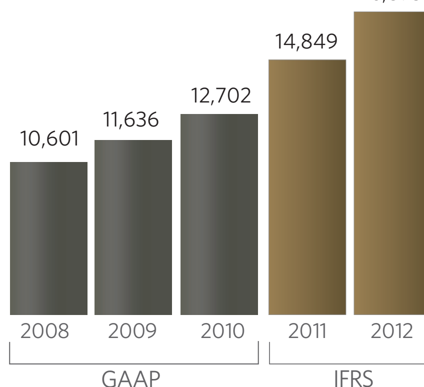


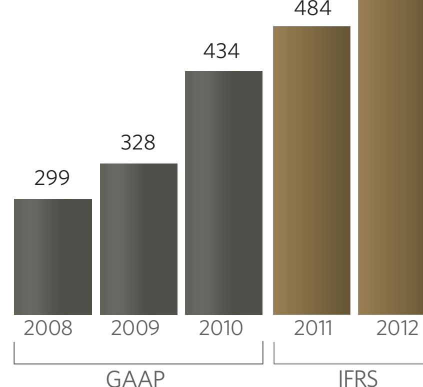
CANADIAN WESTERN BANK GROUP
2012 ANNUAL REPORT

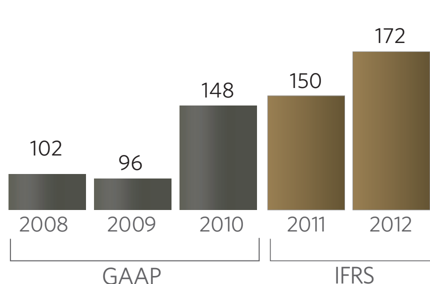
FINANCIAL PERFORMANCE SUMMARY[1]

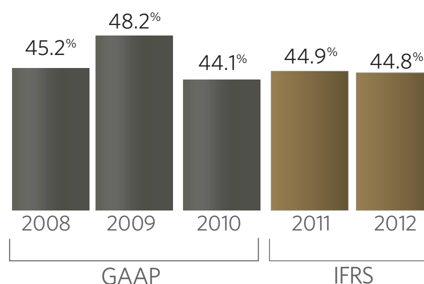
cwbankgroup.com

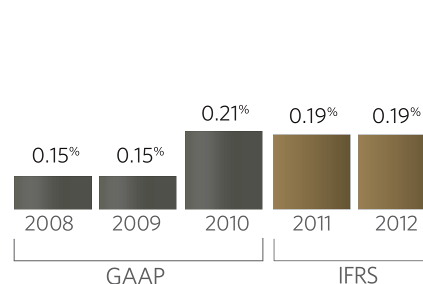












[1] As of 2011, financial results are reported under International Financial Reporting Standards (IFRS), as opposed to Canadian Generally Accepted Accounting Principles (GAAP), and may not be directly comparable.

Performance Targets	2012 Minimum Targets	2012 Performance	2013 Minimum Targets
Net income available to common shareholders growth	10%	**15%**	8%
Total revenue (teb) growth	7%	**9%**	8%
Loan growth	10%	**14%**	10%
Provision for credit losses as a percentage of average loans[1]	0.20 to 0.25%	**0.19%**	0.18 to 0.23%
Efficiency ratio (teb)[2]	46%	**44.8%**	46%
Return on common shareholders' equity[3]	15%	**15.0%**	14%
Return on assets[4]	1.05%	**1.08%**	1.05%

[1] Provision for credit losses divided by average total loans.
[2] Efficiency ratio (teb) calculated as non-interest expenses divided by total revenues (teb), excluding the non-tax deductible change in fair value of contingent consideration.
[3] Return on common shareholders' equity calculated as net income available to common shareholders divided by average common shareholders' equity.
[4] Return on assets calculated as net income available to common shareholders divided by average total assets.

Canadian Western Bank Group at a Glance

CWB Group
Employees[†]: 2,000+
Clients: 600,000+
Total assets: $16.8 billion+
CEO: Larry M. Pollock
Chair: Allan W. Jackson

Canadian Western Bank
Employees[†]: 1,250+
Consecutive profitable quarters: 98
Number of branches: 41
Number of commercial accounts: 15,000+

Canadian Western Bank (CWB), along with its affiliate companies and operating divisions, comprise CWB Group

Operating Division

Optimum Mortgage
Employees[†]: 45+
Total mortgages: $1,090 million+
Number of client mortgages: 3,700+

Subsidiary (Affiliate) Companies

Canadian Western Trust
Employees[†]: 65+
Investment accounts: 48,000+
Total assets under administration: $6.9 billion+

Canadian Western Financial
Mutual fund representatives: 125+
Number of mutual fund clients: 3,700+

Adroit Investment Management
Employees[†]: 10+
Total assets under management: $855 million+
Number of client relationships: 300+

Canadian Direct Insurance
Employees[†]: 300+
Number of policies outstanding: 190,000+
Annual gross written premiums: $134 million+

Valiant Trust
Employees[†]: 45+
Client appointments in 2011: 560+
Number of clients: 320+

National Leasing
Employees[†]: 280+
Total leases under management: $890 million+
Number of leases outstanding: 62,000+

Operating Division

Canadian Direct Financial
Established: 2008
Client deposits: $177 million+
Provinces and territories in Canada where products are offered: 12

[†] Includes both full- and part-time employees

CANADIAN WESTERN BANK

Canadian Western Bank (CWB) is the largest publicly traded Canadian bank headquartered in Western Canada. CWB Group is comprised of CWB, its five affiliate companies: National Leasing; Canadian Direct Insurance (CDI); Canadian Western Trust (CWT); Valiant Trust; and Adroit Investment Management, and its two operating divisions: Canadian Direct Financial (CDF); and Optimum Mortgage. Together, CWB Group offers a wide range of business and personal banking, trust, insurance and wealth management services across Canada. CWB Group's vision and mission set our strategic direction and act as a guide for how we make decisions and serve our clients.

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

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

- Entrepreneurial approaches to assist clients and consistently grow our banking, leasing, trust, insurance and wealth management businesses;
- Best-in-class client experiences that are responsive, resourceful and realistic;
- Relevant financial products that fit with our 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.

TABLE OF CONTENTS

Financial Performance Summary 1
CWB Group at a Glance 2
Introduction 3
Table of Contents 3
Message from the CEO – Larry Pollock 4
Interview with the President – Chris Fowler 6
Interview with the Chair – Allan Jackson 8
20-year Performance Highlights 10
Executive Committee & Senior Officers 13
Governance Structure, Updates & Initiatives 14
Board of Directors 16
Management's Discussion and Analysis 17
Financial Statements 64
Shareholder Information 110
Award of Excellence Recipients for 2012 111
Eco Audit 111
Locations 112

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER (CEO)

"We achieved record financial performance and strong growth amidst very challenging market conditions."

Larry Pollock, CEO

With fiscal 2012 now behind us, I take great satisfaction in reporting that we achieved record financial performance and strong growth amidst consistently challenging market conditions. While talk of global uncertainties and slow economic growth permeated the headlines once again, we continued to do what we've done over the past 20-plus years: profitably and responsibly grow our businesses while adding value for our stakeholders. Record results were driven by strong double-digit loan growth, steadily improved credit quality and meaningful contributions from our complementary businesses. Managing the combined impact of very low interest rates and competitive factors was perhaps our greatest challenge this year as we continued to face pressure on net interest margin. Once again, our unique, growth-focused business has proven to be one of the most consistently profitable in the Canadian financial industry, as demonstrated by the achievement of the Bank's 98th consecutive profitable quarter.

Capital and liquidity regulatory requirements will change under Basel III, and we will ensure CWB Group's business strategy continues to be focused on producing strong and consistent results for our shareholders, while complying with these new standards. One important component of our strategy includes a commitment to steadily develop our infrastructure and technology to both enhance growth and increase efficiencies. Infrastructure highlights this year include a beautiful new branch in Winnipeg, which adds to our presence in Manitoba. In Saskatchewan, we are relocating our Regina branch and are also building a new, much larger location in the growing city of Yorkton. Our flagship main branch in Edmonton will be relocated to a significantly larger location, while our St. Albert branch is also expanding to improve our presence in that city.

Some other highlights in 2012 included Optimum Mortgage surpassing $1 billion of total loans, exceptional growth and profitability in our Equipment Finance Group and steadily growing contributions from National Leasing. The progression of and contributions from the retail side of our business, which is mainly focused on raising branch and trust deposits, was also very impressive this year. Deposit growth was further augmented by the ongoing development of Canadian Direct Financial, our Internet-based division of the Bank, which we believe can add much more significant strategic value moving forward. In addition, we further enhanced and diversified our funding capabilities through highly successful offerings of CWB senior deposit notes in the debt capital markets.

As always, CWB Group's many notable achievements were entirely owing to our dedicated staff and their collective commitment to delivering exceptional client services, which I believe are second to none. I would like to personally thank each and every one of our employees for their invaluable contributions, and their continued dedication in 2013 and beyond.

As many of you know, I will be stepping down as CWB's CEO in March 2013 at our Annual Meeting of Shareholders. I am proud to say that I am truly fortunate to have had the opportunity to participate in the spectacular growth and development of this organization from its infancy. When I first joined in 1990, we had a $16 million market capitalization, which has grown today to reach more than $2.3 billion. Our balance sheet is comprised of nearly $17 billion of high quality assets, and, on an apples-to-apples comparison, I believe we have the strongest capital base in the Canadian banking industry. Our expansion into small-ticket leasing (National Leasing), insurance (Canadian Direct), trust services (Canadian Western Trust and Valiant Trust) and wealth management (Adroit) has resulted in very meaningful contributions toward CWB Group's performance and diversification, as well as our award-winning corporate culture. I am also very proud of CWB's history of maintaining one of the strongest growth profiles and lowest loan loss records in the industry.

So as I step away, I am leaving our shareholders with a proven and highly dedicated management team, as well as a rock-solid balance sheet. I say with complete confidence that CWB Group has never been stronger. We have more than 2,000 tremendous, innovative people who gain genuine satisfaction from both helping our clients and exceeding expectations. I am so very proud of them all. Our succession will be internal and Chris Fowler will provide excellent leadership as he transitions to the role of CEO. He is one of us, has lived the culture and has been a key to our success for more than 21 years. The senior management team remains intact, as does their collective wealth of experience. I would like to thank our shareholders for investing in CWB Group, and our dedicated employees, our Board and the many thousands of great clients who borrow, deposit, invest and choose to do business with us.

In conclusion, the greatest satisfaction in my career has been the privilege of working with such a tremendous group of people, some of whom are retired, some of whom have passed on, but many more who remain committed to taking CWB Group to the next level of its development. To our employees, clients and others, I will remember you forever for affording me the opportunity to work in such a dynamic workplace - and through it all, we had a whole lot of fun!

Thank you very much for fulfilling all of my business goals and dreams beyond anything I could have imagined.

Sincerely,

Larry Pollock
Chief Executive Officer

AN INTERVIEW WITH THE PRESIDENT, CHRIS FOWLER

The title of this year's Annual Report is "Group Dynamics." What makes CWB Group a dynamic company?

We are dynamic in many ways, but it really boils down to our people and the passion they bring to their work each day. Our culture is entrepreneurial, which allows us to be highly responsive and flexible when making decisions. Maintaining our strong track record of growth also requires that we adapt and constantly evolve our businesses to ensure we maintain our competitive advantages, and continue to meet the needs of our clients and other stakeholders. This has been instrumental in our ability to thrive in all operating environments, including the current period of very low interest rates, the ups and downs of credit cycles and the challenges of the global financial crisis that began in 2008.

CWB Group had another year of record financial performance in 2012. What were some of the organization's most notable accomplishments?

Our most significant financial accomplishment was the continuation of strong, profitable growth despite a challenging operating environment. We met or exceeded all of our 2012 performance targets. However, the combination of very low interest rates, a flat yield curve, and competitive pressures continued to materially impact our net interest margin, which was ultimately reflected in constrained revenue growth compared to what would be expected in a more normal historical environment. We were pleased to finalize the Bank's ownership of National Leasing in the third quarter. We're also very proud of our placement among Canada's 50 Best Employers for a seventh consecutive year, an accomplishment that was announced in November 2012. Our collective commitment to offering exceptional levels of service is one of CWB Group's key competitive advantages, and our group of highly dedicated and enthusiastic employees continually demonstrate this through their invaluable contributions.

"We are **dynamic** in many ways, but it really boils down to our people and the passion they bring to their work each day."

Chris Fowler, President and Chief Operating Officer

You were recently appointed as CWB Group's President. What is your vision for the future and how are you positioning CWB Group to achieve that vision?

CWB Group's vision is to be seen as crucial to our clients' futures. This reflects our desire to be viewed by clients as a highly valued and strategic financial partner. Every client has different needs, and our vision requires that we are equipped to recognize those needs and focus on offering our clients the financial services that add the most value for them. One example could include a full business banking relationship, where we also provide personal banking, wealth management and trust services. However, it's equally applicable in circumstances where we simply provide equipment financing for a business that requires assistance with its capital expenditures. In either case, our goal is to be the partner of choice for our clients in the areas where we have proven expertise.

We are communicating and acting to achieve this vision across every corner of our business. Our collective commitment to exceed expectations needs to be cemented in our approaches with clients, the way we interact with our fellow employees and how we get involved in the communities where we operate. The achievement of our vision also requires a high degree of trust, and we will continue to focus on building strong business relationships.

You have worked with Larry Pollock and several members of CWB Group's senior management team for more than 20 years. How has this prepared you to lead CWB Group into the future?

I have benefited over many years by working closely with members of senior management, both past and present, who have tremendous amounts of experience and a long history of success. Our existing management team remains in place and we all share common goals, have deep mutual respect and work very well together. I have also learned a lot from Larry, who has been a highly valued mentor for me for many years. I believe my breadth of experience and knowledge of different facets of our business gives me the necessary perspectives to further enhance our culture and continue leading CWB Group's growth story. I have transitioned over my career from generating business myself to becoming a facilitator for all of our businesses. I am now responsible for cultivating a work environment where everyone can be successful. It is my job to make sure our entire group of companies works together on behalf of our clients, shareholders, communities and other stakeholders. This objective forms the basis of our strategic theme to *make the whole worth more than the sum of the parts*.

Where do you see the greatest opportunities for growth across CWB Group's lines of business?

We have a strong presence in all of our key western Canadian markets, but there is still substantial room for growth. The same can be said for each company of CWB Group. Our continued investment in people, infrastructure and technology will position us to better manage the development of our businesses and enhance CWB Group's capacity to deliver our clients a more comprehensive suite of relevant products and services. I believe this creates tremendous potential to extend more financial offerings to our existing clients, while also attracting new business.

We have a strategic focus and desire to grow sources of non-interest revenue in both the Bank and our complementary companies. While we won't sway from our primary geographical focus in Western Canada, we see meaningful potential in extending more of our business offerings to the rest of Canada, particularly in Ontario. By necessity, most of the very large Canadian banks have global growth strategies, but we still have significant untapped markets right here within our borders. Effectively managing risks, including the challenges of ongoing regulatory change, is also a top priority for us.

CWB Group has an award-winning culture. How does the culture impact business success?

The basis of our organizational culture was established by our founders' belief that building strong relationships was key to business success. They further believed that maintaining our headquarters and core presence in Western Canada would prove to be a sustainable competitive advantage in the banking industry – and they were right. We are committed to being an employer of choice, and we work to foster an environment where our employees know they make a difference. We also believe it resonates strongly when building client relationships if you have highly satisfied and engaged people. Our culture is crucial to CWB Group's success, and we will continue to nurture this core advantage going forward.

What major investments are being made to better position CWB Group for the future?

In addition to ongoing investment in our key assets – the people who work here – over the past five years we have undertaken an extensive redevelopment of both our technology and infrastructure. I'm pleased to say that we are now positioned to begin realizing more of the benefits of these investments, such as those offered by the new loan origination system we implemented in 2011. We just launched a major program to replace our core banking system, which is expected to be completed by the second half of 2015. This will create many additional advantages, as well as business flexibility for us. In particular, it will augment our ability to benefit from economies of scale and help us better understand our client relationships so we can further enhance our service offerings. Together with the loan origination system, the core banking system is a critical component to collect and disseminate the data we need for an eventual transition to an advanced internal ratings based (AIRB) approach for calculating risk-weighted assets. Although it will be subject to regulatory approval, the implementation of an AIRB methodology will not only help us better manage our credit portfolio as we continue to grow, it will give us additional flexibility with regard to managing regulatory capital.

What are your expectations for CWB Group in 2013 and beyond?

Our primary goal is to meaningfully grow our earnings and assets while continuing to strategically invest in CWB Group's future. This goal is partly reflected in our 2013 target for another year of high quality, double-digit loan growth, which we will continue to support with our proven underwriting capabilities. CWB's solid capital position has us well positioned to manage the upcoming transition to Basel III. We are also working hard to better define key performance indicators for certain parts of our businesses to enhance our strategic planning, implementation and measurement processes. Finally, given that we are experiencing a shift in executive leadership, one of my primary commitments is to ensure that we continue developing and supporting our culture and our great team of employees. The way I see it, CWB Group has incredible potential. For our team, our clients and our shareholders, I am extremely excited about what the future holds.

AN INTERVIEW WITH THE CHAIR, ALLAN JACKSON

As Chair of the Board of Directors (the Board), how would you summarize the Board's main areas of focus over the past year?

As Chair, my goal is to ensure the effectiveness of our Board as we collectively oversee management of the organization. While our Board sets the tone for CWB Group's strategic direction, the management team is ultimately responsible for making it happen. When I look back over the past year, working on our transition plan for a new CEO continued to be a headline topic, but it was something that our Board has been focused on for quite some time. There was also heightened focus at both the Board and management levels on various aspects of risk management. While effective risk management has always been a fundamental objective for CWB Group, evolving governance practices combined with the organization's growth, in terms of both size and complexity, has required us to look at certain things through slightly different lenses.

Can you give us some additional perspective on the Board's view of risk management, evolving governance practices and the changing regulatory landscape?

This year we worked to better align our risk management practices with an enterprise-wide risk framework. One of our Board's top priorities is to maintain a comprehensive approach to risk. We also need to ensure that we have the right tools, people and processes in place to effectively deliver on this part of our mandate. Progress continued in 2012 on the formalization and approval of a Group-wide risk management framework.

One of the significant developments faced by all financial institutions worldwide lies in the ongoing use of sophisticated computer models to assess risk. While these models are wonderful tools to assist with risk management, they should never be relied upon as a substitute for good judgment. CWB Group has never lost sight of the importance of good judgment, and we will ensure this continues to be the case going forward.

We continually evaluate best practices for governance and take a prudent approach in assessing, or adopting, these practices in the context of what we believe are in the best interests of CWB Group and its shareholders. In 2012, we completed enhancements to our self-assessment process to help confirm the effectiveness of the Board, our committees and the performance of individual directors.

Managing the impact of ongoing regulatory changes is the "new normal" for all financial institutions globally, including CWB Group. Given the importance of this topic and the implications of changing regulations on our businesses, we remain abreast of pending changes, as well as their potential impacts. At our request, representatives from the Office of the Superintendent of Financial Institutions (OSFI) gave our Board a summary of the evolving regulatory landscape on two separate occasions this year. I'm very pleased to confirm that CWB Group is well positioned for the forthcoming transition to the Basel III regulatory capital framework in 2013.

You mentioned the Board's emphasis on ensuring an effective CEO transition when Larry Pollock steps down; can you provide some details about the Board's approach to this?

The Board undertook an extensive planning process over the past several years to determine Larry's successor. We looked broadly at the marketplace and closely considered the needs of our organization, both today and in the future. Resoundingly, the Board decided Chris Fowler is the right person to lead CWB Group, our growth and our people going forward. He is also the right person to ensure we uphold our invaluable organizational culture. Accordingly, in August of this year, we appointed Chris to the role of President, in addition to Chief Operating Officer (COO). Larry will continue as CEO until our Annual Meeting of Shareholders in March 2013. After that date, Chris will formally take on the role of President and CEO.

Can you explain why the Board chose Chris Fowler to lead CWB Group going forward?

Chris has been with us for more than 21 years, and has been a key part of our executive management team for the past six years. As our COO, he was instrumental in creating the current strategic business plan for CWB Group, and has always impressed our Board members with his thoughtful vision of the organization's future. In many respects, choosing Chris was an easy decision. He is a principled leader who is highly motivated and enthusiastic about the opportunity to take CWB Group to the next level of its development. Chris is a team player who possesses the qualities and attributes our employees, clients, investors and the marketplace expect of the senior leader of our growing group

of companies. I believe Chris personifies our culture: he is intelligent, kind, responsive, dedicated, humble, collaborative, a smart thinker and is always focused on doing the right thing for the right reasons. He has the complete confidence and support of the directors, and I am personally very excited to watch him deliver in his new role.

How has Larry Pollock influenced CWB Group's success and will he have an on ongoing role in the organization in the future?

As a Board, we cannot express enough appreciation for Larry's amazing contributions and his strong leadership role in helping build CWB Group to what it is today. He has been our President and CEO for 22 years and has been instrumental in our growth from a small, regional bank into a multi-faceted financial services firm that does business across the country. What a tremendous legacy he has given us. In addition to our achievement of consistently strong financial performance, Larry's leadership is defined by two other achievements that are just as impressive. First, he spearheaded the development of a workplace culture for CWB Group that is envied by companies across Canada. Second, Larry assembled an incredibly talented and effective senior management team that has been equally crucial to our success. This team is ready to continue to deliver and support our incoming CEO in his new role. The exceptional performance and depth of current executive and senior management was a deciding factor in our selection of Chris as CWB Group's next leader.

Larry has a two-year employment agreement to serve the organization in an advisory capacity, as requested by the executive team and the Board. We are fortunate that Larry has agreed to stay involved with CWB Group, as his ongoing support and insight will be invaluable.

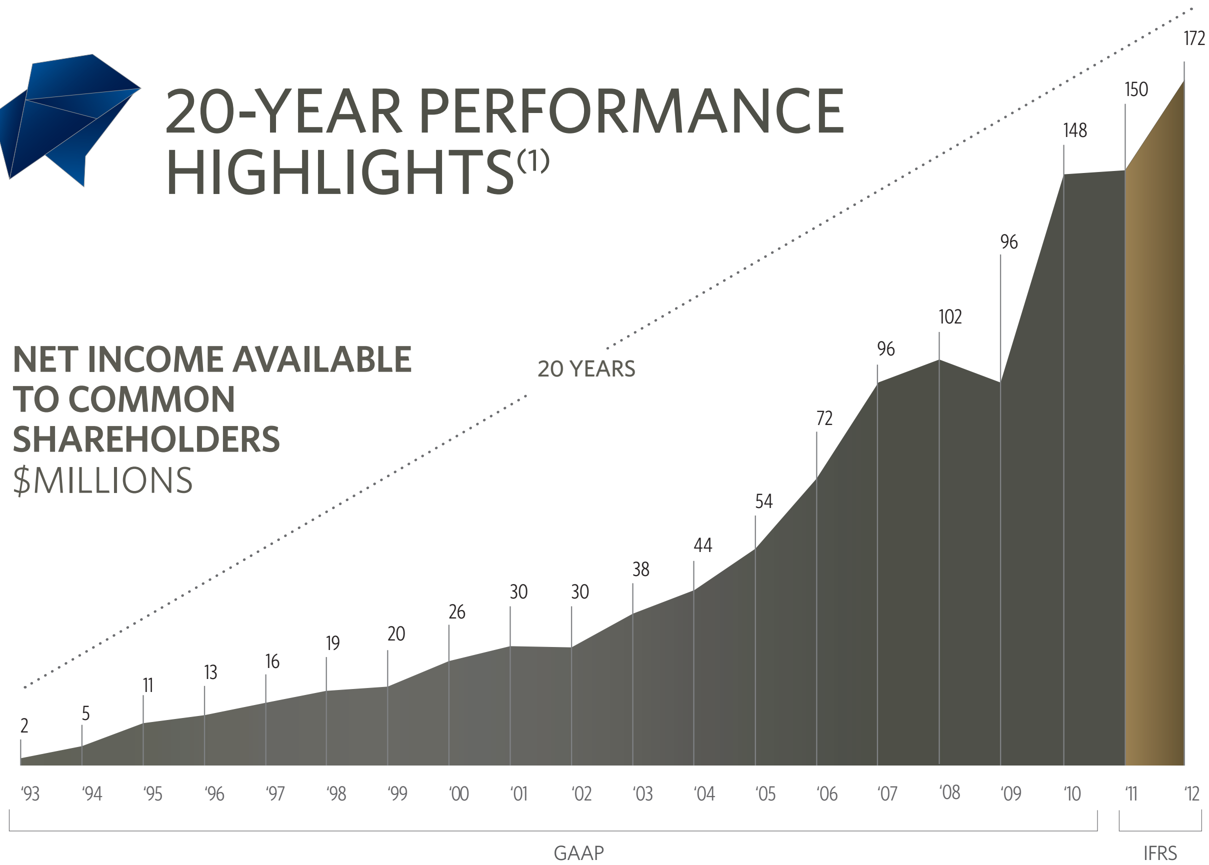
"We continually evaluate best practices for governance and take a prudent approach in assessing, or adopting, these in the context of what we believe are in the best interests of CWB Group and its shareholders."

Allan Jackson, Chair of the Board

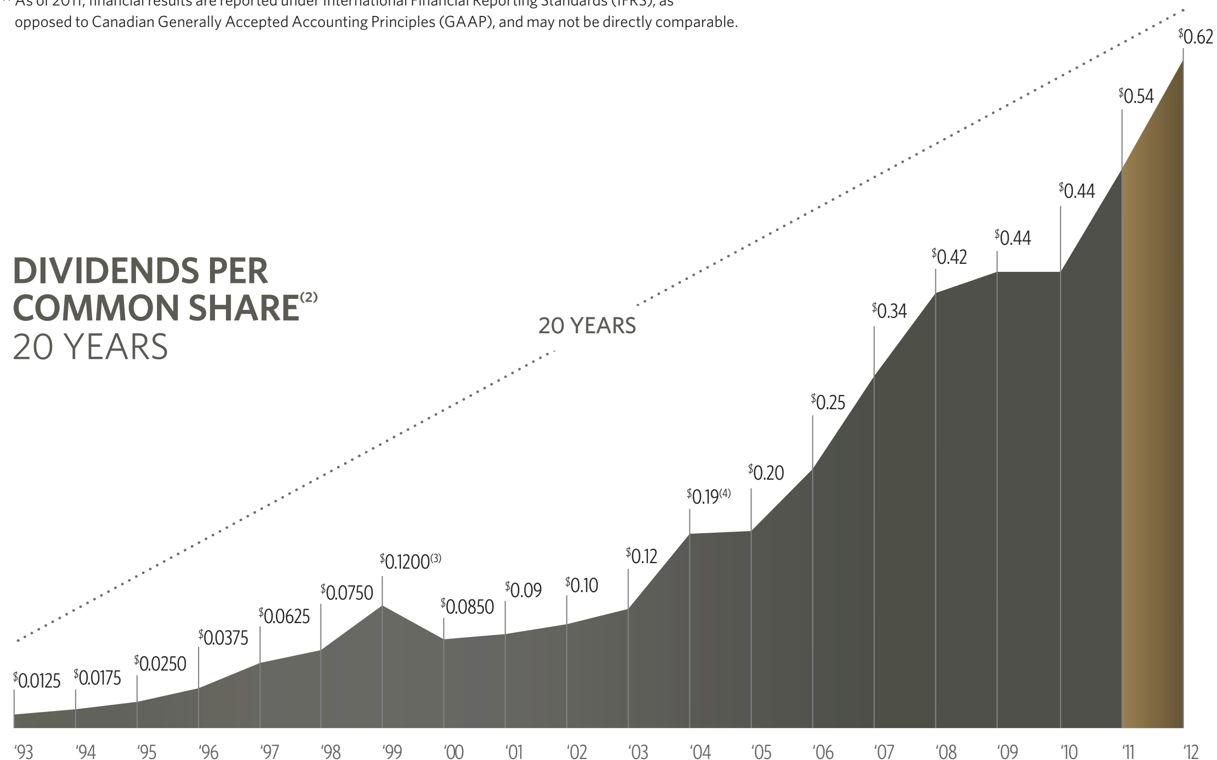
So what does CWB Group's strong financial position and the forthcoming change in leadership mean for the organization and its shareholders?

In almost all respects, it's business as usual. Like every other day, the collective goal of the Board, management and all other CWB Group employees is to continue to work together to profitably grow our businesses by supporting both our clients and each other. It's an exciting time for all of us as a new leader brings forth his ideas and vision for building on the success of CWB Group, and tapping further into its significant potential.

20-YEAR PERFORMANCE HIGHLIGHTS[1]



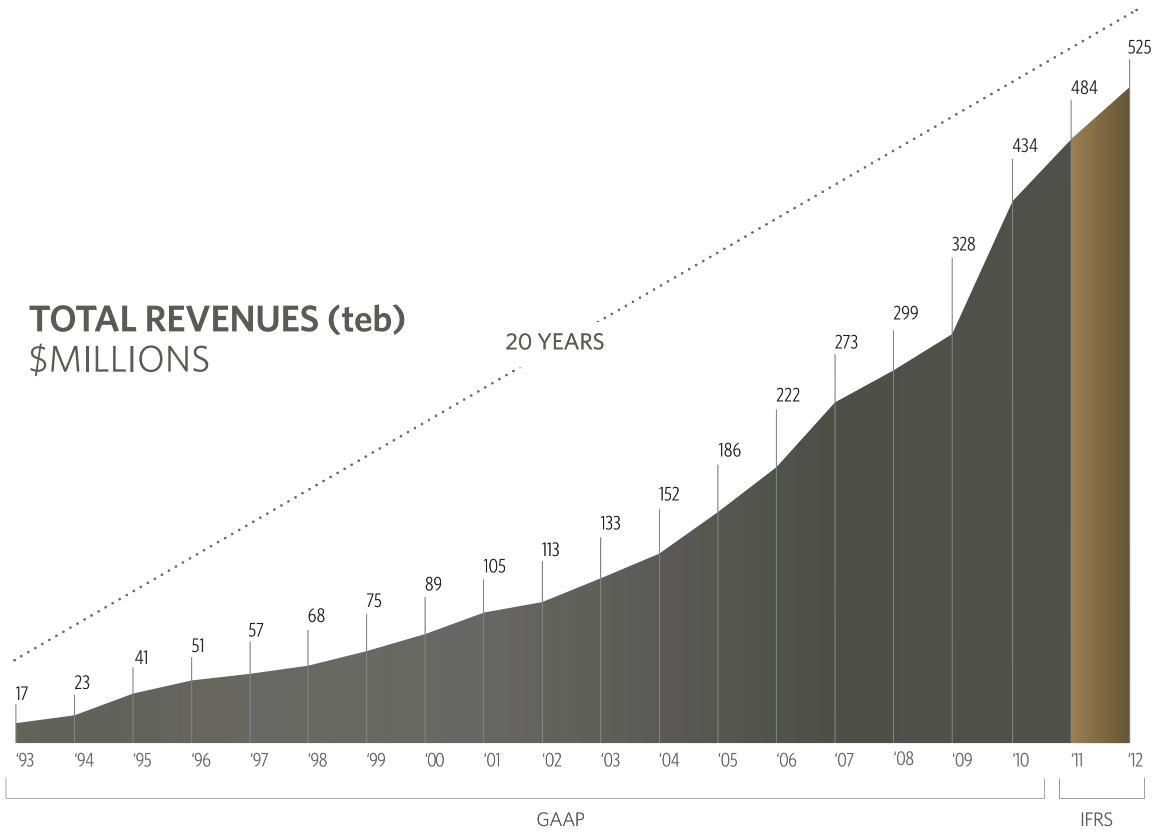
(1) As of 2011, financial results are reported under International Financial Reporting Standards (IFRS), as opposed to Canadian Generally Accepted Accounting Principles (GAAP), and may not be directly comparable.

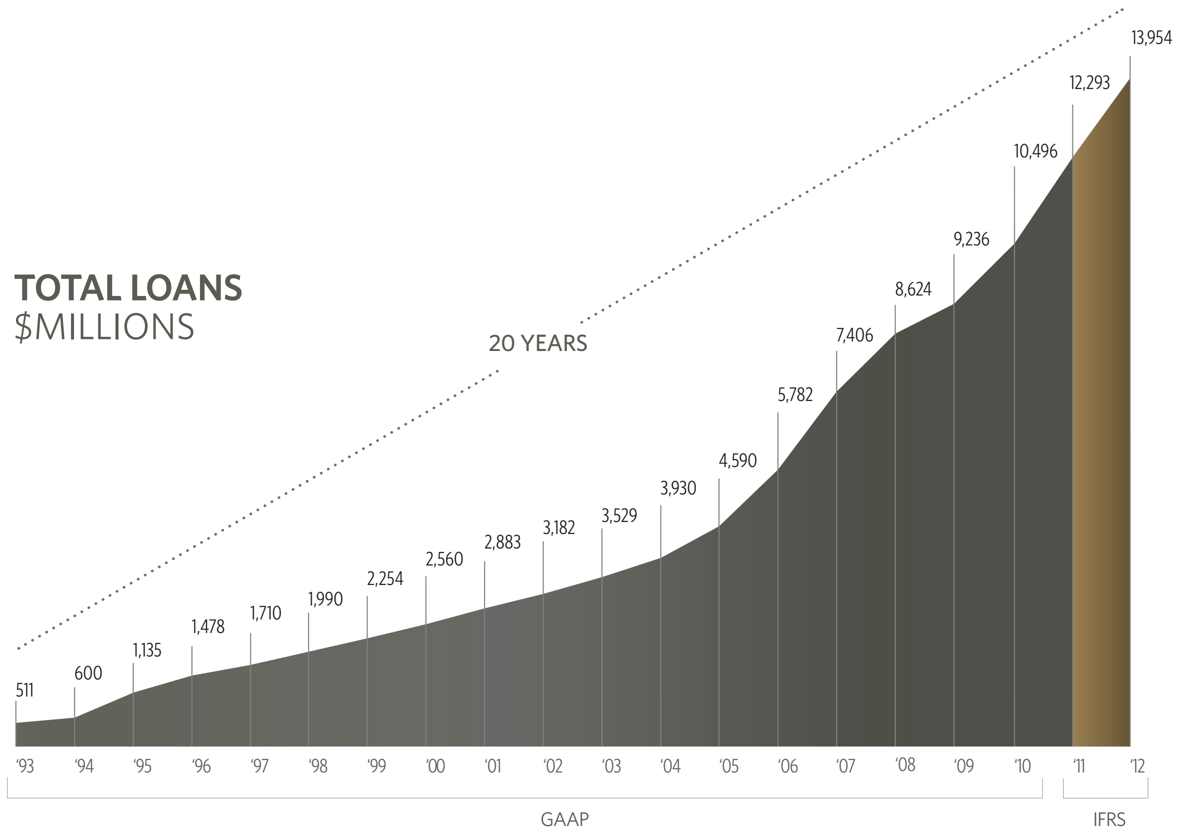


(2) Dividends are adjusted for stock dividends effecting a two-for-one split of CWB's common shares in both 2005 and 2007.

(3) Includes the last annual dividend and one semi-annual dividend.

(4) Includes the last semi-annual dividend and three quarterly dividends.


TOTAL REVENUES (teb)
$MILLIONS
20 YEARS
17
23
41
51
57
68
75
89
105
113
133
152
186
222
273
299
328
434
484
525
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
'04
'05
'06
'07
'08
'09
'10
'11
'12
GAAP
IFRS


TOTAL LOANS
$MILLIONS
20 YEARS
511
600
1,135
1,478
1,710
1,990
2,254
2,560
2,883
3,182
3,529
3,930
4,590
5,782
7,406
8,624
9,236
10,496
12,293
13,954
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
'04
'05
'06
'07
'08
'09
'10
'11
'12
GAAP
IFRS

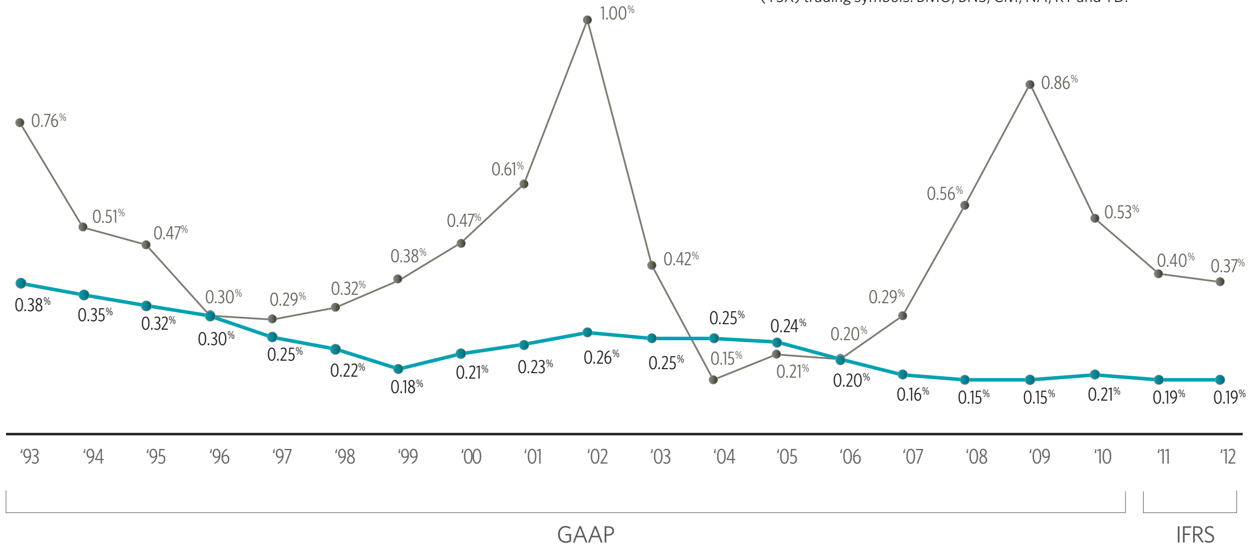
PROVISION FOR CREDIT LOSSES

20 YEARS

● CWB Group

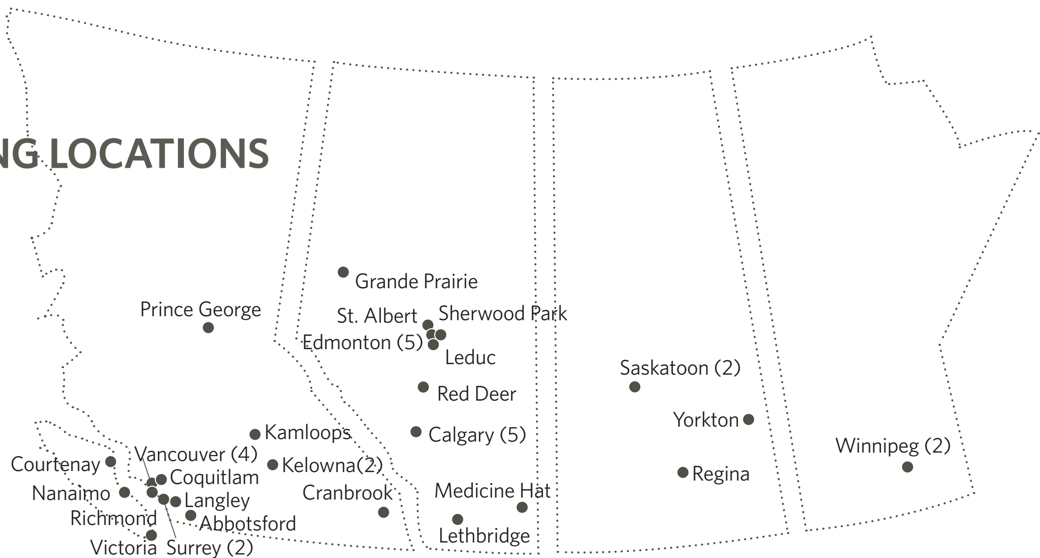
● Average of six largest Canadian banks(5)

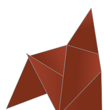
(5) Average of the six largest Canadian banks is calculated based on information contained in the publicly available company reports of the following Toronto Stock Exchange (TSX) trading symbols: BMO, BNS, CM, NA, RY and TD.



CWB BANKING LOCATIONS

● Banking location





EXECUTIVE COMMITTEE & SENIOR OFFICERS

CWB Group Executive Committee
- Larry M. Pollock
  Chief Executive Officer
- Chris H. Fowler
  President and
  Chief Operating Officer
- William J. Addington, FCMA
  Executive Vice President
- Tracey C. Ball, FCA, ICD.D
  Executive Vice President and
  Chief Financial Officer
- Randy W. Garvey, FCMA
  Executive Vice President
- Brian J. Young
  Executive Vice President

CWB Group Senior Officers
Corporate Officers
- Richard R. Gilpin
  Senior Vice President
  Credit Risk Management
- Ricki L. Golick
  Senior Vice President and
  Treasurer
- Carolyn J. Graham, FCA
  Senior Vice President and
  Chief Accountant
- Gail L. Harding, Q.C.
  Senior Vice President,
  General Counsel and
  Corporate Secretary
- Darrell Jones
  Senior Vice President and
  Chief Information Officer
- Uve Knaak
  Senior Vice President,
  Human Resources
- Jack C. Wright
  Senior Vice President

Commercial and Retail Banking
- Michael N. Halliwell
  Senior Vice President and
  Regional General Manager
- Gregory J. Sprung
  Senior Vice President and
  Regional General Manager
- Glen Eastwood
  Senior Vice President and
  Regional General Manager

National Leasing
- Nick R. Logan
  President and
  Chief Executive Officer

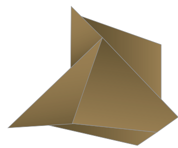
Trust Services
- **Canadian Western Trust**
  Matt Colpitts
  Vice President and
  General Manager
- **Valiant Trust**
  Jay Campbell
  General Manager

Canadian Direct Insurance
- Brian J. Young
  President and
  Chief Executive Officer

Adroit Investment Management
- David Schuster
  President and
  Chief Executive Officer

Ombudsman
- R. Graham Gilbert

We are
responsible
for developing and monitoring CWB Group's governance structure, overseeing risk management and fostering a culture of ethical conduct and accountability.



GOVERNANCE STRUCTURE, UPDATES & INITIATIVES

Effective corporate governance is critical in the sound functioning of a financial institution. CWB's Board of Directors (the Board) is responsible for developing and monitoring CWB Group's governance structure, overseeing risk management and fostering a culture of ethical conduct and accountability. By focusing on risk oversight, supporting a culture of integrity, and favouring long-term sustainable profitability over short-term gain, the Board protects and enhances shareholder value.

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 is taken. As part of this oversight, in 2012, the Board approved CWB's Risk Framework and management is required to provide the Board with quarterly progress updates.

Composition

Members of the Board have been carefully selected for their expertise in financial services or in key markets in which CWB operates. During fiscal 2012, the Board was composed of fourteen business and community leaders whose diverse backgrounds and experiences are invaluable in developing the CWB Group's strategic direction. Thirteen of the fourteen directors are independent. Mr. Pollock, CWB's CEO is the only non-independent member of the Board. It is a regulatory requirement for a bank's CEO to serve on its board.

As CWB Group grows and evolves, the demands on the Board also evolve. To this end, the Board assesses, in alternating years, the functioning of the Board and the skills of individual directors. These assessments ensure that the Board maintains an appropriate complement of skills, experiences and qualifications. In recent years, the Board's assessment methodology has been evaluated and strengthened. As a result of the most recent Board assessment, in December 2012, Andrew Bibby was appointed as the Board's fifteenth member. The Board believes Mr. Bibby's expertise in real estate will be a valuable complement to the Board's set of skills.

Oversight

The Board has implemented a committee structure to assist it in its governance role. Four committees made up of directors who report directly to the Board, are given specific oversight roles over the CWB Group. Full mandates of each committee, as well as the Board mandate, can be found in the Corporate Governance section of the CWB Group website, cwbankgroup.com. Below is an abbreviated description of each committee's mandate:

- Audit Committee
  The Audit Committee assists the Board by reviewing and working with management on CWB Group's financial disclosure. To ensure the accuracy of CWB Group's financial reporting, the Committee is also responsible for overseeing CWB Group's internal controls.

- Governance Committee
  The Governance Committee's role is to review existing governance practices and ensure they align with legal requirements, regulatory requirements and industry best practices. It is also responsible for nominating and recommending compensation for directors. This Committee acts as the conduct review committee under the Bank Act.

- Human Resources Committee
  The Human Resources Committee oversees CWB Group's human capital. The Committee works with CWB Group management to foster a culture of ethical conduct. The Committee also ensures that executive compensation is competitive and fair and that CWB Group's succession plans are adequate.

- Loans Committee
  The Loans Committee establishes lending policies and guidelines for CWB Group, and establishes lending limits for the Bank's management. This Committee is also responsible for evaluating and approving applications for loans above these limits.

Ethical Conduct
At CWB Group, ethical conduct is not only a legal and regulatory requirement but a core value that allows CWB Group to build and develop relationships with customers and other stakeholders in the communities in which CWB Group operates.

CWB Group has codes of conduct for its directors, officers and employees. Annually, each CWB Group director, officer and employee must review the appropriate code of conduct and certify that he or she has abided by the code. CWB Group's whistleblower policy allows for the anonymous reporting of complaints and concerns. Concerns and complaints, however raised, are investigated and appropriate action taken.

Compensation Programs
CWB Group's director and executive compensation policies are strongly aligned with governance best practices. For the past two years, CWB Group has asked shareholders to vote on the Board's approach to executive compensation. To further ensure that compensation is competitive and fair, the Human Resources Committee is authorized to seek the advice of an independent compensation advisor.

In addition, to align pay with risk management principles, directors and senior officers are required to maintain a minimum level of share ownership to encourage decision-making that aligns with the interests of shareholders. Compensation is linked to CWB Group's performance and a recoupment or "clawback" policy discourages short-term decision-making and excessive risk taking.

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.

For more information
The Board supports an open dialogue of ideas with shareholders. Shareholders may contact the Board directly about corporate governance issues by emailing chairoftheboard@cwbank.com. Additionally, the Corporate Governance section of CWB Group's website, cwbankgroup.com, contains more detailed information about CWB Group's practices.

Finally, shareholders are welcome to attend CWB Group's annual and special meeting of shareholders in March 2013 to meet with directors and senior management and to hear about CWB Group's future direction. Shareholders wishing to attend the shareholder meeting are encouraged to review CWB Group's management proxy circular for information on how they can attend and participate.

Corporate Governance Highlights

- The Board is led by a non-executive chairman to ensure independent leadership.
- Independent directors set time aside at each Board and Committee meeting to discuss issues without the presence of management.
- The Board and Committees have the power to retain independent advisors to assist them in fulfilling their mandates.
- Shareholders vote for individual directors rather than a slate of directors.
- Directors who receive more "withhold" than "for" votes from shareholders are required to tender their resignation for the Board's consideration.
- At CWB Group's 2012 annual shareholder meeting, the Board's approach to executive compensation was approved by 93.8% of votes cast by shareholders.
- The Board prioritizes ongoing director education by requesting presentations from management and outside experts.
- In 2012 the Board's self assessment process, which assesses the effectiveness of the Board, Committees and individual directors, was enhanced.
- In 2012, the Board focused on succession planning and named Chris Fowler as CWB Group's President and Chief Operating Officer.
- In 2012, the Board approved the CWB Risk Management Framework.

Board of Directors (Oct 31, 2012)

- 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 (Chair), President and 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, 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 and 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

17 BUSINESS PROFILE AND STRATEGY

20 GROUP FINANCIAL PERFORMANCE

20 Overview
23 Net Interest Income
24 Other Income
26 Non-interest Expenses and Efficiency
28 Income and Capital Taxes
28 Comprehensive Income
29 Cash and Securities
29 Loans
33 Credit Quality
36 Deposits
38 Other Assets and Other Liabilities
38 Liquidity Management
41 Capital Management
46 Financial Instruments and Other Instruments
46 Acquisitions
46 Off-balance Sheet Arrangements

47 SUMMARY OF QUARTERLY RESULTS AND FOUTH QUARTER

47 Quarterly Results
48 Fourth Quarter of 2012

49 ACCOUNTING POLICIES AND ESTIMATES

49 Critical Accounting Estimates
50 Changes in Accounting Policies
51 Future Changes in Accounting Policies

52 RISK MANAGEMENT

52 Overview
54 Credit Risk
56 Market Risk
58 Liquidity and Funding Risk
59 Capital Risk
60 Operational Risk
61 Reputation Risk
61 Regulatory Risk
61 Insurance Risk
62 Other Risk Factors

63 UPDATED SHARE INFORMATION

63 CONTROLS AND PROCEDURES

BUSINESS PROFILE AND STRATEGY

Canadian Western Bank (CWB or the Bank) offers a diverse range of financial services and is the largest publicly traded Schedule I 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. With a focus on mid-market commercial banking, real estate financing, equipment financing and energy lending, CWB's proven strategy is mainly based on building strong customer relationships and providing value-added services to businesses and individuals in Western Canada. The Bank also 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 primarily provided through a network of 41 client-focused branches in select locations across the four western provinces. Canadian Direct Financial® (CDF) is an Internet-based division of the Bank that offers a range of deposit and registered savings products directly to customers in all provinces and territories except Quebec. National Leasing specializes in commercial equipment leasing for small- and mid-sized transactions and is represented across all provinces of Canada. CWT provides trustee and custody services to independent financial advisors, corporations, brokerage firms and individuals. Optimum Mortgage, a division of CWT, underwrites and administers residential mortgages sourced through an extensive network of mortgage brokers located in Western Canada and select markets in Ontario. 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 technology, improving 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 strategic acquisitions;
- Supporting return on common shareholders' equity by maintaining strong operating performance, an efficient capital structure, and continued diversification into business areas with higher margins and 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 International Financial Reporting Standards (IFRS) and are presented in Canadian dollars.

The following pages contain management's discussion of the financial performance of CWB 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, Canadian Western Bank makes written and verbal forward-looking statements. Statements of this type are included in the Annual Report and reports to shareholders and may be included in filings with Canadian securities regulators or in other communications such as press releases and corporate presentations. Forward-looking statements include, but are not limited to, statements about the Bank's objectives and strategies, targeted and expected financial results and the outlook for the Bank's businesses or for the Canadian economy. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate", "may increase", "may impact", "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 level 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 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 2013 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 2013, management's assumptions included:

- Modest economic growth in Canada and relatively stronger performance in the four western provinces;
- Relatively stable prices for energy and other commodities compared to the levels observed at October 31, 2012;
- 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 the continuation of a very low interest rate environment, a flat interest rate curve, competitive factors and ongoing uncertainties about global economic conditions.

Potential risks that would have a material adverse impact on the Bank's current economic expectations and forecasts include a global economic recession spurred by unfavourable developments in the euro zone, the strength of economic recovery in the United States, a meaningful slowdown in China's economic growth, or a significant and sustained deterioration in Canadian residential real estate prices.

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 fiscal 2012 adjustment to taxable equivalent basis of $9.1 million (2011 – $11.0 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 IFRS 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, adjusted cash earnings per common share, return on common shareholders' equity, return on assets, efficiency ratio, net interest margin, tangible common equity to risk-weighted assets, common equity Tier 1, Tier 1 and total capital adequacy ratios, and average balances do not have standardized meanings prescribed by IFRS 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;
- Adjusted cash earnings per common share – diluted earnings per common share excluding the after-tax amortization of acquisition-related intangible assets and the non-tax deductible change in fair value of contingent consideration. These exclusions represent non-cash charges mainly related to the acquisition of National Leasing Group Inc. and are not considered to be indicative of ongoing business performance;
- Return on common shareholders' equity – net income available to common shareholders divided by average common shareholders' equity;
- Return on assets – net income available to common shareholders divided by average total assets;
- Efficiency ratio – non-interest expenses divided by total revenues excluding the non-tax deductible change in fair value of contingent consideration;
- Net interest margin – net interest income divided by average total assets;
- Tangible common equity to risk-weighted assets – common shareholders' equity less subsidiary goodwill divided by risk-weighted assets, calculated in accordance with Basel II guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI);
- Basel II Tier 1 and total capital adequacy ratios – in accordance with guidelines issued by OSFI;
- Basel III common equity Tier 1, Tier 1 and total capital ratios – in accordance with CWB's interpretation of the Basel III capital requirements and OSFI proposed guidance; and
- Average balances – average daily balances.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants has transitioned Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable entities to IFRS. The transition is applicable to 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, CWB's consolidated financial statements for the 2012 fiscal year are prepared in accordance with IFRS, including comparative information for 2011 and the opening transition balance sheet as at November 1, 2010. Unless otherwise noted, amounts reflected for 2010 and earlier are prepared in accordance with Canadian GAAP. Please refer to the Changes in Accounting Policies section of this MD&A for further information on the adoption of IFRS.

SEGMENT REPORTING

Commencing in the first quarter of 2012, operating results are presented as one segment – Banking and Financial Services – operating in one geographic region – Canada.

GROUP FINANCIAL PERFORMANCE

Overview

Highlights of 2012 (compared to 2011)

- Record net income available to common shareholders of $172.2 million, up 15%, and the achievement of the Bank's 98th consecutive profitable quarter.
- Very strong loan growth of 14%.
- Record diluted earnings per common share of $2.22, up 14% (adjusted cash earnings per common share of $2.30, up 6%).
- Record total revenues (teb) of $525.5 million, up 9%.
- Net interest margin (teb) of 2.79%, down 20 basis points.
- Improved credit quality as evidenced by relatively low write-offs and a provision for credit losses measured as a percentage of average loans of 19 basis points, unchanged from 2011.
- Ten consecutive quarterly reductions in the level of gross impaired loans.
- Return on common shareholders' equity of 15.0%, up 30 basis points.
- Return on assets of 1.08%, down one basis point.
- Efficiency ratio (teb) of 44.8%, an improvement of 10 basis points.
- A Basel II tangible common equity to risk-weighted assets ratio of 8.8%, up from 8.6%; a Tier 1 capital ratio of 10.6%, down from 11.1%; and a total capital ratio of 13.8%, down from 15.4%.
- Pro forma application of the all-in Basel III standards to the Bank's financial position at October 31, 2012 results in an estimated 8.1% common equity Tier 1 (CET1) ratio, 9.9% Tier 1 capital ratio and 13.1% total capital ratio.
- Cash dividends of $0.62 per share paid to common shareholders, up 15%.
- Total assets and total loans surpassed $16 billion and $13 billion, respectively.

TABLE 1 – SELECT ANNUAL FINANCIAL INFORMATION (1)
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	IFRS	IFRS	Canadian GAAP (4)	Change from 2011	
	2012	2011	2010	$	%
Key Performance Indicators					
Net income available to common shareholders	**$ 172,197**	$ 149,538	$ 148,413	$ 22,659	15%
Earnings per share					
Basic	**2.24**	2.07	2.26	0.17	8
Diluted	**2.22**	1.95	2.05	0.27	14
Adjusted cash (1)	**2.30**	2.17	2.09	0.13	6
Provision for credit losses as a percentage of average loans	**0.19%**	0.19%	0.21%		-bp (2)
Net interest margin (teb) (1)	**2.79**	2.99	2.74		(20)
Net interest margin	**2.73**	2.91	2.64		(18)
Efficiency ratio (teb) (1)(3)	**44.8**	44.9	44.1		(10)
Efficiency ratio	**45.6**	45.9	45.3		(30)
Return on common shareholders' equity	**15.0**	14.7	17.1		30
Return on assets	**1.08**	1.09	1.24		(1)
Other Financial Information					
Total revenues (teb) (1)	**$ 525,482**	$ 483,555	$ 434,259	$ 41,927	9%
Total revenues	**516,339**	472,496	423,073	43,843	9
Total assets	**16,873,269**	14,849,141	12,701,691	2,024,128	14
Debt	**634,273**	634,877	315,000	(604)	-
Dividends per common share	**0.62**	0.54	0.44	0.08	15

(1) See page 19 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.
(4) Financial information prepared under IFRS (2011 and 2012) and Canadian GAAP (2010) may not be directly comparable.

Record net income available to common shareholders of $172.2 million increased 15% ($22.7 million) over 2011 while diluted earnings per common share of $2.22 ($2.24 basic) was up 14% from $1.95 ($2.07 basic). Adjusted cash earnings per share, which is diluted earnings per share excluding the after-tax amortization of acquisition-related intangible assets and the non-tax deductible change in fair value of contingent consideration, was $2.30, up 6%. Record total revenues (teb) of $525.5 million grew 9% ($41.9 million) reflecting the combined benefit of very strong 14% ($1,660 million) loan growth and a 14% ($9.8 million) increase in other income, partially offset by a 20 basis point reduction in net interest margin (teb) to 2.79%. Margin contraction in the year mainly resulted from lower yields on loans and securities, as well as a slightly higher average liquidity level, partially offset by reduced fixed term deposit costs and lower debt expense. Lower asset yields reflect the combined impact of the sustained very low interest rate environment and a flat interest rate curve, as well as ongoing competitive pressures. The positive trend in credit quality continued from 2011 and the provision for credit losses remained unchanged at 19 basis points of average loans.

The efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb) (excluding the non-tax deductible change in fair value of contingent consideration), of 44.8% improved 10 basis points from last year as the benefit of strong percentage growth in total revenues was largely offset by the combination of a 6% ($14.1 million) increase in non-interest expenses and the difference in the fair value adjustment for contingent consideration. 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 return on common shareholders' equity of 15.0% was up 30 basis points compared to 2011 while return on assets decreased one basis point to 1.08%. The increase in return on equity was attributed to a lower charge for the change in fair value of contingent consideration in the current year compared to 2011, largely offset by the impact of margin compression. Contingent consideration associated with the 2010 acquisition of National Leasing was settled in the third quarter of 2012 with the issuance of 2.3 million CWB common shares valued at $63.5 million. Total cash dividends paid to common shareholders of $0.62 per share increased 15% from $0.54 per share paid in the prior year.

Total assets increased 14% to reach $16,873 million, driven by loan growth and a higher balance of liquid assets. Total branch-raised deposits increased 11% ($782 million) compared to the previous year, while the demand and notice component within branch-raised deposits was up 12% ($468 million). Strong growth in branch-raised deposits, including the demand and notice component, reflects the success of ongoing strategies to further enhance and diversify core funding sources. Total deposits grew 14% ($1,750 million) in the year to reach $14,145 million and kept pace with very strong loan growth. Total deposit growth also includes $700 million of fixed term notes issued in the debt capital markets and personal fixed rate term deposits raised through the deposit broker network. Total branch-raised deposits represented 57% of total deposits at October 31, 2012, compared to 58% a year earlier. The demand and notice component comprised 32% of total deposits, unchanged from a year earlier. The ratio of total deposits to total loans at October 31, 2012 was 1.01 times, down slightly from 1.02 times last year.

The maintenance of solid capital levels is fundamental to CWB's objectives to effectively manage risks and support strong growth. The Bank's Basel II Tier 1 and total capital ratios at October 31, 2012 of 10.6% (2011 – 11.1%) and 13.8% (2011 – 15.4%), respectively, remained well above both internal and regulatory minimums. Reported capital ratios for 2011 are based on the returns filed and have not been restated for the full transition impact of IFRS or a required change in the capital deduction related to CWB's insurance subsidiary, both of which were effective in the first quarter of 2012. The lower total capital adequacy ratio compared to a year earlier also reflects the March 2012 redemption of $125 million of subordinated debentures. The Basel II tangible common equity ratio, which represents the highest quality form of capital, was also solid at 8.8%, up from 8.6% twelve months ago. Pro forma application of the all-in Basel III standards to the Bank's financial position at October 31, 2012 results in an estimated 8.1% common equity Tier 1 (CET1) ratio, 9.9% Tier 1 ratio and 13.1% total capital ratio. This compares to the minimum Basel III regulatory capital ratios, which include a 250 basis point capital conservation buffer, of 7.0% CET1 effective January 1, 2013, and 8.5% Tier 1 and 10.5% total capital effective January 1, 2014.

MINIMUM PERFORMANCE TARGETS AND OUTLOOK

TABLE 2 – PERFORMANCE TARGETS	2012 Minimum Targets	**2012 Performance**	2013 Minimum Targets
Net income available to common shareholders growth	10%	**15%**	8%
Total revenue (teb) growth	7	**9**	8
Loan growth	10	**14**	10
Provision for credit losses as a percentage of average loans	0.20 - 0.25	**0.19**	0.18 - 0.23
Efficiency ratio (teb)	46	**44.8**	46
Return on common shareholders' equity	15	**15.0**	14
Return on assets	1.05	**1.08**	1.05

CWB met or exceeded all of its fiscal 2012 minimum performance targets led by very strong loan growth of 14%. Growth in net income available to common shareholders of 15% reflected 9% growth in total revenues mainly resulting from loan growth and a $9.8 million lower charge for the non-tax deductible change in fair value of contingent consideration. Excluding the change in fair value of contingent consideration for both years, net income available to common shareholders was up 8% as the benefit of very strong loan growth was partially offset by the impact of a 20 basis point reduction in net interest margin and a 6% increase in non-interest expenses. Loan growth was apparent across each of the Bank's lending sectors with the exception of oil and gas production loans. Measured in dollars, the strongest loan growth by lending sector was in general commercial loans, closely followed by equipment financing. Overall credit quality improved compared to 2011 and the provision for credit losses was slightly below the low end of the target range at 19 basis points of average loans. The return on common shareholders' equity of 15.0% was on par with the target, while return on assets was slightly above the target at 1.08%. The efficiency ratio (teb) of 44.8% compared favourably with the 2012 target of 46%.

Fiscal 2013 minimum performance targets are based on expectations for modest economic growth in Canada and comparatively stronger performance within the Bank's key western Canadian markets. Lending activity remains solid and double-digit loan growth is expected to be maintained despite the impacts of competitive factors and ongoing global economic uncertainties. Overall credit quality is expected to remain sound and the provision for credit losses is targeted between 18 and 23 basis points of average loans. The Bank will maintain its focus on secured loans that offer a fair and profitable return in an environment where net interest margin pressure is expected to persist as a result of a very low interest rate environment, a flat interest rate curve and increased competitive influences in certain sectors. The foregoing circumstances will continue to constrain growth in total revenues and earnings compared to what would be expected in a more normal historical interest rate environment. Targeted growth of 8% for both total revenues (teb) and net income available to common shareholders reflects confidence in CWB's proven business model and overall strategic direction, but also considers the impact of expectations for a lower net interest margin compared to 2012. Minimum targets for return on common shareholders' equity and return on assets have been established at 14% and 1.05%, 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 2013 efficiency ratio (teb) is expected to remain at 46% or less.

The ongoing development of CWB Group's core businesses will remain a key priority to achieve continued strong growth. Potential acquisitions that are both strategic and accretive for CWB shareholders will also be evaluated very closely. With its strong capital position under the more conservative Standardized Approach for calculating risk-weighted assets, CWB is positioned to support continued growth and manage unforeseen challenges. Management will maintain its focus on creating value and growth for shareholders over the long term. Despite challenges arising from the interest rate environment and related pressures on net interest margin, the current overall outlook for 2013 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 debt. Net interest margin is net interest income as a percentage of average total assets.

Highlights of 2012

- Net interest income (teb) increased 8% to a record $443.6 million based on 15% growth in average total interest earning assets.
- Net interest margin (teb) of 2.79%, down 20 basis points compared to 2011 reflecting the very low interest rate environment, a flat interest rate curve and competitive factors.

TABLE 3 – NET INTEREST INCOME (TEB)[1]
($ THOUSANDS)

	2012				2011			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Assets								
Cash, securities and deposits with regulated financial institutions	$ 2,227,457	14%	$ 53,849	2.42%	$ 1,902,370	14%	$ 58,382	3.07%
Securities purchased under resale agreements	124,935	1	1,231	0.99	94,402	1	916	0.97
Loans								
Residential mortgages	3,233,082	20	131,105	4.06	2,794,172	20	119,800	4.29
Other loans	9,973,138	63	555,429	5.57	8,675,784	63	505,248	5.82
	13,206,220	83	686,534	5.20	11,469,956	83	625,048	5.45
Total interest bearing assets	15,558,612	98	741,614	4.77	13,466,728	98	684,346	5.08
Other assets	319,493	2	-	0.00	310,389	2	–	0.00
Total Assets	$ 15,878,105	100%	$ 741,614	4.67%	$ 13,777,117	100%	$ 684,346	4.97%
Liabilities								
Deposits								
Demand	$ 614,951	4%	$ -	0.00%	$ 569,709	4%	$ –	0.00%
Notice	3,704,059	23	42,156	1.14	3,286,379	24	35,668	1.09
Fixed term	8,991,089	57	227,555	2.53	7,446,424	54	202,935	2.73
	13,310,099	84	269,711	2.03	11,302,512	82	238,603	2.11
Other liabilities	474,329	3	61	0.01	477,616	3	98	0.02
Debt	632,132	4	28,270	4.47	666,660	5	34,193	5.13
Shareholders' equity	1,356,306	8	-	0.00	1,225,104	9	–	0.00
Non-controlling interests	105,239	1	-	0.00	105,225	1	–	0.00
Total Liabilities and Equity	$ 15,878,105	100%	$ 298,042	1.88%	$ 13,777,117	100%	$ 272,894	1.98%
Total Assets/ Net Interest Income	$ 15,878,105		$ 443,572	2.79%	$ 13,777,117		$ 411,452	2.99%

(1) See page 19 for a discussion of teb and other non-GAAP measures.

Net interest income (teb) increased 8% ($32.1 million) for the year to reach a record $443.6 million reflecting 15% ($2,101 million) growth in average interest earning assets, partially offset by the impact of a significant 20 basis point reduction in net interest margin (teb) to 2.79%. Growth in average interest earning assets resulted from a combination of very strong 15% ($1,736 million) growth in total average loans and an 18% ($356 million) increase in total average cash, securities, deposits with regulated financial institutions and securities purchased under resale agreements. The compressed net interest margin mainly resulted from the combined impact of the ongoing very low interest rate environment, a flat interest rate curve and competitive factors, and is reflected in a 25 basis point lower average yield on loans, partially offset by an eight basis point reduction in total average deposit costs and reduced debt expense. The yield on average cash, securities and deposits with regulated financial institutions was down 65 basis points, partially reflecting the Bank's strategy to reposition a significant portion of its previous investments in the preferred shares of other financial institutions, which, under Basel III, require a deduction from regulatory capital for amounts over a certain threshold.

In general, increases in the prime interest rate positively impact 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% for the year and has remained unchanged since the Bank of Canada last increased rates in September of 2010.

OUTLOOK FOR NET INTEREST INCOME

Loan growth will continue to have a positive influence on net interest income, but the current very low interest rate environment, the flat shape of the interest rate curve and competitive factors will likely result in a lower net interest margin compared to 2012. The current interest rate environment diminishes margin due to the adverse impact as it relates to the benefit of the Bank's low and no-cost deposits, as well as deposits that are less interest sensitive. In a more normal historical 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 would provide a more meaningful positive differential between the incremental price on loans and the cost of matched funding based on the duration of certain portfolios. An increased level of competition, particularly in certain business areas, also results in lower overall loan pricing. The average liquidity level is expected to remain relatively consistent with 2012. Lower liquidity generally enhances margins due to the decreased level of comparatively lower yielding assets. In the absence of increases in the prime lending interest rate and/or a significant steepening of the interest rate curve, pressures on net interest margin will continue. Based on the current view, the Bank's financial targets for 2013 assume no increases in the prime lending interest rate.

Other Income

Highlights of 2012

- Other income increased 14% as a lower charge for contingent consideration fair value changes and the combined growth in net gains on securities and credit-related fee income more than offset a decline in the "other" component of other income and a reduction in net insurance revenues resulting from the impact on claims from severe storm activity in Alberta.
- Other income represented 16% of total revenues (teb), unchanged from 2011.

TABLE 4 – OTHER INCOME

($ THOUSANDS)

	2012	2011	Change from 2011 $	%
Insurance				
Net earned premiums	$ 123,204	$ 117,632	$ 5,572	5%
Commissions and processing fees	1,855	1,869	(14)	(1)
Net claims and adjustment expenses	(83,167)	(74,734)	(8,433)	11
Policy acquisition costs	(24,539)	(24,517)	(22)	–
Net insurance revenues	17,353	20,250	(2,897)	(14)
Credit related	19,705	18,307	1,398	8
Trust and wealth management services	19,065	19,050	15	–
Gains on securities, net	12,449	7,283	5,166	71
Retail services	9,227	9,486	(259)	(3)
Foreign exchange	3,255	3,488	(233)	(7)
Contingent consideration fair value change	(2,489)	(12,305)	9,816	(80)
Other [1]	3,345	6,544	(3,199)	(49)
Total Other Income	$ 81,910	$ 72,103	$ 9,807	14%

(1) Includes gains on loan portfolio sales, 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 $81.9 million was up 14% ($9.8 million) reflecting a $9.8 million lower charge for contingent consideration fair value changes related to the 2010 acquisition of National Leasing. Contingent consideration was eliminated effective in the third quarter of 2012 upon the settlement of a contingent liability related to the 2010 acquisition of National Leasing. Net gains on securities remained high and were up $5.2 million over 2011 reflecting favourable market opportunities, the strategic repositioning of certain investments in preferred shares, common equities and government securities and the 2011 write-down of certain impaired available-for-sale securities to their respective fair market values. Management's decision to sell certain securities issued by financial institutions reflects forthcoming changes under the new Basel III regulatory capital framework which requires a deduction from regulatory capital of amounts over a certain threshold for this type of investment. Growth in credit-related fee income of 8% ($1.4 million) was driven by strong lending activity.

A reduction of $3.2 million in the "other" component of other income resulted from the expiry of a lease administration contract in early fiscal 2012 and the absence of fair value adjustments for interest rate swaps previously held within National Leasing. The sale of insured residential mortgage portfolios added approximately $2 million to the "other" category of other income in both years. Net insurance revenues were down $2.9 million as the positive impact of growth in net earned premiums was more than offset by increased claims expense related to severe storm activity in Alberta. Trust and wealth management services fees remained relatively unchanged while retail services and foreign exchange income were down 3% ($0.3 million) and 7% (0.2 million), respectively.

Other income as a percentage of total revenues (net interest income and other income) was 16%, unchanged compared to 2011.

OUTLOOK FOR OTHER INCOME

Solid growth is expected across most categories of other income reflecting CWB's continued focus on enhancing transactional services and increasing other sources of fee-based income. The generation of more transactional business with both new and existing clients, an enhanced market presence, double-digit loan growth and expanded product offerings are key factors contributing to expected growth in banking-related services. While net insurance revenues should increase meaningfully with the benefit of a return to more normal claims experience and continued policy growth, increased volatility in the claims ratio could result from severe weather-related events, as was the case in 2012. Contingent consideration fair value changes, which reduced other income by $2.5 million in 2012, will not be applicable going forward. While net gains on securities are expected to remain an ongoing source of revenue, the future level of contributions from this source is expected to be much lower compared to 2012. Generating additional other income through whole loan sales of residential mortgage portfolios remains an option, but near-term growth in the "other" category of other income is likely to be constrained reflecting the expiry of a lease administration contract in the previous year. CWT, including Optimum Mortgage, and Valiant Trust each expect solid growth in 2013 resulting from increased market share and ongoing business development in core western markets and select areas in Ontario. Revenue and earnings contributions from National Leasing should also increase with expected strong business growth. Adroit has had good success introducing its services to many CWB banking clients and this positive trend is expected to continue. CWB maintains its long-term objective to grow non-interest revenues as a percentage of total revenues and will continue to develop, or acquire, complementary fee-based businesses.

Non-interest Expenses and Efficiency

Highlights of 2012

- The efficiency ratio (teb) of 44.8% represented a 10 basis point improvement compared to 2011 as growth in total revenues (teb) more than offset a 6% increase in non-interest expenses.

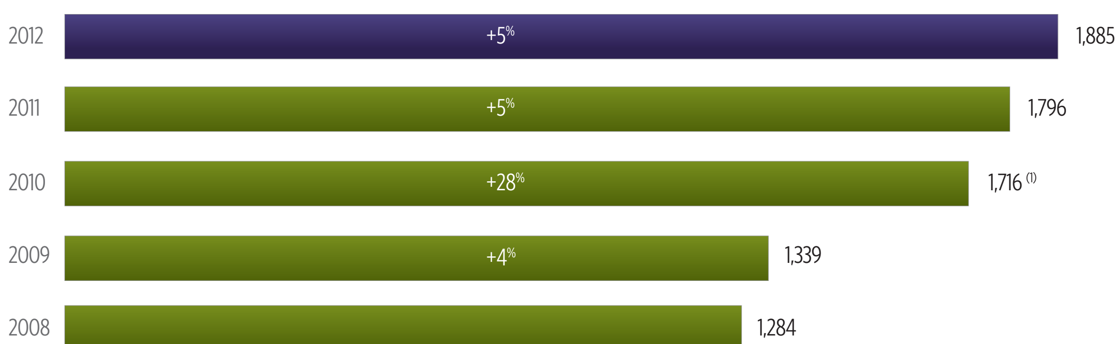
TABLE 5 – NON-INTEREST EXPENSES AND EFFICIENCY RATIO
($ THOUSANDS)

	2012	2011	Change from 2011 $	Change from 2011 %
Salaries and Employee Benefits				
Salaries	$ 127,835	$ 118,323	$ 9,512	8%
Employee benefits	26,009	23,542	2,467	10
	153,844	141,865	11,979	8
Premises				
Rent	15,738	14,929	809	5
Depreciation	5,212	4,736	476	10
Other	3,115	2,975	140	5
	24,065	22,640	1,425	6
Equipment and Furniture				
Depreciation	8,108	7,609	499	7
Other	7,329	6,489	840	13
	15,437	14,098	1,339	9
General				
Professional fees and services	6,379	6,979	(600)	(9)
Marketing and business development	6,746	6,973	(227)	(3)
Amortization of intangibles	5,160	6,000	(840)	(14)
Banking charges	3,253	3,222	31	1
Postage and stationery	2,630	2,845	(215)	(8)
Travel	2,493	2,375	118	5
Regulatory costs	2,131	2,439	(308)	(13)
Community investment	2,095	1,140	955	84
Communications	1,770	1,631	139	9
General insurance	969	970	(1)	–
Capital and business taxes	676	1,588	(912)	(57)
Other	8,918	7,686	1,232	16
	43,220	43,848	(628)	(1)
Total Non-interest Expenses	$ 236,566	$ 222,451	$ 14,115	6%
Efficiency Ratio (teb) (1)(2)	44.8%	44.9%		(10)bp (3)

(1) Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income) excluding the non-tax deductible change in fair value of contingent consideration. See page 19 for a discussion of 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 $236.6 million were up 6% ($14.1 million) largely reflecting an 8% ($12.0 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% (89 FTEs) from October 31, 2011 to meet additional staffing requirements for new and/or expanded banking branches, corporate support services and other business expansion. Premises and equipment expenses, including depreciation, increased 8% ($2.8 million) and reflected the impact of a new full-service branch opened near the end of 2011 and the ongoing development and expansion of other premises. Investment in technology infrastructure, such as the Bank's loan origination system and corporate office data centre implemented in 2011, also contributed to the increase in non-interest expenses. Ongoing investment in premises and technology infrastructure are necessary to position the Bank for future growth. These investments are expected to provide considerable efficiencies in the future at both the branch and corporate office level; this includes improving the turnaround time of credit approvals and affording lenders more time to assist clients. Certain technology investment, including the loan origination system and the future implementation of a new core banking system, will also improve data, portfolio and client relationship management capabilities. General non-interest expenses were down 1% ($0.6 million) as the benefit of lower capital and business taxes, amortization of intangibles, professional fees and services, and regulatory costs more than offset the impact of increases in other areas, including community investment.

FIGURE 1 – NUMBER OF FULL-TIME EQUIVALENT STAFF



(1) The significant increase in the number of full-time equivalent staff in 2010 reflects the acquisition of National Leasing.

The efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb), excluding the non-tax deductible change in fair value of contingent consideration, was 44.8%, compared to 44.9% last year, as the benefit of core revenue growth offset the impact of higher non-interest expenses. Non-interest expenses as a percentage of average assets were 1.5%, down slightly from 1.6% in 2011.

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. The investment in these areas is aligned with the Bank's commitment to maximize long-term shareholder value and is expected to provide material benefits in future periods. The major program to implement a new core banking system is progressing as planned. Preliminary timelines anticipate implementation of the new core banking system in 2015 with an initial estimated capital budget of $50 million. Optimum Mortgage successfully implemented a new loan origination system in 2012 which is expected to enhance client service, increase capacity and improve efficiencies. CWT also successfully completed a major system conversion in 2012 that is expected to create similar benefits and efficiencies within that business. Compliance with an increasing level of regulatory rules and oversight for all Canadian banks requires the investment of both time and resources, which further contributes to higher non-interest expenses.

Ongoing expansion plans include moving CWB's flagship main branch in Edmonton to a new, much larger location, the opening of new and expanded premises in Regina and St. Albert, and National Leasing's recent expansion in Quebec. Other potential new branch locations are under consideration while upgrades and expansion of existing branch infrastructure continues.

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 likely limit the potential for improvement in the efficiency ratio compared to 2012. Overall, CWB expects to achieve an efficiency ratio (teb) of 46% or better in fiscal 2013.

Income and Capital Taxes

The effective income tax rate (teb) was 26.3%, down 190 basis points from 2011, while the tax rate before the teb adjustment was 23.6%, or 120 basis points lower. The lower tax rate compared to last year reflects the 150 basis point reduction in the federal income tax rate effective on each of January 1, 2011 and January 1, 2012, but was also impacted by the non-tax deductible change in fair value of contingent consideration. Excluding the impact of contingent consideration in both years, the effective tax rate (teb) was 26.0%, down 90 basis points from 2011.

Deferred 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 Bank's deferred income tax assets and liabilities relate primarily to the collective allowance for credit losses and intangible assets, respectively. Deferred 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 deferred income taxes related to a change in tax rates are recognized as income in the period of the tax rate change.

Capital losses of $11.1 million (2011 – $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 tax applicable to CWB has been eliminated in recent years 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 in 2012 totaled $0.5 million and represented a $0.9 million decline from 2011.

OUTLOOK FOR INCOME AND CAPITAL TAXES

CWB's expected income tax rate (teb) for fiscal 2013 is approximately 26.5%, or 23.8% before the teb adjustment. Saskatchewan provincial capital taxes will likely increase with the ongoing retention of earnings and any potential impact from the issuance of new capital, if material. There is also the possibility that a change in the provincial political landscape in BC could result in a reinstatement of capital tax on financial institutions in that province.

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 2012, fair value changes for derivative instruments designated as cash flow hedges. The increase in comprehensive income was driven by 13% ($22.7 million) higher net income and $9.6 million of unrealized gains, net of tax, on available-for-sale securities in 2012 compared to $11.7 million of unrealized losses in 2011. While the combined dollar investment in preferred shares and common equities is relatively small in relation to total liquid assets, it increases the potential for comparatively larger fluctuations in OCI.

TABLE 6 – COMPREHENSIVE INCOME
($ THOUSANDS)

	2012	2011	Change from 2011
Net Income	$ 194,457	$ 171,721	$ 22,736
Other Comprehensive Income (loss)			
Available-for-sale securities			
Gains (losses) from change in fair value, net of tax	9,580	(11,710)	21,290
Reclassification to other income, net of tax	(9,129)	(5,133)	(3,996)
	451	(16,843)	17,294
Derivatives designated as cash flow hedges			
Gains from change in fair value, net of tax	1,430	–	1,430
Reclassification to net interest income, net of tax	(483)	–	(483)
	947	–	947
	1,398	(16,843)	18,241
Total Comprehensive Income	$ 195,855	$ 154,878	$ 40,977

Cash and Securities

Cash, securities and securities purchased under resale agreements totaled $2,573 million at October 31, 2012, compared to $2,238 million one year ago. Total net unrealized gains before tax recorded on the balance sheet at October 31, 2012 were $10.8 million, compared to $10.0 million last year. The change in net unrealized gains reflects fluctuations in the market value of all securities, as well as net gains recognized through the income statement. The combined balance of securities issued or guaranteed by governments and other debt securities included net unrealized gains of $1.7 million at year end, compared to $0.7 million at October 31, 2011. The portfolio of preferred shares included net unrealized gains of $7.0 million, down from $9.3 million a year earlier. The common equities portfolio reflected net unrealized gains of $2.1 million, compared to nil at October 31, 2011.

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 equity markets also leads to fluctuations in value, particularly for common shares.

In the past four 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 securities in 2012 of $12.4 million remained high and were $5.2 million above the prior year. Excluding the impact of $3.1 million of write-downs in the prior year, net gains on securities in 2012 were $2.1 million higher than in 2011. The majority of net gains on securities in 2012 were attributed to the sale of preferred shares of other financial institutions in anticipation of the new Basel III capital framework effective January 1, 2013, although the sale of certain government securities and common equities also contributed to the net result. The specific change under Basel III that prompted the decision to reposition a portion of certain preferred shares is a required deduction from regulatory capital for investments in other financial institutions over a certain threshold.

CWB has no direct investment in any non-Canadian sovereign debt or other securities issued outside of Canada or the United States.

See Table 24 – 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 2013 is included in the Liquidity Management discussion of this MD&A.

Loans.

Highlights of 2012

- Loan growth of 14% largely driven by very strong performance in general commercial loans, equipment financing and leasing, personal loans and mortgages, and corporate loans.
- Double-digit loan growth achieved in 22 of the past 23 years (the exception being 2009 when loan growth was 7%).

TABLE 7 – OUTSTANDING LOANS BY PORTFOLIO
($ MILLIONS)

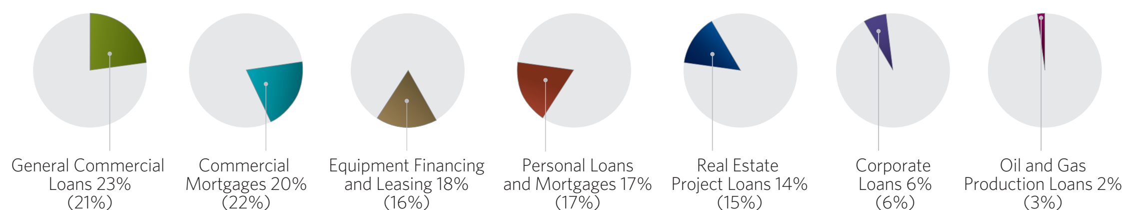
	2012	2011	Change from 2011 $	Change from 2011 %
General commercial loans	$ 3,179	$ 2,598	$ 581	22%
Commercial mortgages	2,788	2,691	97	4
Equipment financing and leasing	2,498	2,097	401	19
Personal loans and mortgages	2,292	2,020	272	13
Real estate project loans	2,024	1,888	136	7
Corporate loans	912	709	203	29
Oil and gas production loans	342	362	(20)	(6)
Total Outstanding Loans	$ 14,035	$ 12,365	$ 1,670	14%

Total loans before the allowance for credit losses increased 14% ($1,670 million) to reach $14,035 million at year end. Measured in dollar terms and by loan type as shown in Table 7, growth in general commercial loans of 22% ($581 million) represented the strongest source of loan growth, followed by 19% ($401 million) growth in equipment financing and leasing. Based on industry sector as shown in Table 8, general commercial loans include categories such as manufacturing, finance and insurance, and wholesale and retail trade. Equipment financing and leasing includes the Bank's heavy equipment financing business and the small- and mid-ticket leasing business of National Leasing. Corporate loans, which represent a diversified portfolio that is centrally sourced and administered through a designated lending group located in Edmonton, had the best percentage growth at 29% ($203 million). Corporate 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 sourced in branches are primarily real estate project loans, and oil and gas production loans, and are included under the corresponding classifications in Table 7. Real estate project loans increased 7% ($136 million) as the benefit of solid activity in both residential and commercial construction was partially offset by an increased level of paybacks reflecting the relatively short duration of this portfolio. Commercial mortgages, an area where loan pricing continued to be highly competitive, grew 4% ($97 million). Personal loans and mortgages, which include lending activity in both CWB branches and the Bank's broker-sourced residential mortgage business, Optimum Mortgage, showed strong performance with 13% ($272 million) growth. The balance of oil and gas production loans, which represent a relatively small percentage of the total portfolio, was down 6% ($20 million) mainly resulting from the impact of sustained downward pressure on natural gas prices.

Total loans of $1,090 million in the broker-sourced residential mortgage business, Optimum Mortgage, represented growth of 16% ($153 million). Adjusting for a $50 million residential mortgage portfolio sold during the year, total loan growth was 22%. Growth was mainly driven by alternative mortgages secured via conventional residential first mortgages carrying a weighted average loan-to-value ratio at initiation of approximately 71%. The book value of alternative mortgages represented approximately 70% 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 mix of the portfolio (see Figure 2) shifted slightly during the year as very strong growth in general commercial loans and equipment financing and leasing led to decreases in the proportion of commercial mortgages, real estate project loans and oil and gas production loans. Based on the location of security (see Figure 3), Alberta and BC respectively represented 45% and 33% of total loans at year, relatively unchanged from 2011.

FIGURE 2 – OUTSTANDING LOANS BY PORTFOLIO
(OCTOBER 31, 2011 IN BRACKETS)



OUTLOOK FOR LOANS

While strong competition from domestic banks and other financial services firms is expected to persist, the current overall outlook for generating new business opportunities continues to be positive. The Bank expects to maintain double-digit loan growth and has set its fiscal 2013 minimum loan growth target at 10%. 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 2013 despite impacts from ongoing uncertainties. The Bank's key markets in Western Canada are expected to continue to perform well relative to the rest of Canada largely reflecting ongoing capital investment and in-migration related to a favourable long-term outlook for commodities. In Alberta, the forecast for 2013 is supported by significant long-term capital investment in the oil sands, as well as a relatively positive outlook for activity related to conventional oil production. Activity related to the resource sector in BC, including forestry, has also remained solid due to current favourable resource prices, positive trends in the United States (U.S.) housing sector and ongoing export opportunities to Pacific Rim countries, including China. 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.

Affordability in most Canadian residential real estate markets remains within historical ranges largely reflecting very low interest rates. However, the combination of historically high price levels, relatively high levels of Canadian consumer debt and the potential for increasing interest rates in the future could slow construction and other related lending activity, particularly in areas of Vancouver and Toronto. Very low natural gas prices have adversely impacted the financial flexibility and cash flows of many exploration and production companies, but the Bank's direct exposure to this sector remains low. While fallout from sustained downward pressure on natural gas prices is not expected to materially impact overall portfolio quality, related growth opportunities will continue to be constrained.

Uncertainty about the future impact of recently confirmed regulatory changes related to more stringent residential mortgage underwriting criteria has resulted in an improved competitive environment for the Bank's alternative residential mortgage business in the short term, but the long-term impacts of these changes are less certain. Notwithstanding less competition for alternative mortgages, the overall level of demand could moderate as a result of the new regulations.

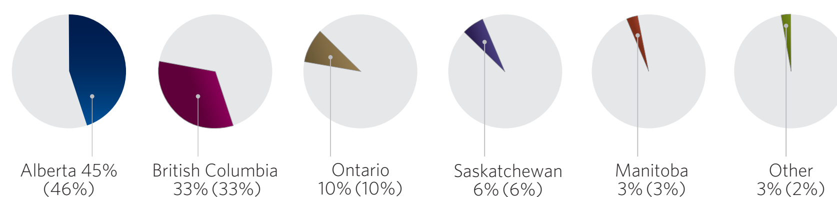
Potential risks that would have a material adverse impact on the Bank's economic expectations and forecasts include a global economic recession spurred by unfavourable developments in the euro zone, the strength of economic recovery in the U.S., a meaningful slowdown in China's economic growth, or a significant and sustained deterioration in Canadian residential real estate prices.

DIVERSIFICATION OF PORTFOLIO

Total advances based on location of security

FIGURE 3 – GEOGRAPHICAL DISTRIBUTION OF LOANS (1)

(OCTOBER 31, 2011 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)

	2012	2011
Real estate operations	**23%**	22%
Construction	**18**	19
Consumer loans and residential mortgages [(2)]	**15**	15
Transportation and storage	**6**	5
Hotel/motel	**5**	6
Health and social services	**5**	5
Finance and insurance	**5**	5
Oil and gas production	**3**	3
Manufacturing	**3**	3
Retail trade	**3**	3
Oil and gas service	**3**	2
Wholesale trade	**2**	2
Other services	**2**	2
Logging/forestry	**2**	1
All other	**5**	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 business and personal loans. 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

While positive growth is expected to continue across all lending sectors, the proportion of total loans comprised of commercial mortgages and real estate project loans could decrease slightly in 2013 reflecting expectations for comparatively faster net growth in other areas such as general commercial loans, equipment financing and leasing, and personal loans and mortgages. Commercial mortgages are currently subject to a high level of pricing competition and the Bank's focus will be to maintain this portfolio based on client relationships and adequate returns. Expectations for comparatively slower growth in real estate project loans reflects the combined impact of this portfolio's relatively short duration and forecasted moderation in Canadian residential real estate activity, particularly in certain geographical areas.

While stronger economic activity in Alberta and the success of strategic initiatives to increase the Bank's lending exposure in Ontario could lead to comparatively faster growth in these areas, portfolio diversification by geography will likely remain relatively consistent with October 31, 2012.

Credit Quality

Highlights of 2012

- Continued strong quality and a low level of write-offs in relation to total loans.
- Ten consecutive quarterly reductions in the dollar level of gross impaired loans, which decreased 31% ($30.4 million) from the prior year. Gross impaired loans measured as a percentage of total loans represented 48 basis points, compared to 79 basis points one year ago.
- A dollar provision for credit losses of $25.1 million represented 19 basis points of average loans and compared favourably to the 2012 target range of 20 to 25 basis points.

IMPAIRED LOANS

As shown in Table 9, gross impaired loans totaled $66.8 million and represented 0.48% of outstanding loans, compared to $97.3 million, or 0.79%, of total loans last year. The ten largest accounts classified as impaired, measured by dollars outstanding, represented approximately 52% of total gross impaired loans at year end, up from 48% a year earlier. New formations of impaired loans totaled $80.7 million, compared to $94.6 million last year. The dollar level of gross impaired loans goes up and down 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)

	2012	2011	Change from 2011 $	Change from 2011 %
Gross impaired loans, beginning of period	**$ 97,258**	$ 143,700	$ (46,442)	(32)
New formations	**80,734**	94,601	(13,867)	(15)
Reductions, impaired accounts paid down or returned to performing status	**(93,440)**	(107,656)	14,216	(13)
Write-offs	**(17,712)**	(33,387)	15,675	(47)
Total, end of period [1]	**$ 66,840**	$ 97,258	$ (30,418)	(31)
Balance of the ten largest impaired accounts	**$ 35,034**	$ 46,884	$ (11,850)	(25)
Total number of accounts classified as impaired [2]	**125**	153	(28)	(18)
Total number of accounts classified as impaired under $1 million	**111**	137	(26)	(19)
Gross impaired loans as a percentage of total loans [3]	**0.48%**	0.79%		(31)bp [4]

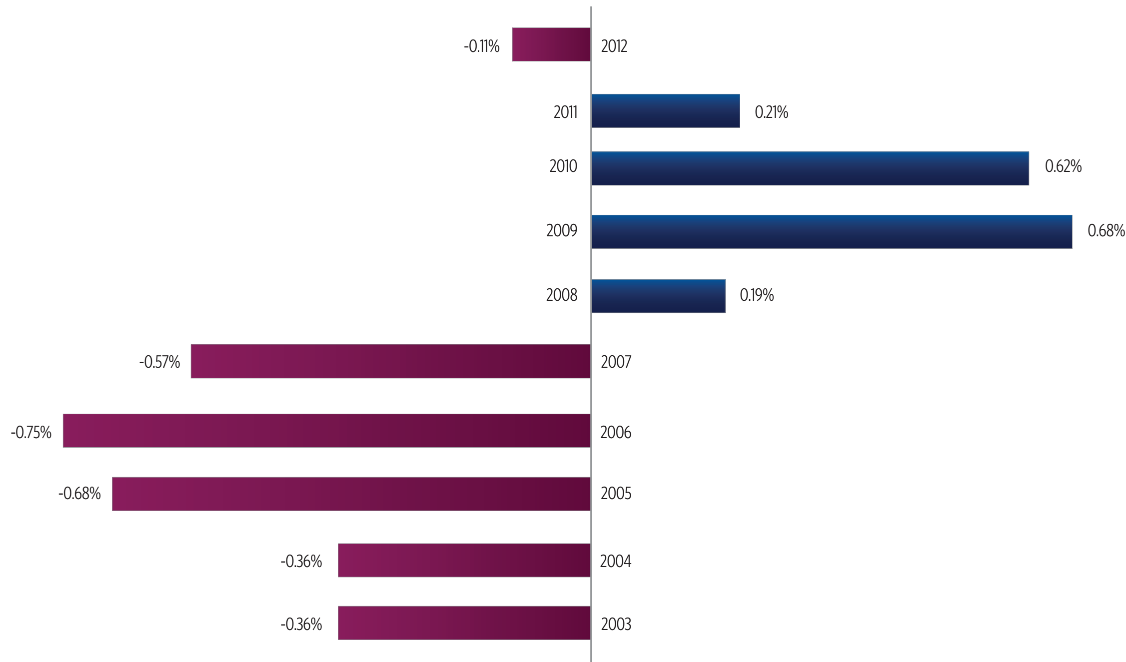
(1) Gross impaired loans includes foreclosed assets held for sale with a carrying value of $9,785 (2011 – $3,241). The Bank pursues timely realization on foreclosed assets and does not use the assets for its own operations.
(2) Total number of accounts excludes National Leasing accounts.
(3) Total loans do not include an allocation for credit losses or deferred revenue and premiums.
(4) bp – basis point change.

The lower balance of gross impaired loans reflects the success of ongoing loan realization efforts and work-out programs, as well as relatively stable economic conditions in the Bank's core geographic markets. Actual credit losses experienced over the past two years in relation to the level of gross impaired loans in the same time period demonstrates the benefits of CWB's secured lending practices and disciplined underwriting.

Current estimates of expected write-offs for existing loans classified as impaired are reflected in the specific provisions for credit losses, which totaled $14.4 million at year end compared to $10.7 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 each impaired account.

The 2012 dollar provision for credit losses of $25.1 million increased 15% ($3.3 million) over the previous year. The provision measured as a percentage of average loans was unchanged from 2011 at 19 basis points as the percentage growth in total average loans and the dollar provision was relatively consistent. As at October 31, 2012, the collective allowance for credit losses exceeded the balance of impaired loans, net of specific allowances. The allowance for credit losses as a percentage of gross impaired loans (coverage ratio) was 122%, up from 74% in 2011.

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 quarterly, or more frequent, reviews of each loan and its realization plan. A report of impaired loans is also reviewed quarterly by the Loans Committee of the Board of Directors.

OUTLOOK FOR IMPAIRED LOANS

Ongoing disciplined underwriting practices and expectations for a relatively consistent level of economic activity in Western Canada compared to 2012 underpin management's view that overall credit quality will remain sound. The level of gross impaired loans continued to show a positive trend throughout 2012, but will likely increase from the current very low level reflecting normal fluctuations of the credit cycle. Overall lending exposures will continue to be closely monitored and actual losses are expected to remain within CWB's historical range of acceptable levels. 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 allowance for credit losses split between specific provisions by category of impaired loans and the collective allowance for credit risk.

TABLE 10 – ALLOWANCE FOR CREDIT LOSSES
($ THOUSANDS)

	2012 Opening Balance	Provision for Credit Losses	Write-Offs, net of Recoveries [1]	**2012 Ending Balance**
Specific Allowance				
Commercial	$ 1,369	$ 11,183	$ (4,807)	**$ 7,745**
Real estate	2,516	3,027	(2,938)	**2,605**
Equipment financing	5,592	3,828	(5,850)	**3,570**
Consumer and personal	1,173	1,055	(1,769)	**459**
	10,650	19,093	(15,364)	**14,379**
Collective Allowance	61,330	6,014	–	**67,344**
Total	$ 71,980	$ 25,107	$ (15,364)	**$ 81,723**

(1) Recoveries in 2012 totaled $2,348 (2011 – $2,061).

The allowance for credit losses is maintained to absorb both identified and unidentified losses in the loan portfolio, and, at October 31, 2012, consisted of $14.4 million of specific allowances and $67.3 million in the collective allowance for credit losses (previously referred to as the "general allowance for credit losses" under Canadian GAAP). The specific allowance includes 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 collective allowance for credit risk includes allowances for losses inherent in the portfolio that are not presently identifiable on an account-by-account basis. Policies and methodology governing the management of the collective allowance are in place.

An assessment of the adequacy of the collective allowance for credit losses is conducted quarterly in consideration of:

- historical trends in loss experience during economic cycles;
- the current portfolio profile;
- historical loss experience in portfolios that display similar credit risk characteristics;
- the estimated period of time between when the impairment occurs and when the loss is identified; and,
- management's judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

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.

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 collective 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 and actual historical loss experience, the existing level of the collective allowance is considered sufficient to mitigate losses inherent in the portfolio that are not presently identifiable.

PROVISION FOR CREDIT LOSSES

The provision for credit losses represented 19 basis points of average loans in 2012 (see Table 11), unchanged from the previous year. Net new specific provisions represented 14 basis points of average loans, compared to 20 basis points in 2011. 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. The 2010 increase in the provision for credit losses as a percentage of average loans compared to prior years, as shown in Table 11, was attributed to the acquisition of National Leasing and the relatively higher rate of losses that is typical in the small- and mid-market leasing business.

TABLE 11 – PROVISION FOR CREDIT LOSSES

($ THOUSANDS)

	IFRS		Canadian GAAP		
	2012	2011	2010	2009	2008
Provision for credit losses [1]	**0.19%**	0.19%	0.21%	0.15%	0.15%
Net new specific provisions (net of recoveries) [2]	**0.14**	0.20	0.27	0.14	0.09
Collective allowance	**$ 67,344**	$ 61,330	$ 59,603	$ 61,153	$ 60,527
Coverage ratio [3]	**122%**	74%	55%	55%	82%

(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 2013 is expected to be 18 to 23 basis points of average loans, slightly lower than the target range established for 2012 of 20 to 25 basis points of average loans. The expected provision reflects the Bank's current assessment based on assumptions about the economic outlook, the overall quality of the portfolio and its underlying security, and the adequacy of the collective allowance for credit losses. The assessment process is continuous and the Bank's updated expectations are communicated no less than quarterly.

Deposits

Highlights of 2012

- Branch and trust generated demand and notice deposits increased 12%.
- Personal deposits, which include those raised through the broker deposit network, increased 7% (excluding broker-raised deposits, personal deposits were up 19%).
- Business and government deposits increased 11%.
- Branch and trust generated deposits were 57% of total deposits, down slightly from 58% a year earlier.
- Maintained a credit rating on long-term deposits and senior debt from DBRS Limited (DBRS) of A (low) with a stable outlook.
- Diversified funding sources with the issuance of $700 million of senior deposit notes in the debt capital markets to a broad range of institutional investors.

TABLE 12 – DEPOSITS
($ THOUSANDS)

	Demand	Notice	Term	2012 Total	% of Total
Personal	$ 31,980	$ 2,382,262	$ 6,545,876	$ 8,960,118	63%
Business and government	653,213	1,391,349	2,190,157	4,234,719	30
Capital markets	-	-	950,000	950,000	7
Total Deposits	$ 685,193	$ 3,773,611	$ 9,686,033	$ 14,144,837	100%
% of Total	5%	27%	68%	100%	

	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	1,924,674	3,798,860	31
Capital markets	–	–	250,000	250,000	2
Total Deposits	$ 583,267	$ 3,407,590	$ 8,403,832	$ 12,394,689	100%
% of Total	5%	27%	68%	100%	

Total deposits at year end of $14,145 million increased 14% ($1,750 million) over 2011 reflecting $700 million of additional senior notes issued in the debt capital markets, 7% ($614 million) growth in personal deposits, which include those issued through the deposit broker network, and 11% ($436 million) growth in business and government deposits. 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).

TABLE 13 – DEPOSITS BY SOURCE
(AS A PERCENTAGE OF TOTAL DEPOSITS AT OCTOBER 31)

	2012	2011
Branches	57%	58%
Deposit brokers	36	40
Capital markets	7	2
Total	100%	100%

Deposits are primarily generated from the branch network (including CWT, CDF 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, which has enhanced importance as the Bank transitions toward the Basel III rules governing liquidity beginning in 2015 (see the Liquidity Management section of this MD&A). 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. CDF, the Internet-based division of the Bank, currently offers various deposit products to customers in all provinces and territories except Quebec. The total amount of deposits outstanding in CDF at October 31, 2012 was $178 million, a 74% increase compared to a year earlier. 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.

Insured deposits raised through deposit brokers also remain a valued funding source. Although these funds are subject to commissions, this cost is countered by a reduced dependence on a more extensive branch network and the benefit of generating insured fixed term retail deposits over a wide geographic base. The proportion of funds sourced through deposit brokers was reduced in 2012 as a result of growth in branch-raised deposits and the issuance of senior deposit notes in the debt capital markets. The selective use of capital markets-based funding commenced in 2011 upon the establishment of a credit rating by DBRS on the Bank's long-term deposits and senior debt. As additional sources of funding, in 2012 the Bank securitized $226 million of equipment leases and sold a $50 million portfolio of residential mortgages via a whole loan sale.

Growth in total branch-raised deposits was 11% ($782 million) in 2012, while the demand and notice component within branch-raised deposits increased 12% ($468 million). Demand and notice deposits, which include lower cost funding sources, comprised 32% of total deposits at year end, unchanged from the previous year. Branch-raised deposits comprised 57% of total deposits, compared to 58% in the previous year. 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, including CWT's success in generating deposits through its trust business.

OUTLOOK FOR DEPOSITS

A strategic focus on increasing branch-raised deposits will continue in 2013 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 expansions and/or openings of full-service branches, also supports the objectives to generate branch-raised deposits. Various strategic initiatives, which include the offering of significantly enhanced cash management products and a competitive business savings account, are also intended to further augment desired types of branch-raised funding. The 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 augment and diversify both the long- and short-term funding base over time. Provided costs remain satisfactory, National Leasing plans to continue utilizing securitization channels for a portion of its funding requirements. Management also continues to evaluate the benefits of using loan securitization and/or additional whole loan sales as added sources of funding for certain other types of portfolios, most notably residential mortgages.

Other Assets and Other Liabilities

At October 31, 2012 other assets totaled $347 million (2011 – $318 million). Property and equipment increased $14 million mainly due to ongoing investment in both physical infrastructure and technology. Insurance related other assets were $58 million (2011 – $57 million) and consisted primarily of instalment premiums receivable as well as deferred policy acquisition costs. The amount of goodwill and intangible assets recorded on the balance sheet at October 31, 2012 was $46 million and $32 million, respectively.

Other liabilities totaled $524 million at October 31, 2012 (2011 – $458 million). Insurance related other liabilities were $160 million (2011 – $149 million) and consisted primarily of provisions for unpaid claims and adjustment expenses and unearned premiums.

Liquidity Management

Highlights of 2012

- Maintained a strong liquidity position and conservative investment profile.
- Compared to recent years, relative stability in Canadian capital markets allowed the Bank to maintain its lowest yielding liquid assets at levels more consistent with a normal operating environment; liquidity was augmented in the fourth quarter of the year based on expected business requirements.
- In October 2012, DBRS maintained its published credit ratings on CWB of A (low) and BBB (high) for long-term senior debt/deposits and subordinated debentures, respectively; both ratings were issued indicating a stable outlook.

A schedule outlining the consolidated securities portfolio at October 31, 2012 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, common 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 Investment Committee and the Asset Liability Committee (ALCO); and,
- quarterly reports are provided to the Board of Directors (the Board) on the composition of the securities portfolio, which is further supported by the Board's annual review and approval of investment policies.

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

- monitoring liquidity reserve levels;
- monitoring micro- and macroeconomic trends and key risk indicators;
- micro- and macroeconomic scenario stress testing;
- maintaining a short duration liquidity portfolio;
- monitoring the credit profile of the liquidity portfolio;
- monitoring deposit liability diversification;
- monitoring deposit behaviour; and,
- ongoing market surveillance.

TABLE 14 – LIQUID ASSETS
($ THOUSANDS)

	2012	2011	Change from 2011
Cash and non-interest bearing deposits with financial institutions	$ 33,690	$ 73,318	$ (39,628)
Deposits with regulated financial institutions	177,028	233,964	(56,936)
Cheques and other items in transit	26,265	5,053	21,212
Total Cash Resources	236,983	312,335	(75,352)
Government of Canada treasury bills	378,253	384,721	(6,468)
Government of Canada, provincial and municipal debt, term to maturity 1 year or less	610,103	173,723	436,380
Government of Canada, provincial and municipal debt, term to maturity more than 1 year	470,466	465,943	4,523
Other debt securities	371,044	303,545	67,499
Preferred shares	398,752	497,130	(98,378)
Common shares	107,482	100,642	6,840
Securities sold under resale agreement	(70,089)	–	(70,089)
Total Securities Purchased or Sold Under Resale Agreements and Marketable Securities	$ 2,266,011	$ 1,925,704	$ 340,307
Total Liquid Assets	$ 2,502,994	$ 2,238,039	$ 264,955
Total Assets	$ 16,873,269	$ 14,849,141	$ 2,024,128
Liquid Assets as a Percentage of Total Assets	15%	15%	–
Total Deposit Liabilities	$ 14,144,837	$ 12,394,689	$ 1,750,148
Liquid Assets as a Percentage of Total Deposit Liabilities	18%	18%	–

As shown in Table 14, liquid assets comprised of cash, interbank deposits, securities purchased (or sold) under resale agreements and marketable securities totaled $2,503 million at October 31, 2012, an increase of $265 million compared to a year earlier. Liquid assets represented 15% (2011 – 15%) of total assets and 18% (2011 – 18%) of total deposit liabilities at year end.

The composition of total liquid assets shifted compared to October 31, 2011 through the normal course of prudent liquidity management. This resulted in a significant increase in the allocation of Government of Canada, provincial and municipal debt securities with a maturity of one year or less, and also contributed to a lower overall average yield on the securities portfolio. Highlights of the composition of liquid assets at October 31, 2012 are as follows:

- Maturities within one year increased to 53% (2011 – 40%) of liquid assets, or $1,332 million (2011 – $892 million);
- Government of Canada, provincial and municipal debt securities increased to 58% (2011 – 46%) of liquid assets;
- Deposits with regulated financial institutions, including Bankers' Acceptances, decreased to 8% (2011 – 14%) of liquid assets;
- Preferred shares decreased to 16% (2011 – 22%) of liquid assets; and,
- Other marketable securities increased by 1% to 19% of liquid assets.

When applicable, securities purchased under resale agreements are included in liquid assets, while securities sold under resale agreements are deducted from liquid assets. Securities purchased under resale agreements represent short-term loans to securities dealers that require subsequent repurchase of the securities received as collateral, typically within a few days. Securities sold under resale agreements are included in other liabilities and totaled $70 million at October 31, 2012, compared to nil a year earlier. 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 given as collateral. Collateral securities are comprised of government or other high quality liquid securities. These agreements are primarily used for cash management purposes.

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. As additional sources of liquidity and funding, in 2012 the Bank securitized $226 million of equipment leases and sold a $50 million portfolio of residential mortgages via a whole loan sale.

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, 2012	Within 1 Month	1 to 3 Months	3 Months to 1 Year	Cumulative Within 1 Year
Demand deposits	$ 685	$ -	$ -	$ 685
Notice deposits	3,774	-	-	3,774
Deposits payable on a fixed date	931	1,106	3,428	5,465
Total	**$ 5,390**	**$ 1,106**	**$ 3,428**	**$ 9,924**
October 31, 2011 Total	$ 4,884	$ 1,009	$ 2,912	$ 8,805

TABLE 16 – TOTAL DEPOSIT MATURITIES
($ MILLIONS)

October 31, 2012	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	$ 685	$ -	$ -	$ -	$ -	$ -	$ 685
Notice deposits	3,774	-	-	-	-	-	3,774
Deposits payable on a fixed date	5,465	2,057	1,262	466	436	-	9,686
Total	**$ 9,924**	**$ 2,057**	**$ 1,262**	**$ 466**	**$ 436**	**$ -**	**$ 14,145**
October 31, 2011 Total	$ 8,805	$ 2,046	$ 893	$ 376	$ 275	$ -	$ 12,395

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 regularly to ensure an acceptable level of funding diversification is maintained. Management continues to develop and implement strategies to ensure branch-raised deposits remain the core source of funding. At the same time, the total dollar value of broker-generated deposits is expected to increase to support incremental asset growth or when higher levels of liquidity are required. Insured deposits raised through deposit brokers remain a highly effective and valued funding source. Deposits raised in the capital markets provide a further source of liquidity.

In addition to deposit liabilities, CWB has subordinated debentures and debt securities related to the securitization of leases to third parties (refer to Note 16 of the consolidated financial statements for additional information).

A summary of subordinated debentures outstanding is presented in the following table:

TABLE 17 – SUBORDINATED DEBENTURES OUTSTANDING
($ THOUSANDS)

Interest Rate	Maturity Date	Earliest Date Redeemable by CWB at Par	2012	2011
4.389% (1)	November 30, 2020	November 30, 2015	$ 300,000	$ 300,000
5.571% (2)	March 21, 2022	March 22, 2017	75,000	75,000
5.950% (3)	June 27, 2018	June 28, 2013	50,000	50,000
5.070% (4)	March 21, 2017	March 22, 2012	-	120,000
Total			**$ 425,000**	$ 545,000

(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 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.

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

(4) 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 155 basis points. Of the $125,000 debentures issued, $5,000 were held by Canadian Direct Insurance Incorporated, a wholly owned subsidiary, and eliminated on consolidation at October 31, 2011. On March 22, 2012, 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. CWB utilizes dynamic scenario analysis to monitor and stress liquidity coverage while maintaining prudent liquidity standards. To the extent the composition of liquid assets continues to include a higher balance of low yielding government securities, net interest margin will be further pressured.

The Basel Committee on Banking Supervision has issued a framework document outlining two new liquidity standards. The document prescribes the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as minimum regulatory standards effective January 1, 2015 and January 1, 2018, respectively. The LCR establishes a common measure of liquidity risk and requires institutions to maintain sufficient liquid assets to cover a minimum of 30 days of cash flow requirements in a stress situation. The NSFR establishes a second common measure of liquidity based on the ratio of longer term assets to longer term liabilities. Although the rules are not yet finalized, CWB believes it is well positioned to comply with the new requirements.

Capital Management

Highlights of 2012

- Maintained strong Basel II Tier 1 and total capital adequacy ratios of 10.6% and 13.8%, respectively.
- Well positioned for the "all-in" implementation of the Basel III rules for Canadian banks, effective January 1, 2013.
- Supported very strong loan growth while maintaining the ratio of tangible common equity to risk-weighted assets at 8.8%, up from 8.6%.
- Cash dividends of $0.62 per share paid to common shareholders, up 15%.
- Redeemed $125 million of subordinated debentures.

Subsequent Highlights

- In December 2012, the Board of Directors declared a quarterly cash dividend of $0.17 per common share, an increase of 6% ($0.01) over the previous quarterly cash dividend and 13% ($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 is 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 the 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, as well as changing regulatory capital requirements.

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 18 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) 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. Securitized assets (reported on balance sheet under IFRS) result in a deduction from both Tier 1 and total capital. As CWB's insurance subsidiary (Canadian Direct) is subject to separate OSFI capital requirements specific to insurance companies, its assets are excluded from the consolidated calculation of risk-weighted assets. However, the Bank's investment in Canadian Direct ($71.4 million at October 31, 2012 and $80.9 million at October 31, 2011) is deducted 50% against Tier 1 capital and 50% against Tier 2 capital. At October 31, 2011, the capital deduction related to Canadian Direct was deducted solely from Tier 2 capital. Accordingly, this change effective in fiscal 2012 had a negative impact on the level of Tier 1 regulatory capital compared to the previous year.

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 collective 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 2012.

TABLE 19 – CAPITAL STRUCTURE AND BASEL II REGULATORY RATIOS AT YEAR END [1]

($ THOUSANDS)

	2012	2011	Change from 2011
Tier 1 Capital			
Retained earnings	**$ 733,298**	$ 650,028	$ 83,270
Common shares	**490,218**	408,014	82,204
Preferred shares	**209,750**	209,750	–
Share-based payment reserve	**22,468**	21,884	584
Innovative capital instrument [2]	**105,000**	105,000	–
Non-controlling interest in subsidiary	**266**	225	41
Less goodwill	**(45,536)**	(37,852)	(7,684)
Less investment in insurance subsidiary	**(35,699)**	–	(35,699)
Less securitization	**(18,989)**	(6,583)	(12,406)
Total	**1,460,776**	1,350,466	110,310
Tier 2 Capital			
Collective allowance for credit losses (Tier 2A) [3]	**67,344**	60,429	6,915
Accumulated unrealized gains on available-for-sale securities, net of tax [4]	**5,358**	1,509	3,849
Subordinated debentures (Tier 2B) [5]	**425,000**	545,000	(120,000)
Less investment in insurance subsidiary	**(35,699)**	(80,941)	45,242
Less securitization	**(18,989)**	(6,583)	(12,406)
Total	**443,014**	519,414	(76,400)
Total Regulatory Capital	**$ 1,903,790**	$ 1,869,880	$ 33,910
Regulatory Capital to Risk-Weighted Assets			
Tier 1 capital	**10.6%**	11.1%	(0.5)%
Tier 2 capital	**3.2**	4.3	(1.1)
Total Regulatory Capital Adequacy Ratio	**13.8%**	15.4%	(1.6)%
Assets to Regulatory Capital Multiple [6]	**8.8**	7.9	0.9

(1) The 2011 capital structure and regulatory ratios reflect the returns filed and have not been restated to IFRS.

(2) The innovative capital instrument consists of CWB Capital Trust Capital Securities Series 1 (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.

(3) Banks are permitted to include the collective allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital.

(4) 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.

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

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

TABLE 20 – BASEL II RISK-WEIGHTED ASSETS
($ THOUSANDS)

	Cash, Securities and Resale Agreements	Loans	Other Items	2012 Total	2012 Risk-Weighted Assets
Corporate	$ 125,721	$ 10,416,367	$ –	$ 10,542,088	$ 10,133,106
Sovereign	1,438,368	50,071	–	1,488,439	38,294
Bank	330,964	46,184	–	377,148	157,065
Retail residential mortgages	–	2,172,533	–	2,172,533	770,679
Other retail					
Excluding small business entities	–	184,501	–	184,501	133,211
Small business entities	–	986,773	–	986,773	757,087
Equity	449,672	–	–	449,672	449,672
Undrawn commitments	–	296,579	–	296,579	293,487
Operational risk	–	–	63,382	63,382	792,272
Other	–	63,978	341,166	405,144	250,570
As at October 31, 2012	**$ 2,344,725**	**$ 14,216,986**	**$ 404,548**	**$ 16,966,259**	**$ 13,775,443**
As at October 31, 2011	$ 2,036,784	$ 12,603,801	$ 349,826	$ 14,990,411	$ 12,160,911

TABLE 21 – BASEL II RISK-WEIGHTING CATEGORY
($ THOUSANDS)

	0%	20%	35%	50%	75%	100%	150% and greater	2012 Balance	2012 Weighted
Corporate	$ 31,513	$ 26,675	$ –	$ 738,414	$ –	$ 9,719,326	$ 26,159	$10,542,087	$ 10,133,106
Sovereign	1,334,404	129,078	–	24,957	–	–	–	1,488,439	38,294
Bank	64	275,025	–	–	–	102,060	–	377,149	157,065
Retail residential mortgages	372,226	–	1,462,072	–	317,125	21,110	–	2,172,533	770,679
Other retail									
Excluding small business entities	921	8,956	–	–	174,002	29	593	184,501	133,211
Small business entities	1,087	3,911	–	–	912,693	63,677	5,405	986,773	757,087
Equity	–	–	–	–	–	449,672	–	449,672	449,672
Undrawn commitments	–	–	–	–	12,369	284,210	–	296,579	293,487
Operational risk	–	–	–	–	–	–	63,382	63,382	792,272
Other	129,069	28,292	–	–	11,486	236,297	–	405,144	250,570
As at October 31, 2012	**$1,869,284**	**$ 471,937**	**$1,462,072**	**$ 763,371**	**$1,427,675**	**$ 10,876,381**	**$ 95,539**	**$16,966,259**	**$13,775,443**
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, 2012, the Basel II Tier 1 capital adequacy ratio was 10.6% (2011 – 11.1%) and the total capital adequacy ratio was 13.8% (2011 – 15.4%). Tier 1 regulatory capital increased $110 million over 2011 mainly resulting from:

- the retention of earnings, net of common and preferred share dividends, of $124 million;
- the issuance of $63 million of CWB common shares to settle the contingent consideration of National Leasing; and,
- the issuance of $18 million of CWB common shares resulting from shareholder participation in the Bank's DRIP and the exercise of employee stock options, partially offset by:
- a $49 million deduction reflecting the full transition impact to IFRS;
- a $36 million net reduction resulting from the expiration of a Basel II transition related to investments in insurance subsidiaries (previously deducted from total capital), as well as the impact of a $20 million dividend paid by Canadian Direct to the Bank; and,
- a $12 million increase in the Tier 1 capital deduction for additional pools of securitized assets.

Total regulatory capital increased $34 million over 2011 mainly resulting from the factors mentioned above, offset by:

- the redemption of $125 million of subordinated debentures ($120 million of which was previously included as regulatory capital); and,
- a $13 million increase in the total capital deduction for additional pools of securitized assets.

BASEL III CAPITAL ADEQUACY ACCORD

The Basel Committee on Banking Supervision of The Bank for International Settlements (the Committee) published the Basel III rules 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 at the beginning of calendar 2013. OSFI also issued guidance and advisories on its capital 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 NVCC instruments include a clause requiring conversion to common equity in the event that OSFI deems the institution to be insolvent or a government has decided to inject "bail out" funding;
- Innovative Tier 1 instruments, such as CWB's WesTS, will no longer qualify;
- investment in an insurance subsidiary is no longer deducted from capital; and
- changes in the capital treatment for investments in the regulatory capital of other financial institutions.

OSFI requires Canadian banks to comply with the Basel III capital standards on an "all-in" basis effective January 1, 2013. Required minimum regulatory capital ratios, including a 250 basis point capital conservation buffer, will be 7.0% tangible common equity Tier 1 (CET1) as at January 1, 2013, and 8.5% Tier 1 and 10.5% total capital as at January 1, 2014. The Basel III rules provide for transitional adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition adjustment in the Basel III capital standards permitted by OSFI for Canadian banks relates to the multi-year phase out of non-qualifying capital instruments. Pro forma application of the "all-in" Basel III standards to the Bank's financial position at October 31, 2012 results in an estimated 8.1% CET1 ratio, 9.9% Tier 1 ratio and 13.1% 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 strategic initiatives, the composition of regulatory capital, the Bank's financial performance in the future and modifications, if any, to the standards and available transitional adjustments implemented by regulatory authorities.

OUTLOOK FOR CAPITAL MANAGEMENT

The Bank is well positioned for the forthcoming Basel III transition and management expects this solid capital position will be maintained. Currently, the Bank's pro forma "all-in" Basel III capital ratios are approximately 100 basis points above OSFI's required minimums for all ratios, and have the Bank reasonably positioned to manage future business growth and unexpected events. Target capital ratios under Basel III, including an appropriate capital buffer over the prescribed OSFI minimums, will be reconfirmed through ongoing development of the Bank's comprehensive ICAAP for 2013. The ongoing retention of earnings should support capital requirements associated with the anticipated achievement of the 2013 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. Longer term strategies to further optimize the Bank's existing capital structure are also underway. As an example, CWB currently reports its regulatory capital ratios using the Standardized Approach for calculating risk-weighted assets. Management believes this approach requires the Bank to carry significantly more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings Based (AIRB) methodology used by many other financial institutions. For this reason, regulatory capital ratios of banks that utilize the Standardized Approach versus the AIRB methodology are not directly comparable. Required resources, costs and potential timelines related to the Bank's possible transition to an AIRB methodology for managing credit risk and calculating risk-weighted assets are still being evaluated, and would be subject to the approval of OSFI. Preliminary analysis confirms a multi-year time frame would be required. CWB's new core banking system, expected to be implemented in 2015, is also a critical component for a number of requirements necessary for AIRB compliance, including the collection and analyses of certain types of data.

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 debt.

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. Net realized gains (losses) on securities are shown separately in other income.

Derivative Financial Instruments

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

TABLE 22 – DERIVATIVE FINANCIAL INSTRUMENTS
($ THOUSANDS)

	2012	2011
Notional Amounts		
Interest rate contracts [1]	$ 225,000	$ 19,400
Equity swaps [2]	15,445	–
Foreign exchange contracts [3]	2,450	6,384
Total	$ 242,895	$ 25,784

(1) Interest rate contracts are used as hedging devices to manage interest rate risk. The outstanding contracts mature between January and October 2013.
(2) Equity swaps designated as hedges mature between June 2013 and June 2015. Equity swaps are used to reduce the earnings volatility from restricted share units linked to the Bank's common share price.
(3) 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 2012 and July 2013.

The active use of interest rate contracts remains an integral component in managing the Bank's short-term gap position. CWB had previously allowed outstanding interest rate swaps designated as cash flow hedges for interest rate risk to mature without replacement. The significant increase in the volume of outstanding contracts (measured by the notional amount) compared to 2011 reflects the normal course management of interest rate risk and more favourable costs of certain hedging instruments. 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 the Asset Liability Committee and reviewed and approved by the Board of Directors at least annually.

Acquisitions

There were no material acquisitions in 2011 or 2012.

Off-Balance Sheet

Off-balance sheet items include assets under administration and assets under management. Total assets under administration, which are comprised of trust assets under administration and third-party leases under service agreements, totaled $7,172 million at October 31, 2012, compared to $9,370 million one year ago. The significant reduction in assets under administration compared to the same time last year reflects the termination of a lease servicing contract in December 2011. Assets under management held within Adroit were $855 million at year end, compared to $816 million last year.

Other off-balance sheet items are comprised of standard industry credit instruments (guarantees, standby letters of credit and commitments to extend credit). CWB does not utilize, nor does it have exposure to, collateralized debt obligations or credit default swaps. For additional information regarding other off-balance sheet items refer to Note 20 of the audited consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

Quarterly Results

The financial results for each of the last eight quarters are summarized in Table 23. In general, CWB's performance reflects a consistent growth trend, although the second quarter contains three fewer revenue-earning days (or two fewer days in a leap year like 2012).

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, are subject to seasonal weather conditions, cyclical patterns of the industry and natural catastrophes. Mandatory participation in the Alberta auto risk sharing pools can also result in unpredictable quarterly fluctuations.

Among other things, quarterly results can also fluctuate from the recognition of periodic income tax items.

Net gains on securities, reflected in other income, were unusually high in the first two quarters of 2011, as well as in the second and fourth quarters of 2012. The majority of net gains on securities in these periods resulted from the repositioning of investments in preferred and common equities. Other income in the fourth quarter of 2011 included a $3.1 million net loss on securities. Based on the current composition of the securities portfolio, management expects the level of net gains on 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 quarters of fiscal 2011 and 2012, 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 23 – QUARTERLY FINANCIAL HIGHLIGHTS(1)
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (teb)	$ 113,246	$ 115,217	$107,600	$107,509	$106,184	$104,886	$ 99,165	$ 101,217
Less teb adjustment	1,979	2,086	2,458	2,620	3,133	2,797	2,385	2,744
Net interest income per financial statements	111,267	113,131	105,142	104,889	103,051	102,089	96,780	98,473
Other income	19,932	22,933	20,254	18,791	13,489	17,867	20,601	20,146
Total revenues (teb)	133,178	138,150	127,854	126,300	119,673	122,753	119,766	121,363
Total revenues	131,199	136,064	125,396	123,680	116,540	119,956	117,381	118,619
Net income	43,046	48,004	39,669	41,478	35,921	38,824	36,941	37,852
Earnings per common share								
Basic	0.55	0.62	0.52	0.55	0.48	0.52	0.52	0.56
Diluted	0.55	0.61	0.52	0.54	0.47	0.50	0.48	0.50
Adjusted cash	0.56	0.63	0.55	0.57	0.53	0.54	0.55	0.55
Return on common shareholders' equity (ROE)	13.8%	16.1%	14.6%	15.5%	13.6%	14.3%	15.2%	15.9%
Return on average total assets (ROA)	1.03	1.19	1.03	1.07	0.97	1.11	1.12	1.15
Efficiency ratio (teb)	46.7	42.8	46.2	43.7	45.5	44.6	44.9	44.5
Efficiency ratio	47.4	43.4	47.1	44.6	46.7	45.6	45.7	45.5
Net interest margin (teb)	2.71	2.85	2.81	2.77	2.87	2.99	3.02	3.07
Net interest margin	2.67	2.80	2.74	2.70	2.79	2.91	2.95	2.99
Provision for credit losses as a percentage of average loans	0.17	0.19	0.19	0.20	0.17	0.17	0.19	0.23

(1) See page 19 for a discussion of teb and non-GAAP measures.

Fourth Quarter of 2012

CWB posted solid fourth quarter performance marking its 98th consecutive profitable quarter. Net income available to common shareholders of $43.0 million was up 20% ($7.1 million) compared to the same quarter last year while diluted earnings per common share increased 17% to $0.55. Adjusted cash earnings per share, which excludes the after-tax amortization of acquisition-related intangible assets and the non-tax deductible change in fair value of contingent consideration, was $0.56, up 6%. Fourth quarter total revenues (teb) grew 11% ($13.5 million) to reach a record $133.2 million as the benefit of very strong 14% year-over-year loan growth and 48% ($6.4 million) higher other income more than offset the impact of a 16 basis point decline in net interest margin (teb) to 2.71%. Growth in other income mainly resulted from an $8.5 million positive change in net gains on securities and the elimination of charges related to changes in fair value of contingent consideration ($3.6 million in the fourth quarter of 2011), partially offset by $4.0 million lower net insurance revenues and a $2.6 million decline in the "other" component of other income. Net gains on securities of $5.4 million in the fourth quarter compared to net losses of $3.1 million in the same period of 2011. Charges for contingent consideration were eliminated in the third quarter of this year upon the settlement of the Bank's ownership of National Leasing. Net insurance revenues were impacted by increased claims expense related to severe hailstorms in Alberta in August 2012. Other income in the fourth quarter of 2011 included a $2.0 million gain attributed to the sale of a residential mortgage portfolio.

Compared to last quarter, net income available to common shareholders declined 10% ($5.0 million) as the positive revenue contribution from 2% quarterly loan growth and $3.5 million higher gains on securities was more than offset by the combined impact of a 14 basis point reduction in net interest margin (teb), a $5.3 million decline in net insurance revenues and a $1.8 million reduction in the "other" component of other income. The material reduction in net interest margin largely resulted from unusually high interest recoveries in the previous quarter, as well as lower yields on both loans and securities, partially offset by more favourable fixed term deposit costs. Diluted earnings per common share decreased 10% ($0.06) from the prior quarter while adjusted cash earnings per share was down 11% ($0.07).

Net interest margin (teb) of 2.71% was down from 2.87% in the fourth quarter last year with the difference resulting from lower yields on both loans and securities, partially offset by more favourable costs on fixed term deposits and reduced debt expense. Compared to the prior quarter, net interest margin (teb) decreased 14 basis points reflecting significantly lower interest recoveries on previously impaired loans and lower yields on both loans and securities, partially offset by more favourable fixed term deposit costs.

The quarterly return on common shareholders' equity of 13.8% increased 20 basis points compared to a year earlier, but was down 230 basis points from the prior quarter for the reasons already mentioned. Fourth quarter return on assets of 1.03% compared to 0.97% last year and 1.19% in the previous quarter.

Total loans of $13,954 million grew 2% ($311 million) in the quarter mainly reflecting growth in general commercial loans, equipment financing and leasing, and personal loans and mortgages.

Overall credit quality remained sound reflecting disciplined underwriting, secured lending practices and a relatively strong level of economic activity in the Bank's key geographic markets. Gross impaired loans totaled $66.8 million at quarter end, compared to $70.2 million last quarter and $97.3 million a year earlier. This represented the tenth consecutive quarterly decrease in the dollar level of impaired loans.

The fourth quarter efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb), excluding the non-tax deductible change in fair value of contingent consideration, was 46.7%, up 120 basis points.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Estimates

CWB's significant accounting policies are outlined in Note 1 with related financial note disclosures by major caption included 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 collective allowance for credit losses is intended to address this uncertainty. At October 31, 2012, the Bank's total allowance for credit losses was $81.7 million (2011 – $72.0 million) which included a specific allowance of $14.4 million (2011 – $10.7 million) and a collective allowance of $67.3 million (2011 – $61.3 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.

PROVISION FOR UNPAID INSURANCE 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, 2012, the provision for unpaid claims and adjustment expenses totaled $86.2 million (2011 – $76.9 million). Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Note 21 to the consolidated financial statements.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The Bank categorizes its fair value measurements of financial instruments recorded on the consolidated balance sheets according to a three-level hierarchy. Level 1 fair value measurements reflect published market prices quoted in active markets. Level 2 fair value measurements were estimated using a valuation technique based on observable market data. Level 3 fair value measurements were determined using a valuation technique based on non-market observable input.

The following table summarizes the significant financial assets and liabilities reported at fair value.

TABLE 24 – VALUATION OF FINANCIAL INSTRUMENTS
($ THOUSANDS)

		Valuation Technique		
As at October 31, 2012	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Cash resources	**$ 236,983**	**$ 236,983**	**$ –**	**$ –**
Securities	**2,336,100**	**2,336,100**	**–**	**–**
Derivative related	**1,951**	**–**	**1,951**	**–**
Total Financial Assets	**$ 2,575,034**	**$ 2,573,083**	**$ 1,951**	**$ –**
Financial Liabilities				
Derivative related	**$ 10**	**$ –**	**$ 10**	**$ –**

		Valuation Technique		
As at October 31, 2011	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Cash resources	$ 312,335	$ 272,704	$ 39,631	$ –
Securities	1,925,704	1,925,704	–	–
Total Financial Assets	$ 2,238,039	$ 2,198,408	$ 39,631	$ –
Financial Liabilities				
Other liability	$ 61,011	$ –	$ –	$ 61,011
Derivative related	436	–	436	–
Total Financial Liabilities	$ 61,447	$ –	$ 436	$ 61,011

Notes 3, 4, 5, 11 and 29 to the consolidated financial statements provide additional information regarding these financial instruments.

Changes in Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants (CICA) 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 are prepared in accordance with IFRS in effect at October 31, 2012 for the 2012 fiscal year, and include comparative information for the 2011 fiscal year.

Impact on Financial Reporting and Accounting Policies
As stated in Notes 1 and 32 to the consolidated financial statements, these are the Bank's first annual financial statements prepared in accordance with IFRS. In preparing the opening IFRS consolidated balance sheet as at November 1, 2010, the Bank has adjusted amounts reported previously in the 2011 consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Bank is set out below. The impact on the Bank's business activities, financial processes and information systems, and internal controls was not significant. IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application provided for under IFRS 1 - *First time Adoption of IFRS* (IFRS 1), as described below:

Optional Exemptions
Business combinations – The Bank has elected to apply IFRS 3 – *Business Combinations* prospectively only to business combinations on or after February 1, 2010. As a result, business combinations prior to February 1, 2010 have not been restated.

Mandatory Exemptions
The Bank has applied all mandatory exemptions as required under IFRS 1.

Business Combinations
The Bank elected to apply IFRS retrospectively to business combinations that occurred on or after February 1, 2010. This election resulted in the adjustment of the accounting for the February 1, 2010 acquisition of National Leasing. The following transition adjustments were required:

- Under Canadian GAAP, contingent consideration is recorded only when it is determinable beyond a reasonable doubt. Under IFRS, certain contingent consideration arrangements are reported at fair value as at the acquisition date, and, each period thereafter, the contingent consideration fair value is remeasured and any adjustments are recorded in other income (non-tax deductible).
- Under Canadian GAAP, acquisition-related costs are included in the cost of the acquisition while, under IFRS, acquisition-related costs are expensed.
- Under Canadian GAAP, the valuation of the Bank's shares issued as part of the consideration for the acquisition is based on a reasonable time frame before and after the acquisition date. Under IFRS, the valuation is completed on the acquisition date.

Derecognition of Securitized Financial Assets
The Bank participates in securitization activities. Securitization consists of the transfer of equipment leases to an independent trust or other third party, which purchases the cash flows associated with the leases and may issue securities to investors. Under Canadian GAAP, securitized assets are accounted for as sales and removed from the consolidated balance sheet as the Bank surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. Under IFRS, because the Bank has an obligation to remit contractual cash flow payments regardless of whether the underlying cash flows are collected from lessees, the Bank has not transferred substantially all of the risks and rewards relating to the leases. As a result, the derecognition criteria within International Accounting Standards (IAS) 39 – *Financial Instruments: Recognition and Measurement* are not met and the leases are accounted for as a secured borrowing with the underlying leases of the securitization remaining on the consolidated balance sheet and a debt security recognized for the funding received.

Consolidation
Under IFRS, a special purpose entity (SPE) is consolidated if it is deemed to be controlled by the reporting entity, as determined under specific criteria. Canadian Western Bank Capital Trust is consolidated under IFRS, which resulted in a $105 million decrease in deposits and the presentation of the CWB Capital Trust Capital Securities Series 1 (WesTS) as equity attributed to non-controlling interests. Distributions on the WesTS that were effectively reported as deposit interest expense under Canadian GAAP are now presented as an equity dividend within IFRS "net income attributable to non-controlling interests." For more information about this special purpose entity, refer to Note 19 to the consolidated financial statements.

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 it 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. The differences between Canadian GAAP and IFRS will generally result in earlier recognition of impairment losses through net income under IFRS.

Other Reclassifications
Certain other financial statement reclassifications have been made on the transition to IFRS. An example includes the presentation of the non-controlling interest in Adroit Investment Management Ltd. which has been reclassified from other liabilities under Canadian GAAP to non-controlling interests (presented in equity) under IFRS.

In addition to the IFRS transition adjustments previously described, the recognition of certain credit related fees was also amended. Certain credit related fees, previously recognized in other income, are now reflected as part of the loan yield and amortized to net interest income over the expected life of the loan. Because total loans are reported net of deferred loan fees, this change resulted in a decrease in total loans of $18.0 million, and a reduction in retained earnings of $13.5 million. While the change had no impact on 2011 net income, approximately $14.5 million was reclassified from other income to net interest income.

Future Changes in Accounting Policies

A number of standards and amendments have been issued by the International Accounting Standards Board (IASB), and the following changes may have an impact on the Bank's future financial statements. CWB is currently reviewing these standards to determine the impact on the financial statements.

IFRS 9 – Financial Instruments
The IASB deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015. The new standard specifies that financial assets be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. Gains or losses on remeasurement of financial assets measured at fair value will generally be recognized in profit or loss.

IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities
The IASB has issued IFRS 10 and 12, which establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, and new disclosure requirements for all forms of interests in other entities. IFRS 10 and 12 are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement
The IASB has issued new guidance on fair value measurement and disclosure requirements for IFRS. The amendments are effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Liabilities
In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7 - *Financial Instruments: Disclosures*. The effective date for the amendments to IAS 32 - *Financial Instruments: Presentation* is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

CWB continues to monitor IASB ongoing activity and proposed changes to IFRS. Several accounting standards that are in the process of being amended by the IASB (i.e. loan impairment, macro-hedging, leases and insurance) may have a significant impact on the Bank's future consolidated financial statements.

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 IFRS, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented on pages 52 to 57 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2012.

Overview

CWB's risk management processes are designed to complement the organization's overall size, level of complexity and philosophy regarding risk, which emphasizes sound controls, effective governance, transparency and accountability. Selectively choosing and managing acceptable risks has been integral to CWB's ability to continually grow profitability in both favourable and adverse market conditions. The maintenance of a strong risk culture continues to be a cornerstone of CWB's approach to risk management.

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, other securities or its deposits. CWB has demonstrated its ability to effectively manage risks through conservative management practices based on a strong risk culture and disciplined risk management approach; however, many risks are beyond CWB's direct control. The Bank actively evaluates existing and potential risks to develop and implement appropriate mitigation strategies. The level of active management related to regulatory risks has increased significantly in recent years in response to changes caused by economic fallouts of the global financial crisis in 2008, the European sovereign debt crisis and other factors.

Each of CWB's businesses is subject to certain risks that require unique mitigation strategies. In response to this, CWB has established a Group Risk Management function that continues to evolve under its mandate to provide enhanced and structured approaches for identifying and appropriately mitigating risks across all companies. Senior management establishes and recommends the Group's risk appetite, which is ultimately approved by the Board of Directors. Group Risk Management is functionally independent of the business and is responsible for maintaining the group-wide risk management framework and resulting policies. Group Risk Management also assists senior management in developing and communicating risk appetite, as well as monitoring certain risk management activities.

Management uses various forms of stress testing to assist in making informed risk management and capital planning decisions, which includes the development of sound business strategy. Stress testing is performed across key functional areas of CWB and is based on both quantitative and qualitative inputs.

Risk Management Principles

The following principles guide the management of risks on a group-wide basis:

- An effective balance of risk and reward through alignment of business strategy with risk appetite, diversifying risk, pricing appropriately for risk, and mitigating risk through preventive and detective controls;
- A group-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 respective day-to-day activities;
- Use of common sense, sound judgment and fulsome risk-based discussions; and,
- Recognition that "knowing your client" reduces risks by ensuring the services provided are suitable for, and understood by, all clients.

Effective risk management for CWB requires a strong principles-based risk culture, a well-defined risk management framework, and clearly understood and well documented risk governance practices.

Risk Management Framework

The primary goal of risk management is to ensure that the outcomes of risk-taking are consistent with the Bank's business activities, strategies and risk appetite. The Bank's group-wide risk management framework provides the foundation for achieving this goal. CWB utilizes 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. This framework is subject to constant evaluation to ensure that it meets the challenges and requirements faced by CWB in its operations, including the evaluation of industry best practices and compliance with evolving regulatory standards.

Risk Culture

A strong risk culture emphasizes transparency and accountability. Organizations with a strong risk culture have a consistent and repeatable approach to risk management when making key business decisions, including regular discussions of risk and reviews of risk scenarios that can help management and members of the Board understand the inter-relationships and potential impacts of risks. CWB's strong risk culture is the cornerstone of its effective group-wide risk management framework. It starts with an appropriate "tone at the top," that demonstrates and sends consistent and clear messages throughout the organization. Risk culture is additionally communicated and emphasized by the actions of senior management and the Board.

Risk Management Governance Structure
Management owns the risk it takes or is exposed to while conducting CWB's business activities, while the Board approves and monitors the framework under which this risk is managed. This places ultimate accountability for the management of risk with the Chief Executive Officer (CEO) and other members of senior management. Senior management, with the assistance of the Group Risk Management function, is responsible for establishing the framework, identifying risks and developing appropriate risk management policies and frameworks. The Board, either directly or through its committees, reviews or approves the key policies and implements specific reporting procedures to enable monitoring of ongoing compliance as it relates to 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, assessment and approval.

The Loans Committee of the Board maintains a close working relationship with the Credit Risk Management department of the Bank and is responsible for the:

- review and approval of credit risk management policies;
- review and approval of loans in excess of delegated limits;
- review 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 CEO, President and Chief Operating Officer (COO), Chief Financial Officer (CFO) and other senior officers as members. ALCO is responsible for:

- ensuring that risks other than credit and insurance 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, capital risk management, foreign exchange risk, interest rate and derivatives risk, operational risk and trust services risk; and,
- overseeing strategy and compliance respecting diversification of product offerings and management of related risks.

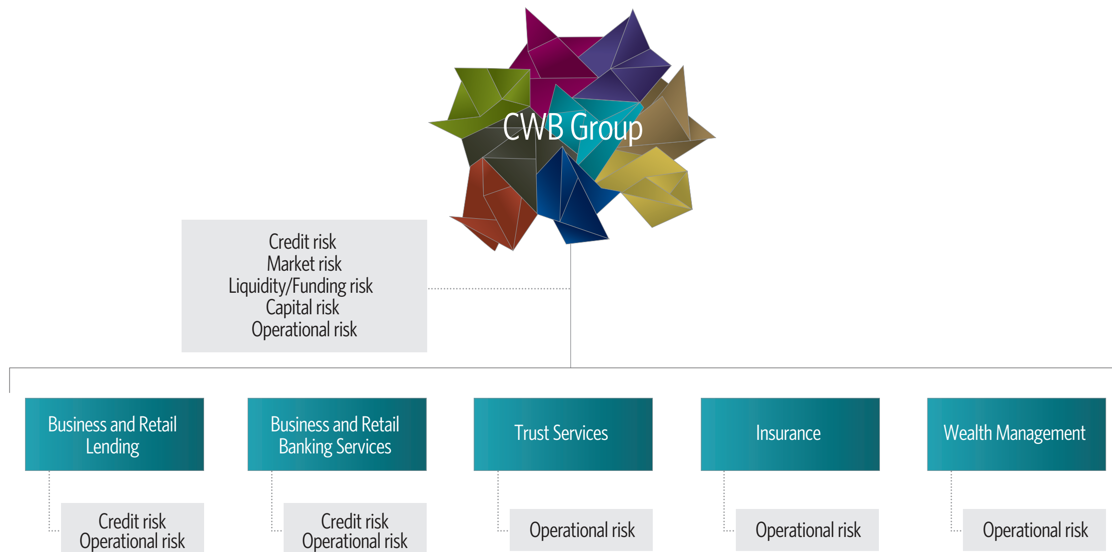
Asset liability management policies are approved and reviewed at least annually by the Board with quarterly compliance reporting also provided.

The Internal Audit department, which reports to the Audit Committee, provides independent, objective assurance and consulting services designed to improve CWB's operations. The scope of the department's work includes determining whether the network of risk management controls and governance processes, as designed and represented by management, are adequate and functioning in the intended manner.

Risk Appetite
Risk appetite is 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 review and guidance from both senior management and the Board. CWB continues to formalize a group-wide risk appetite framework. Key attributes of this framework include the following:

- An ongoing focus on "plain vanilla" banking complemented by extensive knowledge and experience in CWB's chosen lending sectors, key geographic regions and other business areas.
- No direct exposure to wholesale banking businesses (investment banking, brokerage and trading) which are subject to significant earnings volatility and can lead to large unexpected losses compared to typical spread lending.
- Careful and diligent management of risks at all levels led by a knowledgeable and experienced management team committed to sound management practices and the promotion of a highly ethical culture.
- A conservative culture that is prevalent throughout the organization, from the Board to senior management to front-line staff.
- A flat organizational structure with management close to their respective operations, helping to facilitate effective internal communications and reinforcing an appropriate "tone at the top."
- A continuous commitment and focus on the achievement of high quality, sustainable financial results.
- A philosophy of avoiding exposure to risks that are not well understood. Management strives to thoroughly understand the risks of the businesses in which CWB chooses to engage.
- Accountability by all employees to understand risks relevant to their respective area of responsibility, managing within appropriate risk thresholds, and maintaining high ethical standards. The businesses are also managed within the confines of all legal and regulatory requirements.

Principal/Foundational Risks
The ability to identify, measure and monitor risks is a key component of effective group-wide risk management. While CWB's operations are exposed to numerous different types of risk – explained in more detail in the following sections – certain principal (or foundational) risks have been identified that have the greatest potential to materially impact CWB's operations. Following is a visual representation of CWB's principal/foundational risk exposures by business line:



Regulatory risk is also considered to be a principal risk for CWB's operations, particularly in the context of the current and evolving regulatory environment. These and other important risk factors are described in more detail in the following sections. While each of these risks 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 affiliates.

Risk Overview
CWB's main source of credit risk exposure results from its focus and expertise in granting business loans and leases. The credit risk management culture reflects the unique combination of policies, practices, experience and management attitudes that support growth within chosen industries and geographic markets. Underwriting standards are designed to ensure an appropriate balance of risk and return, and are supported by established loan exposure limits in areas of demonstrated lending expertise. Concentration is measured against specified tolerance levels by geographic region, industry sector and product type. In order to minimize its potential loss given default, the vast majority of loans are secured by tangible collateral. This approach to managing credit risk has proven to be very effective, as demonstrated by the Bank's consistently low and relatively stable loan loss provisions and write-offs.

Risk Governance
The credit approval process is centrally controlled, with all significant credit requests submitted to the Credit Risk Management group for adjudication. Credit Risk Management is independent of the originating business. In certain cases, credit requests must be referred to the Bank Credit Committee or to the Loans Committee of the Board for approval.

The Bank Credit Committee approves credit applications to a specified limit beyond the lending limit of the CEO. Credit applications above the limit of the Bank Credit Committee are approved by the Loans Committee of the Board.

Risk Management

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

- the oversight of a Loans Committee of the Board;
- delegated lending authorities that are clearly communicated to personnel engaged in the credit granting process, complemented by a defined approval process for loans in excess of those limits, which include making recommendations to the Bank Credit Committee or 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 both qualified and experienced;
- a standardized credit risk rating classification established for all credits that is assessed at least 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 while maintaining the quality of loans;
- early recognition of problem accounts and immediate implementation of steps to protect the safety of the Bank's capital;
- delegation of all higher risk loans to a specialized loan workout group that performs an appropriate level of regular monitoring and close management;
- independent reviews of credit evaluation, risk classification and credit management procedures by the Internal Audit group, which includes direct reporting of results to senior management, the CEO and the Audit Committee; and,
- detailed quarterly reviews of accounts rated less than satisfactory. Reviews include a recap of action plans for each less than satisfactory account, the 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.

Credit Risk Concentration

Risk diversification is addressed by establishing portfolio limits by geographic area, industry sector and product. CWB's policy is to limit loans to connected corporate borrowers to not more than 10% of the Bank's shareholders' equity. Generally, the Bank's lending 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.

Environmental Risk

While the day-to-day operations of the Bank do not have a material impact on the environment, environmental risks include the risk of loss given default if a borrower is unable to repay loans due to environmental cleanup costs, and the risk of damage to CWB's reputation resulting from the same. In order to manage these risks, and to help mitigate CWB's overall impact on the environment, CWB evaluates potential environmental risks as part of its credit granting process. If potential environmental risks are identified that cannot be resolved to the Bank's satisfaction, CWB will deny the application. Reports on environmental inspections and findings are provided quarterly to the Board. Where financing is provided, Internal Audit will sample test loan files to ensure environmental studies required as a condition of financing are in place, including review for a transmittal letter from the author of the environmental study indicating that it may be relied upon for financing purposes.

Portfolio Quality

CWB's strategy is to maintain a quality, secured and diversified loan portfolio by engaging experienced personnel who provide a hands-on approach in credit granting, account management and quick action when problems develop. Lending is largely directed toward small- and medium-sized businesses with operations conducted in the four western provinces, and to individuals. Relationship banking and "knowing your client" are important tenets of effective account management. Earning an appropriate financial return for the level of risk is also 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 of Canada, and residential mortgages underwritten and serviced by Optimum Mortgage in select regions of Ontario.

Market Risk

Market risk is the impact on earnings resulting from changes in financial market variables such as interest rates and foreign exchange rates.

Risk Overview

Market risk arises when making loans, taking deposits and making investments. CWB itself does not undertake market activities such as market making, arbitrage or proprietary trading and, therefore, does not have direct risks related to those activities. A diversified securities portfolio is maintained that is primarily comprised of high quality debt instruments and preferred and common equities that are subject to price fluctuations based on volatility in financial markets. The most material market risks for CWB are those related to changes in interest rates. CWB has limited direct exposure to foreign exchange risk.

Risk Governance

The Board of Directors annually approves asset liability policies specifying interest rate and foreign exchange exposure limits, and regularly reviews the Bank's position against these thresholds. ALCO is responsible for ongoing oversight and reviews and endorses the asset liability policies at least annually, in addition to providing related strategic direction and oversight for Treasury. Treasury actively monitors market risk with strong support from senior management.

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 for variability in earnings arise 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 primarily reflect differences in the preferences for term 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 works within 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 interest rate risk within prudent guidelines. Interest rate risk policies are reviewed and approved by the Board at least annually. The gap position is reported to the Board at least quarterly.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured at least monthly. Note 28 to the consolidated financial statements shows the gap position at October 31, 2012 for select time intervals.

The analysis in Note 28 is a static measurement of interest rate sensitivity gaps at a specific point in time. There is potential for these gaps to change significantly in a short period of time. The impact on earnings from changes in market interest rates will depend on both the magnitude of and speed with which interest rates change, as well as the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time.

The one-year and under cumulative gap increased to 4.5% of total assets at October 31, 2012, up from -0.4% one year ago, while the one-month and under gap decreased to 9.1%, from 9.5% a year earlier. To the extent possible within the Bank's acceptable parameters for risk, the asset/liability position will continue to be managed such that changing interest rates would generally have a relatively neutral effect on 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 targeted duration as set and guided by ALCO.

Of the $5,465 million in fixed term deposit liabilities maturing within one year from October 31, 2012, approximately $3,260 million (23% of total deposit liabilities) mature by April 30, 2013. The term in which maturing deposits are renewed will have an impact on the future asset liability structure and, hence, interest rate sensitivity. Approximately $237 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 25. 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.

TABLE 25 – 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	2012	2011
90 days	$ 4,411	$ 4,015
1 year	15,086	11,024
1 year percentage change	3.8%	3.0%

Impact of 1% decrease in interest rates

Period	2012	2011
90 days	$ (6,289)	$ (4,786)
1 year	(21,534)	(13,436)
1 year percentage change	(5.4)%	(3.7)%

It is estimated that a one-percentage point increase in all interest rates at October 31, 2012 would decrease unrealized gains related to available-for-sale debt securities and the fair value of interest rate swaps designated as hedges, and result in a reduction in other comprehensive income of approximately $12.6 million, net of tax (October 31, 2011 – $9.0 million); it is estimated that a one-percentage point decrease in all interest rates at October 31, 2012 would result in a higher level of unrealized gains related to available-for-sale debt securities and increase the fair value of interest rate swaps designated as hedges, which would increase other comprehensive income by approximately $12.6 million, net of tax (October 31, 2011 – $9.0 million).

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 46). Assets and liabilities having a term to maturity in excess of five years are subject to specific review and control and were not material.

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, 2012, assets denominated in U.S. dollars were 1.1% (2011 – 1.1%) of total assets and U.S. dollar liabilities were 1.2% (2011 – 1.2%) 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 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 and deviations from policy are reported regularly to ALCO and quarterly to the Board.

Liquidity and Funding Risk

Liquidity risk is the risk that CWB cannot meet a demand for cash or fund its financial obligations in a cost efficient or timely manner as they become due. These financial obligations can arise from withdrawals of deposits, debt maturities, and commitments to provide credit.

Risk Overview
CWB maintains a sound, prudent and conservative approach to managing exposure to liquidity risk, including targeting a contingency planning horizon under slightly stressed and/or severe operating conditions that may be caused by Bank-specific or market-wide stress scenarios. The contingency planning horizon and related liquidity and funding management strategies comprise an integrated liquidity risk management program designed to ensure that CWB maintains liquidity risk within an appropriate threshold.

CWB's key risk mitigation strategies include the maintenance of:

- an appropriate balance between the level of risks CWB undertakes and the corresponding costs of risk mitigation that consider the potential impact of extreme but plausible events;
- broad funding access, including preserving and growing a reliable base of core deposits and continual access to diversified sources of funding;
- a comprehensive group-wide liquidity contingency plan that is supported by a pool of unencumbered marketable securities that would provide assured access to liquidity in a crisis; and
- the maintenance of a liquidity position to manage current and future liquidity requirements while also contributing to the flexibility, safety and soundness of the Bank under times of stress.

Refer to the Deposit section and Liquidity Management section on pages 36 and 38, respectively, for additional information.

Risk Governance
Liquidity management is centralized to better facilitate the effective management of liquidity risk on a group-wide basis. The Board annually approves asset liability policies and delegates liquidity risk authorities to senior management. The Board is responsible for oversight of the liquidity policies and also reviews, on a regular basis, reporting on CWB Group's liquidity position, status and trends.

ALCO annually reviews and endorses the liquidity management policies and provides strategic direction and primary management oversight for the treasury management function. Treasury actively monitors liquidity risk with strong support from senior management.

Risk Management
CWB has comprehensive Asset Liability Management policies that cover key aspects of liquidity risk management. The key elements of managing liquidity risk for CWB include the following:

- Policies – Liquidity risk management policies establish targets for minimum liquidity, set the monitoring regime, and define authority levels and responsibilities. Policies are reviewed at a minimum annually by ALCO and the Board. Limit setting establishes acceptable thresholds for liquidity risk.
- Monitoring – Trends and behaviours regarding how clients manage their deposits and loans are monitored to determine appropriate liquidity levels. Active monitoring of the external environment is performed using a wide range of sources and economic barometers.
- Measurement and modeling – The Bank's liquidity model measures and forecasts cash inflows and outflows, including any cash flows related to applicable off-balance sheet activities over various risk scenarios.
- Reporting – Treasury oversight of all significant liquidity risks that support analysis, risk measurement, stress testing, monitoring and reporting to both ALCO and the Board.
- Stress testing – CWB performs liquidity stress testing on a regular basis to evaluate the potential effect of both industry (macro) and Bank-specific (micro) disruptions on the Bank's liquidity position. Liquidity stress tests consider the effect of changes in funding assumptions, depositor behaviour and the market behaviour of liquid assets. Industry standard stress tests are also completed as required by regulators and rating agencies. Stress test results are reviewed by ALCO and are considered in making liquidity management decisions. Liquidity stress testing has many purposes, including, but not limited to:
  - helping the Board and senior management to understand the potential behavior of various positions on the Bank's balance sheet in circumstances of stress; and,
  - facilitating the development of effective risk mitigation and contingency plans.
- Contingency planning – A liquidity contingency plan is maintained that specifies the desired approaches for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential countermeasures to be considered at various stages of an event.
- Funding diversification – The Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. Supplementary funding sources include securitization and whole loan sales.
- Core liquidity – The Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events.

The Bank for International Settlements (BIS) liquidity regulations described in the document *"International Framework for Liquidity Risk, Measurement, Standards and Monitoring"* 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. BIS is currently expected to introduce the LCR effective January 1, 2015 and the NSFR effective January 1, 2018.

Contractual Obligations
CWB enters into contracts in the normal course of business that give rise to commitments of future minimum payments that affect the liquidity position. 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 13, 16, 20 and 28 of the consolidated financial statements, the following contractual obligations are outstanding at October 31, 2012:

TABLE 26 – CONTRACTUAL OBLIGATIONS
($ THOUSANDS)

	Within 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Lease commitments	$ 10,839	$ 20,709	$ 14,653	$ 21,649	$ 67,850
Purchase obligations for capital expenditures	875	1,870	1,620	810	5,175
October 31, 2012	**$ 11,714**	**$ 22,579**	**$ 16,273**	**$ 22,459**	**$ 73,025**
October 31, 2011	$ 12,199	$ 21,907	$ 18,580	$ 23,745	$ 76,431

Credit Ratings
CWB's ability to efficiently access unsecured funding on a cost-effective basis is partially dependent upon the Bank maintaining satisfactory credit ratings. Management believes the maintenance of satisfactory credit ratings with a stable outlook will increase the breadth of clients and investors able to participate in CWB's deposit and debt offerings, while also lowering the Bank's overall cost of capital.

Credit ratings are largely determined by the quality of earnings, the adequacy of capital and the effectiveness of risk management programs. There can be no assurance that CWB's credit ratings and the corresponding outlook will not be changed, potentially resulting in adverse consequences for the Bank's funding capacity or access to capital markets. Changes in credit ratings may also affect the ability and/or the cost of establishing normal course derivative or hedging transactions. 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.

The following table summarizes the credit ratings issued for CWB, as well as the corresponding rating agency outlook at October 31, 2012:

TABLE 27 – CREDIT RATINGS
As at October 31, 2012 (Unchanged from October 31, 2011)

	Long-term senior debt and deposits	Subordinated debentures	Outlook
DBRS Limited	A (low)	BBB (high)	stable

Capital Risk

Capital risk is the risk that CWB has insufficient capital resources, in either quantity or quality, to support strategic initiatives and current or planned operations.

Risk Overview
CWB follows three main principles to facilitate the effective management of capital risk:

- Capital management involves a dynamic and ongoing process to determine, allocate and maintain appropriate amounts of capital.
- The "optimal" amount of capital must consider regulatory and economic capital requirements, as well as the expectation of CWB shareholders and other stakeholders.
- The objective of capital management is to ensure:
  - Capital is, and will continue to be, adequate to maintain confidence in the safety and stability of the institution while also complying with required regulatory standards;
  - CWB has the capability to access appropriate sources of capital in a timely and cost-effective manner; and,
  - Return on capital is sufficient to support projected business growth and satisfy the expectations of investors.

Risk Governance
The Board annually approves the regulatory capital plan, Internal Capital Adequacy Assessment Process (ICAAP) and capital management policies. ALCO is responsible for capital risk management. Under the leadership of the CFO, senior representatives within Finance, Group Risk Management and the Credit Analytics departments are the key representatives comprising the ICAAP core team, which is closely supported by other key departments, including Treasury.

Risk Management:
The following are key elements of capital risk management:

- The regulatory capital plan, inclusive of the capital management policy and three-year capital projections, are completed at least annually.
- Consolidated forecast models are used to analyze the likely capital impact of projected operations, stress testing and/or significant transactions.
- Capital ratios are reported to senior management and the Board on a monthly basis, with additional analysis and discussion provided in the quarterly reports of the CFO.
- A robust process is in place to calculate regulatory capital, risk-weighted assets under the Standardized Approach and regulatory capital ratios; results are reviewed by knowledgeable and senior individuals within the Bank. The lead-up to implementation of Basel III capital requirements was supported by active capital management and quarterly updates for the Board, as well as investors and other stakeholders.

For additional information, please refer to the Capital Management section of this MD&A.

Operational Risk

Operational risk is the risk of loss resulting from human error, inadequate or failed processes, systems or controls, or external events. A subset of operational risk is people risk, which is the risk that CWB is not able to retain and attract sufficient qualified resources to implement its strategies and/or achieve its objectives.

Risk Overview
Operational risk is inherent in all business activities including banking, trust, wealth management and insurance operations, and is embedded in processes that support the management of other risks such as credit, liquidity, market, capital and reputational risk. Its impact can be financial loss, loss of reputation, loss of competitive position, regulatory penalties, or failure in the management of other risks, such as credit or liquidity risk. CWB is exposed to operational risk from internal business activities, external threats and outsourced business activities. While operational risk cannot be completely eliminated, proactive operational risk management is a key strategy to mitigate this risk. The primary financial measure of operational risk is actual losses incurred. CWB incurred no material losses related to operational risk in 2011 or 2012.

The Basel II regulatory framework requires that certain amounts of capital be allocated to mitigate operational risk. Under Basel II, CWB uses the Standardized Approach to measure operational risk. CWB has a group-wide Operational Risk Management Framework to ensure that all staff understand their responsibilities with respect to operational risk management. The Operational Risk Management Framework encompasses a common language of risk coupled with group-wide programs and methodologies for identification, measurement, control, and management of operational risk.

With oversight by the Board and senior management, Group Risk Management is responsible for the continual enhancement of the Operational Risk Framework and the ongoing evolution of CWB's approach to operational risk management.

Risk Governance
Business and support areas are fully accountable for the management and control of significant operational risks to which they are exposed.

ALCO has oversight responsibility for operational risk with support from CWB's Operations Committee and the Risk Committees of subsidiary companies. Where a subsidiary company does not have a Risk Committee, support for operational risk management is provided by the senior management of that company.

The Board has ultimate oversight and approves the Group's Operational Risk Management Framework with support from the various Board Committees.

Risk Management
Strategies and factors that assist with the effective management of operational risk include, but are not limited to:

- a knowledgeable and experienced management team committed to sound management practices and the promotion of a highly ethical culture;
- very clear communication of "tone at the top", which supports effective risk management reporting;
- a flat organization structure with management close to their respective operations, which helps to facilitate effective internal communication;
- organizational surveys on employee engagement and corporate culture (including CWB's ongoing participation in the 50 Best Employers in Canada survey);
- communication of the importance of effective risk management to all levels through a combination of training and policy implementation; and,
- management that is very engaged with promoting the Bank's operational risk tolerance and appetite.

Key elements of the Operational Risk Management Framework include:

- Enterprise–wide Definitions of Operational Risk – CWB incorporates standard risk terms and certain key operational risk definitions as part of its Risk Assessment Policy;
- Risk Assessments – risk control self-assessments are utilized throughout CWB with the objective to proactively identify the exposures to key operational risks and assess whether appropriate internal controls are in place to mitigate these risks. The probability of negative outcomes and estimates of the resulting impacts are measured against internal controls. Action plans may result where additional strategies are identified to reduce risk exposure;
- Operational Risk Reporting – loss data monitoring is important to maintain the Bank's awareness of identified operational risks and to assist management in taking constructive action to reduce exposures to future losses. A centralized reporting system is used to monitor and report on internal and external operational risk loss events to senior management and the Audit Committee;

- implementation of policies and procedural controls appropriate to address identified risks (including segregation of duties and other checks and balances);
- adoption of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) for Smaller Business framework for internal control assessment;
- ongoing enhancements to fraud prevention processes and policies;
- established "whistleblower" processes and employee codes of conduct;
- maintenance of a group-wide outsourcing risk management program;
- at least annual assessment and benchmarking of the amount and type of business insurance to ensure coverage is appropriate;
- human resource policies and processes to ensure staff are adequately trained in the tasks for which they are responsible;
- ongoing succession planning;
- a Regulatory Compliance department focused on key regulatory compliance areas such as privacy, anti-money laundering, anti-terrorist financing and consumer regulations;
- use of technology that incorporates automated systems with built-in controls;
- effective project management processes supported by a designated committee comprised of representatives of senior management; and,
- continual updating and testing of procedures and contingency plans for disaster recovery and business continuity (including pandemic planning).

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 clients and could expose CWB to litigation and/or regulatory action. Responsibility for governance and management of reputation risk falls to all CWB employees, including senior management and members of the Board. All directors, officers and employees have a responsibility to conduct their activities in accordance with the CWB Group's personal conduct policies and in a manner that minimizes reputational risk. In addition to members of senior management, the Legal, Strategy and Communications, and Regulatory Compliance departments are particularly involved in the management of reputation risk.

Regulatory Risk

The businesses operated by CWB and its affiliates 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 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 intensity 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, an increase in the volume of regulation, more frequent data and information requests from regulators, and shorter implementation time frames for regulatory requirements, including the Basel III capital and liquidity standards. Certain regulations may also impact CWB's ability to compete against both non-OSFI and other 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 and the active involvement of senior management. Notwithstanding the additional resources, the volume, pace and implementation of new and amended regulations and standards increases the risk of unintended non-compliance.

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.

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 on prospective reinsurers and only purchases coverage from a list of reviewed and approved companies.

Canadian Direct is exposed to regulatory risk as the insurance business is regulated by both federal and provincial authorities. This risk is managed mainly by monitoring current developments and actively participating in relevant bodies and associations in order to contribute Canadian Direct's perspectives on regulations.

Other Risk Factors

In addition to the risks described above, other risk factors, including those below, may adversely affect CWB's businesses and financial results.

GENERAL BUSINESS AND ECONOMIC CONDITIONS

CWB primarily operates in Western Canada. As a result, its earnings are largely impacted by the general business and economic conditions of the four western provinces. Several factors that could impact general business and economic conditions in the Bank's core markets include, but are not limited to: changes in short-term and long-term interest rates; energy and other commodity prices; inflation; exchange rates; levels of consumer, business and government spending; levels of consumer, business and government debt; consumer confidence; real estate prices; and, adverse global economic events and/or elevated economic uncertainties.

LEVEL OF COMPETITION

CWB's performance is impacted by the intensity of competition in the markets in which it operates. Each of CWB's businesses operates in highly competitive markets. Client 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.

ACCURACY AND COMPLETENESS OF INFORMATION ON CLIENTS AND COUNTERPARTIES

CWB depends on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions with clients and counterparties, CWB may rely on information furnished by them, including financial statements, appraisals, external credit ratings and other financial information. CWB may also rely on the representations of clients 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 standard accounting practices, 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 effective 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 successfully manage acquisition strategies could have a material adverse impact on CWB's business, financial condition and results of operations.

ABILITY TO ATTRACT AND RETAIN EMPLOYEES

Competition for qualified employees is intense reflecting the recruitment needs of other financial services companies and those outside of the financial industry. The goal is to continually retain and attract qualified employees, but there is no assurance that CWB will be able to do so.

INFORMATION SYSTEMS AND TECHNOLOGY

CWB is highly dependent upon information technology and supporting infrastructure, such as voice, data and network access. Various third parties provide key components of the infrastructure and applications. Disruptions in the Bank's information technology and infrastructure, 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 Group to conduct regular business and/or deliver products and services to customers. In addition, CWB currently has a number of significant technology projects underway, including the replacement of its core banking system (expected to be completed in 2015), which further increases risk exposure related to information systems and technology.

ADEQUACY OF THE BANK'S RISK MANAGEMENT FRAMEWORK

The Risk Management Framework is made up of various processes and strategies for managing risk exposure. Given its structure and scope of its operations, CWB is primarily subject to credit, market (mainly interest rate and foreign exchange), liquidity, operational, reputation, regulatory, insurance, strategic, legal, environmental, and other risks. There can be no assurance that the framework to manage risks, including the framework's underlying assumptions and models, will be effective under all conditions and circumstances. If the risk management framework proves ineffective, the Bank could be materially affected by unexpected financial losses and/or other harm.

CHANGES IN ACCOUNTING STANDARDS AND ACCOUNTING POLICIES AND ESTIMATES

The International Accounting Standards Board continues to change the financial accounting and reporting standards that govern the preparation of CWB's financial statements. These types of changes can be significant and may materially impact how CWB records and reports its financial condition and results of operations. Where CWB is required to retroactively apply a new or revised standard, it may be required to restate prior period financial statements.

OTHER FACTORS

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

UPDATED SHARE INFORMATION

As at November 29, 2012, there were 78,745,223 common shares outstanding. Also outstanding were employee stock options, which are or will be exercisable for up to 3,435,150 common shares for maximum proceeds of $84.2 million. On December 3, 2012, the Board of Directors declared a quarterly cash dividend of $0.17 per common share payable on January 4, 2013, to shareholders of record on December 17, 2012. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share payable on January 31, 2013 to shareholders of record on January 24, 2013.

CONTROLS AND PROCEDURES

As of October 31, 2012, an evaluation was carried out on the effectiveness of the Bank's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have certified that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also at October 31, 2012, an evaluation was carried out on the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on that evaluation, the CEO and CFO have certified that the design and operating effectiveness of internal controls over financial reporting were effective.

The foregoing 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 CEO and CFO 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, 2012 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

This Management's Discussion and Analysis is dated December 3, 2012.

CONSOLIDATED 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 International Financial Reporting Standards, 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.

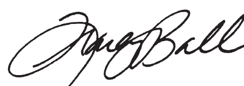
The Governance Committee, appointed by the Board of Directors, is composed of directors who are not officers or employees of the Bank. Their responsibilities include reviewing related party transactions and reporting to the Board of Directors those transactions which may have a material impact on the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

December 3, 2012



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, 2012, October 31, 2011 and November 1, 2010, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2012 and October 31, 2011, 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 International Financial Reporting Standards, 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

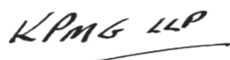
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 Bank'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 Bank'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 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, 2012, October 31, 2011, and November 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.



KPMG LLP
Chartered Accountants
Edmonton, Alberta

December 3, 2012

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

		As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Assets				
Cash Resources	(Note 3)			
Cash and non-interest bearing deposits with financial institutions		$ 33,690	$ 73,318	$ 8,965
Interest bearing deposits with regulated financial institutions		177,028	233,964	168,998
Cheques and other items in transit		26,265	5,053	9,981
		236,983	312,335	187,944
Securities	(Note 4)			
Issued or guaranteed by Canada		980,200	644,356	564,694
Issued or guaranteed by a province or municipality		478,622	380,031	88,478
Other securities		877,278	901,317	857,015
		2,336,100	1,925,704	1,510,187
Securities Purchased Under Resale Agreements	(Note 5)	-	–	177,954
Loans	(Note 6)			
Residential mortgages		3,352,735	3,008,545	2,479,957
Other loans		10,682,674	9,356,717	8,276,263
		14,035,409	12,365,262	10,756,220
Allowance for credit losses	(Note 7)	(81,723)	(71,980)	(81,523)
		13,953,686	12,293,282	10,674,697
Other				
Property and equipment	(Note 8)	86,941	72,674	65,978
Goodwill	(Note 9)	45,536	45,691	45,562
Intangible assets	(Note 9)	31,956	37,420	43,420
Insurance related	(Note 10)	57,650	56,734	59,652
Derivative related	(Note 11)	1,951	–	134
Other assets	(Note 12)	122,466	105,301	116,200
		346,500	317,820	330,946
Total Assets		$ 16,873,269	$ 14,849,141	$ 12,881,728
Liabilities and Equity				
Deposits	(Note 13)			
Payable on demand		$ 685,193	$ 583,267	$ 530,608
Payable after notice		3,773,611	3,407,590	2,999,599
Payable on a fixed date		9,686,033	8,403,832	7,177,560
		14,144,837	12,394,689	10,707,767
Other				
Cheques and other items in transit		54,030	45,986	39,628
Insurance related	(Note 14)	160,302	149,130	149,396
Derivative related	(Note 11)	10	436	992
Securities sold under repurchase agreements	(Note 5)	70,089	–	–
Other liabilities	(Note 15)	239,503	262,185	239,474
		523,934	457,737	429,490
Debt	(Note 16)			
Debt securities		209,273	89,877	202,006
Subordinated debentures		425,000	545,000	315,000
		634,273	634,877	517,006
Equity				
Preferred shares	(Note 17)	209,750	209,750	209,750
Common shares	(Note 17)	490,218	408,282	279,620
Retained earnings		733,298	608,848	586,933
Share-based payment reserve		22,468	21,884	21,291
Other reserves		9,247	7,849	24,692
Total Shareholders' Equity		1,464,981	1,256,613	1,122,286
Non-controlling interests	(Note 19)	105,244	105,225	105,179
Total Equity		1,570,225	1,361,838	1,227,465
Total Liabilities and Equity		$ 16,873,269	$ 14,849,141	$ 12,881,728

The accompanying notes are an integral part of the consolidated financial statements.

Allan W. Jackson
Chair

Larry M. Pollock
Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED OCTOBER 31
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

		2012	2011
Interest Income			
Loans		$ 686,534	$ 625,048
Securities		43,548	44,177
Deposits with regulated financial institutions		2,389	4,062
		732,471	673,287
Interest Expense			
Deposits		269,772	238,701
Debt		28,270	34,193
		298,042	272,894
Net Interest Income		434,429	400,393
Provision for Credit Losses	(Note 7)	25,107	21,783
Net Interest Income after Provision for Credit Losses		409,322	378,610
Other Income			
Credit related		19,705	18,307
Trust and wealth management services		19,065	19,050
Insurance, net	(Note 21)	17,353	20,250
Gains on securities, net		12,449	7,283
Retail services		9,227	9,486
Foreign exchange gains		3,255	3,488
Contingent consideration fair value change	(Note 29)	(2,489)	(12,305)
Other		3,345	6,544
		81,910	72,103
Net Interest and Other Income		491,232	450,713
Non-Interest Expenses			
Salaries and employee benefits		153,844	141,865
Premises and equipment		39,502	36,738
Other expenses		42,720	42,449
Provincial capital taxes		500	1,399
		236,566	222,451
Net Income before Income Taxes		254,666	228,262
Income Taxes	(Note 24)	60,209	56,541
Net Income		$ 194,457	$ 171,721
Net income attributable to non-controlling interests	(Note 19)	7,052	6,975
Net Income Attributable to Shareholders of the Bank		$ 187,405	$ 164,746
Preferred share dividends		15,208	15,208
Net Income Available to Common Shareholders		$ 172,197	$ 149,538
Average number of common shares (in thousands)		76,841	72,205
Average number of diluted common shares (in thousands)		77,460	76,705
Earnings Per Common Share	(Note 25)		
Basic		$ 2.24	$ 2.07
Diluted		2.22	1.95

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31
($ THOUSANDS)

		2012		2011
Net Income	**$**	**194,457**	$	171,721
Available-for-sale securities				
Gains (losses) from change in fair value (1)		**9,580**		(11,710)
Reclassification to other income (2)		**(9,129)**		(5,133)
		451		(16,843)
Derivatives designated as cash flow hedges				
Gains from change in fair value (3)		**1,430**		–
Reclassification to net interest income (4)		**(483)**		–
		947		–
Other Comprehensive Income (Loss), Net of Tax, for the Year		**1,398**		(16,843)
Comprehensive Income for the Year	**$**	**195,855**	$	154,878
Comprehensive income for the year attributable to:				
Shareholders of the Bank	**$**	**188,803**	$	147,903
Non-controlling interests		**7,052**		6,975
Comprehensive Income for the Year	**$**	**195,855**	$	154,878

(1) Net of income tax of $3,441 (2011 – $4,731).
(2) Net of income tax of $3,320 (2011 – $2,093).
(3) Net of income tax of $500 (2011 – nil).
(4) Net of income tax of $169 (2011 – nil).

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31
($ THOUSANDS)

		2012	2011
Retained Earnings			
Balance at beginning of year		$ 608,848	$ 586,933
Net income attributable to shareholders of the Bank		187,405	164,746
Dividends - Preferred shares		(15,208)	(15,208)
- Common shares		(47,747)	(39,177)
Warrants purchased and cancelled	(Note 17)	-	(88,446)
Balance at end of year		733,298	608,848
Other Reserves			
Balance at beginning of year		7,849	24,692
Changes in available-for-sale securities		451	(16,843)
Changes in derivatives designated as cash flow hedges		947	-
Balance at end of year		9,247	7,849
Preferred Shares	(Note 17)		
Balance at beginning and end of year		209,750	209,750
Common Shares	(Note 17)		
Balance at beginning of year		408,282	279,620
Issued on settlement of contingent consideration		63,399	-
Issued under dividend reinvestment plan		12,252	5,941
Transferred from share-based payment reserve on the exercise or exchange of options		4,432	4,009
Issued on exercise of options		1,853	2,996
Issued on exercise of warrants		-	115,716
Balance at end of year		490,218	408,282
Share-Based Payment Reserve			
Balance at beginning of year		21,884	21,291
Amortization of fair value of options	(Note 18)	5,016	4,602
Transferred to common shares on the exercise or exchange of options		(4,432)	(4,009)
Balance at end of year		22,468	21,884
Total Shareholders' Equity		1,464,981	1,256,613
Non-Controlling Interests			
Balance at beginning of year		105,225	105,179
Net income attributable to non-controlling interests		7,052	6,975
Dividends to non-controlling interests		(7,033)	(6,929)
Balance at end of year		105,244	105,225
Total Equity		$ 1,570,225	$ 1,361,838

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31

($ THOUSANDS)

		2012	2011
Cash Flows from Operating Activities			
Net income		$ 194,457	$ 171,721
Adjustments to determine net cash flows:			
Provision for credit losses		25,107	21,783
Depreciation and amortization		17,261	19,748
Current income taxes receivable and payable		8,981	5,036
Amortization of fair value of employee stock options		5,016	4,602
Accrued interest receivable and payable, net		(3,541)	2,529
Deferred taxes, net		(695)	(11,146)
Gain on securities, net		(12,449)	(7,283)
Other items, net		24,283	51,352
		258,420	258,342
Cash Flows from Financing Activities			
Deposits, net		1,750,148	1,686,922
Securities sold under repurchase agreements, net		70,089	-
Common shares issued, net of issuance costs	(Note 17)	14,004	124,653
Debt securities issued		226,249	-
Debt securities repaid		(106,855)	(112,129)
Debentures issued	(Note 16)	-	300,000
Debentures redeemed	(Note 16)	(120,000)	(70,000)
Dividends		(62,955)	(54,385)
Dividends to non-controlling interests		(7,033)	(6,930)
Warrants purchased and cancelled	(Note 17)	-	(88,446)
		1,763,647	1,779,685
Cash Flows from Investing Activities			
Interest bearing deposits with regulated financial institutions, net		57,128	(65,414)
Securities, purchased		(4,959,542)	(4,725,843)
Securities, sales proceeds		2,855,832	2,095,077
Securities, matured		1,711,152	2,192,675
Loans, net		(1,685,511)	(1,640,368)
Property and equipment		(27,586)	(19,041)
Securities purchased under resale agreements, net		-	177,954
		(2,048,527)	(1,984,960)
Change in Cash and Cash Equivalents		(26,460)	53,067
Cash and Cash Equivalents at Beginning of Year		32,385	(20,682)
Cash and Cash Equivalents at End of Year *		$ 5,925	$ 32,385
*** Represented by:**			
Cash and non-interest bearing deposits with financial institutions		$ 33,690	$ 73,318
Cheques and other items in transit (included in Cash Resources)		26,265	5,053
Cheques and other items in transit (included in Other Liabilities)		(54,030)	(45,986)
Cash and Cash Equivalents at End of Year		$ 5,925	$ 32,385
Supplemental Disclosure of Cash Flow Information			
Interest and dividends received		$ 724,759	$ 672,271
Interest paid		293,871	268,272
Income taxes paid		51,923	63,034

The accompanying notes are an integral part of the consolidated financial statements.

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

a) Reporting Entity

Canadian Western Bank (CWB or the Bank) is a publicly traded Canadian bank headquartered in Edmonton, Alberta. CWB offers a diversified range of financial services.

The consolidated financial statements were authorized for issue by the Board of Directors on December 3, 2012.

b) Statement of Compliance

These consolidated financial statements of Canadian Western Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with subsection 308 (4) of the Bank Act and the accounting requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI).

These are the Bank's first annual financial statements prepared in accordance with IFRS, and IFRS 1 – *First time Adoption of IFRS* has been applied. In preparing the opening IFRS consolidated balance sheet as at November 1, 2010, the Bank has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). An explanation of how the transition to IFRS has affected the Bank's consolidated financial statements is provided in Note 32.

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.

c) Use of Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires the Bank 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 consolidated financial statements as well as the reported amount of revenues and expenses during the period. Key areas of estimation where the Bank 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, deferred tax assets and liabilities, impairment of available-for-sale securities and fair value of stock options. Therefore, actual results could differ from these estimates.

d) Significant Judgments

Information of critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in the following notes:

- Impairment of loans (Note 6)
- Allowance for credit losses (Note 7)
- Derecognition of securitization transactions (Note 16)
- Provision for unpaid claims and adjustment expenses (Note 21)
- Financial instruments measured at fair value (Note 29)

e) 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 33 for details of the subsidiaries. In the context of special purpose entities (SPEs), an SPE is consolidated when the substance of the relationship between the SPE and CWB indicates that the SPE is controlled by CWB. See Note 19 for details of the SPE.

f) Business Combinations

Acquisitions on or after February 1, 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the acquisition date. Contingent consideration is considered a financial instrument, and as such it is remeasured each period thereafter with the adjustment recorded to other income. Acquisition related costs are recognized as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, including any amount of any non-controlling interest in the acquiree, over the net of the recognized amounts of the identifiable assets acquired and the liabilities assumed.

The Bank elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Acquisitions prior to February 1, 2010
As part of the transition to IFRS, the Bank elected to restate only those business combinations that occurred on or after February 1, 2010. See Note 32 for details of the transition impact. In respect of business combinations prior to February 1, 2010, goodwill represents the amount recognized under Canadian GAAP. Under Canadian GAAP, business acquisitions were accounted for using the purchase method.

g) Functional and Foreign Currencies

The consolidated financial statements are presented in Canadian dollars, which is the Bank's functional currency. 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 period. 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 equity securities that are included in other comprehensive income.

h) Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at November 1, 2010 for the purposes of the transition to IFRS. 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	Property and equipment
9	Goodwill and intangible assets
10	Insurance related other assets
11	Derivative financial instruments
12	Other assets
13	Deposits
14	Insurance related other liabilities
15	Other liabilities
16	Debt
17	Capital stock
18	Share-based payments
19	Non-controlling interests
20	Contingent liabilities and commitments
21	Insurance operations
22	Disclosures on rate regulation
23	Employee future benefits
24	Income taxes
25	Earnings per common share
26	Assets under administration and management
27	Related party transactions
28	Interest rate sensitivity
29	Fair value of financial instruments
30	Risk management
31	Capital management
32	Transition to IFRS
33	Subsidiaries

i) Future Accounting Changes

A number of standards and amendments have been issued by the IASB, and the following changes may have an impact on the Bank's future financial statements. CWB is currently reviewing these standards to determine the impact on the financial statements.

IFRS 9 – Financial Instruments
The IASB deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015. The new standard specifies that financial assets be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. Gains or losses on remeasurement of financial assets measured at fair value will generally be recognized in profit or loss.

IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities
The IASB has issued IFRS 10 and 12, which establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, and new disclosure requirements for all forms of interests in other entities. IFRS 10 and 12 are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement
The IASB has issued new guidance on fair value measurement and disclosure requirements for IFRS. The amendments are effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Liabilities
In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7 – *Financial Instruments: Disclosures*. The effective date for the amendments to IAS 32 – *Financial Instruments: Presentation* is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

CWB continues to monitor IASB ongoing activity and proposed changes to IFRS. Several accounting standards that are in the process of being amended by the IASB (i.e. loan impairment, macro-hedging, leases and insurance) may have a significant impact on the Bank's future consolidated 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 debt.

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 2012 Annual Report.

Income and expenses are classified as to source, either securities or loans for income, and deposits or debt 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, and include highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value.

Included in deposits with regulated financial institutions are available-for-sale financial instruments reported on the consolidated balance sheets at the fair value of $236,983 (October 31, 2011 - $233,964 and November 1, 2010 - $168,998), which is $482 (October 31, 2011 - $815 and November 1, 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, until the security is sold or becomes impaired. Interest income from securities, which includes amortization of premiums and discounts, is recognized using the effective interest method in the consolidated statements of income. Dividend income is recognized on the ex-dividend date.

Securities are purchased with the original intention to hold the instrument to maturity or until market conditions render alternative investments more attractive. Gains and losses realized on disposal of securities and adjustments to record any impairment in value are included in other income.

At each reporting date, the Bank assesses whether there is objective evidence that securities designated as available-for-sale are impaired. Objective evidence that a security is impaired can include significant financial difficulty of the issuer, indications that an issuer will enter bankruptcy or the lack of an active market for a security. In addition, for an equity security, a significant or prolonged decline in fair value below amortized cost is objective evidence of impairment.

Impairment losses on available-for-sale securities are recognized by reclassifying the cumulative loss recognized in other comprehensive income to the income statement as "gains on securities, net". The reclassified amount is the difference between the amortized cost, net of any principal repayment and amortization, and the fair value, less any impairment previously recognized in net income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed, with the reversal recognized in net income. However, if, in a subsequent period, the fair value of an impaired available-for-sale equity security increases, the recovery is recognized in other comprehensive income until the equity security is sold or redeemed.

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

	Maturities				As at	As at	As at
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	October 31 2012	October 31 2011	November 1 2010
Securities issued or guaranteed by							
Canada	$ 673,005	$ 247,119	$ 60,076	$ -	$ 980,200	$ 644,356	$ 564,694
A province or municipality	315,350	83,211	80,061	-	478,622	380,031	88,478
Other debt securities	201,179	149,009	14,649	6,207	371,044	303,545	256,544
Equity securities							
Preferred shares	19,808	211,766	120,666	46,512	398,752	497,130	511,228
Common shares [(1)]	-	-	-	107,482	107,482	100,642	89,243
Total	$ 1,209,342	$ 691,105	$ 275,452	$ 160,201	$ 2,336,100	$ 1,925,704	$ 1,510,187

(1) Common shares have no maturity date.

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

	As at October 31, 2012				As at October 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities issued or guaranteed by								
Canada	$ 980,024	$ 270	$ 94	$ 980,200	$ 645,001	$ 25	$ 670	$ 644,356
A province or municipality	478,689	93	160	478,622	380,510	522	1,001	380,031
Other debt securities	369,407	1,734	97	371,044	301,718	2,087	260	303,545
Equity securities								
Preferred shares	391,781	8,249	1,278	398,752	487,818	10,448	1,136	497,130
Common shares	105,368	4,701	2,587	107,482	100,614	5,718	5,690	100,642
Total	$ 2,325,269	$ 15,047	$ 4,216	$ 2,336,100	$ 1,915,661	$ 18,800	$ 8,757	$ 1,925,704

	As at November 1, 2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities issued or guaranteed by				
Canada	$ 564,833	$ 69	$ 208	$ 564,694
A province or municipality	87,755	737	14	88,478
Other debt securities	253,132	3,493	81	256,544
Equity securities				
Preferred shares	490,497	20,731	–	511,228
Common shares	81,574	9,305	1,636	89,243
Total	$ 1,477,791	$ 34,335	$ 1,939	$ 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 credit spreads and shifts in the interest rate curve. Volatility in equity markets also leads to fluctuations in value, particularly for common shares. For the year ended October 31, 2012, the Bank has assessed the securities and, based on available objective evidence, nil (2011 – $3,023) impairment charges were included in gains on securities, net.

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.

6. LOANS

Loans, including leases, are recorded at amortized cost and stated net of unearned income, unamortized premiums and allowance for credit losses (Note 7). Interest income is recorded using the effective interest method.

Loans are determined to be impaired when payments are contractually past due 90 days, or where the Bank has commenced realization proceedings, or where the Bank is of the opinion that the loan should be regarded as impaired based on objective evidence. Objective evidence that a loan is impaired can include significant financial difficulty of the borrower, default or delinquency of a borrower, breach of loan covenants or conditions, or indications that a borrower will enter bankruptcy. An exception may be made where the Bank 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, a province 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 original effective interest rate of the loan. 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. 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 integral to the yield on the loan, net of directly related costs, are amortized to interest income using the effective interest method. Premiums paid on the acquisition of loan portfolios are amortized to interest income using the effective interest method.

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

	As at October 31, 2012				As at October 31, 2011			
	Gross Amount	**Gross Impaired Amount[2]**	**Specific Allowance**	**Net Impaired Loans**	Gross Amount	Gross Impaired Amount[2]	Specific Allowance	Net Impaired Loans
Consumer and personal	**$ 2,292,388**	**$ 13,404**	**$ 459**	**$ 12,945**	$ 2,018,627	$ 24,983	$ 1,173	$ 23,810
Real estate [1]	**5,001,041**	**23,022**	**2,605**	**20,417**	4,722,018	46,638	2,516	44,122
Equipment financing and energy	**2,874,423**	**8,133**	**3,570**	**4,563**	2,502,620	15,596	5,592	10,004
Commercial	**3,867,557**	**22,281**	**7,745**	**14,536**	3,121,997	10,041	1,369	8,672
Total	**$14,035,409**	**$ 66,840**	**$ 14,379**	**52,461**	$ 12,365,262	$ 97,258	$ 10,650	86,608
Collective allowance [3]				**(67,344)**				(61,330)
Net impaired loans after collective allowance				**$ (14,883)**				$ 25,278

	As at November 1, 2010			
	Gross Amount	Gross Impaired Amount[2]	Specific Allowance	Net Impaired Loans
Consumer and personal	$ 1,793,181	$ 24,534	$ 1,288	$ 23,246
Real estate [1]	4,115,560	82,799	4,880	77,919
Equipment financing and energy	2,141,276	28,411	10,708	17,703
Commercial	2,706,203	7,956	2,655	5,301
Total	$ 10,756,220	$ 143,700	$ 19,531	124,169
Collective allowance [3]				(61,992)
Net impaired loans after collective allowance				$ 62,177

(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 $10,462 (October 31, 2011 – $3,241 and November 1, 2010 – $867). The Bank pursues timely realization on foreclosed assets and does not use the assets for its own operations.
(3) The collective allowance for credit risk is not allocated by loan type.

During the year, interest recognized as income on impaired loans totaled $5,094 (2011 – $2,620).

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

	As at October 31, 2012			As at October 31, 2011		
	Gross Impaired Amount	**Specific Allowance**	**Net Impaired Loans**	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Alberta	**$ 36,769**	**$ 9,711**	**$ 27,058**	$ 53,725	$ 5,208	$ 48,517
British Columbia	**22,629**	**2,190**	**20,439**	35,762	1,441	34,321
Ontario	**3,081**	**1,167**	**1,914**	2,170	1,549	621
Saskatchewan	**2,309**	**456**	**1,853**	2,809	823	1,986
Manitoba	**615**	**203**	**412**	953	328	625
Other	**1,437**	**652**	**785**	1,839	1,301	538
Total	**$ 66,840**	**$ 14,379**	**52,461**	$ 97,258	$ 10,650	86,608
Collective allowance [1]			**(67,344)**			(61,330)
Net impaired loans after collective allowance			**$ (14,883)**			$ 25,278

	As at November 1, 2010		
	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Alberta	$ 99,067	$ 14,609	$ 84,458
British Columbia	38,587	1,303	37,284
Ontario	1,801	1,113	688
Saskatchewan	2,178	1,183	995
Manitoba	364	268	96
Other	1,703	1,055	648
Total	$ 143,700	$ 19,531	124,169
Collective allowance (1)			(61,992)
Net impaired loans after collective allowance			$ 62,177

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

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, 2012	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**More than 90 days**	**Total**
Residential mortgages	**$ 14,151**	**$ 9,709**	**$ 2,628**	**$ 375**	**$ 26,863**
Other loans	**11,698**	**18,090**	**1,566**	**-**	**31,354**
	$ 25,849	**$ 27,799**	**$ 4,194**	**$ 375**	**$ 58,217**
As at October 31, 2011	$ 23,970	$ 16,424	$ 1,796	$ 352	$ 42,542
As at November 1, 2010	$ 23,639	$ 41,871	$ 9,643	$ 4	$ 75,157

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

October 31, 2012 ($ MILLIONS)	BC	AB	ON	SK	MB	Other	Total (1)	Composition Percentage Oct. 31 2012	Oct. 31 2011	Nov. 1 2010
Loans to Individuals										
Residential mortgages (1)	$ 1,461	$ 1,204	$ 407	$ 203	$ 78	$ –	$ 3,353	24%	24%	23%
Other loans	64	106	2	13	3	1	189	1	2	2
	1,525	1,310	409	216	81	1	3,542	25	26	25
Loans to Businesses										
Commercial	1,178	1,849	426	191	107	103	3,854	28	25	26
Construction and real estate (2)	1,471	1,770	145	262	88	29	3,765	27	29	31
Equipment financing (3)	473	1,013	485	208	92	261	2,532	18	17	16
Energy	–	342	–	–	–	–	342	2	3	2
	3,122	4,974	1,056	661	287	393	10,493	75	74	75
Total Loans (4)	$ 4,647	$ 6,284	$ 1,465	$ 877	$ 368	$ 394	$ 14,035	100%	100%	100%
Composition Percentage										
October 31, 2012	33%	45%	10%	6%	3%	3%	100%			
October 31, 2011	33%	46%	10%	6%	3%	2%	100%			
November 1, 2010	33%	48%	8%	6%	3%	2%	100%			

(1) Includes single- and multi-unit residential mortgages and project (interim) mortgages on residential property.
(2) Includes commercial term mortgages and project (interim) mortgages for non-residential property.
(3) Includes securitized leases reported on-balance sheet of $209 (October 31, 2011 – $91 and November 1, 2010 – $199).
(4) This table does not include an allocation of the allowance for credit losses.

7. ALLOWANCE FOR CREDIT LOSSES

An allowance for credit losses is maintained which, in the Bank's opinion, is adequate to absorb credit related impairment losses incurred in its loan portfolio. The allowance for credit losses is calculated on individual loans (specific allowance) and on groups of loans assessed collectively (collective allowance). 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. Losses expected from future events are not recognized.

Specific Allowance

The specific allowance includes all the accumulated provisions for losses on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. See Note 6 for the identification process of impaired loans.

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be objectively related to an event occurring after the impairment was recognized, the specific loan impairment allowance is reduced accordingly. The reversal of impairment is recognized in the consolidated statements of income in provision for credit losses.

Collective Allowance

The collective allowance for credit risk includes provisions for losses that have been incurred but have not yet been identified on an individual loan or account basis by the Bank. As soon as information becomes available which identifies losses on individual loans within the collective group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective allowance for credit risk is established by taking into consideration:

- Historical trends in the loss experience during economic cycles;
- The current portfolio profile;
- Historical loss experience in portfolios of similar credit risk characteristics;
- The estimated period between impairment occurring and the loss being identified; and
- CWB's management judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

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

	2012			2011		
	Specific Allowance	Collective Allowance	Total	Specific Allowance	Collective Allowance	Total
Balance at beginning of year	$ 10,650	$ 61,330	$ 71,980	$ 19,531	$ 61,992	$ 81,523
Provision for credit losses	19,093	6,014	25,107	22,445	(662)	21,783
Write-offs	(17,712)	-	(17,712)	(33,387)	-	(33,387)
Recoveries	2,348	-	2,348	2,061	-	2,061
Balance at end of year	$ 14,379	$ 67,344	$ 81,723	$ 10,650	$ 61,330	$ 71,980

8. PROPERTY AND EQUIPMENT

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated depreciation and impairment.

Depreciation is calculated primarily using the straight-line method over the estimated useful life of the asset, as follows:

Buildings	20 years;
Equipment and furniture	3 to 10 years; and
Leasehold improvements	over the shorter of the term of the lease and the remaining useful life.

When components of an item of property and equipment have different useful lives, they are accounted for as separate items. Gains and losses on disposal are recorded in other income in the period of disposal. Property and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

	Leasehold Improvements	Land and Buildings	Computer Equipment	Office Equipment	Total
Cost					
Balance at November 1, 2011	$ 50,050	$ 23,439	$ 55,075	$ 28,345	$ 156,909
Additions	9,122	176	14,025	4,265	27,588
Disposals	-	-	-	(92)	(92)
Balance at October 31, 2012	59,172	23,615	69,100	32,518	184,405
Accumulated depreciation and impairment					
Balance at November 1, 2011	22,122	4,975	39,240	17,898	84,235
Depreciation for the period	4,251	682	5,827	2,561	13,321
Disposals	-	-	-	(92)	(92)
Balance at October 31, 2012	26,373	5,657	45,067	20,367	97,464
Net carrying amount at October 31, 2012	$ 32,799	$ 17,958	$ 24,033	$ 12,151	$ 86,941
Cost					
Balance at November 1, 2010	$ 43,618	$ 22,780	$ 46,967	$ 24,571	$ 137,936
Additions	6,432	659	8,133	3,800	19,024
Disposals	-	-	(25)	(26)	(51)
Balance at October 31, 2011	50,050	23,439	55,075	28,345	156,909
Accumulated depreciation and impairment					
Balance at November 1, 2010	18,289	4,309	33,958	15,402	71,958
Depreciation for the period	3,833	666	5,307	2,522	12,328
Disposals	-	-	(25)	(26)	(51)
Balance at October 31, 2011	22,122	4,975	39,240	17,898	84,235
Net carrying amount at October 31, 2011	$ 27,928	$ 18,464	$ 15,835	$ 10,447	$ 72,674

9. GOODWILL AND INTANGIBLE ASSETS

Goodwill

On the date of acquisition, goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the purchase consideration, including any amount of any non-controlling interest in the acquiree, over the net recognized amounts of the identifiable assets, liabilities assumed, including identifiable intangible assets. For the purposes of calculating goodwill, fair values of acquired assets and liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is performed using either market rates, or risk-free rates with risk-adjusted expected future cash flows.

Goodwill is stated at cost less accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing considering the business level at which goodwill is monitored for internal management purposes. On this basis, the Bank's cash-generating units with goodwill allocated are:

- National Leasing Group Inc. (NL);
- Canadian Direct Insurance Incorporated (CDI);
- Valiant Trust Company (VTC); and
- Adroit Investment Management Ltd. (AIM).

	NL	CDI	VTC	AIM	Total
Balance at November 1, 2011	$ 35,776	$ 3,254	$ 3,679	$ 2,982	$ 45,691
Partial ownership reduction	-	-	-	(155)	(155)
Goodwill impairment	-	-	-	-	-
Balance at October 31, 2012	$ 35,776	$ 3,254	$ 3,679	$ 2,827	$ 45,536
Balance at November 1, 2010	$ 35,776	$ 3,254	$ 3,679	$ 2,853	$ 45,562
Additions	-	-	-	129	129
Goodwill impairment	-	-	-	-	-
Balance at October 31, 2011	$ 35,776	$ 3,254	$ 3,679	$ 2,982	$ 45,691

Intangible assets

Intangible assets arise from contractual or other legal rights and are recognized separately from goodwill when their fair value can be reliably measured. Intangible assets with a finite useful life are recorded at cost less any accumulated amortization and impairment losses. The assets' useful lives are confirmed at least annually. Certain intangible assets, such as trademarks, have an indefinite useful life. These indefinite life intangibles are not amortized but are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that impairment may have occurred.

Intangible assets with finite useful lives are reported in other expenses on the consolidated statements of income and amortized on a straight line basis as follows:

- Customer relationships — 10 to 15 years;
- Non-competition agreements — 4 to 5 years; and
- Other — 3 to 5 years.

	Customer Relationships	Non-competition Agreements	Trademarks	Other	Total
Cost					
Balance at November 1, 2011	$ 37,668	$ 5,731	$ 2,206	$ 5,578	$ 51,183
Partial ownership reduction	(153)	(138)	(15)	-	(306)
Balance at October 31, 2012	37,515	5,593	2,191	5,578	50,877
Accumulated amortization					
Balance at November 1, 2011	7,856	2,726	-	3,181	13,763
Amortization	2,569	1,132	-	1,457	5,158
Balance at October 31, 2012	10,425	3,858	-	4,638	18,921
Net carrying amount at October 31, 2012	$ 27,090	$ 1,735	$ 2,191	$ 940	$ 31,956

		Customer Relationships		Non-competition Agreements		Trademarks		Other		Total
Cost										
Balance at November 1, 2010 and October 31, 2011	$	37,668	$	5,731	$	2,206	$	5,578	$	51,183
Accumulated amortization										
Balance at November 1, 2010		5,162		1,594		–		1,007		7,763
Amortization		2,694		1,132		–		2,174		6,000
Balance at October 31, 2011	$	7,856	$	2,726	$	–	$	3,181	$	13,763
Net carrying amount at October 31, 2011	$	29,812	$	3,005	$	2,206	$	2,397	$	37,420

Impairment

The carrying amounts of the Bank's intangible assets with finite useful lives are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication exists, the Bank tests for impairment. For goodwill and intangible assets with indefinite useful lives, the impairment tests are performed each year. Goodwill is allocated to cash-generating units for the purpose of impairment testing considering the business level at which goodwill is monitored for internal management purposes.

Impairment testing is performed by comparing the estimated recoverable amount from a cash-generating unit with the carrying amount of its net assets, including attributable goodwill. The recoverable amount of an asset is the higher of its fair value less cost to sell, and its value in use. If the recoverable amount is less than the carrying value, an impairment loss is charged to the consolidated statements of income.

The recoverable amounts for the Bank's cash-generating units have been calculated based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of the cash-generating unit. Unless indicated otherwise, value in use was determined similarly as in the comparative year. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the three year future business plan. Cash flows for a further 17-year period were extrapolated using a constant growth rate of three percent, which is based on the long-term forecast Canadian gross domestic product growth rates. The forecast period is based on the Bank's long-term perspective with respect to the operation of these cash-generating units.
- A pre-tax discount rate of 10 percent was applied in determining the recoverable amounts, which is comprised of a risk-free interest rate and a market risk premium.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount of the cash-generating units to decline below the carrying amount.

No impairment losses on goodwill or intangible assets were identified during 2012 or 2011.

10. INSURANCE RELATED OTHER ASSETS

		As at October 31 2012		As at October 31 2011		As at November 1 2010
Instalment premiums receivable	**$**	**33,486**	$	31,361	$	29,391
Deferred policy acquisition costs		**11,369**		11,011		10,510
Recoverable on unpaid claims		**6,686**		6,196		6,326
Reinsurers' share of unpaid claims and adjustment expenses		**5,237**		6,153		10,949
Due from reinsurers		**872**		2,013		2,476
Total	**$**	**57,650**	$	56,734	$	59,652

11. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate, foreign exchange and equity swaps/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 swaps are used to reduce the earnings volatility from restricted share units linked to the Bank's common share price. 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.

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;
- 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;
- equity swaps, which are agreements where CWB makes periodic interest payments to a counterparty and receives the capital gain/(loss) plus dividends of a CWB common share; and
- equity 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.

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.

Equity swap transactions are used as hedging devices to control risk related to the pay out of restricted share units that have not yet vested. The Bank enters into equity swap instruments only for its own account and does not act as an intermediary in this market. The risk is limited to the amount of an increase in CWB's share price applied on the notional contract amount should the counterparty default.

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 derivatives used in hedging transactions are assessed to determine whether they 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 net income.

Interest income received or interest expense paid on derivative financial instruments is accounted for on the accrual basis and recognized as interest expense 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.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time is held separately in accumulated other comprehensive income until the forecast transaction is eventually recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in accumulated other comprehensive income is immediately reclassified to the income statement.

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 are 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.

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.

	As at October 31, 2012					As at October 31, 2011				
	Notional Amount	**Replace-ment Cost**	**Future Credit Exposure**	**Credit Risk Equivalent**	**Risk-Weighted Balance**	Notional Amount	Replace-ment Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-Weighted Balance
Interest rate swaps	**$ 225,000**	**$ 154**	**$ -**	**$ 154**	**$ 31**	$ 19,400	$ -	$ 97	$ 97	$ 19
Equity swaps	**15,445**	**1,778**	**40**	**1,818**	**363**	-	-	-	-	-
Foreign exchange contracts	**2,450**	**19**	**24**	**43**	**17**	6,384	62	64	126	53
Total	**$ 242,895**	**$ 1,951**	**$ 64**	**$ 2,015**	**$ 411**	$ 25,784	$ 62	$ 161	$ 223	$ 72

	As at November 1, 2010				
	Notional Amount	Replace-ment Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-Weighted Balance
Interest rate swaps	$ 47,550	$ -	$ 234	$ 234	$ 49
Foreign exchange contracts	57,032	132	570	702	181
Equity contracts	500	2	30	32	6
Total	$ 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):

	As at October 31, 2012				As at October 31, 2011			
	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 designated as hedges	**$ 225,000**	**$ 154**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Equity swaps designated as hedges	**15,445**	**1,778**	**-**	**-**	-	-	-	-
Foreign exchange contracts	**1,485**	**19**	**965**	**(10)**	3,189	-	3,195	(16)
Equity swaps designated as hedges	**-**	**-**	**-**	**-**	-	-	19,400	(420)
Other forecasted transactions		**-**	**-**	**-**		-	-	-
Total	**$ 241,930**	**$ 1,951**	**$ 965**	**$ (10)**	$ 3,189	$ -	$ 22,595	$ (436)

	As at November 1, 2010			
	Favourable Contracts		Unfavourable Contracts	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps not designated as hedges	$ -	$ -	$ 47,550	$ (930)
Foreign exchange contracts	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	$ 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:

	2012	2011	2010
Favourable derivative financial instruments (assets)	**$ 598**	$ 192	$ 625
Unfavourable derivative financial instruments (liabilities)	**$ 210**	$ 722	$ 1,168

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

	As at October 31, 2012				As at October 31, 2011			
	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 designated as hedges (1)	**$ 225,000**	**1.28%**	**$ –**	**–**	$ –	–	$ –	–
Equity swaps designated as hedges (2)	**7,494**	**2.39%**	**7,951**	**2.54%**	–	–	–	–
Foreign exchange contracts (3)	**2,450**		**–**		6,384		–	
Interest rate swaps not designated as hedges	**–**	**–**	**–**	**–**	–	–	19,400	3.39%
Total	**$ 234,944**		**$ 7,951**		$ 6,384		$ 19,400	

	As at November 1, 2010			
	Maturity			
	1 Year or Less		More than 1 Year	
	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate
Interest rate swaps not designated as hedges	$ 750	4.19%	$ 46,800	2.73%
Foreign exchange contracts	57,032		–	
Equity contracts	500		–	
Total	$ 58,282		$ 46,800	

(1) The Bank receives interest at a fixed contractual rate and pays interest on the one-month (30-day) Canadian Bankers' Acceptance rate. Interest rate swaps designated as hedges mature between January and October 2013.

(2) Equity swaps designated as hedges mature between June 2013 and June 2015. Equity swaps are used to reduce the earnings volatility from restricted share units linked to the Bank's common share price.

(3) The contractual interest rate is not meaningful for foreign exchange contracts. Foreign exchange contracts mature between November 2012 and July 2013.

During the year, $1,430 net unrealized after tax losses (2011 – nil) 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 (2011 – 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 the hedged items affect income. During the year, $483 net gains after tax amounts (2011 – nil) were reclassified to net income.

12. OTHER ASSETS

		As at October 31 2012	As at October 31 2011	As at November 1 2010
Accrued interest receivable		$ 48,377	$ 40,665	$ 39,566
Accounts receivable		30,831	26,801	45,220
Deferred tax asset	(Note 24)	23,363	23,538	19,290
Prepaid expenses		6,400	5,494	7,928
Income taxes receivable		5,290	3,902	293
Financing costs[1]		5,133	4,685	2,910
Other		3,072	216	993
Total		$ 122,466	$ 105,301	$ 116,200

(1) Amortization for the year amounted to $1,703 (2011 – $1,403).

13. DEPOSITS

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

	As at October 31, 2012		
	Individuals	Business and Government	Total
Payable on demand	$ 31,980	$ 653,213	$ 685,193
Payable after notice	2,382,262	1,391,349	3,773,611
Payable on a fixed date	6,545,876	3,140,157	9,686,033
Total	$ 8,960,118	$ 5,184,719	$ 14,144,837

	As at October 31, 2011		
	Individuals	Business and Government	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	2,174,674	8,403,832
Total	$ 8,345,829	$ 4,048,860	$ 12,394,689

	As at November 1, 2010		
	Individuals	Business and Government	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	1,715,329	7,177,560
Total	$ 7,325,565	$ 3,382,202	$ 10,707,767

14. INSURANCE RELATED OTHER LIABILITIES

			As at October 31 2012		As at October 31 2011		As at November 1 2010
Unpaid claims and adjustment expenses	(Note 21)	**$**	**86,218**	$	76,892	$	80,086
Unearned premiums			**71,790**		69,584		66,444
Due to insurance companies and policyholders			**1,737**		2,087		2,305
Unearned commissions			**557**		567		561
Total		**$**	**160,302**	$	149,130	$	149,396

15. OTHER LIABILITIES

			As at October 31 2012		As at October 31 2011		As at November 1 2010
Accounts payable		**$**	**105,790**	$	81,523	$	67,770
Accrued interest payable			**105,728**		101,557		97,929
Income taxes payable			**12,386**		2,017		637
Deferred tax liability	(Note 24)		**8,897**		9,767		16,665
Deferred revenue			**3,068**		2,708		3,437
Leasehold inducements			**2,966**		3,297		2,446
Acquisition contingent consideration	(Note 29)		**-**		61,011		48,991
Other			**668**		305		1,599
Total		**$**	**239,503**	$	262,185	$	239,474

16. DEBT

a) Debt Securities

The Bank securitizes leases to third parties. These securitizations do not qualify for derecognition as the Bank continues to be exposed to certain risks associated with the leases, including an obligation to remit contractual cash flow payments regardless of whether the underlying cash flows are collected from lessees, and therefore has not transferred substantially all of the risk and rewards of ownership. As the leases do not qualify for derecognition, the assets are not derecognized from the balance sheet and a securitization liability is recognized for the cash proceeds received.

The carrying amount of the liability as at October 31, 2012 was $209,273 (October 31, 2011 – $89,877 and November 1, 2010 – $202,006), and the associated carrying amount of the lease assets recorded on the balance sheet was $237,698 (October 31, 2011 – $91,293 and November 1, 2010 – $199,097), which does not include an allocation of the allowance for credit losses.

b) 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	**As at October 31 2012**	As at October 31 2011	As at November 1 2010
4.389% (1)	November 30, 2020	November 30, 2015	**$ 300,000**	$ 300,000	$ –
5.571% (2)	March 21, 2022	March 22, 2017	**75,000**	75,000	75,000
5.950% (3)	June 27, 2018	June 28, 2013	**50,000**	50,000	50,000
5.070% (4)	March 21, 2017	March 22, 2012	**–**	120,000	120,000
5.426% (5)	November 21, 2015	November 22, 2010	**–**	–	70,000
Total			**$ 425,000**	$ 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 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.

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

(4) 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 155 basis points. Of the $125,000 debentures issued, $5,000 were held by Canadian Direct Insurance Incorporated, a wholly owned subsidiary, and had been eliminated on consolidation. On March 22, 2012, these conventional debentures were redeemed by the Bank.

(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.

17. 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 19). 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:

	2012		2011	
	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	**75,461,981**	**408,282**	66,641,362	279,620
Issued on settlement of contingent consideration (Note 29(c))	**2,256,868**	**63,399**	–	–
Issued on exercise or exchange of options	**573,005**	**1,853**	341,541	2,996
Issued under dividend reinvestment plan	**450,958**	**12,252**	213,654	5,941
Transferred from share-based payment reserve on exercise or exchange of options	**-**	**4,432**	–	4,009
Issued on exercise of warrants	**-**	**-**	8,265,424	115,716
Outstanding at end of year	**78,742,812**	**490,218**	75,461,981	408,282
Share Capital		**$ 699,968**		$ 618,032

During the year, the Bank settled the contingent consideration related to a 2010 subsidiary acquisition with the issuance of 2,256,868 CWB common shares valued at $63,399, net of issuance costs.

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 19), 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) Dividends

The following dividends were declared by the Bank's Board of Directors and paid by the Bank during the year:

	2012	2011
$0.62 per common share (2011 – $0.54)	**$ 47,749**	$ 39,177
$1.81 per preferred share - Series 3 (2011 – $1.81)	**15,208**	15,208
Total	**$ 62,957**	$ 54,385

Subsequent to October 31, 2012, the Board of Directors of the Bank declared a dividend of $0.17 per common share payable on January 4, 2013 to shareholders of record on December 18, 2012 and a dividend of $0.453125 per Series 3 preferred share – Series 3 payable on January 31, 2013 to shareholders of record on January 24, 2013. With respect to these dividend declarations, no liability was recorded in the balance sheet at October 31, 2012.

b) Preferred Shares

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.

c) 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	**2012**	2011
Outstanding at beginning of year	-	13,471,611
Exercised	-	(8,265,424)
Purchased and cancelled	-	(4,206,187)
Purchased and cancelled under Normal Course Issuer Bid	-	(1,000,000)
Outstanding at end of year	-	-

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.

d) 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, 450,958 (2011 – 213,654) common shares were issued under the plan from the Bank's treasury at a 2% discount (2011 – 2%).

e) Common Share Normal Course Issuer Bid (NCIB)

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 expired November 1, 2012. No common shares were purchased under this NCIB.

18. SHARE-BASED PAYMENTS

a) Stock Options

Stock options are accounted for using the fair value method. The estimated value is recognized over the applicable vesting period as an increase to both salary expense and share-based payment reserve. When options are exercised, the proceeds received and the applicable amount in share-based payment reserve are credited to common shares.

The Bank has authorized 4,409,773 common shares (2011 – 4,982,778) for issuance under the share incentive plan. Of the amount authorized, options exercisable into 3,441,100 shares (2011 – 3,542,072) 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 years of date of grant. Outstanding options expire from December 2012 to June 2017.

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

Options	2012 Number of Options	2012 Weighted Average Exercise Price	2011 Number of Options	2011 Weighted Average Exercise Price
Balance at beginning of year	**3,542,072**	**$ 21.36**	3,834,433	$ 19.93
Granted	**1,261,378**	**25.86**	729,314	30.10
Exercised or exchanged	**(1,258,537)**	**16.88**	(943,399)	22.13
Forfeited	**(103,813)**	**25.89**	(78,276)	23.68
Balance at end of year	**3,441,100**	**$ 24.51**	3,542,072	$ 21.36
Exercisable at end of year	**878,890**	**$ 19.31**	687,570	$ 26.45

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 $11.76	**282,950**	**1.1**	**$ 11.72**	**282,950**	**$ 11.72**
$16.89 to $21.46	**308,365**	**1.6**	**17.25**	**308,365**	**17.25**
$22.09 to $26.40	**1,973,989**	**3.5**	**24.91**	**124,000**	**26.06**
$29.42 to $31.18	**875,796**	**2.3**	**30.31**	**163,575**	**31.18**
Total	**3,441,100**	**2.8**	**$ 24.51**	**878,890**	**$ 19.31**

The terms of the share incentive plan allow the holders of vested options a cashless settlement alternative whereby the option holder can elect to (a) receive shares by delivering cash to the Bank in the amount of the option exercise price or (b) 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 1,258,537 (2011 – 943,399) options exercised or exchanged, option holders exchanged the rights to 1,133,197 (2011 – 810,899) options and received 447,665 (2011 – 209,041) shares in return under the cashless settlement alternative.

Salary expense of $5,016 (2011 – $4,602) 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 1.1% (2011 – 2.1%), (ii) expected option life of 4.0 (2011 – 4.0) years, (iii) expected volatility of 31% (2011 – 36%), and (iv) expected annual dividends of 2.4% (2011 – 1.8%). Expected volatility is estimated by evaluating historical volatility of the share price over multi-year periods. The weighted average fair value of options granted was estimated at $4.92 (2011 – $7.69) per share.

During the year, $4,432 (2011 – $4,009) was transferred from the share-based payment reserve to share capital, representing the estimated fair value recognized for 1,258,537 (2011 – 943,399) 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 period of three years. Salary expense is recognized 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 $7,682 (2011 – $8,351) was recognized related to RSUs. As at October 31, 2012, the liability for the RSUs held under this plan was $9,336 (2011 – $8,922). At the end of each period, the liability and salary expense are adjusted to reflect changes in the fair value of the RSUs.

Number of RSUs	**2012**	2011
Balance at beginning of year	**535,769**	469,941
Granted	**337,273**	259,820
Vested and paid out	**(263,908)**	(183,573)
Forfeited	**(14,679)**	(10,419)
Balance at end of year	**594,455**	535,769

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 $674 (2011 – $1,048) related to the DSUs. As at October 31, 2012, the liability for DSUs held under this plan was $2,328 (2011 – $1,467). At the end of each period, the liability and expense are adjusted to reflect changes in the market value of the DSUs.

Number of DSUs	**2012**	2011
Balance at beginning of year	**51,463**	24,046
Granted	**27,298**	27,417
Balance at end of year	**78,761**	51,463

19. NON-CONTROLLING INTERESTS

Non-controlling interests are comprised of the following:

	October 31 2012	October 31 2011	November 1 2010
CWB Capital Trust	**$ 105,000**	$ 105,000	$ 105,000
Adroit Investment Management Ltd.	**244**	225	179
Total	**$ 105,244**	$ 105,225	$ 105,179

CWB Capital Trust

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 with a December 31 year-end. CWB Capital Trust, an open-end trust, issued non-voting WesTS and the proceeds were used to purchase a senior deposit note from CWB.

Standard Interpretations Committee 12 – *Consolidation – Special Purpose Entities (SIC 12)* requires consolidation of special purpose entities (SPEs) when the substance of the relationship between the SPE and the reporting entity indicate that the SPE is controlled by that entity. CWB Capital Trust qualifies as an SPE that is controlled by the Bank under SIC 12 as the Bank retains voting control of CWB Capital Trust through the ownership of the Special Trust Securities. Accordingly, the Bank consolidates CWB Capital Trust and the WesTS issued by CWB Capital Trust under non-controlling interests (2012 and 2011 – $105,000), and the senior deposit note issued by CWB is eliminated on consolidation.

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%.

20. CONTINGENT LIABILITIES AND COMMITMENTS

a) Credit Instruments

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

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Credit instruments			
Guarantees and standby letters of credit	**$ 286,676**	$ 276,323	$ 261,438
Commitments to extend credit	**5,117,869**	4,101,250	3,375,690
Total	**$ 5,404,545**	$ 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 $2,036,003 (October 31, 2011 - $1,590,678 and November 1, 2010 - $1,468,325) and recently authorized but unfunded loan commitments of $3,081,866 (October 31, 2011 - $2,510,572 and November 1, 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. The leases typically run 10 to 15 years, with an option to renew the lease for an additional 5 years.

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.

Minimum future lease commitments for each of the five succeeding years and thereafter are as follows:

2013	$ 10,839
2014	10,390
2015	10,319
2016	8,203
2017	6,450
2018 and thereafter	21,649
Total	**$ 67,850**

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.

Prior to January 1, 2012, the Bank issued both personal and business credit cards through an agreement with a third party card issuer. The Bank 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 under the initial agreement was nil (October 31, 2011 - $12,996 and November 1, 2010 - $13,153), and the balance outstanding was nil (October 31, 2011 - $2,933 and November 1, 2010 - $2,927). During 2012, the Bank cancelled the aforementioned agreement to issue business credit cards and entered into a new business credit card agreement with another third party issuer. Outstanding balances related to this new agreement are reported on the balance sheet in "other loans".

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.

21. INSURANCE OPERATIONS

Insurance Contracts – Classification
Contracts where CWB accepts significant insurance risk from another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiaries are classified as insurance contracts.

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. Insurance premiums are shown before deduction of commissions and are gross of any taxes and dues levied on premiums.

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, broker commissions, 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.

Liability Adequacy Test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred policy acquisition costs (DPAC). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting the provisions, are used. Any deficiency is immediately charged to profit or loss by writing off DPAC and, if required, establishing a provision for losses arising from liability adequacy tests (the premium deficiency).

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 but not been settled 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 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 provisions for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances.

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 expenses are recorded in other assets separately from estimated amounts payable to policyholders. Amounts recoverable from reinsurers are estimated in a manner consistent with the liabilities associated with the reinsured policies.

These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Reinsurance assets are assessed for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the carrying amount of the reinsurance asset is reduced to its recoverable amount and the impairment loss is recognized in the income statement. Objective evidence that a reinsurance asset is impaired is gathered using observable data about the following criteria:

- Significant financial difficulty of the reinsurer;
- A breach of contract, such as default or delinquency in payments; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from the reinsurance asset since its initial recognition.

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.

	2012	2011
Net earned premiums	$ 123,204	$ 117,632
Commissions and processing fees	1,855	1,869
Net claims and adjustment expenses	(83,167)	(74,734)
Policy acquisition costs	(24,539)	(24,517)
Insurance revenues, net	**$ 17,353**	$ 20,250

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:

	2012	2011
Unpaid claims and adjustment expenses, net, beginning of year	**$ 64,543**	$ 62,811
Claims incurred		
In the current year	**84,762**	75,694
In prior periods	**(1,595)**	(960)
Claims paid during the year	**(73,415)**	(73,002)
Unpaid claims and adjustment expenses, net, end of year	**74,295**	64,543
Reinsurers' share of unpaid claims and adjustment expenses	**5,237**	6,153
Recoverable on unpaid claims	**6,686**	6,196
Unpaid claims and adjustment expenses, net, end of year	**$ 86,218**	$ 76,892

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 2.78% (2011 – 2.76%). However, that rate was reduced by a 0.50% (2011 – 0.75%) 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 $572 (2011 – $790) 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:

	2012		2011	
	Automobile	**Home**	Automobile	Home
Unpaid claims and adjustment expenses	**$ 65,964**	**$ 20,254**	$ 63,371	$ 13,521
Reinsurers' share of unpaid claims and adjustment expenses	**4,200**	**1,037**	6,132	21
Unearned premiums	**48,598**	**23,192**	47,922	21,662

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 (2011 – $300,000) is obtained to protect against certain catastrophic losses. Retention on catastrophic events is $5,000 (2011 – $2,000), on property per risk events is $1,000 (2011 – $1,000) and on casualty events is $2,000 (2011 – $2,000). 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, 2012, $5,237 (2011 – $6,153) 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.

	2012	2011
Premiums earned reduced by	$ 9,352	$ 8,898
Claims incurred reduced by	1,912	102

22. DISCLOSURES ON RATE REGULATION

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

The authority that regulates automobile insurance rates, in the province in which Canadian Direct is writing that business, is listed below. Automobile direct written premiums in Alberta totaled $43,100 in 2012 (2011 – $40,800) and represented 50% (2011 – 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, 2012 and October 31, 2011, the Bank had no such regulatory asset or liability.

23. EMPLOYEE FUTURE BENEFITS

All employee future benefits related to the Bank's group retirement savings and employee share purchase plans are recognized in the periods during which services are rendered by employees. The Bank's contributions to the group retirement savings plan and employee share purchase plan totaled $10,932 (2011 – $10,217).

24. INCOME TAXES

The Bank follows the deferred method of accounting for income taxes whereby current income taxes are recognized for the estimated income taxes payable for the current period. Deferred 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. Deferred 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 anticipated to be recovered or settled. Changes in deferred taxes related to a change in tax rates are recognized in income in the period of the tax rate change. All deferred tax assets and liabilities are expected to be realized in the normal course of operations.

The provision for income taxes consists of the following:

	2012	2011
Consolidated statements of income		
Current	$ 60,904	$ 67,687
Deferred	(695)	(11,146)
	60,209	56,541
Shareholders' equity		
Deferred tax expense related to:		
Unrealized gains (losses) on available-for-sale securities	121	(6,824)
Gains (losses) on derivatives designated as cash flow hedges	331	–
	452	(6,824)
Total	$ 60,661	$ 49,717

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:

		2012			2011	
Combined Canadian federal and provincial income taxes and statutory tax rate	$	**65,090**	**25.6%**	$	61,859	27.1%
Increase (decrease) arising from:						
Tax-exempt income		**(6,744)**	**(2.6)**		(8,849)	(3.9)
Stock-based compensation		**1,271**	**0.5**		1,236	0.5
Contingent consideration fair value change		**631**	**0.2**		3,310	1.5
Other		**(39)**	**(0.1)**		(1,015)	(0.4)
Provision for income taxes and effective tax rate	$	**60,209**	**23.6%**	$	56,541	24.8%

Deferred tax balances are comprised of the following:

		2012		2011
Deferred tax assets				
Allowance for credit losses	$	**14,816**	$	13,659
Deferred loan fees		**8,681**		9,089
Deferred deposit broker commission		**(3,962)**		(3,843)
Leasing income		**281**		1,851
Other temporary differences		**3,547**		2,782
	$	**23,363**	$	23,538
Deferred tax liabilities				
Intangible assets	$	**8,164**	$	9,736
Other temporary differences		**733**		31
	$	**8,897**	$	9,767

The Bank has approximately $11,140 (2011 – $11,140) of capital losses that are available to apply against future capital gains and have no expiry date. The tax benefit of these losses has not been recognized in the consolidated financial statements.

25. EARNINGS PER COMMON SHARE

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

The calculation of earnings per common share follows:

		2012		2011
Numerator				
Net income available to common shareholders	$	172,197	$	149,538
Denominator				
Weighted average of common shares outstanding – basic		76,840,532		72,205,180
Dilutive instruments:				
Stock options [(1)]		619,460		1,171,801
Warrants [(2)]		-		3,328,444
Weighted average number of common shares outstanding – diluted		77,459,992		76,705,425
Earnings per common share				
Basic	$	2.24	$	2.07
Diluted		2.22		1.95

(1) At October 31, 2012, the denominator excludes 527,056 (2011 – 911,449) employee stock options with an average adjusted exercise price of $30.89 (2011 – $30.32) where the exercise price, adjusted for unrecognized stock-based compensation, is greater than the average market price.
(2) All outstanding warrants were redeemed in 2011.

26. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Assets under administration of $7,171,826 (2011 – $9,369,589) and assets under management of $855,333 (2011 – $816,219) 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.

27. RELATED PARTY TRANSACTIONS

Transactions between subsidiary entities are made at normal market prices and are eliminated on consolidation.

Preferred Rates and Terms
The Bank makes loans, primarily residential mortgages, to its officers and employees, including key management personnel, at various preferred rates and terms. The total amount outstanding for these types of loans is $113,967 (2011 – $111,474). The Bank offers deposits, primarily fixed term deposits, to its officers, employees, including key management personnel, and their immediate family at preferred rates. The total amount outstanding for these types of deposits is $219,647 (2011 – $187,733).

Key Management Personnel
Key management personnel of the Bank are those that have authority and responsibility for planning, directing and controlling the activities of the Bank and include independent directors of CWB.

Compensation of key management personnel is as follows:

		2012		2011
Salaries, benefits and directors' compensation	$	5,611	$	5,303
Share-based payments (stock option, RSUs and DSUs) [(1)]		3,276		3,046
Total	$	8,887	$	8,349

(1) Share-based payments are based on the estimated fair value on grant date.

Loans outstanding with key management personnel totaled $630 as at October 31, 2012 (2011 – $961). The Bank's policies preclude lending to independent directors of CWB.

28. INTEREST RATE SENSITIVITY

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

ASSET LIABILITY GAP POSITIONS

($ MILLIONS)

October 31, 2012	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	$ 249	$ 515	$ 950	$ 1,714	$ 601	$ 159	$ 99	$ 2,573
Loans	6,568	583	1,713	8,864	5,077	76	(63)	13,954
Other assets [2]	-	-	-	-	-	-	346	346
Derivative financial instruments [1]	-	70	163	233	8	-	2	243
Total	6,817	1,168	2,826	10,811	5,686	235	384	17,116
Liabilities and Equity								
Deposits	4,936	1,122	3,499	9,557	4,603	-	(15)	14,145
Other liabilities [2]	73	6	29	108	38	9	369	524
Debt [3]	7	14	111	132	502	-	-	634
Equity	-	-	-	-	105	-	1,465	1,570
Derivative financial instruments [1]	241	-	-	241	-	-	2	243
Total	5,257	1,142	3,639	10,038	5,248	9	1,821	17,116
Interest Rate Sensitive Gap	$ 1,560	$ 26	$ (813)	$ 773	$ 438	$ 226	$ (1,437)	$ -
Cumulative Gap	$ 1,560	$ 1,586	$ 773	$ 773	$ 1,211	$ 1,437	$ -	$ -
Cumulative Gap as a Percentage of Total Assets	9.1%	9.3%	4.5%	4.5%	7.1%	8.4%	-	-
October 31, 2011								
Cumulative Gap	$ 1,415	$ 1,251	$ (59)	$ (59)	$ 1,224	$ 1,254	$ -	$ -
Cumulative Gap as a Percentage of Total Assets	9.5%	8.4%	(0.4)%	(0.4)%	8.2%	8.4%	-	-
November 1, 2010								
Cumulative Gap	$ 1,002	$ 808	$ 188	$ 188	$ 1,082	$ 1,128	$ -	$ -
Cumulative Gap as a Percentage of Total Assets	7.7%	6.2%	1.4%	1.4%	8.3%	8.7%	-	-

(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, 2012	**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	**3.8%**	**2.7%**	**3.7%**	**3.6%**	**5.0%**	**5.0%**	**4.1%**
Total liabilities	**1.3**	**2.1**	**2.3**	**1.7**	**2.5**	**-**	**2.0**
Interest Rate Sensitive Gap	**2.5%**	**0.6%**	**1.4%**	**1.9%**	**2.5%**	**5.0%**	**2.1%**
October 31, 2011							
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%
November 1, 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 3.8% or $15,086 (October 31, 2011 - 3.0% or $11,024) and decrease other comprehensive income $12,594 (October 31, 2011 – $9,017) 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 5.4% or $21,534 (October 31, 2011 – 3.7% or $13,436) and increase other comprehensive income $12,594 (October 31, 2011 – $9,017) net of tax.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Financial Assets and Liabilities by Measurement Basis

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, and non-market observable inputs.

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 provides the carrying amount of financial instruments by category as defined in IAS 39 – *Financial Instruments: Recognition and Measurement* and by balance sheet heading. The table 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.

October 31, 2012	Derivatives	Loans and receivables, and non-trading liabilities	Available-for-sale	Total carrying amount	Fair value	Fair value over (under) carrying amount
Financial Assets						
Cash resources (Note 3)	$ –	$ –	$ 236,983	$ 236,983	$ 236,983	$ –
Securities (Note 4)	–	–	2,336,100	2,336,100	2,336,100	–
Loans [1]	–	14,016,609	–	14,016,609	14,051,651	35,042
Other assets [2]	–	128,614	–	128,614	128,614	–
Derivative related	1,951	–	–	1,951	1,951	–
Total Financial Assets	$ 1,951	$ 14,145,223	$ 2,573,083	$ 16,720,257	$ 16,755,299	$ 35,042
Financial liabilities						
Deposits [1]	$ –	$ 14,160,114	$ –	$ 14,160,114	$ 14,189,398	$ 29,284
Other liabilities [3]	–	366,557	–	366,557	366,557	–
Securities sold under repurchase agreements	–	70,089	–	70,089	70,089	–
Debt	–	634,273	–	634,273	652,929	18,656
Derivative related	10	–	–	10	10	–
Total Financial Liabilities	$ 10	$ 15,231,033	$ –	$ 15,231,043	$ 15,278,983	$ 47,940

October 31, 2011	Derivatives	Loans and receivables, and non-trading liabilities	Available-for-sale	Total carrying amount	Fair value	Fair value over (under) carrying amount
Financial Assets						
Cash resources (Note 3)	$ –	$ –	$ 312,335	$ 312,335	$ 312,335	$ –
Securities (Note 4)	–	–	1,925,704	1,925,704	1,925,704	–
Loans [1]	–	12,354,275	–	12,354,275	12,419,441	65,166
Other assets [2]	–	111,154	–	111,154	111,154	–
Total Financial Assets	$ –	$ 12,465,429	$ 2,238,039	$ 14,703,468	$ 14,768,634	$ 65,166
Financial Liabilities						
Deposits [1]	$ –	$ 12,409,774	$ –	$ 12,409,774	$ 12,466,443	$ 56,669
Other liabilities [3]	–	310,367	–	310,367	310,367	–
Debt	–	634,877	–	634,877	657,198	22,321
Derivative related	436	–	–	436	436	–
Total Financial Liabilities	$ 436	$ 13,355,018	$ –	$ 13,355,454	$ 13,434,444	$ 78,990

November 1, 2010		Derivatives		Loans and receivables, and non-trading liabilities		Available-for-sale		Total carrying amount		Fair value		Fair value over (under) carrying amount
Financial Assets												
Cash resources (Note 3)	$	–	$	–	$	187,944	$	187,944	$	187,944	$	–
Securities (Note 4)		–		–		1,510,187		1,510,187		1,510,187		–
Securities purchased under resale agreements		–		–		177,954		177,954		177,954		–
Loans [1]		–		10,749,477		–		10,749,477		10,788,315		38,838
Other assets [2]		–		124,265		–		124,265		124,265		–
Derivative related		134		–		–		134		134		–
Total Financial Assets	$	134	$	10,873,742	$	1,876,085	$	12,749,961	$	12,788,799	$	38,838
Financial Liabilities												
Deposits [1]	$	–	$	10,721,670	$	–	$	10,721,670	$	10,775,576	$	53,906
Other liabilities [3]		–		289,954		–		289,954		289,954		–
Debt		–		517,006		–		517,006		522,971		5,965
Derivative related		992		–		–		992		992		–
Total Financial Liabilities	$	992	$	11,528,630	$	–	$	11,529,622	$	11,589,493	$	59,871

(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, deferred tax asset, prepaid and deferred expenses, financing costs and other items that are not financial instruments.
(3) Other liabilities exclude deferred tax liability, deferred revenue, unearned insurance premiums and other items that are not financial instruments.
(4) For further information on interest rates associated with financial assets and liabilities, including derivative instruments, refer to Note 28.

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

- cash resources and securities are reported on the consolidated balance sheets at the fair value disclosed in Notes 3 and 4. These values are based on quoted market prices, if available. Where a quoted market price is not readily available, other valuation techniques are based on observable market rates used to estimate fair value;
- loans reflect changes in the general level of interest rates that have occurred since the loans were originated and are net of the allowance for credit losses. For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. For all other loans, fair value is estimated by discounting the expected future cash flows of these loans at current market rates for loans with similar terms and risks;
- other assets and other liabilities, with the exception of derivative financial instruments and acquisition contingent consideration, 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;
- for the acquisition contingent consideration, included in other liabilities, where an active market does not exist, fair value is determined using valuation techniques that refer to non-market observable inputs;
- 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 debt 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.

b) Fair Value Hierarchy

The Bank categorizes its fair value measurements of financial instruments recorded on the consolidated balance sheets according to a three-level hierarchy. Level 1 fair value measurements reflect published market prices quoted in active markets. Level 2 fair value measurements were estimated using a valuation technique based on observable market data. Level 3 fair value measurements were determined using a valuation technique based on non-market observable input.

As at October 31, 2012	**Fair Value**	**Valuation Technique** Level 1	Level 2	Level 3
Financial Assets				
Cash resources	$ 236,983	$ 236,983	$ –	$ –
Securities	2,336,100	2,336,100	–	–
Derivative related	1,951	–	1,951	–
Total Financial Assets	$ 2,575,034	$ 2,573,083	$ 1,951	$ –
Financial Liabilities				
Derivative related	$ 10	$ –	$ 10	$ –

As at October 31, 2011	Fair Value	Valuation Technique Level 1	Level 2	Level 3
Financial Assets				
Cash resources	$ 312,335	$ 272,704	$ 39,631	$ –
Securities	1,925,704	1,925,704	–	–
Total Financial Assets	$ 2,238,039	$ 2,198,408	$ 39,631	$ –
Financial Liabilities				
Other liability	$ 61,011	$ –	$ –	$ 61,011
Derivative related	436	–	436	–
Total Financial Liabilities	$ 61,447	$ –	$ 436	$ 61,011

As at November 1, 2010	Fair Value	Valuation Technique Level 1	Level 2	Level 3
Financial Assets				
Cash resources	$ 187,944	$ 181,143	$ 6,801	$ –
Securities	1,510,187	1,510,187	–	–
Securities purchased under resale agreements	177,954	–	177,954	–
Derivative related	134	–	134	–
Total Financial Assets	$ 1,876,219	$ 1,691,330	$ 184,889	$ –
Financial Liabilities				
Other liability	$ 48,706	$ –	$ –	$ 48,706
Derivative related	992	–	992	–
Total Financial Liabilities	$ 49,698	$ –	$ 992	$ 48,706

c) Level 3 Financial Instruments

Level 3 financial instruments were comprised of the contingent consideration related to a 2010 subsidiary acquisition (see Note 17).

The following table shows a reconciliation of the fair value measurements related to the Level 3 valued instrument:

			2012		2011
Balance at beginning of year		$	**61,011**	$	48,706
Change in fair value charged to other income			**2,489**		12,305
Settlement	(Note 17)		**(63,500)**		–
Balance at end of year		$	**–**	$	61,011

30. RISK MANAGEMENT

As part of the Bank's risk management practices, the risks that are significant to the business are identified, monitored and controlled. The most significant risks include credit risk, liquidity risk, market risk, insurance risk, operational risk, and regulatory and legal risk. The nature of these risks and how they are managed is provided in the Risk Management section of Management's Discussion and Analysis (MD&A).

As permitted by the IASB, 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.

31. CAPITAL MANAGEMENT

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

The Bank has a share incentive plan that is provided to officers and employees who are in a position to impact the longer term financial success of the Bank as measured by share price appreciation and dividend yield. Note 18 to the consolidated financial statements details the number of shares under options outstanding, the weighted average exercise price and the amounts exercisable at year end.

Basel II Capital Adequacy Accord

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. Based on the deemed credit risk of each type of asset, a standardized 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 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 collective allowance for credit losses (to the regulatory maximum) and any innovative capital not included in Tier 1.

Capital for Canadian financial institutions is managed and reported until December 2012 in accordance with Basel II. A revised capital framework (called Basel III) is effective for Canadian financial institutions beginning on January 1, 2013. Further details are available in the Capital Management section in the 2012 Management's Discussion and Analysis.

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

CAPITAL STRUCTURE AND BASEL II REGULATORY RATIOS AT YEAR END

	2012	2011[1]
Tier 1 Capital		
Retained earnings	$ 733,298	$ 650,028
Common shares	490,218	408,014
Preferred shares	209,750	209,750
Share-based payment reserve	22,468	21,884
Innovative capital instrument [2]	105,000	105,000
Non-controlling interest in subsidiary	266	225
Less goodwill of subsidiaries	(45,536)	(37,852)
Less investment in insurance subsidiary [3]	(35,699)	–
Less securitization	(18,989)	(6,583)
Total	1,460,776	1,350,466
Tier 2 Capital		
Collective allowance for credit losses (Tier 2A) [4]	67,344	60,429
Accumulated unrealized gains on available-for-sale equity securities, net of tax [5]	5,358	1,509
Subordinated debentures (Tier 2B) [6]	425,000	545,000
Less investment in insurance subsidiary [3]	(35,699)	(80,941)
Less securitization	(18,989)	(6,583)
Total	443,014	519,414
Total Regulatory Capital	$ 1,903,790	$ 1,869,880
Regulatory Capital to Risk-Weighted Assets		
Tier 1 capital	10.6%	11.1%
Tier 2 capital	3.2	4.3
Total Regulatory Capital Adequacy Ratio	13.8%	15.4%
Assets to Regulatory Capital Multiple [7]	8.8	7.9

(1) The 2011 capital structure and regulatory ratios reflect the returns filed and have not been restated to International Financial Reporting Standards (IFRS).

(2) 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.

(3) 2012 Tier 1 capital, compared to 2011, reflects the expiration of a Basel II transition provision that permitted the capital deduction related to CWB's insurance subsidiary to be deducted from Tier 2 capital. Beginning in 2012, the deduction is recorded 50% against Tier 1 capital and 50% against Tier 2 capital.

(4) Banks are allowed to include their collective allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. At October 31, 2012, the Bank's collective allowance represented 0.49% (2011 – 0.50%) of risk-weighted assets.

(5) 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.

(6) 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, 2012 and 2011, all subordinated debentures are included in Tier 2B capital.

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

32. TRANSITION TO IFRS

As stated in Note 1, these are the Bank's first annual financial statements prepared in accordance with IFRS. In preparing the opening IFRS consolidated balance sheet as at November 1, 2010, the Bank has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Bank is set out in the following tables and accompanying footnotes. No material adjustments to the consolidated statement of cash flows were required.

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application provided for under IFRS 1 - *First time Adoption of IFRS* (IFRS 1), as described below.

Optional exemption

Business combinations – The Bank has elected to apply IFRS 3 – *Business Combinations* prospectively only to business combinations on or after February 1, 2010. As a result, business combinations prior to February 1, 2010 have not been restated.

Mandatory exemptions

The Bank has applied all mandatory exemptions as required under IFRS 1.

a) Business combinations

The Bank elected to apply IFRS retrospectively to business combinations that occurred on or after February 1, 2010. This election resulted in the adjustment of the February 1, 2010 acquisition of National Leasing. The following transition adjustments were required:

- Under Canadian GAAP, contingent consideration is recorded only when it is determinable beyond a reasonable doubt. Under IFRS, certain contingent consideration arrangements are reported at fair value as at the acquisition date, and each period thereafter, the contingent consideration fair value is re-measured and any adjustments are recorded in the other income – "other" (non-tax deductible);
- Under Canadian GAAP, acquisition-related costs are included in the cost of the acquisition, while under IFRS, acquisition-related costs are expensed; and
- Under Canadian GAAP, the valuation of the Bank's shares issued as part of the consideration for the acquisition is based on a reasonable time frame before and after the acquisition date. Under IFRS, the valuation is completed on the acquisition date.

The impact arising from the change is detailed in the following statements under the heading "(a) Business Combinations". The increase noted in other assets relates to goodwill, and the increase noted in other liabilities relates to the acquisition contingent consideration obligation.

b) Derecognition of securitized financial assets

The Bank participates in securitization activities. Securitization consists of the transfer of equipment leases to an independent trust or other third party, which purchases the cash flows associated with the leases and may issue securities to investors. Under Canadian GAAP, securitized assets are accounted for as sales and removed from the consolidated balance sheet as the Bank surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. Under IFRS, because the bank has an obligation to remit contractual cash flow payments regardless of whether the underlying cash flows are collected from lessees, the Bank has not transferred substantially all of the risks and rewards relating to the leases. As a result, the derecognition criteria within IAS 39 – *Financial Instruments: Recognition and Measurement* are not met and the leases are accounted for as a secured borrowing with the underlying leases of the securitization remaining on the consolidated balance sheet and a debt security recognized for the funding received.

The impact arising from the change is detailed in the following statements under the heading "(b) Derecognition".

c) Consolidation

Under IFRS, a special purpose entity (SPE) is consolidated if it is deemed to be controlled by the reporting entity, as determined under specific criteria. Canadian Western Bank Capital Trust is consolidated under IFRS, which resulted in a $105 million decrease in deposits and the presentation of the CWB Capital Trust Capital Securities Series 1 (WesTS) as equity attributed to non-controlling interests. Distributions on the WesTS that were effectively reported as deposit interest expense under Canadian GAAP are now presented as an equity dividend within IFRS "net income attributable to non-controlling interests." For more information about this special purpose entity, refer to Note 19.

The impact arising from the change is detailed in the following statements under the heading "(c) Consolidation".

d) Impairment of available-for-sale securities

Under both Canadian GAAP and IFRS, available-for-sale securities (AFS) 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 it 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. The differences between Canadian GAAP and IFRS will generally result in earlier recognition of impairment losses through net income under IFRS.

The impact arising from the change is detailed in the following statements under the heading "(d) AFS Impairment".

e) Other reclassifications

Certain other financial statement reclassifications have been made on the transition to IFRS. An example includes the presentation of the non-controlling interest in Adroit Investment Management Ltd. which has been reclassified from other liabilities under Canadian GAAP to non-controlling interests (presented in equity) under IFRS.

In addition to the IFRS transition adjustments previously described, the recognition of certain credit related fees was also amended. Certain credit related fees, previously recognized in other income, are now reflected as part of the loan yield and amortized to net interest income over the expected life of the loan. Because total loans are reported net of deferred loan fees, this change resulted in a decrease in total loans of $17,982 and a reduction in retained earnings of $13,450. While the change had no impact on 2011 net income, approximately $14,514 was reclassified from other income to net interest income.

The impact arising from the changes above are detailed in the following statements under the heading "(e) Other Reclassifications".

RECONCILIATION OF CONDENSED CONSOLIDATED BALANCE SHEETS

As at November 1, 2010

		IFRS Adjustments					
		(a)	(b)	(c)	(d)	(e)	
	Canadian GAAP	Business Combinations	Derecognition	Consolidation	AFS Impairment	Other Reclassifications	IFRS
Assets							
Cash resources, securities and securities under resale agreements	$ 1,876,085	$ –	$ –	$ –	$ –	$ –	$ 1,876,085
Loans	10,496,464	–	196,215	–	–	(17,982)	10,674,697
Other assets	329,142	7,839	(10,567)	–	–	4,532	330,946
Total Assets	$ 12,701,691	$ 7,839	$ 185,648	$ –	$ –	$ (13,450)	$ 12,881,728
Liabilities							
Deposits	$ 10,812,767	$ –	$ –	$ (105,000)	$ –	$ –	$ 10,707,767
Other liabilities	425,881	17,835	(14,047)	–	–	(179)	429,490
Debt	315,000	–	202,006	–	–	–	517,006
Total Liabilities	11,553,648	17,835	187,959	(105,000)	–	(179)	11,654,263
Equity							
Preferred shares	209,750	–	–	–	–	–	209,750
Common shares	279,352	268	–	–	–	–	279,620
Retained earnings	614,710	(10,264)	(2,311)	–	(1,752)	(13,450)	586,933
Share-based payment reserve	21,291	–	–	–	–	–	21,291
Other reserves	22,940	–	–	–	1,752	–	24,692
Total Shareholders' Equity	1,148,043	(9,996)	(2,311)	–	–	(13,450)	1,122,286
Non-controlling interests	–	–	–	105,000	–	179	105,179
Total Equity	1,148,043	(9,996)	(2,311)	105,000	–	(13,271)	1,227,465
Total Liabilities and Equity	$ 12,701,691	$ 7,839	$ 185,648	$ –	$ –	$ (13,450)	$ 12,881,728

RECONCILIATION OF CONDENSED CONSOLIDATED BALANCE SHEETS

As at October 31, 2011

		IFRS Adjustments					
		(a)	(b)	(c)	(d)	(e)	
	Canadian GAAP	Business Combinations	Derecognition	Consolidation	AFS Impairment	Other Reclassifications	IFRS
Assets							
Cash resources and securities	$ 2,238,039	$ –	$ –	$ –	$ –	$ –	$ 2,238,039
Loans	12,221,143	–	90,121	–	–	(17,982)	12,293,282
Other assets	312,853	7,839	(7,404)	–	–	4,532	317,820
Total Assets	$ 14,772,035	$ 7,839	$ 82,717	$ –	$ –	$ (13,450)	$ 14,849,141
Liabilities							
Deposits	$ 12,499,689	$ –	$ –	$ (105,000)	$ –	$ –	$ 12,394,689
Other liabilities	433,780	30,140	(5,958)	–	–	(225)	457,737
Debt	545,000	–	89,877	–	–	–	634,877
Total Liabilities	13,478,469	30,140	83,919	(105,000)	–	(225)	13,487,303
Equity							
Preferred shares	209,750	–	–	–	–	–	209,750
Common shares	408,014	268	–	–	–	–	408,282
Retained earnings	650,028	(22,569)	(1,202)	–	(3,959)	(13,450)	608,848
Share-based payment reserve	21,884	–	–	–	–	–	21,884
Other reserves	3,890	–	–	–	3,959	–	7,849
Total Shareholders' Equity	1,293,566	(22,301)	(1,202)	–	–	(13,450)	1,256,613
Non-controlling interests	–	–	–	105,000	–	225	105,225
Total Equity	1,293,566	(22,301)	(1,202)	105,000	–	(13,225)	1,361,838
Total Liabilities and Equity	$ 14,772,035	$ 7,839	$ 82,717	$ –	$ –	$ (13,450)	$ 14,849,141

RECONCILIATION OF CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED OCTOBER 31, 2011

		IFRS Adjustments					
		(a)	(b)	(c)	(d)	(e)	
	Canadian GAAP	Business Combinations	Derecognition	Consolidation	AFS Impairment	Other Reclassifications	IFRS
Net interest income	$ 373,624	$ –	$ 5,508	$ 6,747	$ –	$ 14,514	$ 400,393
Provision for credit losses	22,179	–	(396)	–	–	–	21,783
Other income	106,331	(12,305)	(4,386)	–	(3,023)	(14,514)	72,103
Non-interest expenses	222,451	–	–	–	–	–	222,451
Income taxes	56,948	–	409	–	(816)	–	56,541
Non-controlling interest in subsidiary	228	–	–	–	–	(228)	–
Net Income	$ 178,149	$ (12,305)	$ 1,109	$ 6,747	$ (2,207)	$ 228	$ 171,721
Net income attributable to non-controlling interests	–	–	–	6,747	–	228	6,975
Net income attributable to shareholders of the Bank	$ 178,149	$ (12,305)	$ 1,109	$ –	$ (2,207)	$ –	$ 164,746
Preferred share dividends	15,208	–	–	–	–	–	15,208
Net Income Available to Common Shareholders	$ 162,941	$ (12,305)	$ 1,109	$ –	$ (2,207)	$ –	$ 149,538

RECONCILIATION OF CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31, 2011

		IFRS Adjustments					
		(a)	(b)	(c)	(d)	(e)	
	Canadian GAAP	Business Combinations	Derecognition	Impairment	AFS Consolidation	Other Reclassifications	IFRS
Net income	$ 178,149	$ (12,305)	$ 1,109	$ 6,747	$ (2,207)	$ 228	$ 171,721
Available-for-sale securities	(19,050)	–	–	–	2,207	–	(16,843)
Derivatives designated as cash flow hedges	–	–	–	–	–	–	–
Other comprehensive income for the year	(19,050)	–	–	–	2,207	–	(16,843)
Comprehensive Income For the Year	$ 159,099	$ (12,305)	$ 1,109	$ 6,747	$ –	$ 228	$ 154,878
Attributable to shareholders of the bank	$ 159,099	$ (12,305)	$ 1,109	$ –	$ –	$ –	$ 147,903
Attributable to non-controlling interests	–	–	–	6,747	–	228	6,975
Comprehensive Income For the Year	$ 159,099	$ (12,305)	$ 1,109	$ 6,747	$ –	$ 228	$ 154,878

33. SUBSIDIARIES

CANADIAN WESTERN BANK SUBSIDIARIES [1]

(ANNEXED IN ACCORDANCE WITH SUBSECTION 308 (3) OF THE BANK ACT)
OCTOBER 31, 2012

	Address of Head Office	Carrying Value of Voting Shares Owned by the Bank[2]
National Leasing Group Inc.	1525 Buffalo Place Winnipeg, Manitoba	$ 134,458
Canadian Direct Insurance Incorporated	Suite 600, 750 Cambie Street Vancouver, British Columbia	25,766
Canadian Western Trust Company	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	19,136
Valiant Trust Company	Suite 310, 606 4th St. S.W. Calgary, Alberta	8,080
Adroit Investment Management Ltd.	Suite 1250, 10303 Jasper Avenue Edmonton, Alberta	6,927
Canadian Western Bank Capital Trust	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1,000
Canadian Western Bank Leasing Inc.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1
Canadian Western Financial Ltd.	Suite 3000, 10303 Jasper Avenue Edmonton, Alberta	1

(1) The Bank owns 100% of the voting shares of each entity, with the exception of Adroit Investment Management Ltd. (72.75% ownership).
(2) The carrying value of voting shares is stated at the Bank's equity in the subsidiaries.

SHAREHOLDER INFORMATION

CWB Group Corporate Headquarters
Canadian Western Bank & Trust
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423-8888
Fax: (780) 423-8897
Website: cwb.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
Website: 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 shares and preferred shares of CWB.

For dividend information, changes 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 2012 Annual Report, the Annual Information Form, Notice of Annual and Special Meeting of Shareholders and Proxy Circular will be available on CWB's website. For additional printed copies of these reports, please contact the Investor Relations Department.

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

2013 Annual and Special Meeting of Shareholders
The Annual and Special Meeting of Shareholders of Canadian Western Bank will be held in Edmonton, Alberta, on March 7, 2013 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
Canadian Western Bank
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423-8855
Fax: (780) 438-2632

Complaints or Concerns regarding Accounting, Internal Accounting Controls or Auditing Matters
Please contact either:
Tracey C. Ball
Executive Vice President and
Chief Financial Officer
Canadian Western Bank
Suite 3000, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423-8855
Fax: (780) 969-8326
Email: tracey.ball@cwbank.com
or
Robert A. Manning
Chairman of the Audit Committee
c/o 210 – 5324 Calgary Trail
Edmonton, Alberta T6H 4J8
Telephone: (780) 438-2626
Fax: (780) 438-2632
Email: rmanning@shawbiz.ca

Hard working.
Enthusiastic. Responsive.
Dedicated.

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

AWARD OF EXCELLENCE

Recipients for 2012

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

Congratulations to the 2012 recipients of the Award of Excellence:

- **Charles Cheng**, CDI, Vancouver
- **Deb Price**, CDI, Edmonton
- **Sylvia Thiessen**, CWB, Winnipeg
- **Therese Lavallee**, CWB, Calgary
- **Dawn Argent**, CWB, Edmonton
- **David Hofer**, CWB, Edmonton
- **Shirley Falls**, Adroit, Edmonton
- **Tammy Dorais**, CWB, Surrey
- **Maria Sastrillo**, CWB, Vancouver
- **Robyn Stone**, CWB, Red Deer
- **Kim Wong**, Valiant, Vancouver
- **Ryan Green**, CWT, Vancouver

ECO AUDIT

This Annual Report uses 10% Post Consumer Recycled fiber instead of virgin paper, the following savings to our natural resources were realized:[1]

Trees Saved

19

Wood Saved (Tonnes)

4

Energy Not Consumed (Million BTU's)

8

Net Greenhouse Gases Prevented (lbs. CO_2 Equiv.)

1,688

Waste Water (Water Saved gals.)

9,155

Solid Waste (Landfill Reduced lbs.)

613

[1] Above information is based on use of the following products:
8,500 sheets of 28 x 40 Sterling Premium 80lb Matte Cover 346M
163,000 sheets of 23 x 35 Sterling Premium 60lb Matte Text 102M
Data research provided by www.environmentalpaper.org.

LOCATIONS

Canadian Western Bank

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
  George Bawden
- *Old Strathcona*
  7933, 104 Street
  (780) 433.4286
  Donna Austin
- *South Edmonton Common*
  2142, 99 Street
  (780) 988.8607
  Robert Ovics
- *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
  Colin Errmann
- *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
- *Calgary Westjet Banking Centre*
  22 Aerial Place NE
  Westjet Campus
  (403) 452.5869
  Christina French

Grande Prairie
11226 100 Avenue
(780) 831.1888
Todd Kramer

Leduc
5407 Discovery Way
(780) 986.9858
Michael White

Lethbridge
744, 4 Avenue South
(403) 328.9199
Les Erickson

Medicine Hat
102, 1111 Kingsway Avenue S.E.
(403) 527.7321
Connelly Sherwick

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
  Brian Korpan
- *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) 417.4560
Mike Eckersley

Kamloops
101, 1211 Summit Drive
(250) 828.1070
Joshua Knaak

Kelowna
- *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
1866 Hamilton St.
Hill Tower III
(306) 757.8888
Kelly Dennis

Saskatoon
- *Saskatoon City Centre*
  244, 2 Avenue
  (306) 477.8888
  Ron Kowalenko
- *Saskatoon 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 Kenaston*
  125 Nature Park Way
  (204) 452.0933
  Christopher Voogt

Canadian Direct Financial
- **Edmonton**
  3000, 10303 Jasper Avenue
  (780) 441.2249
  canadiandirectfinancial.com

Canadian Western Trust
- **Calgary**
  310, 606 4 Street S.W.
  (403) 717.3145
- **Edmonton**
  3000, 10303 Jasper Avenue
  (780) 969.8332
- **Toronto**
  710, 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

Designed by Vision Creative Inc. visioncreativeinc.com

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

Best
Employers
in Canada

CANADA'S 10
MOST ADMIRED
CORPORATE CULTURES
Presented by Waterstone