Bank Trust Insurance Wealth Management

# 2013 Annual Report

CWB
CANADIAN WESTERN BANK GROUP

# CWB Group

## Bank

CANADIAN WESTERN BANK

OPTIMUM MORTGAGE
A Division of Canadian Western Trust

NATIONAL LEASING

Canadian Direct Financial

## Trust

CANADIAN WESTERN TRUST
Canadian Western Bank Group

VALIANT TRUST
Canadian Western Bank Group

## Insurance

CANADIAN DIRECT INSURANCE
Canadian Western Bank Group

## Wealth Management

ADROIT INVESTMENT MANAGEMENT
Canadian Western Bank Group

CANADIAN WESTERN FINANCIAL
Canadian Western Bank Group

McLEAN & PARTNERS
WEALTH MANAGEMENT

# Five Year Financial Summary ($ thousands, except per share amounts)

| | IFRS (1) | | | Canadian GAAP (1) | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| **Results of Operations** | | | | | |
| Net interest income (teb) (2) | **$ 477,501** | $ 443,572 | $ 411,452 | $ 328,664 | $ 236,354 |
| Less teb adjustment | **8,138** | 9,143 | 11,059 | 11,186 | 7,847 |
| Net interest income per financial statements | **469,363** | 434,429 | 400,393 | 317,478 | 228,507 |
| Other income | **94,982** | 81,910 | 72,103 | 105,595 | 91,612 |
| Total revenues (teb) | **572,483** | 525,482 | 483,555 | 434,259 | 327,966 |
| Total revenues | **564,345** | 516,339 | 472,496 | 423,073 | 320,119 |
| Net income available to common shareholders | **187,163** | 172,197 | 149,538 | 148,413 | 96,223 |
| Return on common shareholders' equity (3) | **14.1%** | 15.0% | 14.7% | 17.1% | 13.2% |
| Return on average total assets (4) | **1.06** | 1.08 | 1.09 | 1.24 | 0.86 |
| **Per Common Share** | | | | | |
| Average common shares outstanding (thousands) | **79,147** | 76,841 | 72,205 | 65,757 | 63,613 |
| Earnings per share | | | | | |
| Basic | **$ 2.36** | $ 2.24 | $ 2.07 | $ 2.26 | $ 1.51 |
| Diluted | **2.35** | 2.22 | 1.95 | 2.05 | 1.47 |
| Adjusted cash (5) | **2.39** | 2.30 | 2.17 | 2.09 | 1.49 |
| Dividends | **0.70** | 0.62 | 0.54 | 0.44 | 0.44 |
| Book value | **17.54** | 15.94 | 13.87 | 14.08 | 12.16 |
| Market price | | | | | |
| High | **33.75** | 30.10 | 31.75 | 26.59 | 23.00 |
| Low | **27.04** | 24.62 | 24.00 | 19.85 | 7.52 |
| Close | **33.44** | 29.56 | 28.50 | 25.36 | 21.38 |
| **Balance Sheet and Off-Balance Sheet Summary** | | | | | |
| Assets | **$ 18,520,260** | $ 16,873,269 | $ 14,849,141 | $ 12,701,691 | $ 11,635,872 |
| Cash resources, securities and repurchase agreements | **2,580,327** | 2,573,083 | 2,238,039 | 1,876,085 | 2,188,512 |
| Loans | **15,576,893** | 13,953,686 | 12,293,282 | 10,496,464 | 9,236,193 |
| Deposits | **15,526,040** | 14,144,837 | 12,394,689 | 10,812,767 | 9,617,238 |
| Debt | **820,650** | 634,273 | 634,877 | 315,000 | 375,000 |
| Shareholders' equity | **1,605,427** | 1,464,979 | 1,256,613 | 1,148,043 | 986,499 |
| Assets under administration | **8,423,972** | 7,171,826 | 9,369,589 | 8,530,716 | 5,467,447 |
| Assets under management | **1,901,146** | 855,333 | 816,219 | 795,467 | 878,095 |
| **Capital Adequacy (6)** | | | | | |
| Common equity Tier 1 ratio | **8.0%** | n/a | n/a | n/a | n/a |
| Tier 1 ratio | **9.7** | 10.6% | 11.1% | 11.3% | 11.3% |
| Total ratio | **13.9** | 13.8 | 15.4 | 14.3 | 15.4 |
| **Other Information** | | | | | |
| Efficiency ratio (teb) (7) | **45.9%** | 44.8% | 44.9% | 44.1% | 48.2% |
| Efficiency ratio | **46.5** | 45.6 | 45.9 | 45.3 | 49.4 |
| Net interest margin (teb) (8) | **2.70** | 2.79 | 2.99 | 2.74 | 2.10 |
| Net interest margin | **2.65** | 2.73 | 2.91 | 2.64 | 2.03 |
| Provision for credit losses as a percentage of average loans | **0.19** | 0.19 | 0.19 | 0.21 | 0.15 |
| Net impaired loans as a percentage of total loans | **(0.14)** | (0.11) | 0.21 | 0.62 | 0.68 |
| Number of full-time equivalent staff (9) | **2,037** | 1,885 | 1,796 | 1,716 | 1,339 |
| Number of bank branches | **41** | 41 | 40 | 39 | 37 |

(1) Financial information prepared under International Financial Reporting Standards (IFRS) (2013, 2012 and 2011) and Canadian Generally Accepted Accounting Principles (GAAP) (2010 and 2009) may not be directly comparable.

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

(3) Return on common shareholders' equity is calculated as net income available to common shareholders divided by average common shareholders' equity.

(4) Return on assets is calculated as net income available to common shareholders divided by average total assets.

(5) Diluted earnings per common share excluding the after-tax amortization of acquisition-related intangible assets and the non-tax deductible charge for the fair value of contingent consideration. These exclusions represent non-cash charges and are not considered to be indicative of ongoing business performance.

(6) As of January 1, 2013, the Office of the Superintendent of Financial Institutions Canada (OSFI) adopted a capital management framework called Basel III, and capital is managed and reported in accordance with these requirements. Capital ratios prior to fiscal 2013 have been calculated using the previous framework, Basel II. Capital ratios calculated under Basel III are not directly comparable to the equivalent Basel II measures.

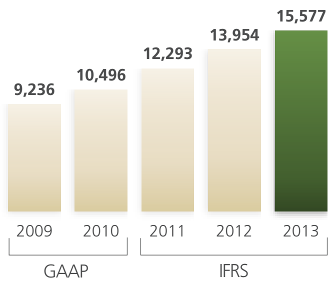
(7) Efficiency ratio is calculated as non-interest expenses divided by total revenues excluding the non-tax deductible charge for the fair value of contingent consideration.

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

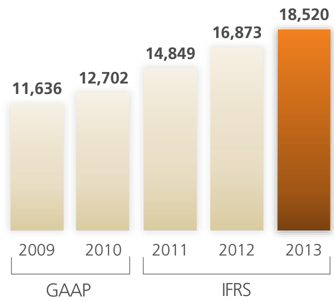
(9) The significant increase in the number of full-time equivalent staff in 2010 compared to the prior year reflects CWB's acquisition of National Leasing Group Inc., effective February 1, 2010.

# Financial Performance Summary[1]

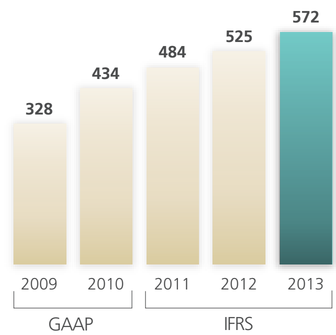
### Total Loans
($ millions)



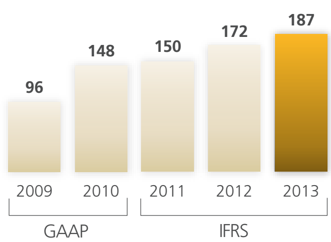

### Total Assets
($ millions)



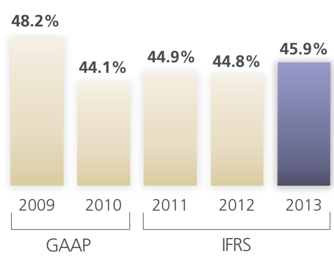

### Total Revenues (teb)
($ millions)



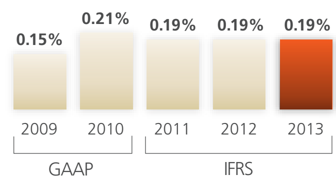

### Net Income Available to Common Shareholders
($ millions)




### Efficiency Ratio (teb)
(expenses to revenues)




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




(1) As of 2011, financial results are reported under IFRS, as opposed to Canadian GAAP, and may not be directly comparable.

| Performance Targets | 2013 Minimum Targets | 2013 Performance |
|---|---|---|
| Net income available to common shareholders growth | 8% | **9%** |
| Total revenue (teb) growth | 8% | **9%** |
| Loan growth | 10% | **12%** |
| Provision for credit losses as a percentage of average loans (1) | 0.18 – 0.23% | **0.19%** |
| Efficiency ratio (teb) (2) | 46% or less | **45.9%** |
| Return on common shareholders' equity (3) | 14% | **14.1%** |
| Return on assets (4) | 1.05% | **1.06%** |

(1) Provision for credit losses, divided by average total loans.
(2) Efficiency ratio (teb) calculated as non-interest expenses divided by total revenues (teb).
(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

Canadian Western Bank (TSX: CWB) offers a full range of business and personal banking services across the four western provinces and is the largest publicly traded Canadian bank headquartered in Western Canada. The Bank, along with its operating affiliates/divisions — Optimum Mortgage, National Leasing, Canadian Direct Financial, Canadian Western Trust, Valiant Trust, Canadian Direct Insurance, Adroit Investment Management, McLean & Partners Wealth Management, and Canadian Western Financial — collectively offer a diversified range of financial services across Canada and are together known as the CWB Group.

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# Business Strategy

## Vision

To be 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 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 within 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 a targeted, cohesive and growth-focused group of companies.

## Goals

Objectives within CWB Group's Strategic Direction are further guided by four inter-related financial goals:

- Ensure growth is profitable and accretive to earnings per share
- Grow and diversify funding sources
- Increase revenue diversification
- Control growth of non-interest expenses

# Lines of Business

## BANK

### Canadian Western Bank (CWB)

Core focus on full service business banking in Western Canada through 41 branch locations. Specialized expertise in general commercial lending, equipment financing and leasing, commercial real estate financing, real estate construction financing and energy lending. Also offer a full range of personal banking products and services, including chequing accounts, savings accounts, Guaranteed Investment Certificates (GICs), Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), mortgages and personal lending.

### National Leasing

Expertise in commercial equipment leasing with operations across Canada, specializing in four key verticals: general commercial, agriculture, health care, and golf and turf.

### Optimum Mortgage

Specialty lender focused on broker-sourced alternative mortgages. Also offer high ratio insured mortgages, conventional "A" mortgages and home equity lines of credit.

### Canadian Direct Financial (CDF)

Internet-based division of CWB serving Canadians in all provinces and territories (except Quebec) who choose to maintain their banking services online, including those who don't have convenient access to a CWB branch.

### Select 2013 Highlights

- Collectively achieved 12% loan growth, surpassing $15 billion of total loans
- Enhanced business banking services with the introduction of new cash management options
- Surpassed $1 billion of total leases in National Leasing
- Grew the balance of alternative mortgages outstanding in Optimum by 25%
- Increased the number of clients by 56% and approached $300 million of total deposits in CDF

### Opportunities

Maintain track record of double-digit annual loan growth with a focus on core lending sectors, portfolio diversification and optimized funding

Leverage significant investment in technology to deliver targeted financial solutions based on a strong understanding of client needs

Deepen client relationships and increase products-per-client through successful cross-selling between business and personal banking, as well as other CWB Group companies

## TRUST

### Canadian Western Trust (CWT)

Customized pension, trustee and custodial solutions through two distinct lines of business: Individual Retirement Investment Services (IRIS) and Corporate and Group Services (CGS).

### Valiant Trust (Valiant)

Specialty trust services in the areas of stock transfer, corporate trust, escrow and employee plan administration for public and private corporations.

### Select 2013 Highlights

- Surpassed $8 billion of trust assets under administration
- Surpassed 50,000 total IRIS accounts
- Expanded CGS with offering of custodial services to clients of Adroit Investment Management
- Approached 600 client appointments in Valiant

### Opportunities

Leverage CWT's success in servicing clients of Adroit Investment Management to grow CGS market share

Strengthen Valiant's offering in the small- to mid-size client segment through investment in proprietary systems technology to improve revenue capture, control and security

Capitalize on opportunities for brand alignment and shared services between trust companies

Deepen client relationships by continuing to develop private client partnerships and cross-selling opportunities with other CWB Group companies

## INSURANCE

### Canadian Direct Insurance (CDI)

Direct offering of auto, home, tenant, condo and travel insurance to clients in British Columbia and Alberta. Differentiated by highly competitive products at lower cost owing to proprietary underwriting system and direct client service by phone or over the Internet.

### Select 2013 Highlights

- Recognized as "Highest in Customer Satisfaction among Auto Insurers in Western Canada, three years in a row" in the J.D. Power & Associates 2013 Canadian Auto Insurance Customer Satisfaction Study℠*
- Approached 200,000 policies outstanding
- Generated 11th consecutive annual underwriting profit, despite financial impact of severe weather events, including catastrophic Alberta floods

### Opportunities

Expand online delivery platform to include tenant and condo insurance products

Optimize home insurance pricing adequacy based on results of comprehensive review of policy coverages and deductibles

Ongoing development of affinity partnership opportunities

Deepen client relationships by continuing to promote CWB Group's brand and products

*Canadian Direct Insurance Incorporated received the highest numerical score among auto insurance providers in Western Canada in the proprietary J.D. Power and Associates 2011-2013 Canadian Auto Insurance Customer Satisfaction Studies℠. 2013 study based on 11,257 total responses measuring 14 providers in Western Canada (AB, BC, MB, SK) and measures consumer satisfaction with auto insurance providers. Proprietary study results are based on experiences and perceptions of consumers surveyed in February-March 2013. Your experiences may vary. Visit jdpower.com

## WEALTH MANAGEMENT

### Adroit Investment Management and McLean & Partners Wealth Management

Discretionary portfolio management for high-net-worth investors and institutions through two investment counselling firms. Specialize in building customized portfolios of stocks, bonds and money market instruments.

### Canadian Western Financial (CWF)

Mutual fund dealer offering self-directed investment plans through licensed mutual fund representatives located in CWB branches. Complementary wealth management services through advice and access to mutual fund products from more than 20 third-party fund companies.

### Select 2013 Highlights

- Invested in 55% ownership of McLean & Partners Wealth Management
- More than doubled income from wealth management fees and investment assets under management

### Opportunities

Determine the most effective business model for delivery of wealth management services to CWB Group clients

Deepen client relationships and increase products-per-client through successful cross-selling between CWB Group companies

Invest in tools and training to enable CWF account managers to provide financial planning advice with special relevance to business owners

Align the geographic footprint of discretionary wealth management offerings with CWB's branch network through additional strategic acquisitions

*"We're eager to build on our success as we move into the next phase of growth for our organization, and for CWB shareholders."*

# An Interview with the President and CEO, Chris Fowler

**CWB Group had a great year in 2013 – what stands out the most for you?**

Without a doubt, connecting face-to-face with our tremendous group of employees was the most memorable highlight for me. I dedicated significant time visiting nearly all of our branches and affiliate company offices; it was inspiring to see the passionate support for CWB Group's unique culture clearly evident at every location. Another thing that really stood out was the collective response of our employees and businesses to the catastrophic flooding in June that affected numerous Alberta communities. It was a very challenging set of circumstances and our people came through in exceptional ways – first and foremost in support of their neighbours, communities and clients, but also in support of CWB Group's response as an organization. Many employees volunteered with local charities and cleanup crews, and we offered time off with pay to encourage participation. I really can't say enough about the way our people came through to help those in need. I believe we made an important contribution as a responsible corporate citizen, and it all started with the individual employees who embody our values.

It was also gratifying to have met or surpassed each of our performance targets this year, particularly in light of persistent challenges within our operating environment. Very low interest rates and elevated competitive pressure continued to impact all our businesses, further tightening yields and reducing fees compared to what was possible in the past. Nonetheless, we stabilized net interest margin in the second half of the year, which, combined with our success in maintaining double-digit asset growth, contributed to the achievement of a goal we set at the beginning of 2009 to surpass $200 million of net income within five years. Profitability ratios were ahead of our targets, and credit quality was once again very solid.

Another highlight was marking our 100th consecutive profitable quarter. This was a significant milestone, and it was rewarding to celebrate the achievement. We are, of course, a forward-looking culture, and we're eager to build on our success as we move into the next phase of growth for our organization, and for CWB shareholders.

**What have been your primary strategic mandates since becoming President and CEO?**

Many of the decisions we've made in recent years support CWB Group's ongoing transition from a small regional bank into a diversified financial institution. As leaders, we've asked ourselves: Does what got us here, get us there? Our strong business model has served us very well, and we're determined to preserve our identity as a successful growth story built on an entrepreneurial culture, where our people are empowered and know their day-to-day work makes a difference. However, we're also determined to become a more strategically connected group of companies with a collective mandate that supports our vision to be seen as crucial to our clients' futures. Our future growth will be based on our commitment to help more clients, and our success in doing additional business with those who have already chosen CWB Group as their preferred financial services partner. We are also continuing our strategic focus to build a more diversified and cost-effective funding model, optimize regulatory capital, and enhance technology and services to better meet our clients' evolving needs.

I enjoy tremendous support from our outstanding Board of Directors and executive team. Together, our leaders provide a wealth of experience, specialized market knowledge and a consistent management philosophy, and we're very confident that our strategic direction is right for CWB Group.

### What other strategies and expectations have you set for CWB Group in 2014 and beyond?

Our strategy and performance targets are set in the context of evolving client needs, intensifying demands from regulators and highly variable macroeconomic conditions. In combination, these factors create a dynamic and often unpredictable operating environment. But whatever happens externally, our focus on delivering long-term value for CWB shareholders doesn't change. Our annual performance targets zero in on specific measures that tie directly to shareholder value. We've always set targets that are challenging, but attainable, and this year is no exception. The targets reflect our ambitions to build on our long history of stable profitability, industry leading efficiency, and double-digit asset growth, all while maintaining disciplined underwriting practices and strong credit quality.

Our results are largely driven by our geographic focus and unique business model, with a primary concentration on business banking for small- and mid-sized companies. Although we are diversifying geographically in certain businesses, our overall focus will remain consistent, and our branch infrastructure will continue to support our core presence in Western Canada. Our strategic direction comprises four inter-related financial goals: ensuring growth is profitable and accretive to earnings per share; growing and diversifying funding sources; increasing revenue diversification; and controlling the growth of non-interest expenses. In order to measure our performance against our goals and strategic objectives, we recently introduced a new strategic management framework. This process will help align our activities to support our vision and provide necessary feedback on our actions.

### It sounds like you feel good about the organization's ability to continue to deliver strong loan growth and consistent credit performance. Does this become more challenging to accomplish as the organization gets larger and more complex?

Getting bigger does come with certain challenges, but we're very confident we have plenty of room for organic growth within our business model. Growth actually makes things easier in some ways too – we're starting to benefit from economies of scale that weren't available just a few years ago. Overall, we expect our ongoing core focus on Western Canada will continue to pay off for our stakeholders – there's plenty of business to do here and lots of new clients for us to welcome aboard. Our common-sense approach to sustainable growth will continue focusing on business lines where we are best positioned to exceed client expectations with our service and expertise.

### Can you talk about a few areas in particular where CWB Group is building momentum?

I think our culture is actually getting stronger as we grow. In the past, we used the phrase "Think Western" to set ourselves apart. It stood for hard work, resilience, and a welcoming entrepreneurial spirit, all of which remain signatures of the way we work today. As our reputation for getting things done becomes better known, we continue to attract new employees who share our values and want to be a part of something unique.

We're also building momentum with our business banking specialty, which continues to be a key differentiator and remains at the core of our strategy. Achieving long-term, profitable growth in business banking is supported by enhanced offerings in personal banking, leasing, trust, wealth management and insurance. Within the loan portfolio, we've continued to experience very strong growth in equipment financing and alternative residential mortgages. Growth in commercial mortgages and real estate project loans was stronger than expected this year as we were able to win business without matching competitors' aggressive pricing tactics or compromising on quality. This is a great example of the business value of our culture. I believe our clients truly appreciate our focus on building long-term relationships, and they recognize the benefit of working with our committed specialists.

### Are there opportunities to expand further via acquisition? If so, in what areas are these opportunities most likely to arise?

When it comes to strategic acquisitions, we've always taken a patient approach and focused on areas where we can leverage distinct competitive advantages within our primary geographic footprints. All of our acquisitions have fit with this approach, including our investment this year in McLean & Partners Wealth Management. Expanding the scope of our wealth management business is something we will continue to look at going forward. In addition to providing growth opportunities and revenue diversification, wealth management is a natural complement to our core service offerings in business banking, where personal relationships are crucial. Adding scale to our operations in equipment financing and leasing is also of interest, and we have been active in acquiring portfolios in this area throughout the last few years. In general, we'll remain conservative in pursuing acquisitions. In our view, if the price is too high, we're happy to be patient and continue delivering strong organic growth.

### CWB Group is making significant investments in infrastructure and technology to position itself for future growth. Can you provide some detail on these investments, and what you expect to gain from them?

Replacement of our core banking system is by far the largest scale technology investment we've ever embarked upon. I'm happy to report that the design and installation of the new system is proceeding on-time and on-budget, with implementation anticipated in 2015. Benefits from this and other technology investments will mainly come from increased efficiencies, allowing our staff to spend less time on paperwork and more time focusing on meeting client needs. We expect that better and more timely access to relevant data will meaningfully improve our delivery of products and services, as well as our ability to offer competitive, profitable financial solutions based on individual client circumstances. It will also enhance our ability to manage risk at a more granular level, respond to regulatory change, and eventually facilitate migration to an advanced approach for calculating risk-weighted assets. Clearly, the expected long-term benefits of these technology investments are significant.

We also continued to invest in physical infrastructure in 2013. We added an equipment financing office in Lloydminster, Alberta, and relocated our branches in Regina and Yorkton, Saskatchewan to increase our footprint in those areas. In Yorkton, previously one of our few "retail-only" branches, we broadened our offering to include CWB's full suite of business and personal banking services. Construction is well underway on our new Edmonton Main Branch premises, with relocation scheduled for the first half of 2014. This new space is impressive and much better suited to accommodate the amount of business we generate from this flagship branch.

### Could you summarize your current business outlook for CWB Group with reference to your view of the economy?

Most of our business has been built around serving small and mid-market commercial entrepreneurs in Western Canada. While our client base today is quite diverse, and the level of activity within specific sectors is important, overall economic trends in Western Canada have the biggest impact on our outlook. With that in mind, we think our core markets continue to show potential for strong growth. Forecasters are projecting that activity in the western provinces will continue to lead the country over the next few years. Consensus economic expectations are calling for a relatively stable environment for commodity prices, which further supports a positive outlook for Western Canada. We expect this will also provide a solid foundation for ongoing growth in our core lines of business. We're encouraged by the overall outlook, and very excited about our future as a growing group of companies.

*"We believe a board's most important duties are supporting a culture of ethical behaviour, getting the right management team in place, and working with management to define strategic objectives that properly balance risk and reward."*

# Message from the Chair, Allan Jackson

An effective Board of Directors fulfils many important functions, such as ensuring that adequate controls are in place, regulations are followed, and reporting is complete and accurate. However, we believe our Board's most important duties are supporting a culture of ethical behaviour, getting the right management team in place, and working with management to define strategic objectives that properly balance risk and reward.

My goal as Chair is to ensure the effectiveness of the Board in each of our oversight functions and to set the appropriate tone for achievement of CWB Group's strategic direction. In line with this, we are determined to ensure CWB Group has the right people and the necessary infrastructure to bring its strategy to life. This means supporting the organization's ongoing evolution from the small, regional bank it was in the 1990s to the larger and more diversified financial services institution it has become today. I am pleased to report that we are continuing to build momentum in this regard. We believe our clients increasingly view CWB Group as a highly valued strategic financial partner within each of our complementary business lines. We are also working to deepen our relationships with existing clients through an expanded offering of financial services.

CWB Group's track record of strong growth is extraordinary. Our ability to grow profitably in challenging market conditions is a testament to great leadership, a strong organizational culture and effective strategy. This year was no exception. We delivered another year of record financial performance, surpassing each of our annual targets for growth, efficiency and profitability despite the persistent challenges of low interest rates and competitive factors within our markets.

We are confident that CWB Group's vision – to be seen as crucial to our clients' futures – is the right one to move the organization forward. As a Board, our job is to make certain we stay on track.

### A review of the governance framework: Ensuring effective oversight

Notwithstanding our focus on guiding strategy, the Board continually evaluates changing standards and best practices of corporate governance as we work to build on our culture of ethical conduct and accountability. We engage with CWB Group's regulators and work proactively to assess potential impacts to understand the requirements and rationale of regulatory change, and develop responses accordingly.

CWB Group's principal regulator, the Office of the Superintendent of Financial Institutions (OSFI), finalized revisions to its guideline for corporate governance in January of this year. The revised guideline reinforces OSFI's emphasis on effective risk management as a primary aspect of governance best practices. Our Board has been focused on risk governance for a number of years, and management has made significant progress toward alignment of all risk management practices through an enterprise-wide risk framework. The intent of this framework is to ensure we maintain a comprehensive, group-wide approach to risk by articulating our risk appetite and clarifying independent oversight of the risk management function.

### A review of executive compensation: Ensuring alignment with the long-term interests of shareholders

One of the Board's most important responsibilities is to make certain that the interests of senior executives are aligned with those of shareholders, while also ensuring executives are properly and fairly compensated for their contributions. To encourage decision-making that aligns with the interests of shareholders, directors and senior officers are required to maintain a minimum level of common share ownership. To ensure compensation is competitive and fair, the Human Resources Committee sought the advice of an independent executive compensation expert this year. The independent advisor reported to the Committee on market compensation practices, including short- and long-term incentives. The introduction of a performance share unit to the long-term incentive plan for executives in 2014 will be a notable outcome of this engagement. The performance share unit will represent a meaningful portion of the total long-term incentive for both the CEO and other named executive officers. We believe this change further enhances the alignment of executive compensation with shareholder interests, while providing fair and attractive long-term incentives for management.

### Succession planning: Ensuring stability of leadership

Much of CWB Group's success can be attributed to exceptional leadership. For 23 years, the organization benefited from Larry Pollock's unfailing belief in its potential and his ambitious vision for its future. Long before Larry's retirement in March 2013, planning for the selection of a new President and CEO was an area of particular focus for the Board. Larry developed an extraordinary legacy during his tenure, and we were determined to identify the strongest possible successor. I am very happy to say that the Group's performance during Chris Fowler's first year as President and CEO reinforced the confidence we expressed in selecting him. It's abundantly clear that Chris possesses the qualities our employees, clients, and investors expect of our chief executive, and that he is the right choice to lead CWB Group forward.

### The ongoing evolution of the Board: Ensuring effective governance

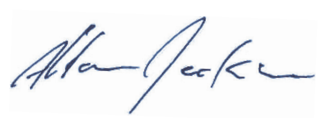
Planning for succession is as important at the director level as it is for management. Through a regular self-evaluation process, the Board assesses skills and competencies represented through its membership. Where gaps are identified, or where they are expected to emerge through retirement, our objective is to augment our Board with highly qualified business leaders who share our values, but will also challenge the status quo in their desire for continuous improvement. This year, for example, we bid farewell to Gerald McGavin, a Board member who served with us since 1989. The Board and all CWB Group stakeholders benefited significantly from Mr. McGavin's guidance and contributions to the growth and success of this organization. At the same time, we were pleased to welcome Andrew Bibby to the team. Among his many attributes, Mr. Bibby brings a wealth of specialized knowledge in the real estate development sector.

Coinciding with his appointment to CEO, Chris Fowler replaced Larry Pollock as our only non-independent director. We continue to benefit from Larry's tremendous experience through his two-year agreement to serve as a special advisor to the Board.

### Looking ahead

This is a very exciting time for CWB Group. We have a new leader with a strong vision for the organization's future and a clearly defined strategy for how to achieve it. At the same time, we remain committed to maintaining the unique culture that has defined us through our first three decades. I am excited to continue working closely with the rest of our Board and the senior management team to profitably grow all of our businesses, and ensure responsible, long-term value creation for CWB shareholders. The opportunity before us is significant. While there is still much work to do and many challenges to overcome, I know we have the people and the resources in place to achieve our collective goals.

Sincerely,



**Allan Jackson**
*Chair of the Board*

# Governance Structure, Updates and Initiatives

At CWB Group, we strive to earn the trust of our stakeholders through high standards of corporate governance and have embedded rigorous oversight and governance practices into our business processes. We work continuously to enhance and improve our governance practices with the recognition that this commitment directly contributes to the creation of long-term shareholder value and the sound functioning of our organization.

The Board of Directors (the Board) is responsible for the overall stewardship of CWB Group, including the development and monitoring of CWB Group's governance structure, review and approval of the risk management framework, and for fostering a culture of ethical conduct and accountability.

### Risk Management

The Board plays an integral role in CWB Group's risk management processes and directly oversees risk management to ensure a comprehensive approach to risk. As part of this oversight, the Board approves the enterprise risk management framework to ensure that policies and procedures are in place to measure and manage material risk exposures. As part of the risk management framework, CWB's management provides the Board with quarterly updates on the framework and risk observations.

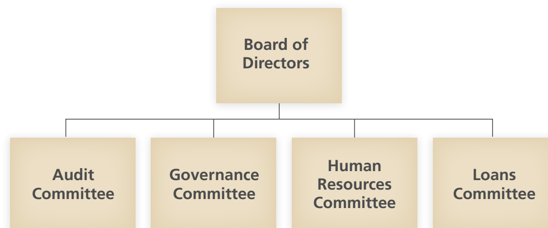
### Board Independence and Effectiveness

Members of the Board have been carefully selected for their judgment, integrity, leadership ability and general business expertise, as well as their knowledge of financial services and/or key geographic markets and businesses in which CWB Group operates. During fiscal 2013, the Board was comprised of fourteen business and community leaders whose diverse backgrounds and experiences are invaluable in the guidance and monitoring of CWB Group's strategy and implementation. Thirteen of the fourteen directors are independent, with Mr. Fowler, CWB's President and CEO, serving as the only non-independent member. 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 has developed a Board skills and competency evaluation process, the results of which are reviewed annually and integrated with the overall Board succession plan. In addition, in alternating years, the effectiveness of the Board and the contributions of individual directors are assessed to ensure that the Board maintains an appropriate complement of skills, experiences and qualifications. In fiscal 2013, the Board also enhanced this assessment process to require the assistance of external advisors on a regular basis.

### Governance Structure

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 Board committee, as well as the Board mandate, are available in the Corporate Governance section of the CWB Group website: cwb.com.




### Board Committees

- **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 financial reporting, this 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. This 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.

**2013 Board of Directors from left to right: Ian M. Reid, Robert L. Phillips, Raymond J. Protti, Wendy A. Leaney, Alan M. Rowe, Chris H. Fowler, H. Sanford Riley, Allan W. Jackson (Chair), Arnold J. Shell, Andrew Bibby, Linda M.O. Hohol, Howard E. Pechet, Robert A. Manning, Albrecht W.A. Bellstedt.**

## Ethical Conduct

At CWB Group, ethical conduct is not only a legal and regulatory requirement, but a core value that facilitates the development of strong relationships with clients and other stakeholders in the communities where we operate.

Codes of conduct for all directors, officers and employees are in place and must be reviewed annually with certification from each individual that he or she has abided by the code. CWB Group's whistleblower policy allows for the anonymous reporting of complaints and concerns. All 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 three 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 independent compensation advisors. In addition, 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.

## Proactive Approach to Governance

CWB Group takes a proactive approach to ensuring best practices in corporate governance, and the Board is committed to continuous improvement of governance policies and procedures. A few best practices recently adopted by the Board include the:

- introduction of a compensation recoupment (i.e. clawback) policy to discourage short-term decision-making and excessive risk taking;
- retention of a compensation consultant to ensure director and executive compensation are aligned with best practices; and,
- requirement that the Board and each Board committee have in camera sessions without management present.

## For more information

To encourage open dialogue with shareholders, the Board can be contacted directly about corporate governance issues by emailing chairoftheboard@cwbank.com. Detailed information about CWB Group's governance practices is available in the Corporate Governance section of CWB Group's website: cwb.com.

Shareholders are also welcome to attend CWB Group's annual shareholder meeting in March 2014 to meet with directors and senior management, and hear about CWB Group's future direction. Shareholders wishing to attend the annual shareholder meeting are encouraged to review CWB Group's Management Proxy Circular for information on how they can attend and participate.

**Board of Directors**
(October 31, 2013)

- **Albrecht W.A. Bellstedt, Q.C.**
  President, A.W.A. Bellstedt Professional Corporation
- **Andrew Bibby**
  CEO & Director, Grosvenor Americas Partners
- **Chris H. Fowler**
  President & CEO, Canadian Western Bank
- **Linda M.O. Hohol, FICB**
  Corporate Director
- **Allan W. Jackson (Chair)**
  President & CEO, ARCI Ltd.
- **Wendy A. Leaney, FICB**
  President, Wyoming Associates Ltd.
- **Robert A. Manning**
  President, Cathton Investments Ltd.
- **Howard E. Pechet**
  President, Mayfield Consulting Inc.
- **Robert L. Phillips, Q.C.**
  President, R.L. Phillips Investments Inc.
- **Raymond J. Protti, ICD.D**
  Corporate Director
- **Ian M. Reid**
  Corporate Director
- **H. Sanford Riley, C.M.**
  President & CEO, Richardson Financial Group Limited
- **Alan M. Rowe, CPA, CA**
  Partner, Crown Realty Partners
- **Arnold J. Shell**
  President, Arnold J. Shell Consulting Inc.

# Management's Discussion and Analysis (MD&A)

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## BUSINESS PROFILE AND STRATEGY

Canadian Western Bank (TSX:CWB) offers a diverse range of financial services and is the largest publicly traded Schedule 1 Canadian bank headquartered in Western Canada. The Bank, along with its subsidiaries and operating divisions – National Leasing Group Inc. (National Leasing), Optimum Mortgage, Canadian Direct Financial (CDF), Canadian Western Trust Company (CWT), Valiant Trust Company (Valiant), Canadian Direct Insurance Incorporated (CDI), Adroit Investment Management Ltd. (Adroit), McLean & Partners Wealth Management Ltd. (McLean & Partners) and Canadian Western Financial Ltd. (CWF) – are together known as Canadian Western Bank Group (CWB or CWB Group).

CWB currently operates in the financial services areas of banking, trust, insurance and wealth management. With a focus on mid-market commercial banking, real estate and construction financing, equipment financing and energy lending, the Bank's 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 to all banking services is primarily provided through a network of 41 client-focused branches in select locations across the four western provinces. 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. CDI provides personal auto and home insurance to customers in British Columbia (BC) and Alberta. Adroit offers discretionary wealth management for individuals, corporations and institutional clients, while McLean & Partners specializes in discretionary wealth management primarily for high net-worth individuals. Third-party mutual funds are offered in bank branches through CWF, CWB'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 consistent 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 a targeted, cohesive and growth-focused group of companies.

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

- "Do what we do, only better"
- "Make the whole worth more than the sum of the parts"

Objectives within the strategic direction are further guided by four inter-related financial goals:

- Ensure growth is profitable and accretive to earnings per share
- Grow and diversify funding sources
- Increase revenue diversification
- Control growth of non-interest expenses

CWB's approach to strategic management recognizes that the development and implementation of strategies cannot be undertaken in isolation, but need to be part of a cross-functional, group-wide process. The intent is to focus on key business drivers that contribute the greatest impact toward the achievement of CWB's vision, mission and goals, and are represented by both financial and non-financial measures. The four inter-dependent pillars of the strategic direction are summarized as follows:

| | |
|---|---|
| **People** | Nurture the organizational culture, promote teamwork, and enhance the depth and breadth of internal relationships. |
| **Support** | Enable continuous development, growth and improvement by adding required levels of capacity, efficiency and stability. |
| **Clients** | Provide targeted client solutions and enhance the depth and breadth of external relationships. |
| **Financial** | Ensure strong profitability, growth, value, efficiency and diversification. |

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 CWB, including the Annual Information Form, is available on SEDAR at sedar.com and on CWB's website at cwb.com.

## FORWARD-LOOKING STATEMENTS

From time to time, CWB makes written and verbal forward-looking statements. Statements of this type are included in the Annual Report and reports to shareholders and may be included in filings with Canadian securities regulators or in other communications such as press releases and corporate presentations. Forward-looking statements include, but are not limited to, statements about CWB's objectives and strategies, targeted and expected financial results and the outlook for CWB'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 management'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 CWB'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, the occurrence of weather-related and other natural catastrophes, changes in accounting standards and policies, the accuracy and completeness of information CWB 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 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 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 CWB's actual results to differ materially from the expectations expressed in such forward-looking statements. Unless required by securities law, CWB 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 2014 and how it will affect CWB's businesses are material factors considered when setting organizational objectives and targets. Performance target ranges for fiscal 2014 consider the following management assumptions:

- A modest acceleration of economic growth in Canada and relatively stronger performance in the four western provinces
- Prices for energy and other commodities remaining at levels comparable with those observed at October 31, 2013
- Sound credit quality with actual losses remaining within CWB's historical range of acceptable levels
- A relatively stable net interest margin attributed to favourable deposit costs and shifts in asset mix that help to offset impacts from the very low interest rate environment and competitive factors

Potential risks that would have a material adverse impact on current economic expectations and forecasts include a global recession spurred by a return to negative growth in the euro zone, a material slowdown of economic growth in the United States and/or China, or a significant and sustained deterioration in Canadian residential real estate prices. Unexpected pricing competition and/or disruptions in domestic or global financial markets that meaningfully impact the costs of overall deposit funding may also contribute to adverse financial results compared to expectations.

## 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 2013 adjustment to taxable equivalent basis of $8.1 million (2012 – $9.1 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 International Financial Reporting Standards (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, 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 charge for the fair value of contingent consideration (the exclusions represent non-cash charges 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 charge for the fair value of contingent consideration
- Net interest margin – net interest income divided by average total assets
- Basel II Tier 1 and total capital adequacy ratios – in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI)
- Basel III common equity Tier 1, Tier 1 and total capital ratios – in accordance with guidelines issued by OSFI
- Average balances – average daily balances

# GROUP FINANCIAL PERFORMANCE

## OVERVIEW

### Highlights of 2013 (compared to 2012)

- Record net income available to common shareholders of $187.2 million, up 9%
- Strong loan growth of 12%, marking the achievement of double-digit loan growth in 23 of the past 24 years
- Record diluted earnings per common share of $2.35, up 6% (record adjusted cash earnings per common share of $2.39, up 4%)
- Record total revenues (teb) of $572.5 million, up 9%
- Net interest margin (teb) of 2.70%, down nine basis points
- Solid credit quality as evidenced by low write-offs and a consistent provision for credit losses measured as a percentage of average loans of 19 basis points
- Return on common shareholders' equity of 14.1%, down 90 basis points
- Return on assets of 1.06%, down two basis points
- Efficiency ratio (teb) of 45.9%, up 110 basis points
- Total assets and assets under administration surpassed milestones of $18 billion and $8 billion, respectively
- On April 30, 2013, marked the achievement of 100 consecutive profitable quarters
- Solid Basel III capital ratios under the *Standardized* approach for calculating risk-weighted assets of 8.0% common equity Tier 1 (CET1), 9.7% Tier 1, and 13.9% total capital
- Cash dividends paid to common shareholders of $0.70 per share, up 13%
- Invested in 55% ownership of McLean & Partners Wealth Management
- Obtained initial credit ratings of 'R-1 (low)' on short-term debt and 'Pfd-3 (high)' on preferred shares from DBRS Limited (DBRS), both with stable trends

Table 1 – Select Annual Financial Information [(1)]
($ thousands, except per share amounts)

| | 2013 | 2012 | 2011 | Change from 2012 $ | Change from 2012 % |
|---|---|---|---|---|---|
| **Key Performance Indicators** | | | | | |
| Net income available to common shareholders | **$ 187,163** | $ 172,197 | $ 149,538 | $ 14,966 | 9 % |
| Earnings per share | | | | | |
| Basic | **2.36** | 2.24 | 2.07 | 0.12 | 5 |
| Diluted | **2.35** | 2.22 | 1.95 | 0.13 | 6 |
| Adjusted cash [(1)] | **2.39** | 2.30 | 2.17 | 0.09 | 4 |
| Provision for credit losses as a percentage of average loans | **0.19%** | 0.19% | 0.19% | | - bp[(2)] |
| Net interest margin (teb) [(1)] | **2.70** | 2.79 | 2.99 | | (9) |
| Net interest margin | **2.65** | 2.73 | 2.91 | | (8) |
| Efficiency ratio (teb) [(1)(3)] | **45.9** | 44.8 | 44.9 | | 110 |
| Efficiency ratio | **46.5** | 45.6 | 45.9 | | 90 |
| Return on common shareholders' equity | **14.1** | 15.0 | 14.7 | | (90) |
| Return on assets | **1.06** | 1.08 | 1.09 | | (2) |
| **Other Financial Information** | | | | | |
| Total revenues (teb) | **$ 572,483** | $ 525,482 | $ 483,555 | $ 47,001 | 9 % |
| Total revenues | **564,345** | 516,339 | 472,496 | 48,006 | 9 |
| Total assets | **18,520,260** | 16,873,269 | 14,849,141 | 1,646,991 | 10 |
| Debt | **820,650** | 634,273 | 634,877 | 186,377 | 29 |
| Dividends per common share | **0.70** | 0.62 | 0.54 | 0.08 | 13 |

(1) See page 13 for a discussion of teb and non-GAAP measures.
(2) bp – basis points.
(3) A decrease in the ratio reflects improved efficiency, while an increase reflects deterioration.

Net income available to common shareholders increased 9% ($15.0 million) over 2012 to a record $187.2 million, while diluted earnings per common share of $2.35 ($2.36 basic) was up 6% from $2.22 ($2.24 basic). Adjusted cash earnings per share, which is diluted earnings per common share excluding the after-tax amortization of acquisition-related intangible assets and the non-tax deductible charge for the fair value of contingent consideration, was $2.39, up 4%. Record total revenues (teb) of $572.5 million increased 9% reflecting 8% ($33.9 million) growth in net interest income (teb) and 16% ($13.1 million) higher other income. Growth in net interest income was driven by the benefit of strong loan growth, partially offset by the impact of a nine basis point reduction in net interest margin (teb) to 2.70%. Margin contraction in the year mainly reflected lower yields on loans, partially offset by improved fixed term deposit costs. Lower loan yields primarily resulted from the combined impact of the sustained very low interest rate environment and ongoing competitive pressures. Solid credit quality was maintained throughout the year, and the provision for credit losses remained unchanged at 19 basis points of average loans.

The efficiency ratio (teb) of 45.9% deteriorated 110 basis points from last year as the benefit of strong percentage growth in total revenues was more than offset by an 11% ($25.9 million) increase in non-interest expenses. The increase in non-interest expenses was mainly attributed to investments in additional staff complement, infrastructure and technology to support current and future business growth.

Return on common shareholders' equity of 14.1% was down 90 basis points while return on assets decreased two basis points to 1.06%. The decrease in return on common shareholders' equity largely resulted from the impact of margin compression and additional CWB common shares outstanding from the 2012 settlement of contingent consideration associated with the 2010 acquisition of National Leasing. Total cash dividends paid to common shareholders of $0.70 per share increased 13% from $0.62 per share paid in the prior year, and resulted in a dividend payout ratio of 30% of total net income available to common shareholders.

Total assets increased 10% to reach $18,520 million driven by strong loan growth. Total branch-raised deposits increased 7% ($586 million), while the demand and notice component within branch-raised deposits was up 12% ($551 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 10% ($1,381 million) in the year to reach $15,526 million, and included increases in fixed term notes issued in the debt capital markets and personal fixed rate term deposits raised through the deposit broker network of $50 million and $496 million, respectively. During the first quarter, DBRS Limited issued an initial rating of "R-1 (low)" with a stable trend on CWB's short-term debt, enabling access to an additional source of funding through debt capital markets with the issuance of bearer deposit notes (BDNs). CWB formally announced its BDN program in July with an internally authorized limit of $500 million, $254 million of which was outstanding at year end. Total branch-raised deposits represented 56% of total deposits at October 31, 2013, compared to 57% a year earlier. The demand and notice component comprised 32% of total deposits, unchanged. The ratio of total deposits to total loans at October 31, 2013 was 1:1, relatively unchanged from a year earlier.

The maintenance of solid capital levels is fundamental to CWB's objectives to effectively manage risks and support strong growth. The Basel III common equity Tier 1 (CET1), Tier 1 and total capital ratios at October 31, 2013 of 8.0%, 9.7% and 13.9%, respectively, were above both internal and regulatory minimums. CWB's minimum Basel III regulatory capital ratios, which include a 250 basis point capital conservation buffer, are 7.0% CET1 effective January 2013, and 8.5% Tier 1 and 10.5% total capital, both effective January 2014.

## Performance Targets and Outlook

### Table 2 – 2013 Minimum Performance Targets and 2014 Target Ranges [(1)]

| | 2013 Minimum Targets | **2013 Performance** | 2014 Target Ranges |
|---|---|---|---|
| Net income available to common shareholders growth | 8% | **9%** | n/a [(2)] |
| Adjusted cash earnings per common share growth | n/a | **n/a** | 12 – 16% |
| Total revenue (teb) growth | 8 | **9** | 9 – 11 |
| Loan growth | 10 | **12** | 10 – 12 |
| Provision for credit losses as a percentage of average loans | 0.18 – 0.23 | **0.19** | 0.18 – 0.23 |
| Efficiency ratio (teb) | 46 or less | **45.9** | 46 or less |
| Return on common shareholders' equity | 14.0 | **14.1** | 14.0 – 15.0 |
| Return on assets | 1.05 | **1.06** | 1.05 – 1.15 |

(1) See page 13 for a discussion of non-GAAP measures.
(2) n/a – not applicable

CWB met or exceeded all of its fiscal 2013 minimum performance targets with revenue and earnings growth largely driven by strong 12% loan growth. Measured in dollars, the strongest loan growth by lending sector was in equipment financing and leasing, followed by real estate project loans and commercial mortgages. Growth in both total revenues (teb) and net income available to common shareholders of 9% was constrained by the impact of both a nine basis point reduction in net interest margin. An 11% increase in non-interest expenses was an additional constraint on both growth in net income available to common shareholders and the efficiency ratio. Overall credit quality was stable and the provision for credit losses was near the low end of the target range at 19 basis points of average loans. The return on common shareholders' equity and return on assets were both marginally above the respective minimum targets at 14.1% and 1.06%. The efficiency ratio (teb) of 45.9% met the 2013 target of 46% or less.

Fiscal 2014 performance target ranges, as shown in the table above, are based on expectations for a modest acceleration in economic growth in Canada and comparatively stronger performance within key western Canadian markets. The change in 2014 to a growth target for adjusted cash earnings per share reflects management's view that this is a better overall measure of shareholder value creation compared to net income available to common shareholders. Growth in adjusted cash earnings per share is expected to benefit from a combination of revenue growth, a more efficient regulatory capital structure, stable credit quality, disciplined management of non-interest expenses and relatively consistent profitability. Revenue growth will largely be driven by ongoing lending activity and the anticipated achievement of another year of double-digit loan growth. CWB 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 very low interest rates and competitive influences. Recognizing the challenges of achieving improvement in net interest margin from the current level, growth in total revenues will continue to be constrained compared to what would be expected in a rising or higher interest rate environment. The provision for credit losses is targeted between 18 and 23 basis points of average loans and reflects expectations that overall credit quality will remain sound. Based on anticipated revenue growth and planned business investment, the target 2014 efficiency ratio (teb) is 46% or less. Profitability targets measured by the return on common shareholders' equity and return on assets are relatively consistent with performance in 2013.

The rate of growth in adjusted cash earnings per share is partly dependent on CWB's regulatory capital structure. A special resolution will be voted upon on December 12, 2013 at a concurrent special meeting of common and preferred shareholders. If approved, the special resolution will amend CWB's By-law Three to permit an unlimited number of First Preferred shares to be issued, to a maximum aggregate outstanding consideration of $1,000 million; terms of the existing By-law Three precludes CWB from issuing any preferred shares in the future. On April 30, 2014, unless the outstanding Series 3 preferred shares are redeemed by CWB, subject to approval of the Office of the Superintendent of Financial Institutions Canada (OSFI), the corresponding dividend yield will reset to a rate of 500 basis points over the yield on the applicable Government of Canada benchmark security. In consideration of the current capital market environment and CWB's investment grade credit rating, management and the Board of Directors believe it is in the best interests of common shareholders to redeem these shares. However, in order to maintain CWB's Tier 1 regulatory capital ratio above internal thresholds, the issuance of qualifying replacement capital will be required prior to the anticipated redemption date. In addition to uncertainty about the results of the special resolution voting, the public market for preferred shares which qualify as Basel III non-viability contingent capital (NVCC) has yet to be established in Canada. The 2014 performance target ranges for growth in adjusted cash earnings per share and the return on common shareholders' equity assume existing preferred shares are redeemed and replaced, to the extent required, with comparatively lower cost capital. Without both an amendment to By-law Three and a successful issuance of qualifying NVCC preferred shares, CWB's only option to raise replacement capital would be to issue common shares.

The ongoing development of each of CWB Group's businesses will remain a key priority to achieve continued strong performance for shareholders. Potential acquisitions that are both strategic and accretive for common shareholders will also be closely evaluated. With its solid capital position under the more conservative *Standardized* approach for calculating risk-weighted assets, CWB will remain well 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. The overall outlook for 2014 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 2013

- Net interest income (teb) increased 8% to a record $477.5 million based on 11% growth in average total interest bearing assets
- Net interest margin (teb) of 2.70% was down nine basis points mainly reflecting the impact of the persistent very low interest rate environment and competitive factors

### Table 3 – Net Interest Income (teb) [1]

($ thousands)

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Average Balance | Mix | Interest | Interest Rate | Average Balance | Mix | Interest | Interest Rate |
| **Assets** | | | | | | | | |
| Cash, securities and deposits with regulated financial institutions | $ 2,506,616 | 14% | $ 54,410 | 2.17% | $ 2,227,457 | 14% | $ 53,849 | 2.42 % |
| Securities purchased under resale agreements | 29,701 | - | 289 | 0.97 | 124,935 | 1 | 1,231 | 0.99 |
| Loans | | | | | | | | |
| Personal | 2,371,920 | 14 | 94,862 | 4.00 | 2,156,539 | 13 | 87,111 | 4.04 |
| Business | 12,419,831 | 70 | 640,542 | 5.16 | 11,049,681 | 70 | 599,423 | 5.42 |
| | 14,791,751 | 84 | 735,404 | 4.97 | 13,206,220 | 83 | 686,534 | 5.20 |
| Total interest bearing assets | 17,328,068 | 98 | 790,103 | 4.56 | 15,558,612 | 98 | 741,614 | 4.77 |
| Other assets | 352,279 | 2 | - | 0.00 | 319,493 | 2 | - | 0.00 |
| **Total Assets** | $17,680,347 | 100% | $ 790,103 | 4.47% | $15,878,105 | 100% | $ 741,614 | 4.67 % |
| **Liabilities** | | | | | | | | |
| Deposits | | | | | | | | |
| Personal | $ 9,206,767 | 52 % | $ 201,170 | 2.19% | $ 8,683,061 | 55% | $ 208,929 | 2.41 % |
| Business and government | 5,519,044 | 31 | 78,956 | 1.43 | 4,627,038 | 29 | 60,782 | 1.31 |
| | 14,725,811 | 83 | 280,126 | 1.90 | 13,310,099 | 84 | 269,711 | 2.03 |
| Other liabilities | 484,286 | 3 | 43 | 0.01 | 474,329 | 3 | 61 | 0.01 |
| Debt | 830,284 | 5 | 32,433 | 3.91 | 632,132 | 4 | 28,270 | 4.47 |
| Shareholders' equity | 1,534,464 | 8 | - | 0.00 | 1,356,306 | 8 | - | 0.00 |
| Non-controlling interests | 105,502 | 1 | - | 0.00 | 105,239 | 1 | - | 0.00 |
| **Total Liabilities and Equity** | $17,680,347 | 100% | $ 312,602 | 1.77% | $15,878,105 | 100% | $ 298,042 | 1.88 % |
| **Total Assets/Net Interest Income** | $17,680,347 | | $ 477,501 | 2.70% | $15,878,105 | | $ 443,572 | 2.79 % |

(1) See page 13 for a discussion of teb and other non-GAAP measures.

Net interest income (teb) increased 8% ($33.9 million) to reach a record $477.5 million driven by 11% ($1,769 million) growth in average interest bearing assets, with the percentage difference reflecting the impact of a nine basis point reduction in net interest margin (teb) to 2.70%. Growth in average interest bearing assets resulted from a combination of strong 12% ($1,586 million) growth in average total loans and a 13% ($279 million) increase in average liquid assets. The change in net interest margin mainly resulted from the combined impact of ongoing very low interest rates and competitive factors, and is reflected in a 23 basis point lower yield on average loans, partially offset by a 13 basis point reduction in average total deposit costs. The yield on average cash, securities and deposits with regulated financial institutions was down 25 basis points, primarily reflecting CWB's strategy to reduce the duration of its portfolio of liquid assets and the repositioning of a portion of its investments in preferred shares. The quarterly net interest margin (teb) stabilized in the latter half of 2013 around the mid point of the two years noted above.

Generally, 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 CWB's assets. The prime rate was maintained at 3.00% throughout the year and has been unchanged since the Bank of Canada last increased rates in September 2010.

## Outlook for Net Interest Income

Loan growth will continue to have a positive influence on net interest income, but the combination of the persistent very low interest rate environment and competitive factors is expected to constrain any meaningful improvement in net interest margin from that realized in 2013. The current interest rate environment diminishes the incremental benefit of low and no-cost deposits, as well as deposits that are less interest sensitive. A sustained upward slope in the interest rate curve would provide incremental benefits to margin from CWB's growing base of core deposits that are less interest sensitive, while also providing a more meaningful positive differential between the incremental price on loans and the cost of matched funding based on the duration of certain portfolios.

Changes in average liquidity also have an impact on net interest margin. Lower liquidity generally enhances margin, while the opposite is true when higher liquidity is maintained. Going forward, CWB expects average liquidity will remain relatively consistent with the level held in the latter half of 2013, which is slightly lower than the average for the full year. Competitive factors, particularly in certain business areas, result in lower overall loan pricing and CWB does not expect material changes in the competitive environment in the near term. Management believes net interest margin will continue to be constrained with the absence of increases in the prime lending interest rate and/or a significant and sustained steepening of the interest rate curve. Financial target ranges for 2014 assume no change in the prime lending interest rate.

# OTHER INCOME

## Highlights of 2013

- Other income of $95.0 million, up 16% despite a decline in net insurance revenues resulting from the impact on claims of catastrophic flooding in southern Alberta
- Other income represented 17% of total revenues (teb), up from 16% in 2012

### Table 4 – Other Income

($ thousands)

| | | | Change from 2012 | |
|---|---|---|---|---|
| | **2013** | 2012 | $ | % |
| Insurance | | | | |
| Net earned premiums | **$ 126,825** | $ 123,204 | $ 3,621 | 3 % |
| Commissions and processing fees | **1,787** | 1,855 | (68) | (4) |
| Net claims and adjustment expenses | **(87,008)** | (83,167) | (3,841) | 5 |
| Policy acquisition costs | **(25,325)** | (24,539) | (786) | 3 |
| Net insurance revenues | **16,279** | 17,353 | (1,074) | (6) |
| Trust and wealth management services | **24,511** | 19,065 | 5,446 | 29 |
| Credit related | **21,685** | 19,705 | 1,980 | 10 |
| Gains on securities, net | **15,094** | 12,449 | 2,645 | 21 |
| Retail services | **10,272** | 9,227 | 1,045 | 11 |
| Foreign exchange | **3,059** | 3,255 | (196) | (6) |
| Contingent consideration fair value charge | **-** | (2,489) | 2,489 | (100) |
| Other [(1)] | **4,082** | 3,345 | 737 | 22 |
| **Total Other Income** | **$ 94,982** | $ 81,910 | $ 13,072 | 16 % |

(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 $95.0 million was up 16% ($13.1 million) as the combined benefit of a $5.4 million increase in trust and wealth management income, $2.6 million higher net gains on securities and continued growth across other categories more than offset decreases in net insurance revenues and foreign exchange income. Very strong growth in trust and wealth management income resulted from the acquisition of McLean & Partners in the third quarter of 2013, and was further supported by ongoing solid performance within trust services. Net gains on securities were well above expectations established early in 2013 owing to favourable market opportunities and the strategic repositioning of certain investments in preferred shares, common equities and government securities. The sale of certain securities issued by financial institutions, beginning in 2012 and continuing into the first quarter of 2013, was a response to changes under the Basel III regulatory capital framework which requires a deduction from regulatory capital of amounts over a certain threshold for this type of investment.

The elimination of charges for contingent consideration fair value changes in the third quarter of 2012 upon the settlement of a contingent liability related to the 2010 National Leasing acquisition resulted in a $2.5 million positive difference in other income. Growth in credit-related and retail services income of 10% ($2.0 million) and 11% ($1.0 million), respectively, was consistent with strong lending and deposit activity. The 22% ($0.7 million) increase in the 'other' category of other income to $4.1 million mainly resulted from the sale of residential mortgage portfolios totaling $95 million (2012 – $50 million). Net insurance revenues were down 6% ($1.1 million) as the positive impact of growth in net earned premiums was more than offset by increased claims expense related to catastrophic southern Alberta floods.

Other income as a percentage of total revenues (net interest income and other income) was 17%, up from 16% in 2012.

## Outlook for Other Income

Solid growth is expected across most categories of other income reflecting CWB's continued focus on enhancing transactional service capabilities 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 a return to more normal claims experience and continued policy growth, increased volatility in net claims expense could result from severe weather-related events, as was the case in both 2012 and 2013. Net gains on securities are expected to be much lower compared to 2013; however, the magnitude and timing of such gains are dependent on market factors that are difficult to predict. Generating additional other income through whole loan sales of residential mortgage portfolios remains an option and may be pursued as opportunities arise.

CWT, including Optimum, and Valiant Trust each expect solid growth in 2014 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 across Canada. The material increase in trust and wealth management revenues in 2013 mainly resulted from CWB's investment in McLean & Partners, and a full year contribution from this business will further benefit revenue growth in 2014. Ongoing growth in core wealth management revenues should also result from introducing discretionary investment services to more CWB banking clients. CWB maintains its long-term objective to grow non-interest revenues as a percentage of total revenues and will continue with initiatives to further develop and/or acquire additional sources of complementary fee-based business.

## NON-INTEREST EXPENSES AND EFFICIENCY

### Highlights of 2013

- An efficiency ratio (teb) of 45.9%, up 110 basis points compared to 2012, as growth in total revenues (teb) was more than offset by an 11% increase in non-interest expenses

### Table 5 – Non-interest Expenses and Efficiency Ratio

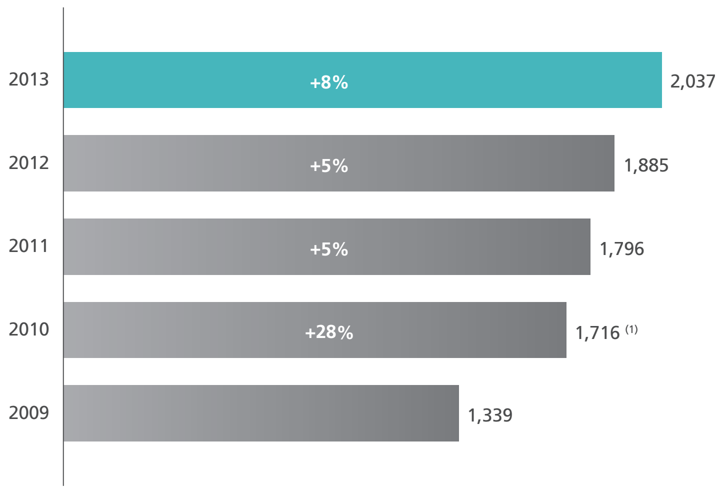
($ thousands)

| | | | Change from 2012 | |
|---|---|---|---|---|
| | **2013** | 2012 | $ | % |
| **Salaries and Employee Benefits** | | | | |
| Salaries | **$ 144,200** | $ 127,835 | $ 16,365 | 13 % |
| Employee benefits | **28,037** | 26,009 | 2,028 | 8 |
| | **172,237** | 153,844 | 18,393 | 12 |
| **Premises** | | | | |
| Rent | **16,359** | 15,738 | 621 | 4 |
| Depreciation | **5,938** | 5,212 | 726 | 14 |
| Other | **3,124** | 3,115 | 9 | - |
| | **25,421** | 24,065 | 1,356 | 6 |
| **Equipment and Furniture** | | | | |
| Depreciation | **8,901** | 8,108 | 793 | 10 |
| Other | **8,503** | 7,329 | 1,174 | 16 |
| | **17,404** | 15,437 | 1,967 | 13 |
| **General** | | | | |
| Professional fees and services | **7,104** | 6,379 | 725 | 11 |
| Marketing and business development | **6,846** | 6,746 | 100 | 1 |
| Amortization of acquisition-related intangible assets | **4,627** | 5,160 | (533) | (10) |
| Banking charges | **3,622** | 3,253 | 369 | 11 |
| Travel | **2,726** | 2,493 | 233 | 9 |
| Postage and stationery | **2,680** | 2,630 | 50 | 2 |
| Regulatory costs | **2,659** | 2,131 | 528 | 25 |
| Community investment | **2,337** | 2,095 | 242 | 12 |
| Employee training | **1,908** | 1,516 | 392 | 26 |
| Communications | **1,824** | 1,770 | 54 | 3 |
| General insurance | **1,035** | 969 | 66 | 7 |
| Capital and business taxes | **937** | 676 | 261 | 39 |
| Other | **9,130** | 7,402 | 1,728 | 23 |
| | **47,435** | 43,220 | 4,215 | 10 |
| **Total Non-interest Expenses** | **$ 262,497** | $ 236,566 | $ 25,931 | 11 % |
| **Efficiency Ratio (teb)** (1)(2) | **45.9%** | 44.8% | | 110 bp (3) |

(1) Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income) excluding the non-tax deductible charge for the fair value of contingent consideration. See page 13 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 $262.5 million were up 11% ($25.9 million) reflecting a 12% ($18.4 million) increase in salary and benefit costs due to a combination of higher staff complement and annual salary increments. Of the total increase in non-interest expenses, $2.8 million was attributed to McLean & Partners. The number of full-time equivalent employees (FTEs) grew 8% (152 FTEs) from October 31, 2012 to meet requirements for added client-facing services, corporate support and other business expansion. Premises and equipment expenses, including depreciation, increased 8% ($3.3 million) and reflect the impact of a new branch opened in Winnipeg, Manitoba during the fourth quarter of 2012, and the relocation and/or expansion of other branches and corporate office premises. The relocation of branches in Yorkton and Regina, Saskatchewan meaningfully expanded both business capacity and services available at these respective locations. Ongoing investment in technology infrastructure necessary to position CWB for future growth also contributed to the increase in non-interest expenses. General non-interest expenses were up 10% ($4.2 million) as increases in most areas, including $1.7 million higher 'other' expenses, more than offset lower amortization of acquisition-related intangible assets. The increase in 'other' expenses mainly reflects the impacts of an operational loss, the cost of appraisals to assess the status of properties held as security on loans following catastrophic southern Alberta floods and certain expenses incurred by McLean & Partners.

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 charge for the fair value of contingent consideration – was 45.9%, compared to 44.8% last year, as the rate of growth in non-interest expenses exceeded that of total revenues (teb).

## Outlook for Non-Interest Expenses and Efficiency

One of management's key priorities is to maintain effective control of costs while ensuring CWB is positioned to deliver strong growth over the long term. Effective execution of CWB's strategic plan will continue to require increased investment in certain areas. Significant anticipated expenditures relate to additional staff complement as well as expanded infrastructure and further technology upgrades. Investment in these areas is aligned with CWB'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 system implementation in 2015 based on a capital budget of $50 million. The core banking and other technology investments are expected to provide considerable efficiencies in the future, which include improving the turnaround time of credit approvals and affording relationship managers more time to assist clients. Certain technology investments, including loan origination systems and the future core banking system, will also improve data, portfolio and client relationship management capabilities. Compliance with an increasing level of regulation and oversight for all Canadian banks requires the investment of both time and resources, which further contributes to higher non-interest expenses.

Major expansion plans for 2014 include the relocation of CWB's flagship branch in Edmonton to a new, much larger location. 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, constrained net interest margin will continue to limit the potential for improvement in the efficiency ratio compared to 2013. Overall, the efficiency ratio in 2014 is expected to be maintained at 46% or better.

## INCOME TAXES

The effective income tax rate (teb) was 25.6%, down 70 basis points from 2012, while the tax rate before the teb adjustment was 23.4%, or 20 basis points lower. Changes primarily reflect the non-tax deductible charge related to the 2012 fair value contingent consideration changes. Deferred tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of assets and liabilities, and their values for tax purposes. CWB'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 (2012 – $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.

### Outlook for Income Taxes

CWB's expected income tax rate (teb) for fiscal 2014 is approximately 26.2%, or 23.6% before the teb adjustment. The increase in the expected tax rate compared to the prior year reflects the full year impact of a 2013 change in the provincial income tax rate in BC.

## 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 fair value changes for derivative instruments designated as cash flow hedges. The 2013 increase in comprehensive income was driven by 8% ($15.5 million) higher net income, largely offset by a $14.2 million reduction in fair value, net of tax, of available-for-sale securities. 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)

| | 2013 | 2012 | Change from 2012 |
|---|---|---|---|
| **Net Income** | **$ 209,950** | $ 194,457 | $ 15,493 |
| **Other Comprehensive Income (Loss)** | | | |
| Available-for-sale securities | | | |
| Gains (losses) from change in fair value, net of tax | **(2,553)** | 9,580 | (12,133) |
| Reclassification to net income, net of tax | **(11,160)** | (9,129) | (2,031) |
| | **(13,713)** | 451 | (14,164) |
| Derivatives designated as cash flow hedges | | | |
| Gains from change in fair value, net of tax | **2,332** | 1,430 | 902 |
| Reclassification to net income, net of tax | **(1,255)** | (483) | (772) |
| | **1,077** | 947 | 130 |
| | **(12,636)** | 1,398 | (14,034) |
| **Total Comprehensive Income** | **$ 197,314** | $ 195,855 | $ 1,459 |

## CASH AND SECURITIES

Cash and securities totaled $2,580 million at October 31, 2013, compared to $2,573 million one year ago.

Total net unrealized losses before tax recorded on the balance sheet at October 31, 2013 were $7.1 million, compared to net unrealized gains of $11.3 million last year. Changes in net unrealized gains or losses are reflected in Table 7.

### Table 7 – Unrealized Gains (Losses) on Available-for-Sale Cash and Securities

($ thousands)

| | 2013 | 2012 |
|---|---|---|
| Deposits with regulated financial institutions | $ 569 | $ 482 |
| Government of Canada debt securities | 632 | 176 |
| Province or municipality debt securities | 161 | (67) |
| Other debt securities | 1,180 | 1,637 |
| Preferred shares | (16,301) | 6,971 |
| Common shares | 6,657 | 2,114 |
| **Total** | **$ (7,101)** | $ 11,313 |

The cash and securities portfolio is mainly comprised of high quality debt instruments and a comparatively smaller component of preferred and common shares. 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 five years, CWB capitalized on opportunities to realize significant net gains on the sale of securities resulting from a combination of investment strategies and market conditions. Realized net gains on securities in 2013 remained high at $15.1 million, $2.6 million above those realized in the prior year. Net gains on securities in 2013 were mainly attributed to the sale of common shares following unexpectedly strong market performance, as well as the sale of certain government securities.

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

See Table 25 – Valuation of Financial Instruments of this MD&A for additional information on significant financial assets and liabilities reported at fair value.

The balance and mix of cash and securities are managed as part of CWB's overall liquidity management process; additional information, including management's outlook for 2014, is included in the Liquidity Management discussion of this MD&A.

## LOANS

### Highlights of 2013

- Strong loan growth of 12%, largely driven by very strong performance in equipment financing and leasing, real estate project loans, and commercial mortgages
- Double-digit loan growth achieved in 23 of the past 24 years (the exception being 2009 when loan growth was 7%)

### Table 8 – Outstanding Loans by Portfolio (before the allowance for credit losses)

($ millions)

| | | | Change from 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ | % |
| General commercial loans | $ 3,428 | $ 3,179 | $ 249 | 8 % |
| Commercial mortgages | 3,311 | 2,930 | 381 | 13 |
| Equipment financing and leasing | 2,942 | 2,498 | 444 | 18 |
| Personal loans and mortgages | 2,502 | 2,292 | 210 | 9 |
| Real estate project loans | 2,304 | 1,882 | 422 | 22 |
| Corporate loans | 902 | 912 | (10) | (1) |
| Oil and gas production loans | 274 | 342 | (68) | (20) |
| **Total Outstanding Loans** | **$ 15,663** | $ 14,035 | $ 1,628 | 12 % |

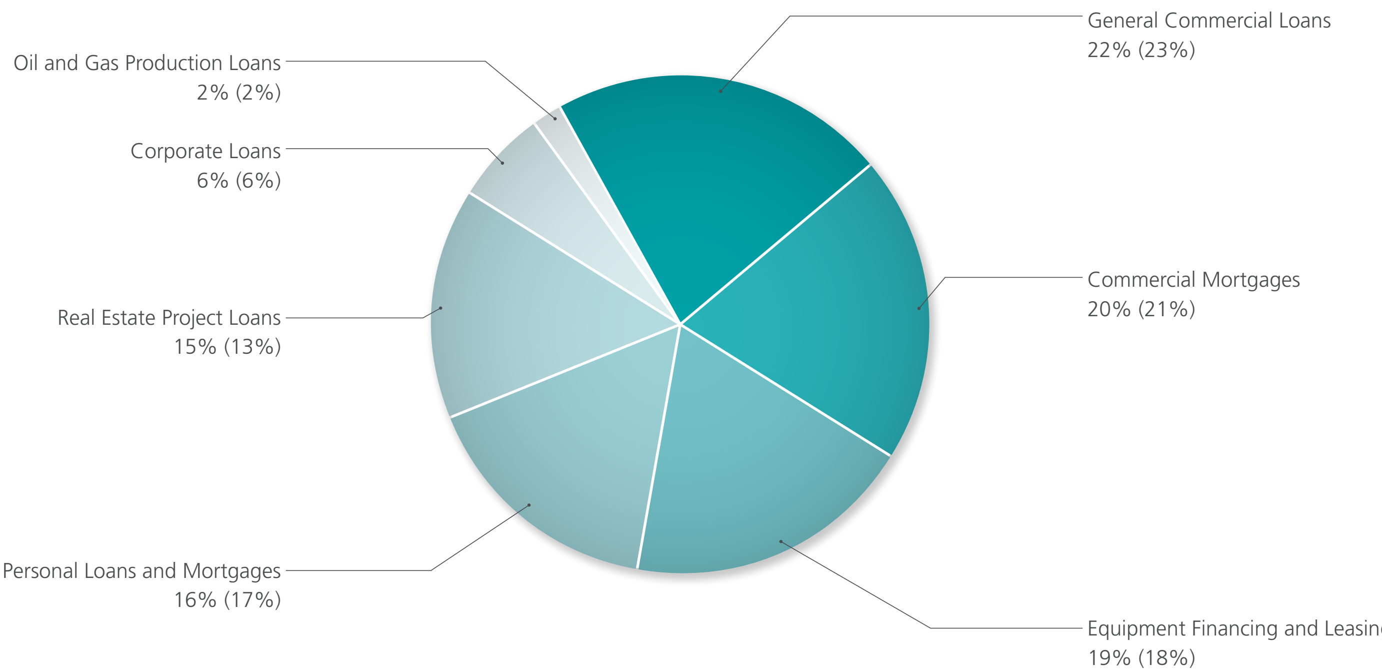
Total loans before the allowance for credit losses increased 12% ($1,628 million) to reach $15,663 million at year end. Measured in dollar terms and by loan type as shown in Table 8, growth in equipment financing and leasing of 18% ($444 million) represented the strongest source of loan growth, followed by growth in real estate project loans of 22% ($422 million) and commercial mortgages of 13% ($381 million). The balance of loans in equipment financing and leasing includes the Bank's heavy equipment financing business ($1,859 million) and the small and mid-ticket leasing business of National Leasing ($1,083 million). Growth in real estate project loans exceeded expectations as solid activity in both residential and commercial construction continued to provide opportunities to finance well capitalized developers on the basis of sound loan structures and acceptable pre-sale levels. General commercial loans increased 8% ($249 million). Based on industry sector as shown in Table 9, general commercial loans include categories such as manufacturing, finance and insurance, and wholesale and retail trade. Personal loans and mortgages, which include combined lending activity in banking branches and Optimum, showed solid performance with 9% ($210 million) growth. Corporate loans, which represent a diversified portfolio that is centrally sourced and administered through a designated lending group located in Edmonton, declined by 1% ($10 million) reflecting a high level of fourth quarter payouts. 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, which are both included as separate classifications in Table 8. The balance of oil and gas production loans, which represent a relatively small percentage of the total portfolio, was down 20% ($68 million) driven by a combination of fewer new lending opportunities, payouts and write-offs.

Total loans of $1,222 million in Optimum represented growth of 12% ($132 million). Adjusting for $95 million of insured residential mortgages sold during the year, Optimum's annual loan growth was 21%. Net 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 70%. The book value of alternative mortgages represented approximately 79% of Optimum'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 equipment financing and leasing, and real estate project loans led to slight decreases in the proportion of general commercial loans, and personal loans and mortgages. Based on the location of security (see Figure 3), Alberta and BC represented 42% and 35% of total loans at year end, compared to 45% and 33%, respectively, in 2012.

## Figure 2 – Outstanding Loans by Portfolio

(October 31, 2012 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. CWB expects to maintain double-digit loan growth and has set its fiscal 2014 target range at 10 to 12%. 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.

Growth in Canada's domestic economy is expected to accelerate modestly in 2014 compared to 2013. 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 2014 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 remained solid due to currently favourable resource prices, an ongoing U.S. housing sector recovery and export opportunities to Pacific Rim countries, including China. Growth in Saskatchewan will mainly be supported by a growing energy sector 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.

Canadian residential real estate markets have been resilient and affordability in most geographic areas remains within historical ranges, largely reflecting very low interest rates. However, the combination of historically high price levels, elevated 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. A sustained period of low natural gas prices has adversely impacted the financial flexibility and cash flows of many exploration and production companies, but CWB's direct exposure to this sector remains low. While fallout from low natural gas prices is not expected to materially impact overall portfolio quality, related growth opportunities will continue to be constrained.

The impact of regulatory changes related to more stringent residential mortgage underwriting criteria resulted in an improved competitive environment for CWB's alternative residential mortgage business in 2013, but the long-term impacts of these changes remain uncertain. Notwithstanding reduced competition for alternative mortgages, the level of demand could moderate as a result of further regulatory changes and/or an overall slowing of activity in residential markets.

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

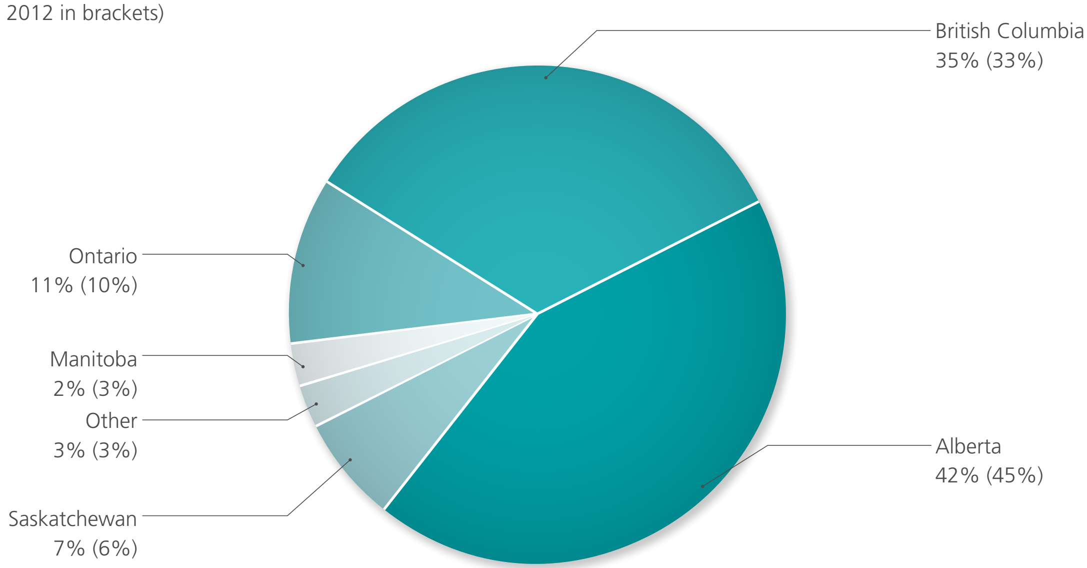
### Diversification of Portfolio

Total advances based on location of security

*The following figure illustrates the geographical distribution of loans advanced based on the location of security:*

### Figure 3 – Geographical Distribution of Loans

(October 31, 2012 in brackets)



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

### Table 9 – Total Advances Based on Industry Sector (1)

(% at October 31)

| | **2013** | 2012 |
|---|---|---|
| Real estate operations | **22%** | 23% |
| Construction | **21** | 18 |
| Consumer loans and residential mortgages (2) | **15** | 15 |
| Transportation and storage | **6** | 6 |
| Hotel/motel | **5** | 5 |
| Health and social services | **5** | 5 |
| Finance and insurance | **4** | 5 |
| Oil and gas production | **3** | 3 |
| Manufacturing | **2** | 3 |
| Retail trade | **2** | 3 |
| Oil and gas service | **2** | 3 |
| Wholesale trade | **2** | 2 |
| Other services | **2** | 2 |
| Logging/forestry | **2** | 2 |
| All other | **7** | 5 |
| **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 by specialized lenders 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 Vancouver, Edmonton and Calgary. 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

Growth is expected across all lending sectors in 2014. While stronger economic activity in Alberta and the success of strategic initiatives to increase CWB's lending exposure through Optimum and National Leasing in Ontario could lead to comparatively faster growth in these areas, portfolio diversification by geography will likely remain relatively consistent with October 31, 2013. Based on the current view for loans, management expects relatively higher net growth in the areas of equipment financing and leasing, personal loans and mortgages, and general commercial loans.

Commercial mortgages are often subject to a higher level of pricing competition compared to other types of lending, and CWB will remain focused on maintaining this portfolio based on client relationships and adequate returns. Expectations for considerably slower growth in real estate project loans compared to that achieved in 2013 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.

# CREDIT QUALITY

### Highlights of 2013

- Continued strong quality and an acceptable level of write-offs
- Gross impaired loans decreased 4% ($2.6 million) from the prior year and, as a percentage of total loans, represented 41 basis points, compared to 48 basis points one year ago
- The provision for credit losses of $27.8 million represented 19 basis points of average loans, unchanged from the prior year, and was at the low end of the 2013 target range of 18 to 23 basis points

## Impaired Loans

As shown in the table below, gross impaired loans totaled $64.2 million and represented 0.41% of total loans, compared to $66.8 million, or 0.48% at the end of 2012. The ten largest accounts classified as impaired, measured by dollars outstanding, represented approximately 55% of total gross impaired loans at year end, up from 52%. New formations of impaired loans totaled $66.9 million, compared to $80.7 million last year.

## Table 10 - Change in Gross Impaired Loans

($ thousands)

| | 2013 | 2012 | Change from 2012 $ | Change from 2012 % |
|---|---|---|---|---|
| Gross impaired loans, beginning of period | **$ 66,840** | $ 97,258 | $ (30,418) | (31) |
| New formations | **66,883** | 80,734 | (13,851) | (17) |
| Reductions, impaired accounts paid down or returned to performing status | **(42,860)** | (93,440) | 50,580 | (54) |
| Write-offs | **(26,652)** | (17,712) | (8,940) | 50 |
| Total, end of period (1) | **$ 64,211** | $ 66,840 | $ (2,629) | (4) |
| Balance of the ten largest impaired accounts | **$ 35,619** | $ 35,034 | $ 585 | 2 |
| Total number of accounts classified as impaired (2) | **143** | 125 | 18 | 14 |
| Total number of accounts classified as impaired under $1 million (2) | **135** | 111 | 24 | 22 |
| Gross impaired loans as a percentage of total loans (3) | **0.41%** | 0.48% | | (7) bp (4) |

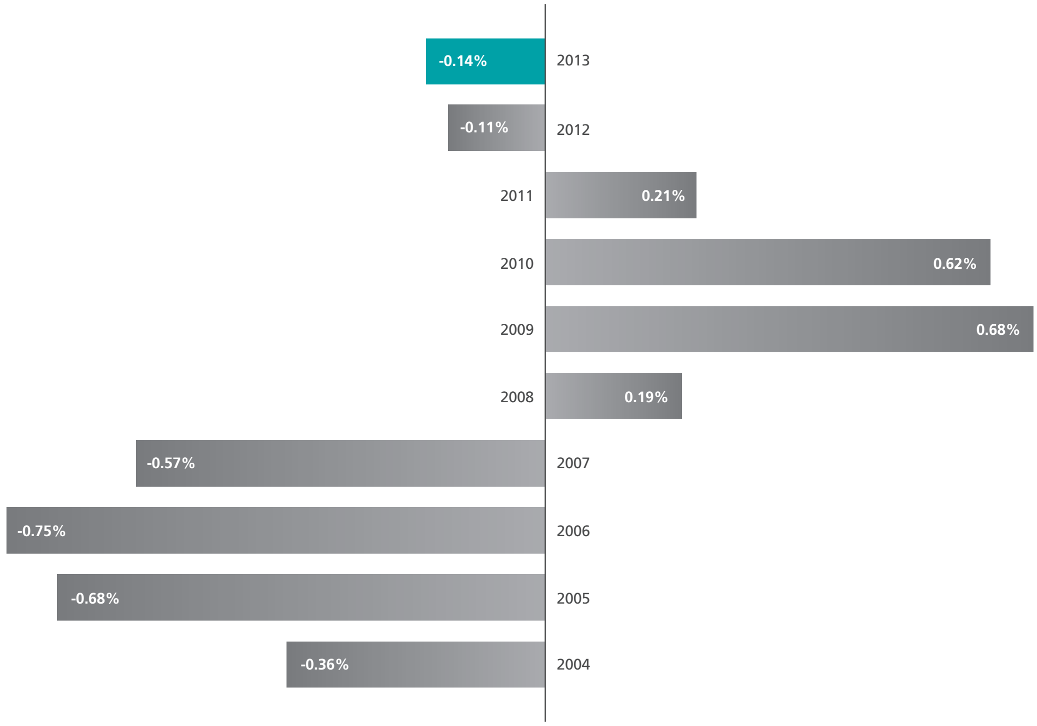
(1) Gross impaired loans includes foreclosed assets held for sale with a carrying value of $12,407 (2012 - $10,462). CWB pursues timely realization on foreclosed assets and does not use the assets for its own operations.
(2) Total number of accounts excludes National Leasing accounts.
(3) Total loans do not include an allocation for credit losses or deferred revenue and premiums.
(4) bp – basis point change.

The dollar level of gross impaired loans fluctuates as loans become impaired and are subsequently resolved, and does not directly reflect the dollar value of expected write-offs given tangible security held in support of lending exposures. 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 CWB's core geographic markets. Actual credit losses as a percentage of total loans continue to demonstrate the benefits of 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 $9.6 million at year end, compared to $14.4 million a year earlier. Current estimates of expected write-offs are established through detailed analyses of both the overall quality and ultimate marketability of the security held against each impaired account.

The 2013 dollar provision for credit losses of $27.8 million increased 11% ($2.7 million) over the previous year, consistent with portfolio growth. The provision measured as a percentage of average loans was unchanged at 19 basis points. As shown below in Figure 4, 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 134%, up from 122% in 2012.

Figure 4 – Net Impaired Loans as a Percentage of Net Loans Outstanding




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

## Outlook for Impaired Loans

Ongoing disciplined underwriting practices, the secured nature of the loan portfolio and expectations for modest acceleration of economic activity in Western Canada underpin management's view that overall credit quality will remain sound. The level of gross impaired loans 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 acceptable target range. Management remains confident in the strength, diversity and underwriting structure of the overall loan portfolio.

## ALLOWANCE FOR CREDIT LOSSES

*The year-over-year change in the allowance for credit losses split between the specific provision by category of impaired loans and the collective allowance for credit risk is provided in the table below.*

### Table 11 – Allowance for Credit Losses

($ thousands)

| | 2013 Opening Balance | Provision for Credit Losses | Write-Offs, net of Recoveries (1) | **2013 Ending Balance** |
|---|---|---|---|---|
| **Specific Allowance** | | | | |
| Commercial | $ 2,791 | $ 1,361 | $ (3,859) | **$ 293** |
| Real estate | 2,605 | 9,198 | (5,454) | **6,349** |
| Equipment financing and energy | 8,524 | 7,061 | (13,406) | **2,179** |
| Consumer and personal | 459 | 1,353 | (1,064) | **748** |
| | 14,379 | 18,973 | (23,783) | **9,569** |
| **Collective Allowance** | 67,344 | 8,873 | - | **76,217** |
| **Total** | $ 81,723 | $ 27,846 | $ (23,783) | **$ 85,786** |

(1) Recoveries in 2013 totaled $2,869 (2012 - $2,348).

The allowance for credit losses is maintained to absorb both identified and unidentified losses in the loan portfolio and, at October 31, 2013, consisted of $9.6 million of specific allowances and $76.2 million in the collective allowance for credit losses. The specific allowance includes the amount of accumulated provisions for losses required to reduce the carrying value of identified impaired loans to their estimated realizable value. 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 as a result of portfolio growth and changes in the credit cycle. Lower levels of specific allowances are expected in strong economic times and higher levels of specific allowances in weaker economic times. Based on management's current outlook for credit performance and CWB's 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 2013 (see Table 12), unchanged from the previous year. Net new specific provisions represented 13 basis points of average loans, compared to 14 basis points in 2012. CWB has a long history of strong credit quality and low loan losses, both of which compare very favourably to the Canadian banking industry. Macroeconomic and other external factors that may impact core geographic regions and/or industry sectors in which CWB customers operate are continually analyzed. The 2010 increase in the provision for credit losses as a percentage of average loans as shown in Table 12 was attributed to the acquisition of National Leasing and the relatively higher rate of losses typical in the small- and mid-market leasing business.

### Table 12 – Provision for Credit Losses

($ thousands)

| | IFRS | | | Canadian GAAP | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| Provision for credit losses (1) | **0.19%** | 0.19% | 0.19% | 0.21% | 0.15% |
| Net new specific provisions (net of recoveries) (2) | **0.13** | 0.14 | 0.20 | 0.27 | 0.14 |
| Collective allowance | **$ 76,217** | $ 67,344 | $ 61,330 | $ 59,603 | $ 61,153 |
| Coverage ratio (3) | **134%** | 122% | 74% | 55% | 55% |

(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 2014 is expected to represent 18 to 23 basis points of average loans, consistent with 2013. The expected provision reflects CWB'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 updated expectations are communicated no less than quarterly.

## DEPOSITS

### Highlights of 2013

- Branch-raised demand and notice deposits increased 12%
- Personal deposits, which include those raised through the broker deposit network, increased 5%
- Business and government deposits increased 15%
- Branch-raised deposits were 56% of total deposits, down slightly from 57% a year earlier
- Funding sources diversified with the issuance of $254 million of BDNs and $50 million of senior deposit notes, net of redemptions, in the debt capital markets to a broad range of institutional investors

### Table 13 – Deposits

($ thousands)

| | Demand | Notice | Term | 2013 Total | % of Total |
|---|---|---|---|---|---|
| Personal | $ 30,337 | $ 2,741,951 | $ 6,648,466 | $ 9,420,754 | 61% |
| Business and government | 615,166 | 1,622,400 | 2,613,691 | 4,851,257 | 31 |
| Capital markets | - | - | 1,254,029 | 1,254,029 | 8 |
| Total Deposits | $ 645,503 | $ 4,364,351 | $ 10,516,186 | $ 15,526,040 | 100% |
| % of Total | 4% | 28% | 68% | 100% | |

| | 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% | |

Total deposits of $15,526 million increased 10% ($1,381 million) over 2012 reflecting 15% ($617 million) growth in business and government deposits, 5% ($461 million) growth in personal deposits, which include those issued through the deposit broker network, and a 32% ($304 million) increase in outstanding capital markets deposits.

### Table 14 – Deposits by Source

(as a percentage of total deposits at October 31)

| | 2013 | 2012 |
|---|---|---|
| Branches | 56% | 57% |
| Deposit brokers | 36 | 36 |
| Capital markets | 8 | 7 |
| **Total** | 100% | 100% |

References to branch-raised deposits within this MD&A include all deposits generated through the branch network, as well as those raised via CWT, CDF and Valiant. Increasing the level of branch-raised personal deposits and certain types of business deposits is an ongoing strategic focus for CWB, as success in this area provides the most reliable and stable source of funding. Success in growing these funding sources will become even more important as CWB 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 banking division of CWB, currently offers various deposit products to customers in all provinces and territories except Quebec. Client deposits in CDF at October 31, 2013 totaled $288 million, a 62% increase compared to a year earlier. Valiant's status as a federal deposit-taking institution accounts for CWB's 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.

Consistent with CWB's commercial focus, a considerable portion of branch-raised deposits are generated from corporate clients that tend to hold larger balances compared to personal clients (see the Liquidity Management section of this MD&A).

Growth in total branch-raised deposits was 7% ($586 million) in 2013, while the demand and notice component within branch-raised deposits increased 12% ($551 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 56% of total deposits, compared to 57% in the previous year. The level of growth in demand and notice deposits reflects ongoing execution of strategies to further enhance and diversify CWB's core sources of funding.

Other types of deposits are primarily sourced through a deposit broker network and the debt capital markets. Insured deposits raised through deposit brokers remain a valued funding source. Although these funds are subject to commissions, this cost is countered by a reduced dependence on a more extensive branch network and the benefit of generating primarily insured fixed term retail deposits over a wide geographic base. During the first quarter of 2013, DBRS issued an initial rating of "R-1 (low)" with a stable trend on CWB's short-term debt, enabling CWB to issue BDNs in the debt capital markets. CWB formally announced its BDN program in July with an internally authorized limit of $500 million. Additional sources of funding in 2013 included securitization of $91 million of equipment leases (2012 – $226 million) and whole loan sales of $95 million (2012 – $50 million) of insured residential mortgages.

## Outlook for Deposits and Funding

A strategic focus on increasing branch-raised deposits will continue in 2014, with particular emphasis on the demand and notice component, which is often lower cost and provides associated transactional fee income. CWB's expanded market presence, which includes the expansions and/or openings of full-service branches, also supports objectives to generate branch-raised deposits. The Bank's Edmonton Main branch is scheduled to relocate to significantly expanded premises in 2014 that reflects the scale of business generated from this flagship location. Various strategic initiatives, which include the offering of 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 reliable, 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. National Leasing plans to continue to utilize securitization channels for a portion of its funding requirements, provided that both related costs and the regulatory capital impact remain satisfactory. Utilizing securitization and/or whole loan sales as added sources of funding for certain other types of portfolios, most notably residential mortgages, will also continue to be evaluated in 2014.

## OTHER ASSETS AND OTHER LIABILITIES

At October 31, 2013 other assets totaled $363 million (2012 – $347 million). Insurance-related other assets were $64 million (2012 – $58 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, 2013 was $49 million (2012 – $46 million) and $70 million (2012 – $50 million), respectively.

Other liabilities totaled $462 million at October 31, 2013 (2012 – $524 million), with the decrease mainly due to the absence of securities sold under repurchase agreements. Insurance-related other liabilities were $167 million (2012 – $160 million) and consisted primarily of provisions for unpaid claims and adjustment expenses, and unearned premiums.

## LIQUIDITY MANAGEMENT

### Highlights of 2013

- Maintained a strong liquidity position and conservative investment profile
- Stability in Canadian capital markets provided CWB flexibility to reduce holdings of its lowest yielding liquid assets to levels consistent with a normal operating environment

A schedule outlining the consolidated securities portfolio at October 31, 2013 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 CWB's 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.

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

- monitoring liquidity reserve levels;
- monitoring microeconomic and macroeconomic factors, and related key risk indicators;
- comprehensive operating, micro, and macro scenario stress testing;
- maintaining a pool of high quality liquid assets;
- monitoring the credit profile of the liquidity portfolio;
- monitoring deposit liability diversification;
- monitoring deposit behaviour; and,
- ongoing market surveillance.

## Table 15 – Liquid Assets

($ thousands)

| | 2013 | 2012 | Change from 2012 |
|---|---|---|---|
| Cash and non-interest bearing deposits with financial institutions | $ 83,856 | $ 33,690 | $ 50,166 |
| Deposits with regulated financial institutions | 258,466 | 177,028 | 81,438 |
| Cheques and other items in transit | 5,673 | 26,265 | (20,592) |
| **Total Cash Resources** | 347,995 | 236,983 | 111,012 |
| Government of Canada treasury bills | 448,442 | 378,253 | 70,189 |
| Government of Canada, provincial and municipal debt, term to maturity 1 year or less | 401,950 | 610,103 | (208,153) |
| Government of Canada, provincial and municipal debt, term to maturity more than 1 year | 487,669 | 470,466 | 17,203 |
| Other debt securities | 367,961 | 371,044 | (3,083) |
| Preferred shares | 379,141 | 398,752 | (19,611) |
| Common shares | 147,169 | 107,482 | 39,687 |
| Securities sold under resale agreement | - | (70,089) | 70,089 |
| **Total Securities Purchased or Sold Under Resale Agreements and Marketable Securities** | 2,232,332 | 2,266,011 | (33,679) |
| **Total Liquid Assets** | $ 2,580,327 | $ 2,502,994 | $ 77,333 |
| **Total Assets** | $ 18,520,260 | $ 16,873,269 | $ 1,646,991 |
| **Liquid Assets as a Percentage of Total Assets** | 14% | 15% | (100)bp |
| **Total Deposit Liabilities** | $ 15,526,040 | $ 14,144,837 | $ 1,381,203 |
| **Liquid Assets as a Percentage of Total Deposit Liabilities** | 17% | 18% | (100)bp |

As shown in Table 15, liquid assets comprised of cash, interbank deposits, securities purchased (or sold) under resale agreements and marketable securities totaled $2,580 million at October 31, 2013, an increase of 3% ($77 million) compared to a year earlier. Liquid assets represented 14% (2012 – 15%) of total assets and 17% (2012 – 18%) of total deposit liabilities at year end.

The composition of total liquid assets shifted through the normal course of prudent liquidity management. This resulted in a significant increase in the allocation of cash resources, and also contributed to a lower overall average yield on the cash and securities portfolio. Key changes in the composition of liquid assets at October 31, 2013 compared to the prior year include:

- maturities within one year comprising 52% (2012 – 53%) of liquid assets;
- Government of Canada, provincial and municipal debt securities decreasing to 52% (2012 – 58%) of liquid assets;
- deposits with regulated financial institutions, including Bankers' Acceptances, increasing to 13% (2012 – 8%) of liquid assets;
- preferred shares decreasing to 15% (2012 – 16%) of liquid assets; and,
- other marketable securities increasing to 20% (2012 – 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 short-term advances from securities dealers, typically no more than a few days in duration, and require CWB to repurchase the securities given as collateral. Collateral securities are comprised of government securities or other high quality liquid investments. These agreements are primarily used for cash management purposes. Securities sold under resale agreements are included in other liabilities and were nil at October 31, 2013, compared to $70 million a year earlier.

Short-term uncommitted and committed facilities have been arranged with a number of financial institutions. The government insured/guaranteed mortgage portfolios held by CWB also represent a potential source of liquidity. As additional sources of liquidity and funding in 2013, $91 million of equipment leases were securitized (2012 – $226 million) and $95 million (2012 – $50 million) of insured residential mortgages were sold via whole loan sales. 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 16 and 17.

## Table 16 – Deposit Maturities Within One Year

($ millions)

| October 31, 2013 | Within 1 Month | 1 to 3 Months | 3 Months to 1 Year | Cumulative Within 1 Year |
|---|---|---|---|---|
| Demand deposits | $ 645 | $ - | $ - | $ 645 |
| Notice deposits | 4,364 | - | - | 4,364 |
| Deposits payable on a fixed date | 997 | 932 | 4,360 | 6,289 |
| **Total** | **$ 6,006** | **$ 932** | **$ 4,360** | **$ 11,298** |
| October 31, 2012 Total | $ 5,390 | $ 1,106 | $ 3,428 | $ 9,924 |

## Table 17 – Total Deposit Maturities

($ millions)

| October 31, 2013 | 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 | $ 645 | $ - | $ - | $ - | $ - | $ - | $ 645 |
| Notice deposits | 4,364 | - | - | - | - | - | 4,364 |
| Deposits payable on a fixed date | 6,289 | 2,416 | 887 | 513 | 412 | - | 10,517 |
| **Total** | **$ 11,298** | **$ 2,416** | **$ 887** | **$ 513** | **$ 412** | **$ -** | **$ 15,526** |
| October 31, 2012 Total | $ 9,924 | $ 2,057 | $ 1,262 | $ 466 | $ 436 | $ - | $ 14,145 |

A breakdown of deposits by source is provided in Table 14. 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. Deposits raised through deposit brokers remain a highly effective and valued funding source. Deposits such as senior and bearer deposit notes raised in the capital markets provide a further source of funding and 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 18 – Subordinated Debentures Outstanding

($ thousands)

| Interest Rate | Maturity Date | Earliest Date Redeemable by CWB at Par | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|---|
| 4.389% (1) | November 30, 2020 | November 30, 2015 | **$ 300,000** | $ 300,000 |
| 3.463% (2) | December 17, 2024 | December 17, 2019 | **250,000** | - |
| 5.571% (3) | March 21, 2022 | March 22, 2017 | **75,000** | 75,000 |
| 5.950% (4) | June 27, 2018 | June 28, 2013 | **-** | 50,000 |
| **Total** | | | **$ 625,000** | $ 425,000 |

(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 12-year term with a fixed interest rate for the first seven years. Thereafter, the interest rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 160 basis points.

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

(4) These conventional debentures had a 10-year term with a fixed interest rate for the first five years and were redeemed by CWB on June 28, 2013. Thereafter, the interest rate would have reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 302 basis points.

## Outlook for Liquidity Management

Internal methodologies for measuring and monitoring liquidity risk are continuously refined. CWB utilizes dynamic scenario analysis to monitor and stress liquidity coverage while maintaining prudent liquidity standards. Liquidity management directly impacts net interest margin based on the composition of liquid assets and how much is allocated to cash balances and low yielding investments, such as government securities. CWB expects average liquidity in 2014 will remain relatively consistent with the level held in the latter half of 2013, which was slightly lower than the year as a whole.

The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are minimum regulatory liquidity 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 stressed situation. The NSFR establishes a second common measure of liquidity based on the ratio of longer term assets to longer term liabilities. OSFI is currently preparing an enhanced liquidity adequacy guideline. CWB believes it is well positioned to comply with the new requirements.

# CAPITAL MANAGEMENT

## Highlights of 2013

- Solid Basel III common equity Tier 1 (CET1), Tier 1 and total capital adequacy ratios of 8.0%, 9.7% and 13.9%, respectively
- Supported strong loan growth while maintaining a relatively consistent CET1 capital ratio
- Cash dividends of $0.70 per share paid to common shareholders, up 13%
- Issued $250 million of subordinated debentures

## Subsequent Highlights

In December 2013, the Board of Directors declared a quarterly cash dividend of $0.19 per common share, an increase of 6% ($0.01) over the previous quarterly cash dividend and 12% ($0.02 per share) over the quarterly cash dividend declared one year earlier. The Board of Directors also declared a quarterly 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. Capital management takes into account forecasted capital needs with consideration of anticipated profitability, asset growth, market and economic conditions, regulatory changes, and common and preferred share dividends. The overriding goal is to remain well capitalized in order to protect depositors and policyholders, 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. CWB has implemented an Internal Capital Adequacy Assessment Process (ICAAP) to ensure capital levels remain adequate in relation to potential impacts of current and anticipated future risks, as well as changing regulatory capital requirements.

CWB provides a share incentive plan to officers and employees who are in a position to materially impact the longer term financial success of the organization, 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 common shares and holders of any other class of shares deemed eligible by the Board are offered the choice to direct cash dividends paid toward the purchase of common shares through a dividend reinvestment plan (DRIP). Further details regarding CWB's DRIP are available at cwb.com/investor_relations.

### Preferred Share Normal Course Issuer Bid

CWB has a Normal Course Issuer Bid (NCIB) outstanding to purchase, for cancellation, up to up to 826,120 Non-Cumulative 5-Year Rate Reset Preferred Shares Series 3 ("preferred shares"). The NCIB commenced March 1, 2013 and will expire February 28, 2014. During the year ended October 31, 2013, CWB purchased and cancelled 37,404 preferred shares under the NCIB. Security holders may contact CWB to obtain, without charge, a copy of the notice filed with the Toronto Stock Exchange. Additionally, a copy of the news release is available on CWB's website and on SEDAR at sedar.com.

## Basel III 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 III Capital Adequacy Accord (Basel III). OSFI implemented Basel III rules supporting more stringent standards on capital adequacy for Canadian banks at the beginning of calendar 2013. Significant Basel III capital changes most relevant to CWB include the following:

- Increased focus on tangible common equity
- All forms of non-common equity, such as conventional subordinated debentures and preferred shares, issued after January 1, 2013, must have non-viability contingent capital (NVCC) terms in order to qualify for inclusion as regulatory capital. 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 determined it necessary 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
- Changes in the capital treatment for investments in the regulatory capital of other financial institutions whereby investment amounts over a prescribed threshold are treated as a deduction from regulatory capital

Minimum Basel III regulatory capital ratios, including a 250 basis point capital conservation buffer, are 7.0% 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.

CWB currently reports its regulatory capital ratios using the *Standardized* approach for calculating risk-weighted assets. This approach requires CWB to carry significantly more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings Based (AIRB) methodology used by larger Canadian financial institutions. For this reason, regulatory capital ratios of banks that utilize the *Standardized* approach versus the AIRB methodology are not directly comparable.

CWB complied with all internal and external capital requirements in 2013.

## Table 19 – Capital Structure and Basel III Regulatory Ratios at Year End

($ thousands)

| | 2013 | 2012 (1) |
|---|---|---|
| Regulatory Capital, net of deductions | | |
| Common equity Tier 1 | $ 1,285,692 | n/a |
| Tier 1 | 1,560,801 | $ 1,460,776 |
| Total | 2,243,654 | 1,903,790 |
| Capital ratios | | |
| Common equity Tier 1 | 8.0% | n/a |
| Tier 1 | 9.7 | 10.6% |
| Total | 13.9 | 13.8 |
| Asset to capital multiple | 8.1x | 8.8 x |

(1) Capital ratios prior to fiscal 2013 have been calculated using the previous capital framework, Basel II. Capital ratios calculated under Basel III are not directly comparable to the equivalent Basel II measures.

The total capital ratio reflects the 2013 issuance of $250 million of subordinated debentures, which qualified for the Basel III transition allowance applicable for Canadian banks, and the redemption of $50 million of subordinated debentures.

## Table 20 – Basel III Regulatory Capital

($ thousands)

| | 2013 |
|---|---|
| **Common equity Tier 1 capital instruments and reserves** | |
| Directly issued qualifying common share capital plus related share-based payment reserve | $ 534,914 |
| Retained earnings | 865,087 |
| Accumulated other comprehensive income and other reserves | (5,417) |
| Common equity Tier 1 capital before regulatory adjustments | 1,394,584 |
| Regulatory adjustments to common equity Tier 1 (1) | (108,892) |
| Common equity Tier 1 capital | 1,285,692 |
| **Additional Tier 1 capital instruments** | |
| Directly issued capital instruments subject to phase out from Additional Tier 1 (2) | 283,275 |
| Additional Tier 1 instruments issued by subsidiaries and held by third parties | 163 |
| Additional Tier 1 capital before regulatory adjustments | 283,438 |
| Regulatory adjustments to Additional Tier 1 capital (3) | (8,329) |
| Additional Tier 1 capital | 275,109 |
| Tier 1 capital | 1,560,801 |
| **Tier 2 Capital instruments and allowances** | |
| Directly issued capital instruments subject to phase out from Tier 2 (2) | 607,500 |
| Tier 2 instruments issued by subsidiaries and held by third parties | 38 |
| Collective allowance for credit losses | 76,217 |
| Tier 2 capital before regulatory adjustments | 683,755 |
| Regulatory adjustments to Tier 2 capital (4) | (902) |
| Tier 2 capital | 682,853 |
| Total capital | $ 2,243,654 |

(1) CET1 deductions include goodwill, intangible assets, and non-significant investments in financial institutions above a specific percentage of CET1 capital.

(2) Basel III capital balances exclude 10% of non-common equity instruments outstanding at December 2012 that do not include non-viability contingent capital clauses. At October 31, 2013, a combined $31 million of outstanding Innovative Tier 1 capital (disclosed in non-controlling interest) and preferred shares as well as $18 million of outstanding subordinated debentures were excluded from regulatory capital.

(3) Additional Tier 1 deduction includes non-significant investments in financial institutions above a specific percentage of CET1 capital.

(4) Tier 2 deduction includes non-significant investments in financial institutions above a specific percentage of CET1 capital.

## Table 21 – Basel III Risk-Weighted Assets

($ thousands)

| | Cash, Securities and Resale Agreements | Loans | Other Items | 2013 Total | 2013 Risk-Weighted Assets |
|---|---|---|---|---|---|
| Corporate | $ 123,312 | $ 10,764,461 | $ - | $ 10,887,773 | $ 10,803,610 |
| Sovereign | 1,341,783 | 28,794 | - | 1,370,577 | 13,680 |
| Bank | 459,731 | 19,368 | - | 479,099 | 145,911 |
| Retail residential mortgages | - | 2,371,593 | - | 2,371,593 | 861,333 |
| Other retail | | | | | |
| Excluding small business entities | - | 189,685 | - | 189,685 | 136,402 |
| Small business entities | - | 2,084,218 | - | 2,084,218 | 1,587,195 |
| Equity | 470,234 | - | - | 470,234 | 470,234 |
| Undrawn commitments | - | 372,709 | - | 372,709 | 357,235 |
| Operational risk | - | - | 72,760 | 72,760 | 909,497 |
| Securitization risk | - | 32,234 | - | 32,234 | 402,925 |
| Other | - | 79,037 | 358,367 | 437,404 | 426,990 |
| **As at October 31, 2013** | **$ 2,395,060** | **$ 15,942,099** | **$ 431,127** | **$ 18,768,286** | **$ 16,115,012** |
| As at October 31, 2012 (1) | $ 2,344,725 | $ 14,216,986 | $ 404,548 | $ 16,966,259 | $ 13,775,443 |

(1) Capital ratios prior to fiscal 2013 have been calculated using the previous capital framework, Basel II. Capital ratios calculated under Basel III are not directly comparable to the equivalent Basel II measures.

## Table 22 – Basel III Risk-Weighting Category

($ thousands)

| | 0% | 20% | 35% | 50% | 75% | 100% | 150% and greater | 2013 Balance | 2013 Weighted |
|---|---|---|---|---|---|---|---|---|---|
| Corporate | $ 23,664 | $ 41,331 | $ - | $ 76,548 | $ - | $ 10,724,551 | $ 21,679 | $ 10,887,773 | $ 10,803,610 |
| Sovereign | 1,302,177 | 68,400 | - | - | - | - | - | 1,370,577 | 13,680 |
| Bank | - | 412,719 | - | 6,026 | - | 60,354 | - | 479,099 | 145,911 |
| Retail residential mortgages | 294,876 | - | 1,754,275 | - | 300,420 | 22,022 | - | 2,371,593 | 861,333 |
| Other retail | | | | | | | | | |
| Excluding small business entities | 6,701 | 2,128 | - | - | 180,379 | 46 | 431 | 189,685 | 136,402 |
| Small business entities | 2,618 | 708 | - | - | 1,992,436 | 79,914 | 8,542 | 2,084,218 | 1,587,195 |
| Equity | - | - | - | - | - | 470,234 | - | 470,234 | 470,234 |
| Undrawn commitments | - | - | - | - | 61,896 | 310,813 | - | 372,709 | 357,235 |
| Operational risk | - | - | - | - | - | - | 72,760 | 72,760 | 909,497 |
| Securitization risk | - | - | - | - | - | - | 32,234 | 32,234 | 402,925 |
| Other | 141,952 | 11,771 | - | - | 12,784 | 174,796 | 96,101 | 437,404 | 426,990 |
| **As at October 31, 2013** | **$ 1,771,988** | **$ 537,057** | **$ 1,754,275** | **$ 82,574** | **$ 2,547,915** | **$ 11,842,730** | **$ 231,747** | **$ 18,768,286** | **$ 16,115,012** |
| As at October 31, 2012 (1) | $ 1,869,284 | $ 471,937 | $ 1,462,072 | $ 763,371 | $ 1,427,675 | $ 10,876,381 | $ 95,539 | $ 16,966,259 | $ 13,775,443 |

(1) Capital ratios prior to fiscal 2013 have been calculated using the previous capital framework, Basel II. Capital ratios calculated under Basel III are not directly comparable to the equivalent Basel II measures.

## Outlook for Capital Management

CWB will maintain its solid capital position. Currently, Basel III capital ratios are within CWB's ICAAP thresholds and above OSFI's required minimums, placing CWB in a good position 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 CWB's comprehensive ICAAP. With the exception of points noted in the paragraph below related to CWB's Tier 1 ratio and potential redemption of existing preferred shares in 2014, the ongoing retention of earnings, net of expected common and preferred share dividends, should support capital requirements associated with the anticipated achievement of the 2014 performance target ranges.

With respect to regulatory capital structure, a special resolution will be voted upon on December 12, 2013 at a concurrent special meeting of common and preferred shareholders. If approved, the special resolution will amend CWB's By-law Three to permit an unlimited number of First Preferred shares to be issued, to a maximum aggregate consideration outstanding of $1,000 million; terms of the existing By-law Three precludes CWB from issuing any preferred shares in the future. On April 30, 2014, unless the outstanding Series 3 preferred shares are redeemed by CWB, subject to approval of OSFI, the corresponding dividend yield will reset to a rate of 500 basis points over the yield on the applicable Government of Canada benchmark security. In consideration of the current capital market environment and CWB's investment grade credit rating, management and the Board believe it is in the best interests of common shareholders to redeem these shares. However, in order to maintain CWB's Tier 1 regulatory capital ratio above internal thresholds, the issuance of qualifying replacement capital will be required prior to the anticipated redemption date. In addition to uncertainty about the results of the special resolution voting, the public market for preferred shares which qualify as NVCC has yet to be established in Canada. The 2014 performance target ranges for growth in adjusted cash earnings per share and the return on common shareholders' equity assume existing preferred shares are redeemed and replaced, to the extent required, with comparatively lower cost capital. Without both an amendment to By-law Three and a successful issuance of qualifying NVCC preferred shares, CWB's only option to raise replacement capital would be to issue common shares.

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 existing capital structure are underway. Required resources, costs and potential timelines related to CWB's possible transition to an AIRB methodology for managing credit risk and calculating risk-weighted assets are still being evaluated. Preliminary analysis confirms a multi-year time frame and any future transition would be subject to OSFI approval. CWB's new core banking system, expected to be implemented in 2015, is a critical component for a number of requirements necessary for AIRB compliance, including the collection 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, loans, derivative financial instruments and certain other assets. Financial instrument liabilities include deposits, debt, derivative financial instruments and certain other liabilities.

The use of financial instruments exposes CWB 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 23 – Derivative Financial Instruments

($ thousands)

| | 2013 | 2012 |
|---|---|---|
| **Notional Amounts** | | |
| Interest rate contracts (1) | **$ 800,000** | $ 225,000 |
| Equity swaps (2) | **17,470** | 15,445 |
| Foreign exchange contracts (3) | **1,235** | 2,450 |
| **Total** | **$ 818,705** | $ 242,895 |

(1) Interest rate contracts are used as hedging devices to manage interest rate risk. The outstanding contracts mature between December 2013 and April 2015.
(2) Equity swaps designated as hedges mature between June 2014 and June 2016. Equity swaps are used to reduce the earnings volatility from restricted share units linked to CWB'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 December 2013 and April 2014.

The active use of interest rate contracts remains an integral component in managing the short-term gap position. The significant increase in the volume of outstanding contracts (measured by the notional amount) reflects normal course management of interest rate risk and more favourable costs of certain hedging instruments. Derivative financial instruments are entered into only for CWB's own account. CWB does not act as an intermediary in derivatives markets. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review, including an assessment of the credit worthiness of the counterparty. Policies regarding the use of derivative financial instruments are approved, reviewed and monitored on a regular basis by ALCO, and are reviewed and approved by the Board no less than annually.

# ACQUISITION

Effective May 17, 2013, CWB acquired 54.6% of the outstanding common shares of Calgary-based McLean & Partners Wealth Management. The financial products and services of McLean & Partners are an excellent strategic fit with CWB's existing banking, wealth management and trust operations, and provided a modest positive impact on adjusted cash earnings per common share in fiscal 2013. The acquisition also supported key strategic objectives to enhance revenue diversification and sources of fee-based income.

# 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 $8,424 million at October 31, 2013, compared to $7,172 million one year ago. Assets under management held within Adroit and McLean & Partners were $1,901 million at year end, compared to $855 million last year. The material increase in assets under management reflects the addition of McLean & Partners.

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 24. In general, CWB's performance reflects a consistent growth trend, although the second quarter contains three fewer revenue-earning days (or two fewer days in a leap year such as 2012).

Quarterly financial results are subject to some fluctuation due to 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. In the third quarter of 2013, net insurance revenues, reflected in other income, were materially impacted by claims expense resulting from catastrophic floods in southern Alberta. In both the third quarter of 2013 and the fourth quarter of 2012, net insurance revenues were impacted by claims expense from severe hailstorms in Alberta. Mandatory participation in the Alberta auto risk sharing pools can also result in unpredictable quarterly fluctuations.

Net gains on securities, reflected in other income, were unusually high in the fourth quarter of 2012 and the third quarter of 2013. The majority of net gains on securities in these periods resulted from favourable market conditions and the repositioning of investments in preferred and common equities.

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

Detailed management's discussion and analysis along with unaudited interim consolidated financial statements for each quarter, except for the fourth quarters of fiscal 2012 and 2013, are available for review on SEDAR at sedar.com and on CWB's website at cwb.com. Copies of the quarterly reports to shareholders can also be obtained, free of charge, by contacting InvestorRelations@cwbank.com.

### Table 24 – Quarterly Financial Highlights [(1)]

($ thousands, except per share amounts)

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 |
| Net interest income (teb) | **$ 126,475** | **$ 122,702** | **$ 113,576** | **$ 114,749** | $ 113,246 | $ 115,217 | $ 107,600 | $ 107,509 |
| Less teb adjustment | **2,062** | **2,161** | **2,000** | **1,915** | 1,979 | 2,086 | 2,458 | 2,620 |
| Net interest income per financial statements | **124,413** | **120,541** | **111,576** | **112,834** | 111,267 | 113,131 | 105,142 | 104,889 |
| Other income | **26,181** | **23,032** | **23,390** | **22,379** | 19,932 | 22,933 | 20,254 | 18,791 |
| Total revenues (teb) | **152,656** | **145,734** | **136,966** | **137,128** | 133,178 | 138,150 | 127,854 | 126,300 |
| Total revenues | **150,594** | **143,573** | **134,966** | **135,213** | 131,199 | 136,064 | 125,396 | 123,680 |
| Net income available to common shareholders | **51,210** | **47,484** | **42,988** | **45,482** | 43,046 | 48,004 | 39,669 | 41,478 |
| Earnings per common share | | | | | | | | |
| Basic | **0.64** | **0.60** | **0.54** | **0.58** | 0.55 | 0.62 | 0.52 | 0.55 |
| Diluted | **0.64** | **0.60** | **0.54** | **0.57** | 0.55 | 0.61 | 0.52 | 0.54 |
| Adjusted cash | **0.65** | **0.61** | **0.55** | **0.58** | 0.56 | 0.63 | 0.55 | 0.57 |
| Return on common shareholders' equity (ROE) | **14.9%** | **14.0%** | **13.4%** | **14.2%** | 13.8% | 16.1% | 14.6% | 15.5% |
| Return on average total assets (ROA) | **1.11** | **1.06** | **1.00** | **1.06** | 1.03 | 1.19 | 1.03 | 1.07 |
| Efficiency ratio (teb) | **45.0** | **45.9** | **47.3** | **45.3** | 46.7 | 42.8 | 46.2 | 43.7 |
| Efficiency ratio | **45.6** | **46.6** | **48.0** | **45.9** | 47.4 | 43.4 | 47.1 | 44.6 |
| Net interest margin (teb) | **2.75** | **2.74** | **2.65** | **2.66** | 2.71 | 2.85 | 2.81 | 2.77 |
| Net interest margin | **2.71** | **2.69** | **2.60** | **2.62** | 2.67 | 2.80 | 2.74 | 2.70 |
| Provision for credit losses as a percentage of average loans | **0.19** | **0.20** | **0.19** | **0.18** | 0.17 | 0.19 | 0.19 | 0.20 |

(1) See page 13 for a discussion of teb and non-GAAP measures.

# FOURTH QUARTER OF 2013

Strong fourth quarter financial performance was marked by record earnings and the achievement of another year of double-digit loan growth. Record net income available to common shareholders of $51.2 million was up 19% ($8.2 million) compared to the same quarter last year while diluted earnings per common share increased 16% to $0.64. Adjusted cash earnings per share, which excludes the after-tax amortization of acquisition-related intangible assets and the non-tax deductible charge for the fair value of contingent consideration, was $0.65, also up 16%. Total revenues (teb) grew 15% ($19.5 million) to reach a record $152.7 million, driven by the combined benefits of strong 12% year-over-year loan growth, a four basis point increase in net interest margin to 2.75% and 31% ($6.2 million) higher other income. Very strong growth in other income mainly reflected a $6.2 million positive change in net insurance revenues and a $2.5 million increase in trust and wealth management fee income, partially offset by $3.1 million lower net gains on securities. Net insurance revenues were impacted in the fourth quarter of 2012 by increased claims expense related to severe hailstorms in Alberta. Revenues from trust and wealth management were materially higher compared to a year earlier, mainly due to the addition of McLean & Partners, acquired in the third quarter of 2013.

Compared to the prior quarter, net income available to common shareholders increased 8% ($3.7 million) as positive contributions from $9.3 million higher net insurance revenues, 2% quarterly loan growth and a stable net interest margin were partially offset by a $4.7 million decline in net gains on securities and a $2.5 million reduction in the 'other' component of other income. Net insurance revenues were negatively impacted in the prior quarter by increased claims expense related to catastrophic southern Alberta floods and severe hailstorms. The 'other' component of other income was higher in the third quarter primarily due to gains realized on the sale of residential mortgages. Diluted and adjusted cash earnings per common share both increased 7% ($0.04).

The quarterly return on common shareholders' equity of 14.9% increased 110 basis points compared to a year earlier and 90 basis points from the prior quarter. Fourth quarter return on assets was 1.11%, compared to 1.03% last year and 1.06% in the previous quarter.

The quarterly efficiency ratio (teb) was 45.0%, an improvement of 170 basis points from a year earlier and 90 basis points from the third quarter.

# ACCOUNTING POLICIES AND ESTIMATES

## CRITICAL ACCOUNTING ESTIMATES

CWB's significant accounting policies are outlined in Note 1 to the audited consolidated financial statements with related financial note disclosures by major caption. 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, 2013, CWB's total allowance for credit losses was $85.8 million (2012 – $81.7 million), which included specific allowances of $9.6 million (2012 – $14.4 million) and a collective allowance of $76.2 million (2012 – $67.3 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 other 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, 2013, the provision for unpaid claims and adjustment expenses totaled $89.7 million (2012 – $86.2 million). Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Note 21 to the consolidated financial statements.

### 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.

CWB 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 25 – Valuation of Financial Instruments
($ thousands)

| | | Valuation Technique | | |
|---|---|---|---|---|
| **As at October 31, 2013** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial Assets** | | | | |
| Cash resources | $ 347,995 | $ 300,995 | $ 47,000 | $ - |
| Securities | 2,232,332 | 2,232,332 | - | - |
| Derivative related | 4,509 | - | 4,509 | - |
| **Total Financial Assets** | $ 2,584,836 | $ 2,533,327 | $ 51,509 | $ - |
| **Financial Liabilities** | | | | |
| Other liability (1) | $ 1,679 | $ - | $ - | $ 1,679 |
| Derivative related | 36 | - | 36 | - |
| **Total Financial Liabilities** | $ 1,715 | $ - | $ 36 | $ 1,679 |

| | | 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 | $ - |

(1) Level 3 financial instruments was comprised of the contingent consideration related to the acquisition of McLean & Partners Wealth Management Ltd.

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

# 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 CWB's future financial statements. CWB is currently reviewing these standards to determine the impact on the financial statements.

## IFRS 13 – Fair Value Measurement

The IASB has issued new guidance on fair value measurement and disclosure requirements. IFRS 13 applies to other IFRS standards that require or permit fair value measurements or disclosures about fair value measurements and sets out a framework on how to measure fair value using the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and is to be applied prospectively. This new standard is not expected to have a material impact on the financial position, cash flows or earnings of CWB.

## 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. A key item for change in accounting under IFRS 10 is the de-consolidation of the trusts through which CWB issued a certain regulatory capital instrument. The de-consolidation of the trusts would result in a reclassification of securities issued through Canadian Western Bank Capital Trust (see Note 19 of the consolidated financial statements) from non-controlling interest to deposit liabilities in the consolidated balance sheets, and the associated income statement charge would be reclassified from non-controlling interest to interest expense. Other than this reclassification, the adoption of these standards is not expected to have a material impact on the financial position, cash flows or earnings of CWB. IFRS 10 and 12 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 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. This new standard is not expected to have a material impact on the financial position, cash flows or earnings of CWB.

## IFRS 9 – Financial Instruments

In November 2013, the IASB removed the January 1, 2015 mandatory effective date of IFRS 9 to provide sufficient time for preparers of financial statements to make the transition to the new requirements. IFRS 9 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. Additional amendments have been made to hedge accounting and measuring an entity's own credit risk, both of which are not expected to materially impact the financial position, cash flows or earnings of CWB.

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 significant impact on CWB'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 46 to 60 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2013.

### Highlights of 2013

Several enhancements to risk governance were made in 2013 as part of the ongoing development of CWB's risk management processes. Key changes include the:

- finalization of the risk appetite framework;
- formalization of risk appetite statements for principal risks approaching completion;
- restructuring of CWB's internal risk management committees;
- development of the three lines of defense model with particular emphasis on oversight functions; and,
- formalization of a transitional Chief Risk Officer (CRO) role.

## RISK MANAGEMENT OVERVIEW

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

As with all financial institutions, CWB is in the business of managing risk and is therefore exposed to various risk factors that could adversely affect its operating environment, financial condition and financial performance. Exposure to risk may also influence a client's decision to make deposits and/or an investor's decision to buy, sell or hold CWB shares or other securities. Each of CWB's businesses is subject to certain risks that require unique mitigation strategies. CWB has demonstrated its ability to effectively manage risks through conservative management practices based on a strong risk culture and a disciplined risk management approach; however, many risks are beyond CWB's direct control. A description of key external risk factors management considers is included in this risk management discussion. CWB actively evaluates existing and potential risks to develop, implement and continually enhance appropriate mitigation strategies.

### Risk Management Principles

The following principles guide the management of risks across all operations and companies of CWB (group-wide):

- 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 sound preventative and detection controls.
- A group-wide view of risk and the acceptance of risks required to build the business with continuous consideration for how those risks may affect CWB's reputation and brand.
- The belief that every employee has some responsibility for risk management 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.
- Recognition that "knowing your client" reduces risks by ensuring the services provided are suitable for, and understood by, the client.

A heightened regulatory focus on risk management was a notable outcome of the global financial crisis, and the level of active management related to regulatory risks has continued to increase since that time. The mandate of CWB's Group Risk Management function is to enhance existing processes and structure to help identify and appropriately mitigate risks across all companies. The intent is to ensure risk management practices satisfy regulatory requirements while providing a suitable framework for CWB that properly balances risk and reward.

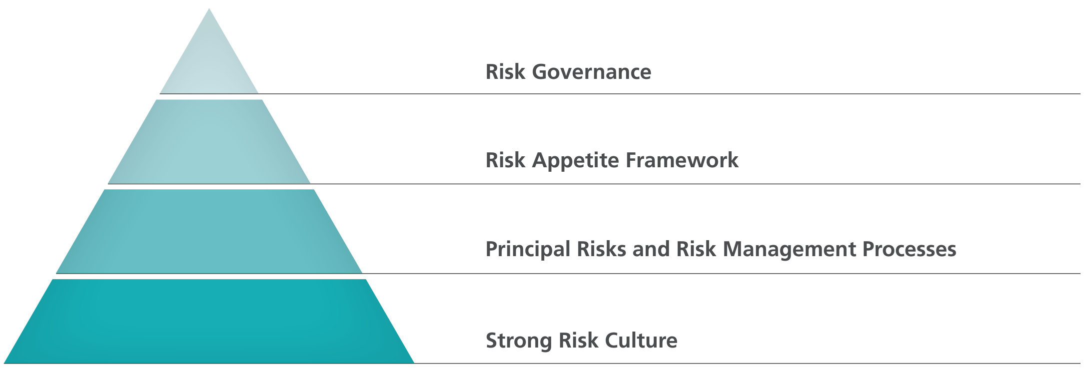
Effective risk management requires a well-defined risk management framework, which includes a strong principles-based risk culture, clearly understood risk appetites and well documented risk governance practices. Group Risk Management is functionally independent of business operations, and is responsible for maintaining the risk management framework and resulting policies. Senior management establishes and recommends CWB's risk appetite, which is ultimately approved by the Board. Group Risk Management also assists senior management in developing and communicating risk appetite, as well as monitoring certain risk management activities.

## Risk Management Framework

The primary goal of risk management is to ensure that the outcomes of risk taking are consistent with CWB's business activities, strategies and risk appetite. The 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. This international standard provides principles and guidelines for managing risk in a systematic, transparent and credible manner. The risk framework is subject to continuous evaluation to ensure 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.

*CWB's group-wide risk management framework is comprised of four main elements:*

### Figure 5 – Risk Management Framework




## Risk Culture

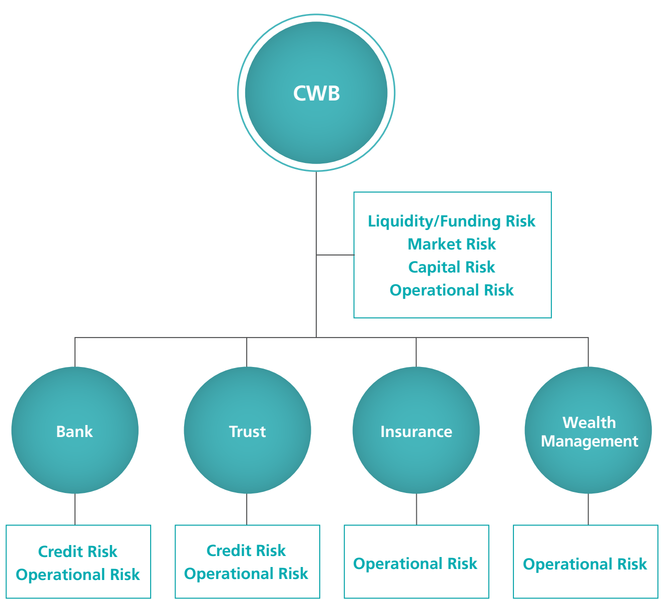
A strong risk culture emphasizes transparency and accountability. Organizations with a strong risk culture have a consistent and repeatable approach to risk management when making key business decisions, including regular discussions of risk and reviews of risk scenarios that can help management and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

## Principal Risks

The ability to identify, measure and monitor risks is a key component of effective group-wide risk management. Certain principal risks have been identified that have the greatest potential to materially impact operations.

*Following is a visual representation of CWB's principal risk exposures by business line:*

### Figure 6 – Principal Risks



Regulatory risk is a significant risk that is a subset of Operational Risk. Important risk factors, including related risk management processes, 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 inter-related.

CWB's risk management processes incorporate various forms of stress testing to assist in making informed risk management and capital planning decisions, which are developed and managed as part of sound business strategy. Stress testing is performed across key functional areas of CWB and is based on both quantitative and qualitative inputs.

## Risk Appetite

Senior management establishes and recommends CWB's overall risk appetite, which is ultimately approved by the Board. Risk appetite is the formalization of basic business principles such as making decisions based on risk-reward tradeoffs, understanding potential outcomes of those decisions, and deciding whether CWB is comfortable with the risk associated with those outcomes. 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 senior management, internal risk committees and the Board. Key attributes of CWB's formalized risk appetite framework include the following:

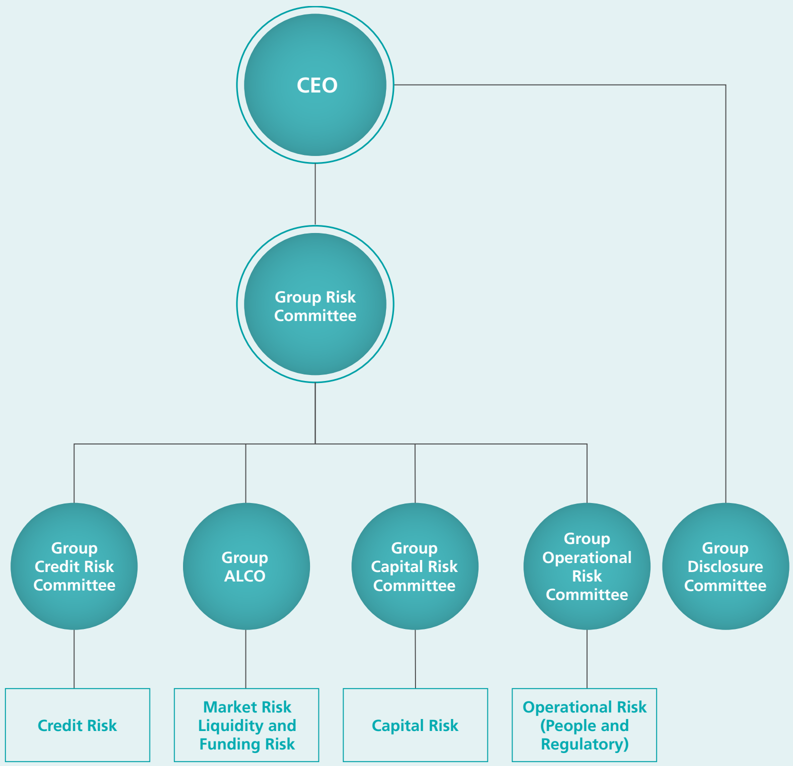
- An ongoing focus on lower risk intermediary banking activities, complemented by extensive knowledge and experience in CWB's chosen lending sectors, key geographic regions and other complementary business areas.
- No direct exposure to wholesale banking businesses (investment banking, brokerage and 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 CWB, from the Board to senior management to front-line staff.
- A relatively 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 long-term 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 tolerance thresholds, and maintaining high ethical standards. The businesses are also managed within the confines of legal and regulatory requirements.

## Risk Management Governance Structure

Management owns the risks CWB takes or is exposed to while conducting its business activities, while the Board approves and monitors the framework under which these risks are managed. This framework places ultimate accountability for the management of risk with the Group Risk Committee. The Group Risk Committee, with the assistance of the Group Risk Management function, is responsible for establishing the overall risk management framework, identifying risks and developing appropriate risk management policies. The Board, either directly or through its committees, reviews or approves the key policies and implements specific reporting procedures to enable effective monitoring of significant risk areas. At least annually, a report on risks and key risk management policies is presented to the Board and/or Board committees for review, assessment and approval.

During fiscal 2013, CWB implemented new internal risk management committees to more effectively align committee structures with business strategy and management of principal risks. An overview of the management committee structure and list of key risks for which each committee is responsible follows.

Figure 7 – Internal Risk Management Committees




**Group Risk Committee** – Comprised of members of the executive and oversees major risk management processes, provides oversight to internal risk committees and ensures the risk management framework is properly implemented. Also provides executive oversight for all principal risks, and recommends the risk appetite and overall risk management framework for Board approval.

**Group Credit Risk Committee** – Approves loans within delegated limits and is responsible for ensuring that appropriate credit policies are in place. Also monitors the quality, diversification and exposure of the loan portfolio, and recommends actions to ensure adequacy of the provision for credit losses.

**Group Asset Liability Committee (ALCO)** – Responsible for the establishment and maintenance of policies and programs for liquidity management and control, funding sources, investments, foreign exchange risk, interest rate risk and derivatives risk. Also oversees diversification of product offerings to ensure alignment with strategy and risk tolerances.

**Group Capital Risk Committee** – Responsible for the oversight of capital adequacy, CWB's regulatory capital plan, Internal Capital Adequacy and Assessment Process (ICAAP) and stress testing.

**Group Operational Risk Committee** – Reviews the group operational risk management framework, operational loss reporting and business continuity plans. Also reviews action plans for mitigating and improving the management of operational risk.

**Group Disclosure Committee** – Responsible for reviewing CWB's internal controls over financial reporting, and disclosure controls and procedures to help ensure the accuracy, completeness and timeliness of related public disclosures.

To support the overall governance structure, CWB has adopted a "three lines of defense" model.

### Table 26 – Three Lines of Defense

| First Line | Second Line | Third Line |
| --- | --- | --- |
| Business and Support Areas | Oversight Functions | Internal Audit |
| - Own risk<br>- Identify and manage risk through the establishment of policies and procedures<br>- Ensure activities conform with risk management policies and authorities<br>- Develop and maintain effective internal controls<br>- Monitor and report activities | - Establish group-wide frameworks for risk management and compliance<br>- Provide oversight and independent challenge to business and support areas<br>- Monitor and report on compliance with risk policies | - Provide independent assurance that risk management controls and governance processes are adequate and functioning as intended |

The following CWB functional areas provide key support within the group-wide risk management framework:

**Group Risk Management** – Provides independent oversight of enterprise risk management. To assist the Group Risk Committee and the Board, the head of the Group Risk Management currently acts in the capacity of CRO and reports functionally to the Board.

**Regulatory Compliance** – Establishes risk-based processes to actively manage known and emerging risks related to applicable regulatory requirements. The General Counsel acts in the capacity of Chief Compliance Officer (CCO) and reports functionally to the Board.

**Finance** – Provides independent oversight of processes to manage financial reporting and capital risk. Provides oversight on financial reporting, capital adequacy, external credit ratings, regulatory reporting, tax and accounting-related functions. The Chief Financial Officer (CFO) reports functionally to the Audit Committee.

**Internal Audit** – Provides independent, objective assurance and consulting services designed to improve CWB's operations. The scope of work includes determining whether the network of risk management controls and governance processes, as designed and implemented by management, are adequate and functioning in the intended manner. The Chief Internal Auditor (CIA) reports functionally to the Audit Committee.

While CWB's operations are exposed to numerous types of risk, certain risks, identified as principal, have the greatest potential to materially impact operations and financial performance.

## 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.

### Risk Overview

The main source of credit risk exposure for CWB results from its focus and expertise in granting loans and leases. CWB's 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 CWB's relatively stable provision for credit losses and consistently low write-offs measured as a percentage of total loans.

## Risk Governance

The credit approval process is centrally controlled, with all significant credit requests submitted to Credit Risk Management for adjudication. Credit Risk Management is independent of the function of the originating business. Requests for credit approval beyond the lending limit of the CEO are referred to the Group Credit Risk Committee or to the Loans Committee of the Board for approval, depending on the size of the exposure.

## Risk Management

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

- oversight provided by the Loans Committee of the Board;
- delegated lending authorities that are clearly communicated to lenders and other personnel engaged in the credit granting process;
- credit policies, guidelines and directives which are communicated within all branches and business lines, and to 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 standard risk-rating classification established for all credits;
- a review at least annually of credit risk-rating classifications and 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;
- ongoing development of credit analytics reporting to assess portfolio risks at a granular level;
- 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 action to protect the safety of CWB's capital;
- delegation of loans deemed to carry higher risks 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 Internal Audit, which includes direct reporting of results to senior management, the CEO and the Audit Committee of the Board; 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 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. The policy is to limit loans to connected corporate borrowers to not more than 10% of CWB's shareholders' equity. Generally, CWB's lending limit is $50 million for a single risk exposure. However, for certain quality connections that confirm debt service capacity and loan security from more than one source, the limit is generally $75 million. CWB clients with larger borrowing requirements can be accommodated through loan syndications with other financial institutions.

## Environmental Risk

While the day-to-day operations of CWB 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 CWB's satisfaction, the application will be denied. 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 timely action when problems develop. Lending within the Bank is largely directed toward small- and medium-sized businesses operating 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 of 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 in select regions of Ontario.

For additional information, see the Loans and Credit Quality sections of this MD&A.

# 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, preferred shares and common shares 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 annually approves asset liability management policies specifying interest rate and foreign exchange exposure limits, and regularly reviews actual positions 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 CWB's position and decide future actions. 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 stress testing 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, 2013 for select time intervals.

The analysis in Note 28 is a static measurement of interest rate sensitivity gaps at a specific point in time, and there is potential for these gaps to change significantly over a short period. 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 represented 1.2% of total assets at October 31, 2013, down from 4.5% one year ago, while the one-month and under gap decreased to 6.7%, from 9.1% a year earlier. To the extent possible within CWB'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 $6,289 million in fixed term deposit liabilities maturing within one year from October 31, 2013, approximately $3,412 million (22% of total deposit liabilities) mature by April 30, 2014. The term in which maturing deposits are renewed will have an impact on the future asset liability structure and, hence, interest rate sensitivity. Approximately $324 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 27. 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 portfolios;
- 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 27 – 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 | 2013 | 2012 |
|---|---|---|
| 90 days | $ 4,176 | $ 4,411 |
| 1 year | 14,545 | 15,086 |
| 1 year percentage change | 3.3 % | 3.8 % |

Impact of 1% decrease in interest rates

| Period | 2013 | 2012 |
|---|---|---|
| 90 days | $ (6,796) | $ (6,289) |
| 1 year | (23,853) | (21,534) |
| 1 year percentage change | (5.3)% | (5.4)% |

Higher sensitivity to a decrease in rates is due to asymmetry in the impact of falling rates on loans and deposits. A decrease of one-percentage point in rates is assumed to reduce loan yields by an equivalent amount. However, the assumed change in total deposit costs is lower because deposits yielding less than one percent at the beginning of the period are only adjusted to zero.

It is estimated that a one percentage point increase in all interest rates at October 31, 2013 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 $14.4 million, net of tax (October 31, 2012 – $12.6 million); it is estimated that a one percentage point decrease in all interest rates at October 31, 2013 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 $14.4 million, net of tax (October 31, 2012 – $12.6 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 section). 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, CWB has assets and liabilities denominated in U.S. dollars. At October 31, 2013, assets denominated in U.S. dollars were 1.2% (2012 – 1.1%) of total assets and U.S. dollar liabilities were 1.3% (2012 – 1.2%) of total liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific client needs. Therefore, CWB 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. Any 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 or 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 company-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 manages liquidity risk within an appropriate threshold.

CWB's key risk mitigation strategies include:

- 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 high quality liquid assets and 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 CWB under times of stress.

Refer to the Deposit and Liquidity Management sections of this MD&A for additional information.

## Risk Governance

Liquidity management is centralized to better facilitate the effective management of liquidity risk. The Board annually approves asset liability management 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 the overall liquidity position, status and trends.

ALCO annually reviews and endorses the liquidity management policies and provides primary management oversight for the treasury management function. The Treasury department 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 – CWB'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 – Oversight by Treasury of all significant liquidity risks supports 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 company-specific (micro) disruptions on CWB'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 understand the potential behaviour of various positions on CWB'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 – CWB actively manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. Supplementary funding sources include securitization, capital market issuances and whole loan sales.
- Core liquidity – CWB 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.

OSFI issued a consultative paper entitled *Liquidity Adequacy Requirements* in November 2013 which formalizes many of the regulations issued by the Bank for International Settlements (BIS) in the *International Framework for Liquidity Risk, Measurement, Standards and Monitoring.* Canadian banks are expected to comply with the Liquidity Coverage Ratio (LCR) in January 2015, while implementation of the Net Stable Funding Ratio (NSFR) is delayed until 2018.

OSFI has introduced a monitoring tool called the Net Cumulative Cash Flow which will be implemented in 2014. Other international regulations, such as *The Monitoring Tools for Intraday Liquidity Management,* will be delayed until OSFI can assess how to most effectively implement them within the Canadian banking environment.

## 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, 2013:

### Table 28 – Contractual Obligations

($ thousands)

| | Within 1 Year | 1 to 3 Years | 4 to 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|
| Lease commitments | $ 11,893 | $ 23,395 | $ 17,706 | $ 50,910 | $ 103,904 |
| Purchase obligations for capital expenditures | 1,126 | 2,043 | 1,689 | 1,689 | 6,547 |
| **October 31, 2013** | **$ 13,019** | **$ 25,438** | **$ 19,395** | **$ 52,599** | **$ 110,451** |
| October 31, 2012 | $ 11,714 | $ 22,579 | $ 16,273 | $ 22,459 | $ 73,025 |

## Credit ratings

CWB's ability to efficiently access unsecured capital market funding on a cost-effective basis is partially dependent upon the maintenance of satisfactory credit ratings. Such credit ratings, accompanied with a stable or positive outlook, increase the breadth of clients and investors able to participate in various deposit and debt offerings, while also lowering CWB's overall cost of capital.

Credit ratings are largely determined by the quality of earnings, the adequacy of capital, the effectiveness of risk management programs and the opinions of rating agencies related to creditworthiness of the financial sector as a whole. There can be no assurance that CWB's credit ratings and the corresponding outlook will not be changed, potentially resulting in adverse consequences for 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 consider market price or address the 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, 2013. Ratings on short-term debt and preferred shares were initiated in fiscal 2013.

### Table 29 – Credit Ratings

| | CWB credit ratings issued by DBRS, along with the corresponding outlook, were last confirmed on October 16, 2013. | | | | |
|---|---|---|---|---|---|
| | **Long-term senior debt and deposits** | **Short-term debt** | **Subordinated debentures** | **Preferred shares** | **Outlook** |
| **DBRS** | A (low) | R-1 (low) | BBB (high) | Pfd-3 (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

Capital management involves a dynamic and ongoing process to determine, allocate and maintain appropriate amounts of capital. The optimal amount and composition of capital must consider regulatory and economic capital requirements, as well as the expectations 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 CWB, 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 at least annually approves the regulatory capital plan, Internal Capital Adequacy Assessment Process (ICAAP) and capital management policies. The Group Capital Risk Committee is responsible for capital risk management. Under the leadership of the CFO, senior representatives within Finance, Group Risk Management, Strategy and Communications, and Credit Analytics comprise the ICAAP core team, which is closely supported by other key departments, including Treasury and Credit Risk Management.

## Risk Management

The following are key elements of capital risk management:

- The regulatory capital plan, inclusive of capital management policies and three-year capital projections, is completed at least annually.
- Consolidated forecast models are used to analyze and stress test the likely capital impact of projected operations and/or significant transactions.
- Regulatory capital ratios are reported to senior management and the Board on a monthly basis.

For additional information, 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. There are two subsets of operational risk: people risk and regulatory risk. People risk is the risk that CWB is not able to retain and attract sufficient qualified resources to implement its strategies and/or achieve its objectives. Regulatory risk is defined below.

## Risk Overview

Operational risk is inherent in all of CWB's business activities, including banking, trust, wealth management and insurance operations, and is embedded in processes that support the management of principal risks such as credit, liquidity, market, capital and reputational risk. CWB is exposed to operational risk from internal business activities, external threats and outsourced business activities. 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. 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 2012 or 2013, and is increasingly utilizing data to measure, monitor and manage operational risk exposures.

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

## Risk Governance

Business and support areas are fully accountable for the management and control of significant operational risks to which they are exposed. The Group Operational Risk Committee has responsibility for operational risk, with oversight by the Board, Group Risk Committee and senior management. The Group Risk Management function is responsible for the continual enhancement of the Operational Risk Framework and supporting policies. The Board has ultimate oversight and approves the Group's Operational Risk Management Framework with support from various Board committees.

## Risk Management

Following is a summary of strategies and factors that assist with the effective management of operational risk:

- 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
- Flat organizational 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 operational risk management to all levels
- Management that is very engaged with promoting CWB's operational risk tolerance and appetite
- Ongoing enhancement of group-wide operational risk management processes

Key elements of the Operational Risk Management Framework include:

- **Common 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 key operational risk exposures and assess whether appropriate risk-mitigating internal controls are in place and operating effectively. Action plans may result where additional strategies are identified to reduce risk exposure.
- **Operational risk reporting** – Loss data monitoring is important to maintain awareness of identified operational risks and to assist management in taking constructive action to reduce exposures to future losses.

Additional key components include:

- implementation of policies and procedural controls appropriate to address identified risks (including segregation of duties and other fundamental checks and balances);
- adoption of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) for Smaller Business framework for internal control assessment;
- continual enhancements to fraud prevention processes, policies and communication of same;
- established "whistleblower" processes and employee codes of conduct;
- maintenance of an outsourcing 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 for the tasks for which they are responsible;
- a Regulatory Compliance department focused on key regulatory compliance areas such as privacy, anti-money laundering, anti-terrorist financing and consumer regulations;
- documented policies and procedures to set minimum control standards, which are critical communication and training tools;
- enhanced focus on data quality as an important and strategic asset, particularly in the regulated environment;
- use of technology that incorporates automated systems with built-in controls, active management of technology configuration and change management, and information security management programs;
- 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).

## REGULATORY RISK

Regulatory risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of non-compliance with applicable regulatory requirements.

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 most sources of regulatory risk are outside of management's direct control, CWB takes what it believes to be reasonable and prudent measures designed to ensure material 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 and the Board. Notwithstanding the additional resources, the volume, pace and implementation of new and amended regulations and standards increases the risk of unintended consequences for all regulated entities and unintended non-compliance for CWB.

## REPUTATION RISK

Reputation risk is the consequence of not managing risks effectively and cannot be considered in isolation from other risks.

Reputation risk is the consequence of not managing risks effectively and cannot be considered in isolation from other risks. Negative public opinion can result from actual or alleged misconduct in any number of activities, either on the part of employees or external partners, 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 CWB's ability to attract and retain clients and/or employees, 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 the Board.

All directors, officers and employees have a responsibility to conduct their activities in accordance with CWB'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.

## INSURANCE RISK

Insurance risk is the risk of financial loss due to actual experience being different from that assumed in insurance product pricing and reserving. Insurance contracts provide financial protection for the insured by transferring risks to the insurer in exchange for premiums. Unfavourable experience could emerge due to adverse fluctuations in timing, size or frequency of claims, or associated expenses.

CWB is exposed to insurance risk through its wholly owned subsidiary, CDI, which offers home and auto insurance to customers in BC and Alberta. Accordingly, CWB's operations are subject to uncertainties and fluctuations in earnings based on elements of risk associated with these lines of business. These elements include cyclical patterns in the industry and unpredictable developments, including weather-related and other natural catastrophes. CDI carries reinsurance coverage as part of its strategy to manage these risks. The insurance 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 and reinsurance risk. Policies and procedures have been established to manage insurance-related risk, as well as other categories of risk to which CWB is exposed through CDI.

The risk that CDI might be exposed to large claims or to an accumulation of claims resulting from a natural catastrophe, such as a weather-related or seismic event, is mitigated by reinsurance treaties that protect it from such risks. Reinsurance risk includes the risk that reinsurance counterparties are not financially strong and that underwriting strategies are inappropriately matched with reinsurance programs. CDI performs financial due diligence on prospective reinsurers and only purchases coverage from a list of reviewed and approved companies.

CDI 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 CDI's perspectives on regulations.

## OTHER RISK FACTORS

In addition to the risks described above, other risk factors, including those below and those identified in the forward-looking statements section, may adversely affect CWB's businesses and financial results.

### General Business and Economic Conditions

The majority of CWB's business is conducted in Western Canada. Accordingly, CWB's overall financial performance is 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 CWB'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. 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 it receives about customers and counterparties. In deciding whether to extend credit or enter into other transactions, CWB may rely on information provided by clients and counterparties 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 clients 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.

### Information Systems and Technology

CWB is highly dependent upon information technology and supporting infrastructure, such as voice, data and network access. In addition to internal resources, various third parties provide key components of the infrastructure and applications. Disruptions in 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 to conduct regular business and/or deliver products and services to clients. Ongoing diligence is required to ensure systems are secure from threats. 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 CWB'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 operations, CWB is primarily subject to credit, market (mainly interest rate and foreign exchange), liquidity and funding, operational, reputation, regulatory, insurance, environmental, and other noted 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, CWB could be materially affected by unexpected financial losses and/or other harm.

### Changes in Accounting Standards and Accounting Policies and Estimates

The IASB 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, many of which are beyond CWB's control, may affect future results. Some of these factors 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 associated risks.

## UPDATED SHARE INFORMATION

As at November 25, 2013, there were 79,631,149 common shares outstanding. Also outstanding were employee stock options, which are or will be exercisable for up to 4,179,836 common shares for maximum proceeds of $112.7 million. On December 4, 2013, the Board of Directors declared a quarterly cash dividend of $0.19 per common share payable on January 9, 2014, to shareholders of record on December 17, 2013. The Board of Directors also declared a cash dividend of $0.453125 per Series 3 Preferred Share payable on January 31, 2014 to shareholders of record on January 23, 2014.

## CONTROLS AND PROCEDURES

As at October 31, 2013, an evaluation was carried out on the effectiveness of CWB'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, 2013, 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.

CWB's certifying officers have limited the scope of the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of McLean & Partners, acquired in the third quarter of 2013. This limitation will be removed no later than April 30, 2014.

These evaluations were conducted in accordance with the standards of Internal Control over Financial Reporting – Guidance for Smaller Public Companies, 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 CWB's internal controls over financial reporting that occurred during the year ended October 31, 2013 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

This Management's Discussion and Analysis is dated December 4, 2013.

# Consolidated Financial Statements

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Canadian Western Bank (CWB) 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 CWB 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 CWB.

We, as CWB's Chief Executive Officer and Chief Financial Officer, will certify CWB'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 CWB'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 CWB. 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 CWB. Their responsibilities include reviewing related party transactions and reporting to the Board of Directors those transactions which may have a material impact on CWB.

The Office of the Superintendent of Financial Institutions Canada, at least once a year, makes such examination and inquiry into the affairs of CWB 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 depositors and policyholders, are being duly observed and that CWB is in a sound financial condition.

KPMG LLP, the independent auditors appointed by the shareholders of CWB, 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.

Chris Fowler

**Chris Fowler**
*President and Chief Executive Officer*

December 4, 2013

**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, 2013 and 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended October 31, 2013 and 2012, 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 CWB'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 CWB's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canadian Western Bank as at October 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years ended October 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Edmonton, Canada

December 4, 2013

# CONSOLIDATED BALANCE SHEETS

| ($ thousands) | | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Cash Resources** | (Note 3) | | |
| Cash and non-interest bearing deposits with financial institutions | | **$ 83,856** | $ 33,690 |
| Interest bearing deposits with regulated financial institutions | | **258,466** | 177,028 |
| Cheques and other items in transit | | **5,673** | 26,265 |
| | | **347,995** | 236,983 |
| **Securities** | (Note 4) | | |
| Issued or guaranteed by Canada | | **927,077** | 980,200 |
| Issued or guaranteed by a province or municipality | | **410,984** | 478,622 |
| Other securities | | **894,271** | 877,278 |
| | | **2,232,332** | 2,336,100 |
| **Loans** | (Note 6) | | |
| Personal | | **2,502,295** | 2,292,388 |
| Business | | **13,160,384** | 11,743,021 |
| | | **15,662,679** | 14,035,409 |
| Allowance for credit losses | (Note 7) | **(85,786)** | (81,723) |
| | | **15,576,893** | 13,953,686 |
| **Other** | | | |
| Property and equipment | (Note 8) | **66,647** | 68,938 |
| Goodwill | (Note 9) | **49,424** | 45,536 |
| Intangible assets | (Note 9) | **70,197** | 49,959 |
| Insurance related | (Note 10) | **64,365** | 57,650 |
| Derivative related | (Note 11) | **4,509** | 1,951 |
| Other assets | (Note 12) | **107,898** | 122,466 |
| | | **363,040** | 346,500 |
| **Total Assets** | | **$ 18,520,260** | $ 16,873,269 |
| **Liabilities and Equity** | | | |
| **Deposits** | (Note 13) | | |
| Personal | | **$ 9,420,754** | $ 8,960,118 |
| Business and government | | **6,105,286** | 5,184,719 |
| | | **15,526,040** | 14,144,837 |
| **Other** | | | |
| Cheques and other items in transit | | **55,290** | 54,030 |
| Insurance related | (Note 14) | **167,816** | 160,302 |
| Derivative related | (Note 11) | **36** | 10 |
| Securities sold under repurchase agreements | (Note 5) | **-** | 70,089 |
| Other liabilities | (Note 15) | **238,939** | 239,503 |
| | | **462,081** | 523,934 |
| **Debt** | (Note 16) | | |
| Debt securities | | **195,650** | 209,273 |
| Subordinated debentures | | **625,000** | 425,000 |
| | | **820,650** | 634,273 |
| **Equity** | | | |
| Preferred shares | (Note 17) | **208,815** | 209,750 |
| Common shares | (Note 17) | **510,282** | 490,218 |
| Retained earnings | | **865,087** | 733,298 |
| Share-based payment reserve | | **24,632** | 22,468 |
| Other reserves | | **(3,389)** | 9,247 |
| **Total Shareholders' Equity** | | **1,605,427** | 1,464,981 |
| Non-controlling interests | (Note 19) | **106,062** | 105,244 |
| **Total Equity** | | **1,711,489** | 1,570,225 |
| **Total Liabilities and Equity** | | **$ 18,520,260** | $ 16,873,269 |

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

**Allan W. Jackson** Allan Jackson
*Chair of the Board*

**Chris Fowler** Chris Fowler
*President and Chief Executive Officer*

# CONSOLIDATED STATEMENTS OF INCOME

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

| | | 2013 | 2012 |
|---|---|---|---|
| **Interest Income** | | | |
| Loans | | $ 735,404 | $ 686,534 |
| Securities | | 44,952 | 43,548 |
| Deposits with regulated financial institutions | | 1,609 | 2,389 |
| | | 781,965 | 732,471 |
| **Interest Expense** | | | |
| Deposits | | 280,169 | 269,772 |
| Debt | | 32,433 | 28,270 |
| | | 312,602 | 298,042 |
| **Net Interest Income** | | 469,363 | 434,429 |
| **Provision for Credit Losses** | (Note 7) | 27,846 | 25,107 |
| **Net Interest Income after Provision for Credit Losses** | | 441,517 | 409,322 |
| **Other Income** | | | |
| Trust and wealth management services | | 24,511 | 19,065 |
| Credit related | | 21,685 | 19,705 |
| Insurance, net | (Note 21) | 16,279 | 17,353 |
| Gains on securities, net | | 15,094 | 12,449 |
| Retail services | | 10,272 | 9,227 |
| Foreign exchange gains | | 3,059 | 3,255 |
| Contingent consideration fair value change | (Note 29) | - | (2,489) |
| Other | | 4,082 | 3,345 |
| | | 94,982 | 81,910 |
| **Net Interest and Other Income** | | 536,499 | 491,232 |
| **Non-Interest Expenses** | | | |
| Salaries and employee benefits | | 172,237 | 153,844 |
| Premises and equipment | | 42,825 | 39,502 |
| Other expenses | | 47,435 | 43,220 |
| | | 262,497 | 236,566 |
| **Net Income before Income Taxes** | | 274,002 | 254,666 |
| **Income Taxes** | (Note 24) | 64,052 | 60,209 |
| **Net Income** | | $ 209,950 | $ 194,457 |
| Net Income Attributable to Non-Controlling Interests | (Note 19) | 7,568 | 7,052 |
| **Net Income Attributable to Shareholders of CWB** | | $ 202,382 | $ 187,405 |
| Preferred share dividends | | 15,183 | 15,208 |
| Premium paid on purchase of preferred shares for cancellation | (Note 17) | 36 | - |
| **Net Income Available to Common Shareholders** | | $ 187,163 | $ 172,197 |
| Average number of common shares (in thousands) | | 79,147 | 76,841 |
| Average number of diluted common shares (in thousands) | | 79,544 | 77,460 |
| **Earnings Per Common Share** | (Note 25) | | |
| Basic | | $ 2.36 | $ 2.24 |
| Diluted | | 2.35 | 2.22 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended October 31
($ thousands)

| | 2013 | 2012 |
|---|---|---|
| **Net Income** | **$ 209,950** | $ 194,457 |
| Available-for-sale securities | | |
| Gains (losses) from change in fair value (1) | **(2,553)** | 9,580 |
| Reclassification to net income (2) | **(11,160)** | (9,129) |
| | **(13,713)** | 451 |
| Derivatives designated as cash flow hedges | | |
| Gains from change in fair value (3) | **2,332** | 1,430 |
| Reclassification to net income (4) | **(1,255)** | (483) |
| | **1,077** | 947 |
| **Other Comprehensive Income (Loss), Net of Tax, for the Year** | **(12,636)** | 1,398 |
| **Comprehensive Income for the Year** | **$ 197,314** | $ 195,855 |
| Comprehensive income for the year attributable to: | | |
| Shareholders of CWB | **$ 189,746** | $ 188,803 |
| Non-controlling interests | **7,568** | 7,052 |
| **Comprehensive Income for the Year** | **$ 197,314** | $ 195,855 |

(1) Net of income tax of $866 (2012 – $3,441).
(2) Net of income tax of $3,934 (2012 – $3,320).
(3) Net of income tax of $788 (2012 – $500).
(4) Net of income tax of $424 (2012 – $169).

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Year Ended October 31
($ thousands)

| | | 2013 | 2012 |
|---|---|---|---|
| **Retained Earnings** | | | |
| Balance at beginning of year | | $ 733,298 | $ 608,848 |
| Net income attributable to shareholders of CWB | | 202,382 | 187,405 |
| Dividends - Preferred shares | (Note 17) | (15,183) | (15,208) |
| - Common shares | (Note 17) | (55,374) | (47,747) |
| Premium paid on purchase of preferred shares for cancellation | (Note 17) | (36) | - |
| Balance at end of year | | 865,087 | 733,298 |
| **Other Reserves** | | | |
| Balance at beginning of year | | 9,247 | 7,849 |
| Changes in available-for-sale securities | | (13,713) | 451 |
| Changes in derivatives designated as cash flow hedges | | 1,077 | 947 |
| Balance at end of year | | (3,389) | 9,247 |
| **Preferred Shares** | (Note 17) | | |
| Balance at beginning of year | | 209,750 | 209,750 |
| Purchase of preferred shares for cancellation | | (935) | - |
| Balance at end of year | | 208,815 | 209,750 |
| **Common Shares** | (Note 17) | | |
| Balance at beginning of year | | 490,218 | 408,282 |
| Issued under dividend reinvestment plan | | 14,404 | 12,252 |
| Transferred from share-based payment reserve on the exercise or exchange of options | | 3,986 | 4,432 |
| Issued on exercise of options | | 1,674 | 1,853 |
| Issued on settlement of contingent consideration | | - | 63,399 |
| Balance at end of year | | 510,282 | 490,218 |
| **Share-Based Payment Reserve** | (Note 18) | | |
| Balance at beginning of year | | 22,468 | 21,884 |
| Amortization of fair value of options | | 6,150 | 5,016 |
| Transferred to common shares on the exercise or exchange of options | | (3,986) | (4,432) |
| Balance at end of year | | 24,632 | 22,468 |
| **Total Shareholders' Equity** | | 1,605,427 | 1,464,981 |
| **Non-Controlling Interests** | | | |
| Balance at beginning of year | | 105,244 | 105,225 |
| Net income attributable to non-controlling interests | | 7,568 | 7,052 |
| Dividends to non-controlling interests | | (7,066) | (7,033) |
| Business acquisition | (Note 32) | 316 | - |
| Balance at end of year | | 106,062 | 105,244 |
| **Total Equity** | | $ 1,711,489 | $ 1,570,225 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended October 31
($ thousands)

| | | 2013 | 2012 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net income | | $ 209,950 | $ 194,457 |
| Adjustments to determine net cash flows: | | | |
| Provision for credit losses | | 27,846 | 25,107 |
| Depreciation and amortization | | 21,572 | 17,261 |
| Current income taxes receivable and payable | | (7,444) | 8,981 |
| Amortization of fair value of employee stock options | | 6,150 | 5,016 |
| Accrued interest receivable and payable, net | | 2,816 | (3,541) |
| Deferred taxes, net | | 5,507 | (695) |
| Gain on securities, net | | (15,094) | (12,449) |
| Change in operating assets and liabilities | | | |
| Loans, net | | (1,651,053) | (1,685,511) |
| Deposits, net | | 1,381,203 | 1,750,148 |
| Securities sold under repurchase agreements, net | | (70,089) | 70,089 |
| Other items, net | | 934 | 24,283 |
| | | (87,702) | 393,146 |
| **Cash Flows from Financing Activities** | | | |
| Common shares issued, net of issuance costs | (Note 17) | 16,078 | 14,004 |
| Preferred shares purchased and cancelled | (Note 17) | (971) | - |
| Debentures issued | (Note 16) | 250,000 | - |
| Debentures redeemed | (Note 16) | (50,000) | (120,000) |
| Debt securities issued | | 90,596 | 226,249 |
| Debt securities repaid | | (104,219) | (106,855) |
| Dividends | | (70,557) | (62,955) |
| Distributions to non-controlling interests | | (7,066) | (7,033) |
| | | 123,861 | (56,590) |
| **Cash Flows from Investing Activities** | | | |
| Interest bearing deposits with regulated financial institutions, net | | (81,284) | 57,128 |
| Securities, purchased | | (6,004,062) | (4,959,542) |
| Securities, sales proceeds | | 3,839,290 | 2,855,832 |
| Securities, matured | | 2,275,813 | 1,711,152 |
| Property, equipment and intangibles | | (27,504) | (27,586) |
| Business acquisition | (Note 32) | (10,098) | - |
| | | (7,845) | (363,016) |
| **Change in Cash and Cash Equivalents** | | 28,314 | (26,460) |
| **Cash and Cash Equivalents at Beginning of Year** | | 5,925 | 32,385 |
| **Cash and Cash Equivalents at End of Year *** | | $ 34,239 | $ 5,925 |
| *** Represented by:** | | | |
| Cash and non-interest bearing deposits with financial institutions | | $ 83,856 | $ 33,690 |
| Cheques and other items in transit (included in Cash Resources) | | 5,673 | 26,265 |
| Cheques and other items in transit (included in Other Liabilities) | | (55,290) | (54,030) |
| **Cash and Cash Equivalents at End of Year** | | $ 34,239 | $ 5,925 |
| Supplemental Disclosure of Cash Flow Information | | | |
| Interest and dividends received | | $ 785,643 | $ 724,759 |
| Interest paid | | 313,463 | 293,871 |
| Income taxes paid | | 65,989 | 51,923 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended October 31, 2013 and 2012
($ thousands, except per share amounts)

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

### a) Reporting Entity

Canadian Western Bank (CWB) 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 4, 2013.

### b) Statement of Compliance

These consolidated financial statements of CWB 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).

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 CWB 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 CWB 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)
- 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 CWB and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as entities whose operations are controlled by CWB and are corporations in which CWB 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

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, 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.

CWB 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.

### g) Functional and Foreign Currencies

The consolidated financial statements are presented in Canadian dollars, which is CWB'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. To facilitate a better understanding of CWB'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 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 | Business acquisition |
| 33 | Subsidiaries |
| 34 | Comparative figures |

## 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 CWB's future financial statements. CWB is currently reviewing these standards to determine the impact on the financial statements.

### *IFRS 13 – Fair Value Measurement*

The IASB has issued new guidance on fair value measurement and disclosure requirements. IFRS 13 applies to other IFRS standards that require or permit fair value measurements or disclosures about fair value measurements and sets out a framework on how to measure fair value using the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and is to be applied prospectively. This new standard is not expected to have a material impact on the financial position, cash flows or earnings of CWB.

### *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. A key item for change in accounting under IFRS 10 is the de-consolidation of the trust through which CWB issues certain regulatory capital instruments. The de-consolidation of the trust would result in a reclassification of securities issued through Canadian Western Bank Capital Trust (Note 19) from non-controlling interest to deposit liabilities in the consolidated balance sheets, and the associated income statement charge would be reclassified from non-controlling interest to interest expense. Other than this reclassification, CWB does not expect the adoption of these standards to have a material impact on the financial position, cash flows or earnings of CWB. IFRS 10 and 12 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. This new standard is not expected to have a material impact on the financial position, cash flows or earnings of CWB.

### *IFRS 9 – Financial Instruments*

In November 2013, the IASB removed the January 1, 2015 mandatory effective date of IFRS 9 to provide sufficient time for preparers of financial statements to make the transition to the new requirements. IFRS 9 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. Additional amendments have been made to hedge accounting and measuring an entity's own credit risk, both of which are not expected to materially impact the financial position, cash flows or earnings of CWB.

CWB continues to monitor the IASB's 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 CWB's future consolidated financial statements.

## 2. FINANCIAL 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, loans, derivative financial instruments and certain other assets. Financial instrument liabilities include deposits, securities sold under repurchase agreements, derivative financial instruments, debt and certain other liabilities.

The use of financial instruments exposes CWB to credit, liquidity and market risk. A discussion of how these are managed can be found in the Risk Management section of the 2013 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 and contingent consideration fair value changes 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 $258,466 (October 31, 2012 – $177,028), which is $569 (October 31, 2012 – $482) 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, CWB 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 Within 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|---|---|---|
| **Securities issued or guaranteed by** | | | | | | |
| Canada | $ 570,076 | $ 248,497 | $ 108,504 | $ - | $ 927,077 | $ 980,200 |
| A province or municipality | 280,316 | 35,487 | 90,192 | 4,989 | 410,984 | 478,622 |
| **Other debt securities** | 179,881 | 174,763 | 12,386 | 931 | 367,961 | 371,044 |
| **Equity securities** | | | | | | |
| Preferred shares | 127,828 | 138,244 | 78,257 | 34,812 | 379,141 | 398,752 |
| Common shares (1) | - | - | - | 147,169 | 147,169 | 107,482 |
| **Total** | $ 1,158,101 | $ 596,991 | $ 289,339 | $ 187,901 | $ 2,232,332 | $ 2,336,100 |

(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, 2013 | | | | As at October 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| **Securities issued or guaranteed by** | | | | | | | | |
| Canada | $ 926,445 | $ 652 | $ 20 | $ 927,077 | $ 980,024 | $ 270 | $ 94 | $ 980,200 |
| A province or municipality | 410,823 | 227 | 66 | 410,984 | 478,689 | 93 | 160 | 478,622 |
| **Other debt securities** | 366,781 | 1,284 | 104 | 367,961 | 369,407 | 1,734 | 97 | 371,044 |
| **Equity securities** | | | | | | | | |
| Preferred shares | 395,442 | 1,444 | 17,745 | 379,141 | 391,781 | 8,249 | 1,278 | 398,752 |
| Common shares | 140,512 | 8,119 | 1,462 | 147,169 | 105,368 | 4,701 | 2,587 | 107,482 |
| **Total** | $ 2,240,003 | $ 11,726 | $ 19,397 | $ 2,232,332 | $ 2,325,269 | $ 15,047 | $ 4,216 | $ 2,336,100 |

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, 2013, CWB assessed the securities with unrealized losses and, based on available objective evidence, no impairment charges (2012 – nil) were included in gains on securities, net.

## 5. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements represent a sale of Government of Canada securities by CWB 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.

## 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 CWB has commenced realization proceedings, or where CWB 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 CWB 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 the allowance for credit losses, by loan type, are as follows:*

| | **As at October 31, 2013** | | | | As at October 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Gross Amount** | **Gross Impaired Amount (2)** | **Specific Allowance** | **Net Impaired Loans** | Gross Amount | Gross Impaired Amount (2) | Specific Allowance | Net Impaired Loans |
| Personal | **$ 2,502,295** | **$ 17,052** | **$ 748** | **$ 16,304** | $ 2,292,388 | $ 13,404 | $ 459 | $ 12,945 |
| Business | | | | | | | | |
| Real estate (1) | **5,829,225** | **31,937** | **6,349** | **25,588** | 5,001,041 | 23,022 | 2,605 | 20,417 |
| Equipment financing and energy | **3,239,788** | **10,610** | **2,179** | **8,431** | 2,874,423 | 14,919 | 8,524 | 6,395 |
| Commercial | **4,091,371** | **4,612** | **293** | **4,319** | 3,867,557 | 15,495 | 2,791 | 12,704 |
| **Total** | **$ 15,662,679** | **$ 64,211** | **$ 9,569** | **$ 54,642** | $14,035,409 | $ 66,840 | $ 14,379 | $ 52,461 |
| **Collective allowance (3)** | | | | **(76,217)** | | | | (67,344) |
| **Net impaired loans after collective allowance** | | | | **$ (21,575)** | | | | $ (14,883) |

(1) Multi-family residential mortgages are included in real estate loans.
(2) Gross impaired loans include foreclosed assets with a carrying value of $12,407 (October 31, 2012 – $10,462). CWB 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 $2,582 (2012 – $5,094).

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

| | As at October 31, 2013 | | | As at October 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Gross Impaired Amount | Specific Allowance | Net Impaired Loans | Gross Impaired Amount | Specific Allowance | Net Impaired Loans |
| Alberta | $ 38,886 | $ 7,475 | $ 31,411 | $ 36,769 | $ 9,711 | $ 27,058 |
| British Columbia | 17,904 | 476 | 17,428 | 22,629 | 2,190 | 20,439 |
| Ontario | 2,886 | 728 | 2,158 | 3,081 | 1,167 | 1,914 |
| Saskatchewan | 1,861 | 381 | 1,480 | 2,309 | 456 | 1,853 |
| Manitoba | 1,214 | 146 | 1,068 | 615 | 203 | 412 |
| Other | 1,460 | 363 | 1,097 | 1,437 | 652 | 785 |
| **Total** | $ 64,211 | $ 9,569 | 54,642 | $ 66,840 | $ 14,379 | 52,461 |
| **Collective allowance** (1) | | | (76,217) | | | (67,344) |
| **Net impaired loans after collective allowance** | | | $ (21,575) | | | $ (14,883) |

(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, 2013** | 1 - 30 days | 31 - 60 days | 61 - 90 days | More than 90 days | Total |
|---|---|---|---|---|---|
| Personal | $ 14,130 | $ 11,239 | $ 1,066 | $ 2,400 | $ 28,835 |
| Business | 10,580 | 36,863 | 1,009 | - | 48,452 |
| | $ 24,710 | $ 48,102 | $ 2,075 | $ 2,400 | $ 77,287 |
| As at October 31, 2012 | $ 25,849 | $ 27,799 | $ 4,194 | $ 375 | $ 58,217 |

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

| | | | | | | | | Composition Percentage | |
|---|---|---|---|---|---|---|---|---|---|
| **October 31, 2013** | | | | | | | | Oct. 31 | Oct. 31 |
| ($ millions) | BC | AB | ON | SK | MB | Other | Total | 2013 | 2012 |
| **Personal** | $ 830 | $ 1,049 | $ 394 | $ 159 | $ 69 | $ 1 | $ 2,502 | 16% | 16% |
| **Business** | | | | | | | | | |
| Real estate | 2,619 | 2,303 | 372 | 399 | 127 | 9 | 5,829 | 37 | 36 |
| Commercial | 1,421 | 1,890 | 355 | 196 | 113 | 116 | 4,091 | 26 | 28 |
| Equipment financing and energy (1) | 568 | 1,378 | 572 | 271 | 105 | 346 | 3,240 | 21 | 20 |
| | 4,608 | 5,571 | 1,299 | 866 | 345 | 471 | 13,160 | 84 | 84 |
| **Total Loans** (2) | $ 5,438 | $ 6,620 | $ 1,693 | $ 1,025 | $ 414 | $ 472 | $ 15,662 | 100% | 100% |
| **Composition Percentage** | | | | | | | | | |
| October 31, 2013 | 35% | 42% | 11% | 7% | 2% | 3% | 100% | | |
| October 31, 2012 | 33% | 45% | 10% | 6% | 3% | 3% | 100% | | |

(1) Includes securitized leases reported on-balance sheet of $230 (October 31, 2012 – $238).
(2) 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 CWB'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 CWB. 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:*

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Specific Allowance** | **Collective Allowance** | **Total** | Specific Allowance | Collective Allowance | Total |
| Balance at beginning of year | **$ 14,379** | **$ 67,344** | **$ 81,723** | $ 10,650 | $ 61,330 | $ 71,980 |
| Provision for credit losses | **18,973** | **8,873** | **27,846** | 19,093 | 6,014 | 25,107 |
| Write-offs | **(26,652)** | **-** | **(26,652)** | (17,712) | - | (17,712) |
| Recoveries | **2,869** | **-** | **2,869** | 2,348 | - | 2,348 |
| **Balance at end of year** | **$ 9,569** | **$ 76,217** | **$ 85,786** | $ 14,379 | $ 67,344 | $ 81,723 |

## 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
- 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, 2012 | **$ 59,172** | **$ 23,615** | **$ 24,250** | **$ 32,518** | **$ 139,555** |
| Additions | **2,853** | **133** | **3,586** | **2,227** | **8,799** |
| Disposals | **-** | **-** | **(105)** | **(33)** | **(138)** |
| Balance at October 31, 2013 | **62,025** | **23,748** | **27,731** | **34,712** | **148,216** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at November 1, 2012 | **26,373** | **5,657** | **18,220** | **20,367** | **70,617** |
| Depreciation for the year | **4,969** | **651** | **2,730** | **2,740** | **11,090** |
| Disposals | **-** | **-** | **(105)** | **(33)** | **(138)** |
| Balance at October 31, 2013 | **31,342** | **6,308** | **20,845** | **23,074** | **81,569** |
| **Net carrying amount at October 31, 2013** | **$ 30,683** | **$ 17,440** | **$ 6,886** | **$ 11,638** | **$ 66,647** |
| **Cost** | | | | | |
| Balance at November 1, 2011 | $ 50,050 | $ 23,439 | $ 21,543 | $ 28,345 | $ 123,377 |
| Additions | 9,122 | 176 | 2,707 | 4,265 | 16,270 |
| Disposals | - | - | - | (92) | (92) |
| Balance at October 31, 2012 | 59,172 | 23,615 | 24,250 | 32,518 | 139,555 |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at November 1, 2011 | 22,122 | 4,975 | 15,883 | 17,898 | 60,878 |
| Depreciation for the year | 4,251 | 682 | 2,337 | 2,561 | 9,831 |
| Disposals | - | - | - | (92) | (92) |
| Balance at October 31, 2012 | 26,373 | 5,657 | 18,220 | 20,367 | 70,617 |
| **Net carrying amount at October 31, 2012** | $ 32,799 | $ 17,958 | $ 6,030 | $ 12,151 | $ 68,938 |

## 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, including identifiable intangible assets, and liabilities assumed. 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, CWB's cash-generating units with goodwill allocated are:

- National Leasing Group Inc. (NL);
- Canadian Direct Insurance Incorporated (CDI);
- Valiant Trust Company (VTC);
- Adroit Investment Management Ltd. (AIM); and,
- McLean & Partners Wealth Management Ltd. (M&P).

| | | NL | CDI | VTC | AIM | M&P | Total |
|---|---|---|---|---|---|---|---|
| Balance at November 1, 2012 | | **$ 35,776** | **$ 3,254** | **$ 3,679** | **$ 2,827** | **$ -** | **$ 45,536** |
| Business acquisition | (Note 32) | **-** | **-** | **-** | **-** | **3,888** | **3,888** |
| Goodwill impairment | | **-** | **-** | **-** | **-** | **-** | **-** |
| Balance at October 31, 2013 | | **$ 35,776** | **$ 3,254** | **$ 3,679** | **$ 2,827** | **$ 3,888** | **$ 49,424** |
| | | | | | | | |
| 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 |

### Intangible assets

Intangible assets represent identifiable non-monetary assets and are acquired either separately through a business combination, or generated internally. 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 and trade names, 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.

Amortization of intangible assets with finite useful lives is reported in other expenses on the consolidated statements of income and provided on a straight-line basis as follows:

- Customer relationships: 10 to 15 years
- Computer software: 3 to 15 years
- Non-competition agreements: 4 to 5 years
- Other: 3 to 5 years

| | | Customer Relationships | Computer Software | Non-competition Agreements | Trademarks | Other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at November 1, 2012 | | **$ 37,515** | **$ 48,528** | **$ 5,593** | **$ 2,191** | **$ 1,900** | **$ 95,727** |
| Business acquisition | (Note 32) | **5,195** | **-** | **4,126** | **518** | **-** | **9,839** |
| Additions | | **-** | **16,875** | **-** | **-** | **1,830** | **18,705** |
| Balance at October 31, 2013 | | **42,710** | **65,403** | **9,719** | **2,709** | **3,730** | **124,271** |
| **Accumulated amortization** | | | | | | | |
| Balance at November 1, 2012 | | **10,425** | **29,805** | **3,858** | **-** | **1,680** | **45,768** |
| Amortization | | **2,767** | **4,068** | **1,373** | **-** | **98** | **8,306** |
| Balance at October 31, 2013 | | **13,192** | **33,873** | **5,231** | **-** | **1,778** | **54,074** |
| **Net carrying amount at October 31, 2013** | | **$ 29,518** | **$ 31,530** | **$ 4,488** | **$ 2,709** | **$ 1,952** | **$ 70,197** |
| **Cost** | | | | | | | |
| Balance at November 1, 2011 | | $ 37,668 | $ 37,210 | $ 5,731 | $ 2,206 | $ 1,900 | $ 84,715 |
| Partial ownership reduction | | (153) | - | (138) | (15) | - | (306) |
| Additions | | - | 11,318 | - | - | - | 11,318 |
| Balance at October 31, 2012 | | 37,515 | 48,528 | 5,593 | 2,191 | 1,900 | 95,727 |
| **Accumulated amortization** | | | | | | | |
| Balance at November 1, 2011 | | 7,856 | 24,956 | 2,726 | - | 1,582 | 37,120 |
| Amortization | | 2,569 | 4,849 | 1,132 | - | 98 | 8,648 |
| Balance at October 31, 2012 | | 10,425 | 29,805 | 3,858 | - | 1,680 | 45,768 |
| **Net carrying amount at October 31, 2012** | | $ 27,090 | $ 18,723 | $ 1,735 | $ 2,191 | $ 220 | $ 49,959 |

## Impairment

The carrying amounts of CWB's goodwill and 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, CWB tests for impairment. For goodwill and intangible assets with indefinite useful lives, the impairment tests are performed each year.

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 CWB'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 3%, which is based on the long-term forecast Canadian gross domestic product growth rates. The forecast period is based on CWB's long-term perspective with respect to the operation of these cash-generating units.
- A pre-tax discount rate of 8% was applied in determining the recoverable amounts, which was 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. CWB estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amounts of the cash-generating units to decline below the carrying amounts.

No impairment losses on goodwill or intangible assets were identified during 2013 or 2012.

## 10. INSURANCE-RELATED OTHER ASSETS

| | As at October 31 2013 | As at October 31 2012 |
|---|---|---|
| Instalment premiums receivable | **$ 36,615** | $ 33,486 |
| Deferred policy acquisition costs | **11,905** | 11,369 |
| Recoverable on unpaid claims | **8,167** | 6,686 |
| Reinsurers' share of unpaid claims and adjustment expenses | **6,760** | 5,237 |
| Due from reinsurers | **918** | 872 |
| **Total** | **$ 64,365** | $ 57,650 |

## 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 CWB's asset liability management policies. It is CWB'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 CWB's common share price. Foreign exchange contracts are only used for the purposes of meeting needs of clients or day-to-day business.

### Use of Derivatives

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

Interest rate swaps are used as hedging instruments to manage interest rate risk. CWB 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. The Asset Liability Committee (ALCO) of CWB 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.

Exposure to foreign exchange risk is not material to CWB's overall financial position. 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.

Equity swap transactions are used as hedging instruments to manage risk related to the payout of restricted share units that have not yet vested. CWB 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

CWB 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 designated as cash flow hedges 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 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. Identified embedded derivatives 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, 2013 | | | | | As at October 31, 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 800,000 | $ 367 | $ 1,494 | $ 1,861 | $ 372 | $ 225,000 | $ 154 | $ - | $ 154 | $ 31 |
| Equity swaps | 17,470 | 4,131 | 45 | 4,176 | 835 | 15,445 | 1,778 | 40 | 1,818 | 363 |
| Foreign exchange contracts | 1,235 | 11 | 12 | 23 | 10 | 2,450 | 19 | 24 | 43 | 17 |
| **Total** | $ 818,705 | $ 4,509 | $ 1,551 | $ 6,060 | $ 1,217 | $ 242,895 | $ 1,951 | $ 64 | $ 2,015 | $ 411 |

*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, 2013 | | | | As at October 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 675,000 | $ 367 | $ 125,000 | $ (32) | $ 225,000 | $ 154 | $ - | $ - |
| Equity swaps designated as hedges | 17,470 | 4,131 | - | - | 15,445 | 1,778 | - | - |
| Foreign exchange contracts | 784 | 11 | 451 | (4) | 1,485 | 19 | 965 | (10) |
| **Total** | $ 693,254 | $ 4,509 | $ 125,451 | $ (36) | $ 241,930 | $ 1,951 | $ 965 | $ (10) |

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:

| | | **2013** | | 2012 |
|---|---|---|---|---|
| Favourable derivative financial instruments (assets) | **$** | **1,955** | $ | 598 |
| Unfavourable derivative financial instruments (liabilities) | **$** | **76** | $ | 210 |

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

| | **As at October 31, 2013 Maturity** | | | | As at October 31, 2012 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) | **$ 525,000** | **1.24%** | **$ 275,000** | **1.33%** | $ 225,000 | 1.28% | $ - | - |
| Equity swaps designated as hedges (2) | **8,215** | **2.37%** | **9,255** | **2.45%** | 7,494 | 2.39% | 7,951 | 2.54% |
| Foreign exchange contracts (3) | **1,235** | | **-** | | 2,450 | | - | |
| **Total** | **$ 534,450** | | **$ 284,255** | | $ 234,944 | | $ 7,951 | |

(1) CWB 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 December 2013 and April 2015.
(2) Equity swaps designated as hedges mature between June 2014 and June 2016.
(3) Foreign exchange contracts mature between December 2013 and April 2014. The contractual interest rate is not meaningful for foreign exchange contracts.

During the year, $2,332 net unrealized after-tax gains (2012 – $1,430) 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 (2012 – 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, $1,255 of net gains after tax (2012 – $483) were reclassified to net income.

## 12. OTHER ASSETS

| | | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|
| Accrued interest receivable | | **$ 44,698** | $ 48,377 |
| Accounts receivable | | **28,358** | 30,831 |
| Deferred tax asset | (Note 24) | **19,324** | 23,363 |
| Prepaid expenses | | **7,410** | 6,400 |
| Income taxes receivable | | **2,011** | 5,290 |
| Financing costs (1) | | **6,019** | 5,133 |
| Other | | **78** | 3,072 |
| **Total** | | **$ 107,898** | $ 122,466 |

(1) Amortization for the year amounted to $2,108 (2012 – $1,703).

## 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, 2013 | | |
|---|---|---|---|
| | **Individuals** | **Business and Government** | **Total** |
| Payable on demand | **$ 30,337** | **$ 615,166** | **$ 645,503** |
| Payable after notice | **2,741,951** | **1,622,400** | **4,364,351** |
| Payable on a fixed date | **6,648,466** | **3,867,720** | **10,516,186** |
| **Total** | **$ 9,420,754** | **$ 6,105,286** | **$ 15,526,040** |

| | 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 |

## 14. INSURANCE-RELATED OTHER LIABILITIES

| | | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|
| Unpaid claims and adjustment expenses | (Note 21) | **$ 89,742** | $ 86,218 |
| Unearned premiums | | **75,481** | 71,790 |
| Due to insurance companies and policyholders | | **2,033** | 1,737 |
| Unearned commissions | | **560** | 557 |
| **Total** | | **$ 167,816** | $ 160,302 |

## 15. OTHER LIABILITIES

| | | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|
| Accounts payable | | $ 112,500 | $ 105,790 |
| Accrued interest payable | | 104,866 | 105,728 |
| Deferred tax liability | (Note 24) | 10,360 | 8,897 |
| Income taxes payable | | 1,663 | 12,386 |
| Deferred revenue | | 3,431 | 3,068 |
| Leasehold inducements | | 3,840 | 2,966 |
| Acquisition contingent consideration | (Note 29) | 1,679 | - |
| Other | | 600 | 668 |
| **Total** | | $ 238,939 | $ 239,503 |

## 16. DEBT

### a) Debt Securities

CWB securitizes leases to third parties. These securitizations do not qualify for derecognition as CWB 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 removed 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, 2013 was $195,650 (October 31, 2012 – $209,273), and the associated carrying amount of the lease assets recorded on the balance sheet was $230,353 (October 31, 2012 – $237,698), 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 2013 | As at October 31 2012 |
|---|---|---|---|---|
| 4.389% (1) | November 30, 2020 | November 30, 2015 | $ 300,000 | $ 300,000 |
| 3.463% (2) | December 17, 2024 | December 17, 2019 | 250,000 | - |
| 5.571% (3) | March 21, 2022 | March 22, 2017 | 75,000 | 75,000 |
| 5.950% (4) | June 27, 2018 | June 28, 2013 | - | 50,000 |
| **Total** | | | $ 625,000 | $ 425,000 |

(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 12-year term with a fixed interest rate for the first seven years. Thereafter, the interest rate will be set quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 160 basis points.

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

(4) These conventional debentures 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 302 basis points. On June 28, 2013, these conventional debentures were redeemed by CWB.

## 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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Number of Shares** | **Amount** | Number of Shares | Amount |
| **Preferred Shares – Series 3** | | | | |
| Outstanding at beginning of year | **8,390,000** | **$ 209,750** | 8,390,000 | $ 209,750 |
| Purchased for cancellation | **(37,404)** | **(935)** | - | - |
| Outstanding at end of year | **8,352,596** | **208,815** | 8,390,000 | 209,750 |
| **Common Shares** | | | | |
| Outstanding at beginning of year | **78,742,812** | **490,218** | 75,461,981 | 408,282 |
| Issued under dividend reinvestment plan | **509,969** | **14,404** | 450,958 | 12,252 |
| Issued on exercise or exchange of options | **366,814** | **1,674** | 573,005 | 1,853 |
| Transferred from share-based payment reserve on exercise or exchange of options | **-** | **3,986** | - | 4,432 |
| Issued on settlement of contingent consideration | **-** | **-** | 2,256,868 | 63,399 |
| Outstanding at end of year | **79,619,595** | **510,282** | 78,742,812 | 490,218 |
| **Share Capital** | | **$ 719,097** | | $ 699,968 |

CWB is prohibited by the Bank Act from declaring any dividends on common shares when CWB 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 Bank 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), CWB 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 CWB's Board of Directors and paid by CWB during the year:*

| | 2013 | 2012 |
|---|---|---|
| $0.70 per common share (2012 – $0.62) | **$ 55,374** | $ 47,749 |
| $1.81 per preferred share – Series 3 (2012 – $1.81) | **15,183** | 15,208 |
| **Total** | **$ 70,557** | $ 62,957 |

Subsequent to October 31, 2013, the Board of Directors of CWB declared a dividend of $0.19 per common share payable on January 9, 2014 to shareholders of record on December 17, 2013 and a dividend of $0.453125 per Series 3 preferred share payable on January 31, 2014 to shareholders of record on January 23, 2014. With respect to these dividend declarations, no liability was recorded in the balance sheet at October 31, 2013.

## 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, CWB may redeem all or any part of the then outstanding Series 3 preferred shares at CWB'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, CWB may redeem all or any part of the then outstanding Series 4 preferred shares at CWB'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) Dividend Reinvestment Plan

Under the dividend reinvestment plan (plan), CWB provides holders of CWB's common shares and holders of any other class of shares deemed eligible by CWB'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 CWB'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 CWB, the common shares may be issued from CWB's treasury at an average market price based on the closing prices of a board lot of common shares on the Toronto Stock Exchange (TSX) for the five trading days immediately preceding the dividend payment date, with a discount of between 0% to 5% at CWB's discretion. CWB also has the option to fund the plan through the open market at market prices. During the year, 509,969 (2012 – 450,958) common shares were issued under the plan from CWB's treasury at a 2% (2012 – 2%) discount.

## d) Preferred Share Normal Course Issuer Bid (NCIB)

On February 27, 2013, CWB received approval from the TSX to institute a Normal Course Issuer Bid (NCIB) to purchase and cancel up to 826,120 of its Non-Cumulative 5-Year Rate Reset Preferred Shares Series 3, being 10% of the issued preferred shares. The NCIB commenced March 1, 2013 and will expire February 28, 2014. During 2013, CWB purchased and cancelled 37,404 preferred shares for a total of $971, of which $935 reduced the outstanding balance of preferred shares and the $36 premium paid above book value was charged to retained earnings.

## 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.

CWB has authorized 5,542,959 common shares (2012 – 4,409,773) for issuance under the share incentive plan. Of the amount authorized, options exercisable into 4,217,908 shares (2012 – 3,441,100) 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 2013 to June 2018.

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

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| **Options** | **Number of Options** | | **Weighted Average Exercise Price** | Number of Options | | Weighted Average Exercise Price |
| Balance at beginning of year | **3,441,100** | **$** | **24.51** | 3,542,072 | $ | 21.36 |
| Granted | **1,810,899** | | **28.30** | 1,261,378 | | 25.86 |
| Exercised or exchanged | **(824,068)** | | **18.80** | (1,258,537) | | 16.88 |
| Expired | **(162,075)** | | **31.18** | - | | - |
| Forfeited | **(47,948)** | | **27.64** | (103,813) | | 25.89 |
| **Balance at end of year** | **4,217,908** | **$** | **26.96** | 3,441,100 | $ | 24.51 |
| **Exercisable at end of year** | **501,579** | **$** | **20.50** | 878,890 | $ | 19.31 |

*Further details relating to stock options outstanding and exercisable follow:*

| | Options Outstanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| **Range of Exercise Prices** | Number of Options | Weighted Average Remaining Contractual Life (years) | | Weighted Average Exercise Price | Number of Options | | Weighted Average Exercise Price |
| $8.58 to $11.76 | 32,600 | 0.1 | $ | 11.66 | 32,600 | $ | 11.66 |
| $16.89 to $22.09 | 285,904 | 0.9 | | 19.64 | 285,904 | | 19.64 |
| $23.43 to $26.40 | 1,409,540 | 3.1 | | 25.55 | 183,075 | | 23.43 |
| $28.09 to $30.76 | 2,489,864 | 3.8 | | 28.80 | - | | - |
| **Total** | 4,217,908 | 3.4 | $ | 26.96 | 501,579 | $ | 20.50 |

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 CWB 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 824,068 (2012 – 1,258,537) options exercised or exchanged, option holders exchanged the rights to 737,653 (2012 – 1,133,197) options and received 280,399 (2012 – 447,665) shares in return under the cashless settlement alternative.

Salary expense of $6,150 (2012 – $5,016) 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 1.4% (2012 – 1.1%), (ii) expected option life of 4.0 (2012 – 4.0) years, (iii) expected volatility of 22% (2012 – 31%), and (iv) expected annual dividends of 2.5% (2012 – 2.4%). 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 $3.93 (2012 – $4.92) per share.

During the year, $3,986 (2012 – $4,432) was transferred from the share-based payment reserve to share capital, representing the estimated fair value recognized for 824,068 (2012 – 1,258,537) 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 CWB'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 $9,796 (2012 – $7,682) was recognized related to RSUs. As at October 31, 2013, the liability for the RSUs held under this plan was $12,111 (October 31, 2012 – $9,336). 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** | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **594,455** | 535,769 |
| Granted | **354,491** | 337,273 |
| Vested and paid out | **(281,564)** | (263,908) |
| Forfeited | **(16,591)** | (14,679) |
| **Balance at end of year** | **650,791** | 594,455 |

## 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 $745 (2012 – $674) related to the DSUs. As at October 31, 2013, the liability for DSUs held under this plan was $2,782 (October 31, 2012 – $2,328). 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** | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **78,761** | 51,463 |
| Granted | **9,059** | 27,298 |
| Paid out | **(4,470)** | - |
| **Balance at end of year** | **83,350** | 78,761 |

## 19. NON-CONTROLLING INTERESTS

*Non-controlling interests are comprised of the following:*

| | | As at October 31 2013 | As at October 31 2012 |
|---|---|---|---|
| CWB Capital Trust | | $ 105,000 | $ 105,000 |
| Adroit Investment Management Ltd. | | 272 | 244 |
| McLean & Partners Wealth Management Ltd. | (Note 32) | 790 | - |
| **Total** | | **$ 106,062** | $ 105,244 |

### CWB Capital Trust

In 2006, CWB 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 CWB under SIC 12 as CWB retains voting control of CWB Capital Trust through the ownership of the Special Trust Securities. Accordingly, CWB consolidates CWB Capital Trust and the WesTS issued by CWB Capital Trust are disclosed under non-controlling interests (2013 and 2012 – $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 CWB 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 CWB. 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 CWB, 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 CWB. The WesTS exchanged for CWB'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 CWB, (ii) OSFI takes control of CWB, (iii) CWB has a Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%, or (iv) OSFI has directed CWB to increase its capital or provide additional liquidity and CWB elects such automatic exchange or CWB fails to comply with such direction. Following the occurrence of an automatic exchange, CWB 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. CWB'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 CWB, with OSFI approval, on or after December 31, 2011, but not at the option of the holders.

6) For regulatory capital purposes, effective January 1, 2013, (see Note 31) 90% (2012 – 100%) 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 the CDOR 180-day Bankers' Acceptance rate plus 2.55%.

## 20. CONTINGENT LIABILITIES AND COMMITMENTS

### a) Credit Instruments

In the normal course of business, CWB 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 2013 | As at October 31 2012 |
|---|---|---|
| **Credit instruments** | | |
| Guarantees and standby letters of credit | $ 354,083 | $ 286,676 |
| Commitments to extend credit | 3,877,989 | 3,506,408 |
| **Total** | $ 4,232,072 | $ 3,793,084 |

Guarantees and standby letters of credit represent CWB'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 $2,085,452 (October 31, 2012 – $2,036,003) and authorized but unfunded loan commitments of $1,792,537 (October 31, 2012 – $1,470,405).

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

CWB 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 five 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:*

| | |
|---|---|
| 2014 | $ 11,893 |
| 2015 | 11,953 |
| 2016 | 11,442 |
| 2017 | 9,475 |
| 2018 | 8,231 |
| 2019 and thereafter | 50,910 |
| **Total** | $ 103,904 |

### 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, CWB enters into contractual arrangements under which CWB may agree to indemnify the other party. Under these agreements, CWB 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.

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, CWB and its subsidiaries are party to legal and regulatory proceedings. Based on current knowledge, CWB 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 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
- 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.

| | 2013 | 2012 |
|---|---|---|
| Net earned premiums | $ 126,825 | $ 123,204 |
| Commissions and processing fees | 1,787 | 1,855 |
| Net claims and adjustment expenses | (87,008) | (83,167) |
| Policy acquisition costs | (25,325) | (24,539) |
| **Insurance revenues, net** | $ 16,279 | $ 17,353 |

## 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:*

| | **2013** | 2012 |
|---|---|---|
| Unpaid claims and adjustment expenses, net, beginning of year | **$ 74,295** | $ 64,543 |
| Claims incurred | | |
| In the current year | **86,087** | 84,762 |
| In prior periods | **921** | (1,595) |
| Claims paid during the year | **(86,488)** | (73,415) |
| Unpaid claims and adjustment expenses, net, end of year | **74,815** | 74,295 |
| Reinsurers' share of unpaid claims and adjustment expenses | **6,760** | 5,237 |
| Recoverable on unpaid claims | **8,167** | 6,686 |
| **Unpaid claims and adjustment expenses, net, end of year** | **$ 89,742** | $ 86,218 |

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 2.50% (2012 – 2.78%). However, that rate was reduced by a 0.50% (2012 – 0.50%) 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 $585 (2012 – $572) 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:*

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Automobile** | **Home** | Automobile | Home |
| Unpaid claims and adjustment expenses | **$ 68,532** | **$ 21,210** | $ 65,964 | $ 20,254 |
| Reinsurers' share of unpaid claims and adjustment expenses | **4,169** | **2,591** | 4,200 | 1,037 |
| Unearned premiums | **50,500** | **24,981** | 48,598 | 23,192 |

### 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 (2012 – $300,000) is obtained to protect against certain catastrophic losses. Retention on catastrophic events is $5,000 (2012 – $5,000), on property per risk events is $1,000 (2012 – $1,000) and on casualty events is $2,000 (2012 – $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 CWB to change a reinsurer during the term of the agreement if the reinsurer's rating falls below a specified level.

At October 31, 2013, $6,760 (October 31, 2012 – $5,237) 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:*

| | **2013** | 2012 |
|---|---|---|
| Premiums earned reduced by | **$ 9,976** | $ 9,352 |
| Claims incurred reduced by | **3,732** | 1,912 |

## 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 $46,400 in 2013 (2012 – $43,100) and represented 52% (2012 – 50%) of direct automobile premiums written.

| **Province** | **Rate Filing** | **Regulatory Authority** |
|---|---|---|
| Alberta | File and approve or<br>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 CWB. As at October 31, 2013 and October 31, 2012, CWB had no such regulatory asset or liability.

## 23. EMPLOYEE FUTURE BENEFITS

All employee future benefits related to CWB's group retirement savings and employee share purchase plans are recognized in the periods during which services are rendered by employees. CWB's contributions to the group retirement savings plan and employee share purchase plan totaled $11,685 (2012 – $10,932).

## 24. INCOME TAXES

CWB 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:*

| | 2013 | 2012 |
|---|---|---|
| Consolidated statements of income | | |
| Current | $ 58,545 | $ 60,904 |
| Deferred | 5,507 | (695) |
| | 64,052 | 60,209 |
| Shareholders' equity | | |
| Deferred tax expense related to: | | |
| Unrealized gains (losses) on available-for-sale securities | (4,800) | 121 |
| Gains on derivatives designated as cash flow hedges | 364 | 331 |
| | (4,436) | 452 |
| **Total** | $ 59,616 | $ 60,661 |

*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:*

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Combined Canadian federal and provincial income taxes and statutory tax rate | $ 69,620 | 25.4% | $ 65,090 | 25.6% |
| Increase (decrease) arising from: | | | | |
| Tax-exempt income | (6,072) | (2.2) | (6,744) | (2.6) |
| Stock-based compensation | 1,547 | 0.6 | 1,271 | 0.5 |
| Contingent consideration fair value charge | - | - | 631 | 0.2 |
| Other | (1,043) | (0.4) | (39) | (0.1) |
| **Provision for income taxes and effective tax rate** | $ 64,052 | 23.4% | $ 60,209 | 23.6% |

*Deferred tax balances are comprised of the following:*

| | 2013 | 2012 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for credit losses | $ 16,618 | $ 14,816 |
| Deferred loan fees | 9,357 | 8,681 |
| Deferred deposit broker commission | (3,659) | (3,962) |
| Leasing income | (1,997) | 281 |
| Other temporary differences | (995) | 3,547 |
| | $ 19,324 | $ 23,363 |
| **Deferred tax liabilities** | | |
| Intangible assets | $ 9,197 | $ 8,164 |
| Other temporary differences | 1,163 | 733 |
| | $ 10,360 | $ 8,897 |

CWB has approximately $11,140 (2012 – $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 are used to purchase CWB's common shares at the average market price during the period.

*The calculation of earnings per common share follows:*

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Numerator** | | | | |
| Net income available to common shareholders | **$** | **187,163** | $ | 172,197 |
| **Denominator** | | | | |
| Weighted average of common shares outstanding – basic | | **79,147,496** | | 76,840,532 |
| Dilutive instruments: | | | | |
| Stock options (1) | | **396,532** | | 619,460 |
| **Weighted average number of common shares outstanding – diluted** | | **79,544,028** | | 77,459,992 |
| Earnings per common share | | | | |
| Basic | **$** | **2.36** | $ | 2.24 |
| Diluted | | **2.35** | | 2.22 |

(1) At October 31, 2013, the denominator excludes nil (October 31, 2012 – 527,056) employee stock options with an average adjusted exercise price of nil (2012 – $30.89) where the exercise price, adjusted for unrecognized stock-based compensation, is greater than the average market price.

## 26. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Assets under administration of $8,423,972 (October 31, 2012 – $7,171,826) and assets under management of $1,901,146 (October 31, 2012 – $855,333) 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. These assets are kept separate from CWB's own assets. Assets under administration and management are not reflected in the consolidated balance sheets.

## 27. RELATED PARTY TRANSACTIONS

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

### Preferred Rates and Terms

CWB makes loans, primarily residential mortgages, to its officers and employees at various preferred rates and terms. The total amount outstanding for these types of loans is $106,085 (October 31, 2012 – $113,967). CWB offers deposits, primarily fixed term deposits, to its officers and employees and their immediate family at preferred rates. The total amount outstanding for these deposits is $256,136 (October 31, 2012 – $219,647).

### Key Management Personnel

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

*Compensation of key management personnel is as follows:*

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Salaries, benefits and directors' compensation | **$** | **6,129** | $ | 5,611 |
| Share-based payments (stock options, RSUs and DSUs) (1) | | **3,644** | | 3,276 |
| **Total** | **$** | **9,773** | $ | 8,887 |

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

Loans outstanding with key management personnel totaled $146 as at October 31, 2013 (October 31, 2012 – $630). CWB's policies preclude lending to CWB's independent directors.

## 28. INTEREST RATE SENSITIVITY

CWB 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, 2013 | 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 | $ 371 | $ 710 | $ 619 | $ 1,700 | $ 591 | $ 178 | $ 111 | $ 2,580 |
| Loans | 7,281 | 606 | 1,980 | 9,867 | 5,638 | 125 | (53) | 15,577 |
| Other assets (2) | - | - | - | - | - | - | 363 | 363 |
| Derivative financial instruments (1) | - | 150 | 384 | 534 | 284 | - | 1 | 819 |
| Total | 7,652 | 1,466 | 2,983 | 12,101 | 6,513 | 303 | 422 | 19,339 |
| **Liabilities and Equity** | | | | | | | | |
| Deposits | 5,535 | 949 | 4,434 | 10,918 | 4,624 | - | (16) | 15,526 |
| Other liabilities (2) | 3 | 7 | 30 | 40 | 39 | 11 | 372 | 462 |
| Debt (3) | 7 | 14 | 64 | 85 | 486 | 250 | - | 821 |
| Equity | - | - | - | - | 105 | - | 1,606 | 1,711 |
| Derivative financial instruments (1) | 818 | - | - | 818 | - | - | 1 | 819 |
| Total | 6,363 | 970 | 4,528 | 11,861 | 5,254 | 261 | 1,963 | 19,339 |
| **Interest Rate Sensitive Gap** | $ 1,289 | $ 496 | $ (1,545) | $ 240 | $ 1,259 | $ 42 | $ (1,541) | $ - |
| **Cumulative Gap** | $ 1,289 | $ 1,785 | $ 240 | $ 240 | $ 1,499 | $ 1,541 | $ - | $ - |
| **Cumulative Gap as a Percentage of Total Assets** | 6.7% | 9.2% | 1.2% | 1.2% | 7.8% | 8.0% | - | - |
| **October 31, 2012** | | | | | | | | |
| Cumulative Gap | $ 1,560 | $ 1,586 | $ 773 | $ 773 | $ 1,211 | $ 1,437 | $ (1,437) | $ - |
| Cumulative Gap as a Percentage of Total Assets | 9.1% | 9.3% | 4.5% | 4.5% | 7.1% | 8.4% | - | - |

(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, 2013 | 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%** | **2.3%** | **4.0%** | **3.6%** | **4.6%** | **4.8%** | **4.0%** |
| Total Liabilities | **1.3** | **1.9** | **2.0** | **1.6** | **2.4** | **3.3** | **1.9** |
| Interest Rate Sensitive Gap | **2.5%** | **0.4%** | **2.0%** | **2.0%** | **2.2%** | **1.5%** | **2.1%** |
| **October 31, 2012** | | | | | | | |
| 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% |

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 3.3% or $14,545 (October 31, 2012 – 3.8% or $15,086) and decrease other comprehensive income $14,418 (October 31, 2012 – $12,594) 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 5.3% or $23,853 (October 31, 2012 – 5.4% or $21,534) and increase other comprehensive income $14,418 (October 31, 2012 – $12,594), 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 CWB'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 CWB'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 CWB'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, 2013 | | 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) | $ - | $ - | $ 347,995 | $ 347,995 | $ 347,995 | $ - |
| Securities | (Note 4) | - | - | 2,232,322 | 2,232,322 | 2,232,322 | - |
| Loans (1) | | - | 15,629,443 | - | 15,629,443 | 15,614,937 | (14,506) |
| Other assets (2) | | - | 120,845 | - | 120,845 | 120,845 | - |
| Derivative related | | 4,509 | - | - | 4,509 | 4,509 | - |
| **Total Financial Assets** | | $ 4,509 | $15,750,288 | $ 2,580,317 | $18,335,114 | $18,320,608 | $ (14,506) |
| **Financial Liabilities** | | | | | | | |
| Deposits (1) | | $ - | $15,541,831 | $ - | $15,541,831 | $15,553,762 | $ 11,931 |
| Other liabilities (3) | | - | 366,694 | - | 366,694 | 366,694 | - |
| Debt | | - | 820,650 | - | 820,650 | 835,639 | 14,989 |
| Derivative related | | 36 | - | - | 36 | 36 | - |
| **Total Financial Liabilities** | | $ 36 | $16,729,175 | $ - | $16,729,211 | $16,756,131 | $ 26,920 |

| 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 |

(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.

## Fair Value Hierarchy

CWB 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.

| | | Valuation Technique | | |
|---|---|---|---|---|
| **As at October 31, 2013** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial Assets** | | | | |
| Cash resources | **$ 347,995** | **$ 300,995** | **$ 47,000** | **$ -** |
| Securities | **2,232,332** | **2,232,332** | **-** | **-** |
| Derivative related | **4,509** | **-** | **4,509** | **-** |
| **Total Financial Assets** | **$ 2,584,836** | **$ 2,533,327** | **$ 51,509** | **$ -** |
| **Financial Liabilities** | | | | |
| Other liability | **$ 1,679** | **$ -** | **$ -** | **$ 1,679** |
| Derivative related | **36** | **-** | **36** | **-** |
| **Total Financial Liabilities** | **$ 1,715** | **$ -** | **$ 36** | **$ 1,679** |

| | | 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 | $ - |

## b) Level 3 Financial Instruments

The Level 3 financial instrument at October 31, 2013 was comprised of the contingent consideration related to a 2013 subsidiary acquisition (see Note 32). The following table shows a reconciliation of the fair value measurements related to the Level 3 valued instrument:

| | | **2013** | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **$ -** | $ 61,011 |
| Business acquisition | (Note 32) | **1,679** | - |
| Change in fair value charged to other income | | **-** | 2,489 |
| Settlement | | **-** | (63,500) |
| Balance at end of year | | **$ 1,679** | $ - |

## 30. RISK MANAGEMENT

As part of CWB'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, 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.

CWB 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 CWB 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.

Significant capital transactions during fiscal 2013 include the December 2012 issue of $250,000 of conventional subordinated debentures, which qualify as total capital, subject to a Basel III transitional allowance. In June 2013, CWB redeemed $50,000 of subordinated debentures with a fixed interest rate of 5.95%.

### Basel III Capital Adequacy Accord

Regulatory capital and capital ratios are calculated in accordance with the requirements of OSFI and, effective January 1, 2013, capital is managed and reported in accordance with the requirements of the Basel III Capital Adequacy Accord (Basel III). 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 CWB'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 CDI is subject to separate OSFI capital requirements specific to insurance companies, CWB's investment in CDI is consolidated and risk-weighted using the equity accounting method and CDI's underlying assets are excluded from the calculation of risk-weighted assets.

The required minimum regulatory capital ratios, including a 250 basis point capital conservation buffer, are 7.0% common equity Tier 1 (CET1), effective in 2013, and 8.5% Tier 1 and 10.5% total capital effective in 2014.

The Basel III rules provide for transitional adjustments with certain aspects of the new rules phased in between 2013 and 2019. The only available transition allowance in the Basel III capital standards permitted by OSFI for Canadian banks relates to the multi-year phase out of non-qualifying capital instruments. The 2013 inclusion of non-qualifying capital instruments in non-common Tier 1 (preferred shares and WesTS) and total capital (subordinated debt) under Basel III are capped at $283,275 and $607,500, respectively, based on 90% of the January 1, 2013 outstanding balances. The June redemption of subordinated debentures had no impact on total capital as the balance of subordinated debentures after the redemption still exceeded the $607,500 cap.

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

### Capital Structure and Regulatory Ratios

| | **2013** | 2012 (1) |
|---|---|---|
| Regulatory Capital, net of deductions | | |
| Common equity Tier 1 | **$ 1,285,692** | n/a |
| Tier 1 | **1,560,801** | $ 1,460,776 |
| Total | **2,243,654** | 1,903,790 |
| Capital ratios | | |
| Common equity Tier 1 | **8.0%** | n/a |
| Tier 1 | **9.7** | 10.6% |
| Total | **13.9** | 13.8 |
| Asset to capital multiple | **8.1x** | 8.8 x |

(1) Capital ratios prior to fiscal 2013 have been calculated using the previous capital framework, Basel II. Capital ratios calculated under Basel III are not directly comparable to the equivalent Basel II measures.

## 32. BUSINESS ACQUISITION

Effective May 17, 2013, CWB acquired 54.6% of the outstanding common shares of McLean & Partners Wealth Management Ltd. (McLean & Partners), a Calgary, Alberta-based wealth management firm, in exchange for $10,098 of cash and contingent consideration for a total acquisition cost of $11,777. Additional contingent consideration, to a maximum of $1,639, will be paid in cash if earnings targets are achieved over a two-year period. The results of operations for McLean & Partners have been included in CWB's consolidated financial statements since the effective acquisition date.

*The following table summarizes the fair value of the assets acquired and liabilities assumed:*

| | |
|---|---|
| **Fair value of consideration transferred** | **$ 11,777** |
| **Identifiable assets acquired and liabilities assumed** | |
| Intangible assets | **9,839** |
| Other items, net | **696** |
| Deferred income tax liability | **(2,330)** |
| Non-controlling interest | **(316)** |
| Goodwill | **$ 3,888** |

Intangible assets include customer relationships, non-competition agreements and a trade name. The trade name, which has an estimated value of $518, is not subject to amortization. The total amount of goodwill and intangible assets is not deductible for income tax purposes.

## 33. SUBSIDIARIES

### Canadian Western Bank Subsidiaries (1)

(annexed in accordance with subsection 308 (3) of the Bank Act)
October 31, 2013

| | Address of Head office | Carrying Value of Voting Shares Owned by the Bank (2) |
|---|---|---|
| National Leasing Group Inc. | 1525 Buffalo Place<br>Winnipeg, Manitoba | $ 134,458 |
| Canadian Direct Insurance Incorporated | Suite 600, 750 Cambie Street<br>Vancouver, British Columbia | 25,766 |
| Canadian Western Trust Company | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 19,136 |
| McLean & Partners Wealth Management Ltd. | 801 10th Avenue S.W.<br>Calgary, Alberta | 11,777 |
| Valiant Trust Company | Suite 310, 606 4th Street S.W.<br>Calgary, Alberta | 8,080 |
| Adroit Investment Management Ltd. | Suite 1250, 10303 Jasper Avenue<br>Edmonton, Alberta | 6,927 |
| Canadian Western Bank Capital Trust | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 1,000 |
| Canadian Western Bank Leasing Inc. | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 1 |
| Canadian Western Financial Ltd. | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 1 |

(1) CWB owns 100% of the voting shares of each entity, with the exception of Adroit Investment Management Ltd. (72.75% ownership) and McLean & Partners Wealth Management Ltd. (54.6% ownership).
(2) The carrying value of voting shares is stated at CWB's equity in the subsidiaries.

## 34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in the balance sheets to conform to the current period's presentation.

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

## Duplicated Communications

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

## Direct Deposit Services

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

## Eligible Dividend Designation

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

## Dividend Reinvestment Plan

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

## Investor Relations

Shareholders, institutional investors or research analysts who would like additional financial information are asked to contact:

Investor Relations Department
Canadian Western Bank
Suite 3000, Canadian Western
Bank Place, 10303 Jasper Avenue
Edmonton, Alberta T5J 3X6

Telephone: (800) 836-1886
Fax: (780) 969-8326
email: InvestorRelations@cwbank.com

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

This 2013 Annual Report, along with our Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular, is available on our website. For additional printed copies of these reports, please contact the Investor Relations Department.

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

## 2014 Annual and Special Meeting

The Annual and Special Meeting of the common shareholders of Canadian Western Bank will be held in Edmonton, Alberta, on March 6, 2014 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, 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
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

## SENIOR OFFICERS

## Group Executive Officers

**Chris H. Fowler**
President and
Chief Executive Officer

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

**Randy W. Garvey, FCMA**
Executive Vice President

**Gregory J. Sprung**
Executive Vice President, Banking

**Brian J. Young**
Executive Vice President

## Senior Corporate Officers

**William J. Addington, FCMA, ICD.D**
Executive Director, Corporate &
Business Development

**Kelly Blackett**
Senior Vice President
Human Resources

**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, FCMA**
Senior Vice President and
Chief Information Officer

**Uve Knaak**
Senior Vice President
Culture, Leadership and
Succession Management

**Jack C. Wright**
Senior Vice President

## Commercial and Retail Banking

**Glen Eastwood**
Senior Vice President and
Regional General Manager

**Michael N. Halliwell**
Senior Vice President and
Regional General Manager

**Mario Furlan**
Senior Vice President and
Regional General Manager

## National Leasing

**Nick R. Logan**
Chief Executive Officer

**Tom Pundyk**
President

## 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

**Maria Holowinsky**
President and Chief
Investment Officer

## McLean & Partners Wealth Management

**Brent McLean**
Chief Executive Officer

**Kevin Dehod**
President

## Ombudsman

**R. Graham Gilbert**

# Locations

## Canadian Western Bank Regional Offices

**British Columbia**
2200, 666 Burrard Street
Vancouver
(604) 669-0081
Mario Furlan

**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**
6127 Barlow Trail S.E.
Calgary
(403) 267-9882
Michael Docherty

## 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
Dustin Jones

*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

*Westjet Banking Centre*
22 Aerial Place N.W.
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 S
(403) 328-9199
Daryn Wenaas

**Lloydminster**
Suite C, 6209 - 44 Street
(780) 874-9555
Ethan Walker

**Medicine Hat**
102, 1111 Kingsway Avenue S.E.
(403) 527-7321

**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
Pat Rennison

*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
Dave McGregor

**Courtenay**
200, 470 Puntledge Road
(250) 334-8888
Jean-Marc Jaquier

**Cranbrook**
202, 828 Baker Street
(250) 426-1140
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 Street
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**
5, 259 Hamilton Road
(306) 782-1002
Kelly Price

## Manitoba

**Winnipeg**
*Winnipeg*
230 Portage Avenue
(204) 956-4669
Robert Bean

*Winnipeg Kenaston*
125 Nature Park Way
(204) 452-0939
Christopher Voogt

## Canadian Direct Financial

**Edmonton**
3000, 10303 Jasper Avenue
(780) 441-2249
www.canadiandirectfinancial.com

## Canadian Western Trust

**Calgary**
310, 606 - 4 Street S.W.
(403) 717-3145

**Edmonton**
3000, 10303 Jasper Avenue
(780) 969-8332

**Toronto**
710, 130 King Street W
(416) 360-1301

**Vancouver**
600, 750 Cambie Street
(604) 685-2081
(800) 663-1124

## Optimum Mortgage

**Edmonton**
3000, 10303 Jasper Avenue
(780) 423-9748
(Representation across Western Canada and in Ontario)
(866) 441-3775

## Canadian Direct Insurance

**Edmonton**
500, 10115 - 100A Street
(780) 413-5933
(888) 225-5234

**Vancouver**
600, 750 Cambie Street
(604) 699-3678
(888) 225-5234

## Valiant Trust

**Calgary**
310, 606 - 4 Street S.W.
(403) 233-2801
(866) 313-1872

**Edmonton**
3000, 10303 Jasper Avenue
(780) 441-2267

**Toronto**
710, 130 King Street W
(416) 360-1481

**Vancouver**
600, 750 Cambie Street
(604) 699-4880

## Adroit Investment Management

**Edmonton**
1250, 10303 Jasper Avenue
(780) 429-3500

## McLean & Partners Wealth Management

**Calgary**
801-10 Avenue S.W.
(403) 234-0005

## National Leasing

**Winnipeg**
1525 Buffalo Place
(204) 954-9000
(Representation across all provinces and territories in Canada)
(800) 665-1326

## Canadian Western Financial

**Edmonton**
3000, 10303 Jasper Avenue
(780) 423-8888

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