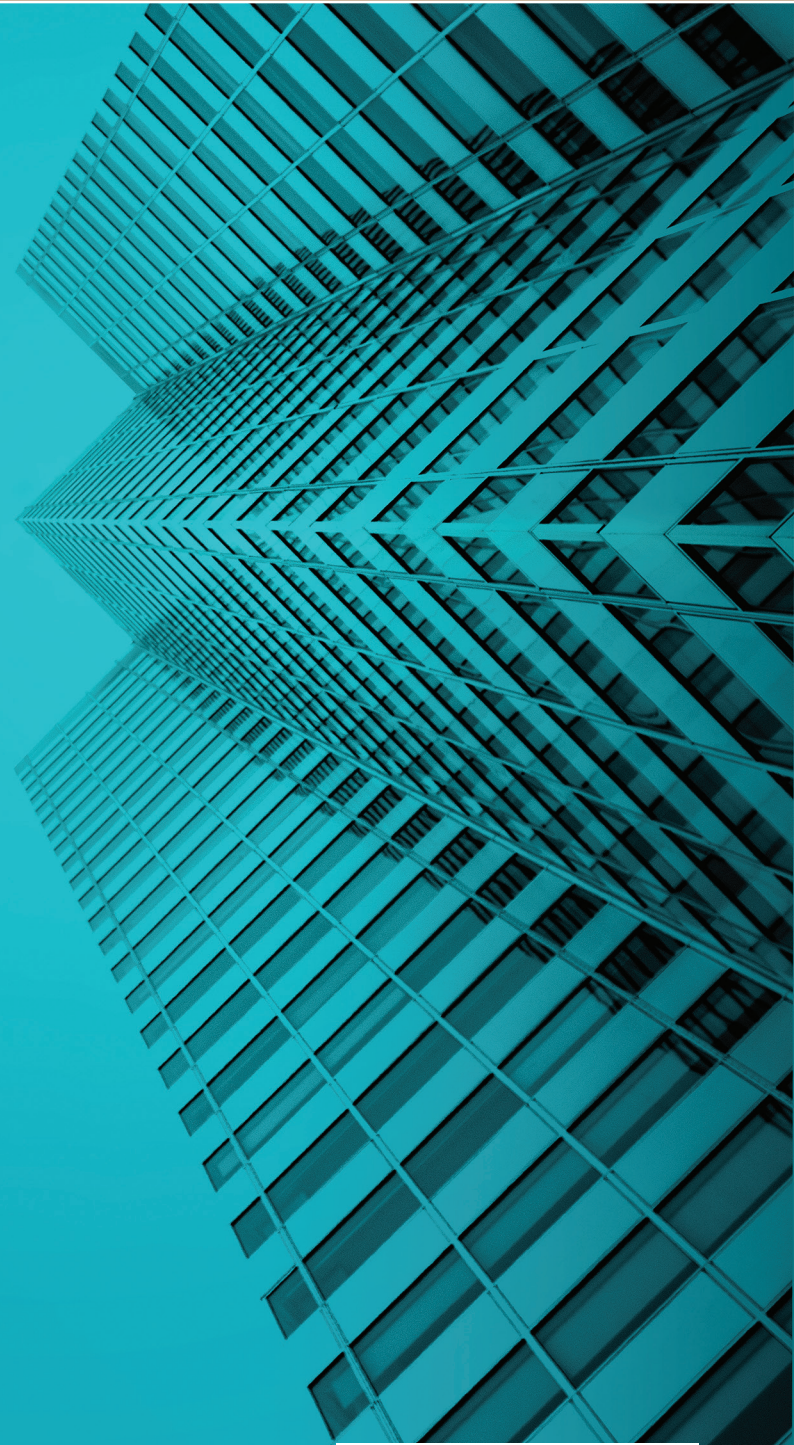




# 2016 ANNUAL REPORT



# Four Year Financial Summary

(\$ thousands, except per share amounts)

|   | 2016          | 2015          | 2014          | 2013          |
|---|---------------|---------------|---------------|---------------|
| <b>Results from Continuing Operations<sup>(1)</sup></b>       |               |               |               |               |
| Net interest income (teb) <sup>(2)</sup>                      | \$ 588,464    | \$ 549,052    | \$ 506,308    | \$ 463,938    |
| Less teb adjustment   | 3,240         | 5,580         | 6,743         | 7,174         |
| Net interest income per financial statements                  | 585,224       | 543,472       | 499,565       | 456,764       |
| Other income  | 72,672        | 67,948        | 84,305        | 70,051        |
| Pre-tax, pre-provision income (teb)                           | 353,843       | 328,059       | 325,720       | 294,647       |
| Total revenues (teb)  | 661,136       | 617,000       | 590,343       | 533,989       |
| Total revenues  | 657,896       | 611,420       | 583,600       | 526,815       |
| Common shareholders' net income                               | 177,761       | 208,064       | 205,288       | 177,467       |
| Earnings per share  |               |               |               |               |
| Basic   | 2.13          | 2.59          | 2.57          | 2.24          |
| Diluted   | 2.13          | 2.59          | 2.54          | 2.23          |
| Adjusted cash <sup>(3)</sup>                                  | 2.26          | 2.63          | 2.59          | 2.27          |
| Return on common shareholders' equity <sup>(4)</sup>          | 9.3%          | 12.4%         | 13.9%         | 13.5%         |
| Adjusted return on common shareholders' equity <sup>(5)</sup> | 9.9           | 12.6          | 14.2          | 13.7          |
| Return on average total assets <sup>(6)</sup>                 | 0.73          | 0.97          | 1.05          | 1.02          |
| Efficiency ratio (teb) <sup>(7)</sup>                         | 46.5          | 46.8          | 44.8          | 44.8          |
| Efficiency ratio <sup>(7)</sup>                               | 46.7          | 47.3          | 45.4          | 45.4          |
| Net interest margin (teb) <sup>(8)</sup>                      | 2.43          | 2.56          | 2.59          | 2.66          |
| Net interest margin <sup>(8)</sup>                            | 2.41          | 2.53          | 2.56          | 2.62          |
| Number of full-time equivalent staff                          | 1,966         | 1,928         | 1,788         | 1,715         |
| <b>Results from Combined Operations<sup>(1)</sup></b>         |               |               |               |               |
| Common shareholders' net income                               | \$ 177,761    | \$ 319,701    | \$ 218,549    | \$ 187,163    |
| Earnings per share  |               |               |               |               |
| Basic   | 2.13          | 3.97          | 2.73          | 2.36          |
| Diluted   | 2.13          | 3.97          | 2.70          | 2.35          |
| Adjusted cash <sup>(3)</sup>                                  | 2.26          | 4.01          | 2.76          | 2.39          |
| Return on common shareholders' equity <sup>(4)</sup>          | 9.3%          | 19.1%         | 14.8%         | 14.2%         |
| Adjusted return on common shareholders' equity <sup>(5)</sup> | 9.9           | 19.3          | 15.1          | 14.4          |
| Return on average total assets <sup>(6)</sup>                 | 0.73          | 1.48          | 1.10          | 1.06          |
| <b>Results from Discontinued Operations<sup>(1)</sup></b>     |               |               |               |               |
| Common shareholders' net income                               | \$ -          | \$ 111,637    | \$ 13,261     | \$ 9,696      |
| Earnings per share  |               |               |               |               |
| Basic   | -             | 1.38          | 0.16          | 0.12          |
| Diluted   | -             | 1.38          | 0.16          | 0.12          |
| Adjusted cash <sup>(3)</sup>                                  | -             | 1.38          | 0.17          | 0.12          |
| <b>Per Common Share</b>                                       |               |               |               |               |
| Average common shares outstanding (thousands)                 | 83,411        | 80,442        | 80,034        | 79,147        |
| Cash dividends  | \$ 0.92       | \$ 0.86       | \$ 0.78       | \$ 0.70       |
| Book value  | 23.58         | 22.18         | 19.52         | 17.45         |
| Market price  |               |               |               |               |
| High  | 29.30         | 38.16         | 43.30         | 33.75         |
| Low   | 19.26         | 21.04         | 32.61         | 27.04         |
| Close   | 25.45         | 25.13         | 37.75         | 33.44         |
| <b>Balance Sheet and Off-Balance Sheet Summary</b>            |               |               |               |               |
| Assets  | \$ 25,222,549 | \$ 22,838,527 | \$ 20,635,046 | \$ 18,527,742 |
| Cash resources, securities and repurchase agreements          | 2,791,968     | 2,994,534     | 2,697,185     | 2,580,327     |
| Loans   | 21,961,348    | 19,475,383    | 17,536,489    | 15,581,842    |
| Deposits  | 21,194,553    | 19,365,407    | 17,373,014    | 15,631,040    |
| Debt  | 1,268,198     | 1,187,623     | 1,036,990     | 820,650       |
| Shareholders' equity  | 2,342,040     | 1,910,907     | 1,693,527     | 1,598,507     |
| Assets under administration                                   | 10,689,398    | 9,293,683     | 10,101,698    | 8,423,972     |
| Assets under management                                       | 1,924,181     | 1,882,736     | 1,795,975     | 1,901,146     |
| <b>Capital Adequacy</b>                                       |               |               |               |               |
| Common equity Tier 1 ratio                                    | 9.2%          | 8.5%          | 8.0%          | 8.0%          |
| Tier 1 ratio  | 11.0          | 9.7           | 9.3           | 9.7           |
| Total ratio   | 13.1          | 12.7          | 12.8          | 13.9          |
| <b>Other Information</b>                                      |               |               |               |               |
| Provision for credit losses as a percentage of average loans  | 0.38%         | 0.17%         | 0.15%         | 0.19%         |
| Net impaired loans as a percentage of total loans             | -             | (0.11)        | (0.19)        | (0.14)        |
| Number of CWB branches  | 42            | 41            | 41            | 41            |

(1) On May 1, 2015, CWB sold its property and casualty insurance subsidiary and CWB's stock transfer business as described in Note 3 of the annual consolidated financial statements. Revenues, expenses and gains on sale associated with the businesses sold are defined and classified on the consolidated statements of income for prior periods as "Discontinued Operations". The remaining operations are defined as "Continuing Operations", and the total Continuing Operations and Discontinued Operations are defined as "Combined Operations". Total revenues from Combined Operations include \$107.8 million of divestiture gains in 2015. Return on shareholders' equity reflects equity from Combined Operations. All other measures reflect either Continuing or Combined Operations as indicated.

(2) 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 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) Adjusted cash earnings per common share is calculated as diluted earnings per common share excluding the acquisition-related amortization of intangible assets and contingent consideration fair value changes, net of tax. Excluded items are not considered to be indicative of ongoing business performance.

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

(5) Adjusted return on common shareholders' equity is calculated as common shareholders' net income excluding the acquisition-related amortization of intangible assets and contingent consideration fair value changes, net of tax, divided by average common shareholders' equity.

(6) Return on assets is calculated as common shareholders' net income divided by average total assets.

(7) Efficiency ratio is calculated as non-interest expenses, excluding the pre-tax amortization of acquisition related intangible assets, divided by total revenues, including the net gain related to the sales of the property and casualty insurance subsidiary and CWB's stock transfer business.

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

# Performance Dashboard<sup>(1)</sup>

Shareholders value CWB's strong track record of high-quality growth, conservative approach to risk management and consistent profitability. We define success as a well-funded, well-capitalized mid-market commercial banking franchise which delivers strong core operating performance and consistent growth of earnings and profitability from current levels.

Employees

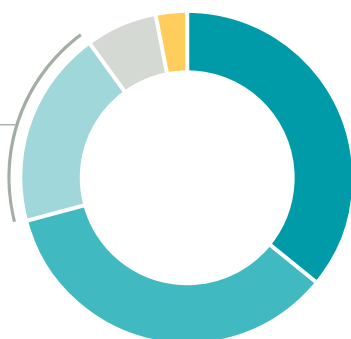
~2,000

2006 – ~1,100

## Diversifying loans by province (%)

34%

10yr CAGR<sup>(6)</sup> of loans outside of Western Canada

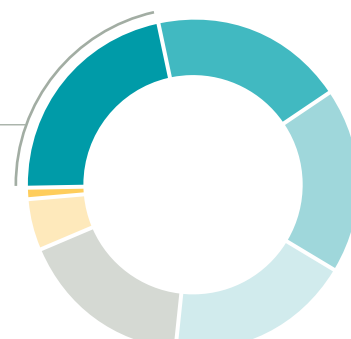


|                   | 2006 | 2016 |
|-------------------|------|------|
| Alberta           | 54   | 36   |
| British Columbia  | 35   | 36   |
| Ontario and other | 4    | 19   |
| Saskatchewan      | 4    | 6    |
| Manitoba          | 3    | 3    |

## Diversifying loans by lending sector (%)

14%

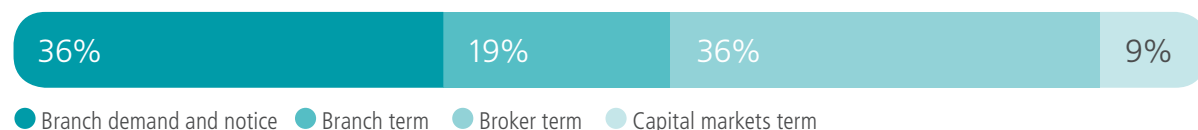
10yr CAGR<sup>(6)</sup> of general commercial loans



|                                 | 2006 | 2016 |
|---------------------------------|------|------|
| General commercial loans        | 22   | 22   |
| Real estate project loans       | 17   | 19   |
| Commercial mortgages            | 22   | 18   |
| Personal loans and mortgages    | 12   | 18   |
| Equipment financing and leasing | 20   | 17   |
| Corporate loans                 | 4    | 5    |
| Oil and gas production loans    | 3    | 1    |

## Growth and diversification of funding sources - composition of deposits (%)

55% Total branch-raised deposits



● Branch demand and notice ● Branch term ● Broker term ● Capital markets term

## Credit ratings (DBRS) - stable trend (confirmed November 17, 2016)

A (low)

Long-term debt / senior deposits

R-1 (low)

Short-term debt

BBB (high)

Subordinated debentures

Pfd-3

Preferred shares

CWB branches

42

2006 – 33

Assets under administration

\$10.7B

2006 – \$3.3B

Assets under management

\$1.9B

2006 – nil

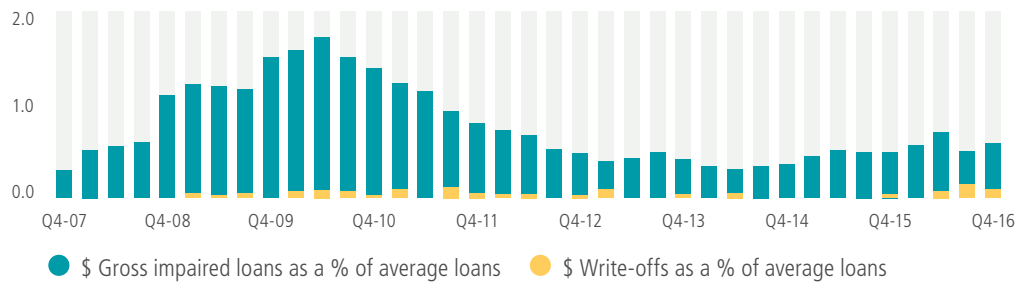
Strong credit quality

0.49%

5yr Average gross impaired loans as a % of average loans

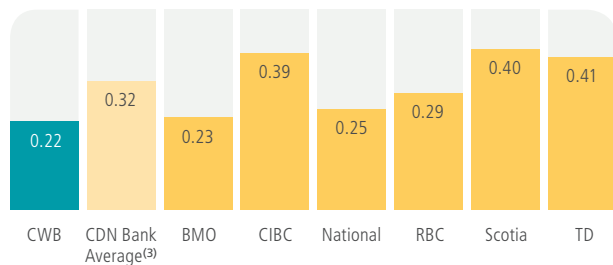
0.17%

5yr Average write-offs as a % of average loans



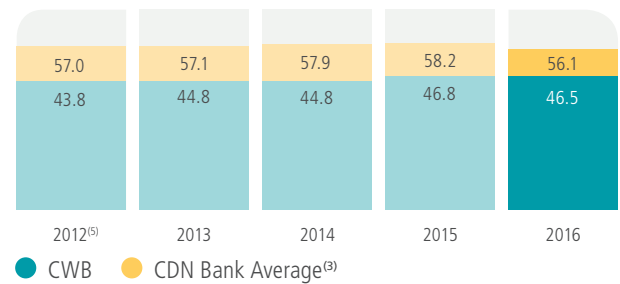
Low provision for credit losses (5yr avg. as a % of avg. loans)

0.22%



Strong efficiency ratio<sup>(2)</sup>

46.5% | 56.1%



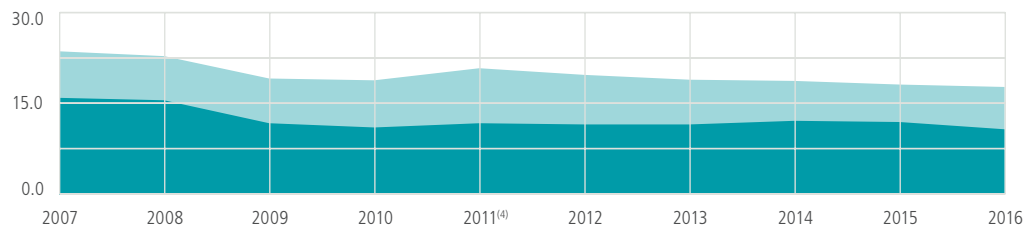
Low leverage (total assets-to-equity)

10.8%

Canadian Western Bank

17.8%

Canadian Bank Average<sup>(3)</sup>



Strong regulatory capital ratios (CWB | regulatory minimum)

9.2% | 7.0%  
Common equity  
Tier 1 capital (CET1)

11.0% | 8.5%  
Tier 1 capital

13.1% | 10.5%  
Total capital

8.6% | 3.0%  
Basel III  
leverage ratio

### Total assets

# \$25.2B

2006 – \$7.3B

13% 10yr CAGR<sup>(5)</sup>

### Total loans

(excluding the allowance for credit losses)

# \$22.1B

2006 – \$5.8B

14% 10yr CAGR<sup>(5)</sup>

### Total deposits

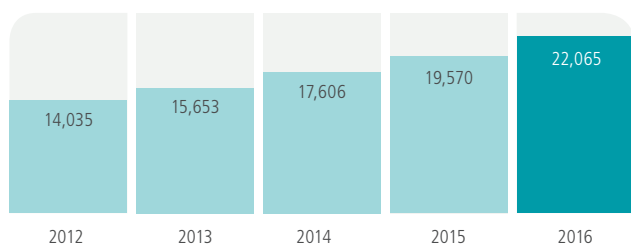
# \$21.2B

2006 – \$6.3B

13% 10yr CAGR<sup>(5)</sup>

#### Consistent growth of total loans (\$ millions)

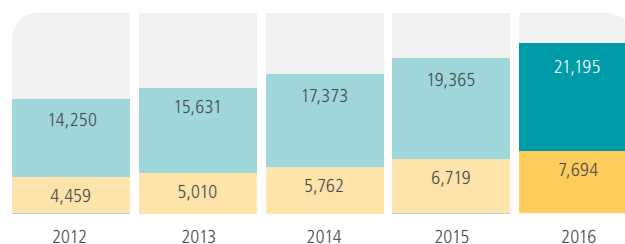
# \$22,065



(excluding the allowance for credit losses)

#### Consistent growth of total deposits (\$ millions)

# \$21,195

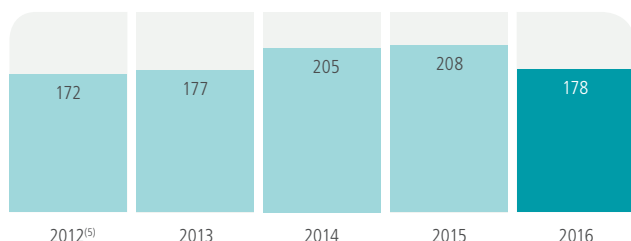


● deposits ● notice and demand deposits

#### Common shareholders' net income (\$ millions)

# \$178

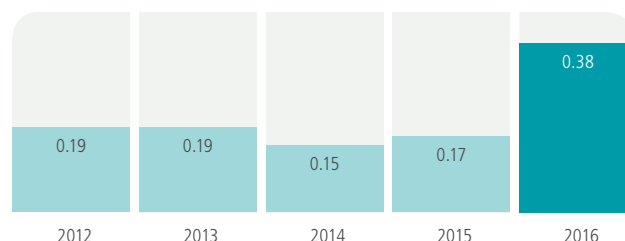
2016 growth constrained by energy-related provisions and net interest margin pressure.



#### Provision for credit losses (as a % of average loans)

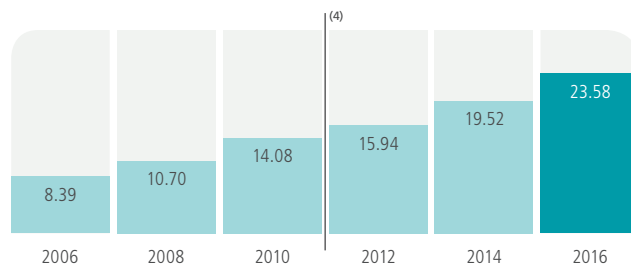
# 0.38%

2016 increase entirely attributed to energy-related provisions.



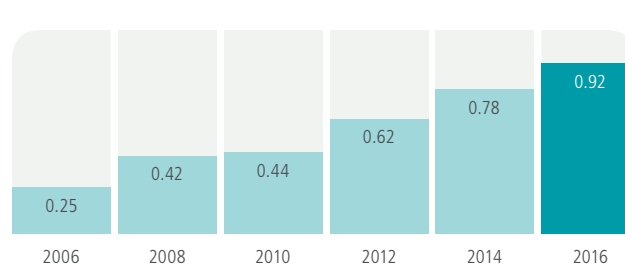
#### Consistent growth of book value / share

# \$23.58 | 11% 10yr CAGR<sup>(6)</sup>



#### Consistent growth of dividends paid / common share

# \$0.92 | 14% 10yr CAGR<sup>(6)</sup>



(1) Financial performance from Continuing Operations. Financial results presented include certain metrics which do not have standardized meanings prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

(2) Efficiency ratio is calculated as non-interest expenses, excluding the pre-tax amortization of acquisition related intangible assets, divided by total revenues, including the net gain related to the sales of the property and casualty insurance subsidiary and CWB's stock transfer business.

(3) "CDN Bank Average" is calculated based on information contained in the publicly available company reports of Canada's six largest banks (TSX trading symbols: BMO, CM, NA, RY, BNS, TD).

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

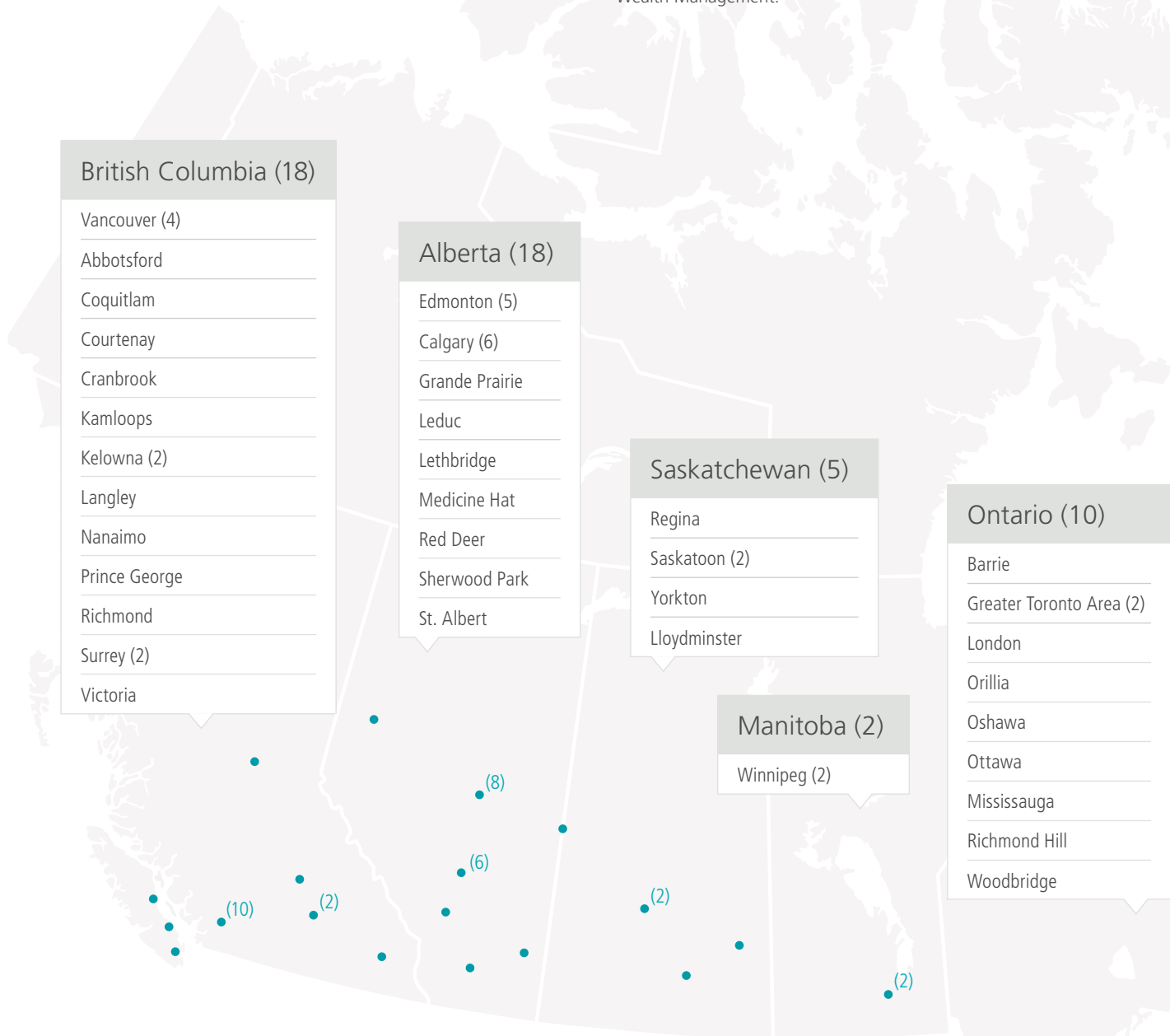
(5) Based on Combined Operations

(6) CAGR - compound annual growth rate

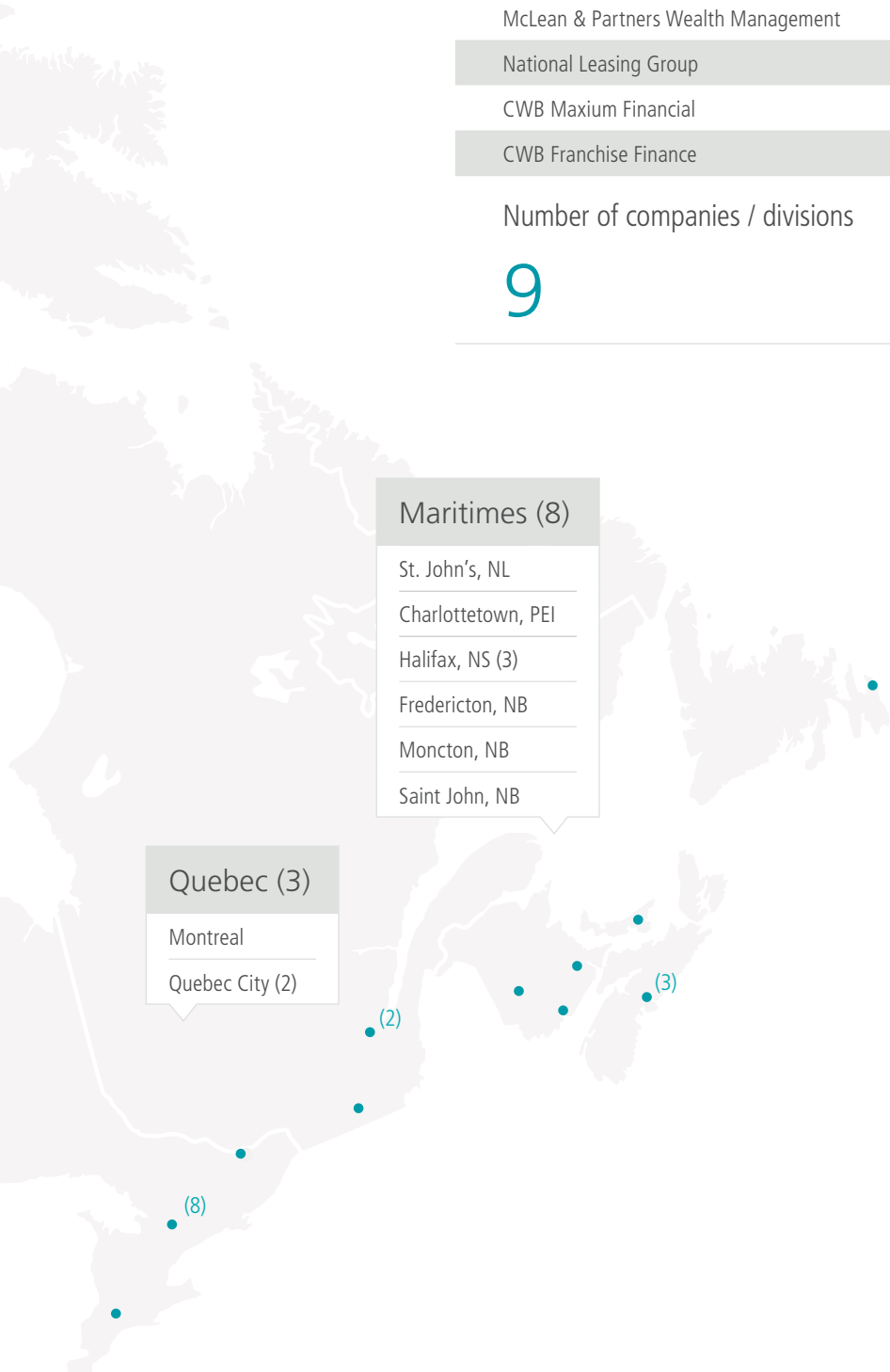
# About CWB Financial Group

CWB Financial Group (TSX:CWB) represents the only Schedule 1 bank in Canada specializing in mid-market commercial banking. Clients recognize CWB for our in-depth knowledge of targeted segments within Canada's commercial banking industry and our unique brand of personal service. Shareholders value CWB's strong track record of high-quality, industry-leading growth, conservative approach to risk management and consistent profitability.

CWB has grown to become the seventh largest financial services organization in Canada, in terms of market capitalization, by taking a relationship-based approach to business and personal banking. We offer highly responsive specialized financing solutions through CWB Equipment Financing, National Leasing, CWB Maxium Financial, CWB Franchise Finance and CWB Optimum Mortgage, trust services through Canadian Western Trust and comprehensive wealth advisory services through CWB Wealth Management.



| Company / Office                    | Province(s)                               |
|-------------------------------------|---|
| Regional Offices                    | BC / AB / ON                              |
| CWB Branch Network                  | Western Canada                            |
| Canadian Direct Financial (CDF)     | ALL (except QC)                           |
| Canadian Western Trust              | ALL                                       |
| CWB Optimum Mortgage                | ALL (except QC)                           |
| CWB Wealth Management and CWF       | Western Canada                            |
| Adroit Investment Management        | Western Canada, ON, QC                    |
| McLean & Partners Wealth Management | Western Canada, ON                        |
| National Leasing Group              | ALL                                       |
| CWB Maxium Financial                | ALL (primarily ON)                        |
| CWB Franchise Finance               | ALL (primarily outside of Western Canada) |
| Number of companies / divisions     | Total provinces                           |
| <b>9</b>                            | <b>10</b>                                 |



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# Our Vision

*To be seen as crucial to  
our clients' futures.*



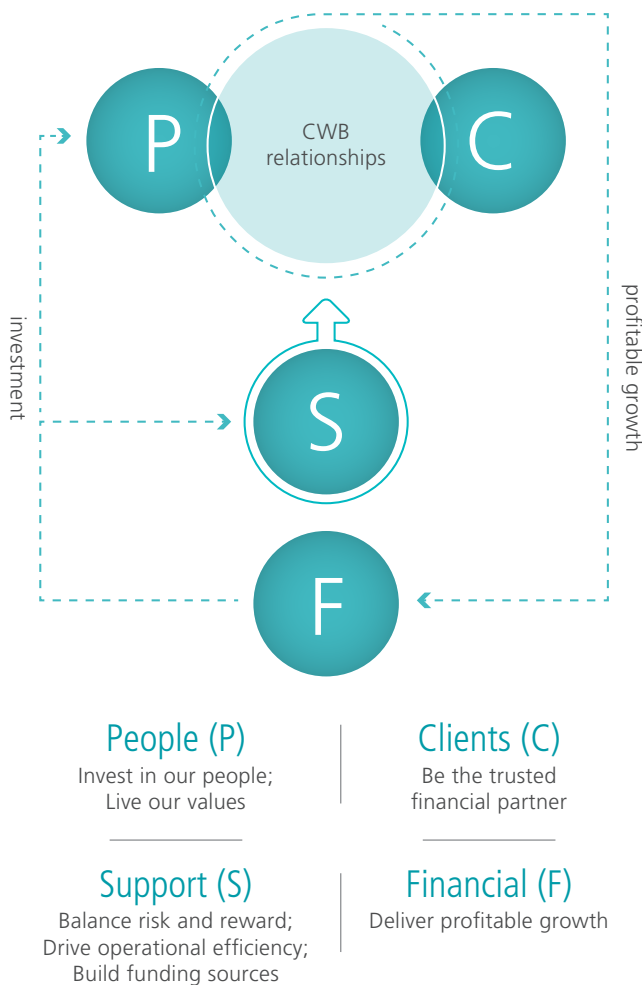


# CWB's Balanced Growth Strategy

Operating from our headquarters in Edmonton, Alberta, CWB is the trusted financial partner to a growing base of business and personal clients. We deliver responsive service and sensible solutions, and we remain committed to our fundamental identity as a conservative, growth-oriented organization. We maintain a supportive environment for employees within a results-oriented culture. We aim to provide strong long-term returns for shareholders and give back in the communities where we live and work.

Further geographic and business sector diversification within targeted segments of Canada's commercial banking industry is the foundation of CWB's balanced growth strategy. Ongoing strong growth of both loans and funding sources remain important strategic objectives, along with specific goals related to risk and capital management, and business transformation through targeted use of technology throughout the organization.

Our teams focus on key activities which contribute the greatest impact toward the achievement of our vision to be seen as crucial to our clients' future. We track both financial and non-financial measures within four interdependent realms of activity (People, Support, Clients, Financial) to monitor progress toward achievement of our strategic objectives:



# Strategic Priorities and Highlights

## Strategic Priorities

- Strong, balanced growth of CWB's targeted, mid-market commercial banking franchise with further geographic and business diversification.
- Growth of multi-product client relationships.
- Enhanced profitability through targeted growth of preferred types of branch-raised deposits.
- Enhanced capital and risk management through transition to the *Advanced Internal Ratings Based (AIRB)* approach for calculating risk-weighted assets.
- Business transformation through increased use of technology to improve client service, banking convenience, cross-sell opportunities and overall efficiency within the branch network.

## 2016 Financial Highlights

- Completed the acquisitions now referred to as CWB Maxium Financial and CWB Franchise Finance in support of further business and geographic diversification.
- Achieved double-digit loan growth on a percentage basis for the 26<sup>th</sup> time in 27 years.
- Diversified CWB's funding mix with continued strong growth in preferred types of branch-raised deposits.
- Strengthened CWB's capital position in support of further profitable growth through issuance of \$140 million of preferred shares and \$150 million of common shares.
- Extended CWB's strong track record for stable profitability with our 115<sup>th</sup> consecutive profitable quarter.
- Returned \$0.92 in dividends per common share to CWB shareholders, an increase of 7% over last year.

## 2016 Non-financial Highlights

- Opened CWB's 42<sup>nd</sup> full-service branch through expansion of services in Lloydminster, Saskatchewan.
- Successfully implemented CWB's new core banking system in support of deeper client relationships and enhanced product and service offerings.
- Initiated CWB's three-year program to transition from the *Standardized* approach for calculating risk-weighted assets to the AIRB approach, with expected benefits to risk management processes, capital flexibility and overall profitability.
- Introduced CWB Wealth Management to integrate the knowledge and expertise of each wealth management entity, and provide comprehensive financial planning and wealth advisory services.
- Donated \$421,000 to Big Brothers Big Sisters through the ongoing success of the Greater Interest GIC, bringing total program donations to more than \$2.5 million.
- Donated \$25,000 to the Canadian Red Cross to support communities affected by the wildfires in Fort McMurray.

# Lines of Business

## Banking

We set ourselves apart through our commitment to service excellence, coupled with our in-depth understanding of the markets where our clients do business. We specialize in business banking services and equipment financing for small- to medium-sized businesses, and offer a full complement of personal banking products and services through 42 branches and Internet banking services provided by Canadian Direct Financial (CDF). We pride ourselves on offering relevant products that help our clients manage their day-to-day finances while also preparing for what's to come.

### Business Banking

CWB's targeted complement of products and services help businesses with their operating and capital needs. We specialize in general commercial banking, financing for commercial real estate and real estate construction.

CWB Maxium Financial provides financing solutions to more than 35,000 clients representing a diversified portfolio in specialized areas of health care, golf, transportation, real estate, and general corporate financing. CWB Maxium's head office is located in Richmond Hill, Ontario, and the majority of its business is outside of Western Canada.

CWB Franchise Finance provides financing across Canada to a diverse group of established companies in the hospitality and restaurant industries.

### Equipment Financing and Leasing

With operations across Canada, our equipment leasing subsidiary, National Leasing, is the largest Canadian lessor in small and mid-size commercial equipment transactions. Financing solutions are available in all business sectors, with a focus on general commercial, agriculture, health care, and golf and turf.

Our branch-based equipment lenders specialize in financing standard industrial equipment for borrowers operating within our branch footprint in Western Canada.

Our Calgary-based Broker Buying Centre selectively acquires loan portfolios from the finance divisions of original equipment manufacturers.

### Personal Banking

CWB offers a full complement of personal banking services including chequing and savings accounts, mortgages, home equity lines of credit, personal loans and investment products through our branch network across Western Canada.

CWB Optimum Mortgage, our broker-sourced alternative mortgage provider, offers personalized borrowing solutions for clients who fall outside of traditional lending guidelines.

CDF offers services to clients across Canada seeking enhanced flexibility for their personal banking and investment needs. Round-the-clock online account access and a dedicated customer service team available by phone five days a week allow our clients to manage their finances with ease.



## Trust Services

We offer personalized pension, trustee and custodial solutions for individuals and businesses through Canadian Western Trust (CWT). CWT has a proven reputation for delivering value and service. We build trusted business relationships and work with clients to offer a flexible, solutions-oriented approach.



## Wealth Management

Rooted in planning ahead to make the most of every opportunity, CWB Wealth Management takes a unified approach to deliver sound service, helpful solutions and ongoing support to help clients achieve their vision for the future.

Financial planning and investment products are offered at CWB branches through our licensed mutual fund representatives. Under the Canadian Western Financial banner, clients have access to a range of investment products from Canada's leading mutual fund companies including CWB's proprietary Core Funds and Onyx Portfolio Series mutual funds.

High net-worth individuals and institutions looking for discretionary wealth management will find value in working with our boutique companies, Adroit Investment Management and McLean & Partners Wealth Management. With distinct investment strategies, clients have access to various approaches that are well-suited to their risk appetite.





**CWB honoured with The Community Partnership Award recognizing significant contributions to and support of mentorship programming across Western Canada**

Awarded by Big Brothers Big Sisters of Canada

## Awards and Accolades

**CWB recognized at the Employment Equity Achievement Awards in the category of Improved Representation for initiatives to create a diverse workplace between 2010 and 2014**

Awarded by Employment and Social Development Canada

**CWB Optimum Mortgage ranked as the top alternative lender, earning three gold and seven silver medals, as well as highest overall score**

Awarded by Canadian Mortgage Professionals Magazine

**National Leasing awarded the ELFA Technology award for National Leasing Interactive**

Awarded by the Equipment Leasing and Finance Association

**CWB Corporate Communications recognized with the Award of Excellence in Communication Skills – Digital Communication**

Awarded by International Association of Business Communicators  
Edmonton

**CWB received a National Philanthropy Day Award for support of the Royal Alexandra Hospital's Addiction Recovery and Community Health Program**

Awarded by the Edmonton chapter of the Association of Fundraising Professionals

**CWB received LEED® Canada Silver certification for its Edmonton Main Branch**

Awarded by Canada Green Building Council



## Message from Chris Fowler, President and CEO

### Building on our strengths

We took a number of important steps forward in fiscal 2016, and we faced a number of significant challenges. Our successes included the acquisitions of CWB Maxium and CWB Franchise Finance, as well as the implementation of our new core banking system. Challenges included the negative impact of low oil prices and regulatory factors on our small portfolio of loans to oil and gas producers. We took a proactive approach to resolve these positions, which resulted in higher-than-expected provisions for credit losses and contributed to a decrease of 15% in annual common shareholders' net income. While this was a difficult experience, it demonstrated that CWB's unique mid-market commercial banking business model is highly resilient. I'm extremely proud of the way our teams stepped up. Thanks to their outstanding effort, we overcame our challenges and moved CWB's well-defined growth strategy forward.

CWB's value proposition to shareholders is based on our strategy to deliver strong growth in earnings per common share and progressive increases in return on common shareholders' equity from current levels,

along with a disciplined approach to capital and risk management. We define success as a well-funded, well-capitalized mid-market commercial banking franchise. We seek to earn a premium price-to-earnings multiple on the basis of predictable earnings growth with business and geographic diversification that leverages our strengths, meets our risk appetite and fits our economic and regulatory environment.

Our strategic objectives include strong, balanced growth of both loans and funding sources, as well as progress toward a more balanced geographic footprint and broader diversification within targeted sectors of Canada's commercial banking industry. Both of the commercial lending acquisitions we completed this year will directly support these goals.

We recorded several significant milestones in key performance metrics. Total assets surpassed \$25 billion with another year of strong, double-digit loan growth of 13%. Total deposits exceeded \$21 billion, including 12% annual growth of branch-raised deposits. Growth of pre-tax, pre-provision earnings was strong at 8%. We also strengthened our capital position to support ongoing high-quality asset growth, through issuance of both common and preferred shares.

## CWB's balanced growth strategy

We have established specific strategic priorities, all of which extend from our relationships with targeted mid-market commercial clients. They include purposeful efforts to support net interest margin through growth of diversified, lower cost funding sources with a particular focus on branch-raised deposits; to allocate capital based on the appropriate balance of risk and reward; and, to achieve necessary business process and talent transformation to earn more business across the country.

### Growth of lower-cost funding sources

Among the significant benefits of our new core banking technology is the ability to leverage a client-centric view of our branch-based relationships. This technology sets the stage for scalable growth by enabling us to focus more of our energy on building relationships through delivery of targeted financial solutions that match our clients' needs. Ultimately, this will support net interest margin through success against our strategic objective to grow lower-cost funding sources, including branch-raised deposits.

### Capital and risk management

The new banking system also supports our capital and risk management objectives, and positions us to improve our return on shareholders' equity, by facilitating an eventual transition to the *Advanced Internal Ratings Based* (AIRB) methodology for managing credit risk and calculating risk-weighted assets.

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## Our clients are the reason we exist. Their success inspires us, and we are motivated to continually find ways to improve our service and help them grow.

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The AIRB approach will put us on more equal footing with our competition. It will add risk sensitivity to our framework for capital management, increase our risk quantification processes, and improve our risk-based pricing and economic capital estimations. These improved risk management capabilities will better equip us to target business segments that generate the most attractive risk-adjusted returns and allocate our resources accordingly.

### Business process and talent transformation

Highly responsive client service, quick turnaround and proactive delivery of targeted, expert-based financial solutions have always set us apart from our competitors. Our strategy is to leverage this advantage toward development of multi-product client relationships centred around our unique business banking specialty. Our future success will depend on effective collaboration between engaged, well-trained and empowered CWB teams.

To this end, our commitment to business process and talent transformation includes efforts to establish the most effective team structures, appropriate incentives, and efficient business processes that make use of scalable technology solutions. The purpose of this effort is to create the best possible client experience across our lines of business, and to translate our traditional, client service-related competitive strengths into a differentiated offering that will drive our continued growth.

## Targeted acquisitions in support of growth and diversification

Both of our fiscal 2016 acquisitions, CWB Maxium Financial and CWB Franchise Finance, are integral components of our balanced growth strategy. With 70 – 80% of each portfolio based outside of Western Canada and the majority of originations focused within the general commercial sector, these businesses will contribute to the strategic expansion of our geographic footprint, with a particular focus in Ontario, and further diversification of our asset mix.

CWB's competitive strength in Western Canada has always been based on specialized industry knowledge and a targeted approach to niche markets. Management at CWB Maxium Financial and CWB Franchise Finance have established track records for success within their markets based on the same value proposition. The addition of these experienced management teams has deepened our leadership capabilities and expanded our growth opportunities. I look forward to meaningful contributions from both segments to CWB's ongoing growth of both assets and earnings per share.

## Looking ahead

We asked a lot of our teams over the past year, and I would like to take this opportunity to recognize our people for their passion and commitment in helping CWB achieve our strategic goals. Our teams are currently working hard to ensure our new banking system performs to its full capacity as quickly as possible, and I would like to thank them for continuing to go beyond the call of duty. I would also like to express my deepest gratitude to our clients for their enduring trust. Our clients are the reason we exist. Their success inspires us, and we are motivated to continually find ways to improve our service and help them grow.

I strongly believe we have established the appropriate foundation for sustainable and profitable growth for CWB shareholders. We continue to invest in technology and business process improvements to empower our people to fully deliver the highest level of client service, accelerate growth in multi-product client relationships, and optimize our capital and risk management processes. We enter fiscal 2017 with a very strong capital position and a promising pipeline of growth opportunities across the country. We are looking forward to building on these accomplishments and driving CWB to many more years of strong financial performance.



## Message from Robert Phillips, Chair of the Board

### CWB's vision is to be seen as crucial to our clients' futures

In 2011, your Board of Directors began to work with CWB's management to establish a plan for the next stage of CWB's growth. We defined a number of critical steps CWB should take over the ensuing five years in order to be seen as crucial to our clients' futures. We specifically targeted strategic investment in technology, a thorough evaluation of each Group company to determine the best mix of business lines to serve our targeted commercial banking clients, and purposeful development of CWB's enterprise risk management framework. Five years on, I'm pleased to report that we achieved a number of important milestones in each of those categories in fiscal 2016, and we are now well-positioned to embark on CWB's next phase of balanced growth.

### Balanced growth through strategic investment

The impact of technological innovation within the financial services industry is plainly evident today. With the successful implementation of CWB's new core banking system in May of this year, CWB is now equipped to leverage current technology to enhance our product and service offerings in support of our balanced growth strategy. It's important to note this significant technology deployment was facilitated through several prior technology-related initiatives beginning several years ago, including full replacement of CWB's systems hardware and implementation of an on-line loan origination system, both within CWB and National Leasing. These steps were necessary precursors to the full implementation of our new core banking system this year.

We also undertook a thorough review and evaluation of each Group company. Ultimately we concluded that directing CWB's focus toward

targeted and complementary offerings in banking, trust and wealth management was the best way to achieve CWB's vision. To that end, we sold our insurance and stock transfer businesses last year, and this year completed the acquisitions we now refer to as CWB Maxium Financial and CWB Franchise Finance.

Both new businesses support CWB's established commercial banking strategy and offer specialized financing originations with attractive returns. These are highly strategic acquisitions that support CWB's relationship-focused strategic direction by positioning us to reach more clients with an expanded service offering across the country, with a particular focus on growth in Ontario.

## Balanced growth through enterprise risk management

Along with purposeful investment in technology and strategic refinement of CWB's lines of business, we also continue to develop CWB's enterprise risk management framework. At the Board level, we transitioned the Directors' Loans Committee into a Board Risk Committee. This has enabled the Board to focus more of its energy on strategic issues that are fundamental to CWB's continued success while sustaining effective oversight practices.

In 2016, this included working with management to determine the appropriate level of capital to support CWB's strong acquisition-related and ongoing organic growth under the Standardized approach for calculating risk weighted assets. Ultimately, we determined that issuances of preferred and common shares were prudent, and we took these steps in the second and third quarters, respectively.

We continued to contemplate CWB's optimal capital structure in view of the current and potential future regulatory framework. This year, CWB established a formal program charter in support of its application for transition to the Advanced Internal Ratings Based (AIRB) approach for managing credit risk and calculating risk-weighted assets, including an anticipated three-year time frame. Under the AIRB approach, CWB will gain critical insight to enable management to more precisely calibrate risk exposures within CWB's growing portfolio and ensure those risks are managed effectively as we achieve balanced and sustainable growth. Risk measurement under the AIRB approach will also support effective capital deployment to maximize shareholder return.

The AIRB transition will help to establish a more level competitive playing field for CWB, and it's important to note the core banking system implementation represented a critical step in support of this objective. In that way, CWB's purposeful investment in technology and development of its enterprise risk management framework will continue to go hand in hand.

## The Board's commitment to governance best practices

At CWB, we have always placed significant value on strong board governance and we continually assess the most appropriate manner of incorporating best practices into our governance activities. I'm proud to say that CWB has committed to The 30% Club, a global organization which aims to promote more women to senior corporate roles. The ultimate goal is to increase the proportion of women represented on boards of directors to 30% over time. Women currently represent 29% of CWB's Executive Committee and 17% of the Board. In the coming year, we plan to propose a new director for shareholder approval, and we are working diligently to identify the most suitable candidate.

## Looking ahead

This year represents my first as Chair of the Board for CWB, a year which certainly presented its challenges. CWB is the only Schedule 1 bank in Canada with a mid-market commercial banking focus, and we are uniquely positioned in relation to the domestic economy. This year, we weathered the significant economic impact in Alberta and Saskatchewan of the protracted period of low oil prices. I believe the conservative manner in which management addressed CWB's direct oil and gas exposure reflects CWB's consistent, prudent approach to risk management and was in the best interest of our shareholders.

Lower oil prices represent one dimension of change which has occurred within CWB's operating environment over the past several years. In truth, change has been, and will continue to be, a constant theme in our industry. Of course, with change comes opportunity. As a board, we recognize CWB needs the right leaders to realize on our opportunities and, over the past several years, we have worked with management through renewal of CWB's Executive Committee. I am confident we have appointed the right leaders, and those leaders have established the correct strategy for the next phase of CWB's profitable and balanced growth.

In the coming years, CWB will continue to operate from an unshakeable foundation of honesty, integrity and the desire to do the right thing for our people, our clients, our shareholders and the communities in which we work. We will maintain our focus on the mid-market commercial banking industry in Canada, deliver balanced growth of both high-quality loans and cost-effective funding sources, and achieve further geographic and business sector diversification.

CWB remains a unique story in Canadian banking. On behalf of the entire Board of Directors, I am pleased to say we are very excited about the future.

## Thank you from CWB

In March 2016, at CWB's 32<sup>nd</sup> annual shareholders' meeting, our previous Chairman, Allan Jackson, retired from the Board of Directors after 31 years of strong stewardship and unflinching commitment to CWB Financial Group, including five years as Chair. Allan first demonstrated his support as a founding shareholder and director of CWB's predecessor institution in 1984. He consistently exemplified the highest standard of personal integrity, and played an important role in many major business decisions during his tenure. Mr. Jackson made invaluable contributions to this organization's culture and success, and helped to create a strong footing upon which CWB will continue to grow.

We are truly thankful for Mr. Jackson's many years of dedication and service. In recognition of our gratitude, we have established an undergraduate scholarship in Mr. Jackson's name at the Richard Ivey School of Business.

# Board of Directors



Board of Directors from left to right (October 31, 2016): Raymond J. Protti, *Corporate Director*; Andrew J. Bibby, *CEO and Director, Grosvenor Americas Partners*; Linda M.O. Hohol, *Corporate Director*; H. Sanford Riley, *President and CEO, Richardson Financial Group Limited*; Albrecht W. A. Bellstedt, *President, A.W.A. Bellstedt Professional Corporation*; Chris H. Fowler, *President and CEO, Canadian Western Bank*; Robert L. Phillips (*Chair*), *President, R.L. Phillips Investments Inc.*; Alan M. Rowe, *Partner, Crown Realty Partners*; Sarah A. Morgan-Silvester, *Corporate Director*; Robert A. Manning, *President, Cathton Investments Ltd.*; Ian M. Reid, *Corporate Director*.

## Corporate Governance

At CWB, we strive to earn and maintain 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 and the transparency of disclosure with the recognition that this commitment directly contributes to the creation of long-term shareholder value and the sound functioning of our organization.

### Board Oversight

The Board of Directors (the Board) is responsible for the overall stewardship of CWB, including approval and monitoring of CWB's overall strategy, review and approval of the risk management framework and fostering a culture of ethical conduct and accountability. CWB's Management Proxy Circular for the 2017 Annual Meeting sets out the director candidates proposed for election as well as detailed information regarding the Board's committees and activities during the past year.

### Board Independence

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 where CWB operates. All directors, other than CWB's President and CEO, are independent. All Board meetings include time for the independent directors to meet without management present.

### Ethical Conduct

At CWB, 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. The CWB Financial Group Code of Conduct, called *Living our Values*, guides our decision-making and sets the standards of integrity, honesty and accountability that CWB teams and individuals are expected to follow. Every director and employee commits to *Living our Values* each year by making an acknowledgment that they have read, understood and complied with the Code of Conduct.

### Compensation Programs

CWB's director and executive compensation policies follow governance best practices. Our compensation practices are designed to reward pay for performance and discourage unreasonable risk taking. 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.

### Shareholder Engagement

To encourage open dialogue with shareholders, the Board can be contacted directly about corporate governance issues by emailing [ChairoftheBoard@cwbank.com](mailto:ChairoftheBoard@cwbank.com). Detailed information about CWB's corporate governance practices is available in the Corporate Governance section at [cwb.com](http://cwb.com).



# Executive Committee



## Chris Fowler

*President and Chief Executive Officer*

Chris Fowler became president and chief executive officer of CWB in March 2013, concurrent with his appointment as chair of CWB's Executive Committee and his election to the Board of Directors.



## Carolyn Graham, FCPA, FCA

*Executive Vice President and Chief Financial Officer*

Carolyn Graham plays a lead role in all financial and regulatory matters, as well as strategic planning and other initiatives. Her primary responsibilities currently include finance, treasury, capital management, investor relations, internal audit, and legal services.



## Kelly Blackett

*Executive Vice President, Human Resources and Corporate Communications*

Kelly Blackett is responsible for providing executive leadership, vision and direction regarding CWB's overall approach to Human Resources, including Learning and Development. She is also responsible for oversight of Corporate Communications.



## Glen Eastwood

*Executive Vice President, Business Transformation*

Glen Eastwood is responsible for business transformation activities that leverage our people, technology and practices in the pursuit of an excellent client experience. He is also responsible for oversight of CWB Wealth Management and Canadian Western Trust.



## Darrell Jones

*Executive Vice President and Chief Information Officer*

Darrell Jones is responsible for delivery of technology and information across CWB. He is also responsible for leading the facility management function across the enterprise.



## Stephen Murphy

*Executive Vice President, Banking*

Stephen Murphy is responsible for all branch operations, including business and personal banking, product development, equipment financing and corporate lending. He also provides executive oversight for the business operations of CWB Optimum Mortgage, National Leasing, CWB Maxium Financial and CWB Franchise Finance.



## H. Bogie Ozdemir

*Executive Vice President and Chief Risk Officer*

Bogie Ozdemir is responsible for providing leadership, vision and direction regarding CWB's overall approach to risk management and compliance. In his role, he oversees credit risk management, risk data aggregation and analytics, group risk and regulatory compliance.

## Key Retirements

Randy Garvey, Executive Vice President, Corporate Services, and Greg Sprung, Executive Vice President, Banking, both retired from CWB's Executive Committee on September 1, 2016. Both Randy and Greg made significant contributions during their time with CWB, and we would like to sincerely thank them, on behalf of the entire CWB Financial Group team, for their years of service.

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

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## BUSINESS PROFILE AND STRATEGY

Canadian Western Bank (TSX:CWB) is the only Schedule 1 bank in Canada specializing in mid-market commercial banking, real estate and construction financing, and equipment financing and leasing. CWB, along with its subsidiaries, National Leasing Group Inc. (National Leasing), CWB Maxium Financial Inc. (CWB Maxium), Canadian Western Trust Company (CWT), CWB Wealth Management Ltd. (CWB WM), Adroit Investment Management Ltd. (Adroit), McLean & Partners Wealth Management Ltd. (McLean & Partners) and Canadian Western Financial Ltd. (CWF), are together known as CWB Financial Group (CWB).

Clients recognize CWB for our in-depth knowledge of targeted segments within Canada's commercial banking industry and our unique brand of personal service. Shareholders value CWB's strong track record of high-quality, industry-leading growth, conservative approach to risk management and consistent profitability. We define success as a well-funded, well-capitalized mid-market commercial banking franchise deserving of a premium price-to-earnings multiple based on strong core operating performance and consistent growth of earnings and profitability from current levels.

Our balanced growth strategy is based on delivery of responsive, personalized service and sensible financial solutions. We remain committed to our fundamental identity as a conservative, growth-oriented organization, and we maintain a supportive environment for employees within a results-oriented culture. Our focus is to empower our people to deliver the highest level of client service, accelerate growth of multi-product client relationships, and optimize our capital and risk management processes. We aim to provide strong long-term returns for shareholders and give back within the communities where we live and work.

Our strategic objectives include strong, balanced growth of both loans and funding sources, as well as progress toward a more balanced geographic footprint with broader diversification across targeted sectors of Canada's commercial banking industry. These objectives are

complemented by specific goals related to risk and capital management, and business transformation through targeted use of technology.

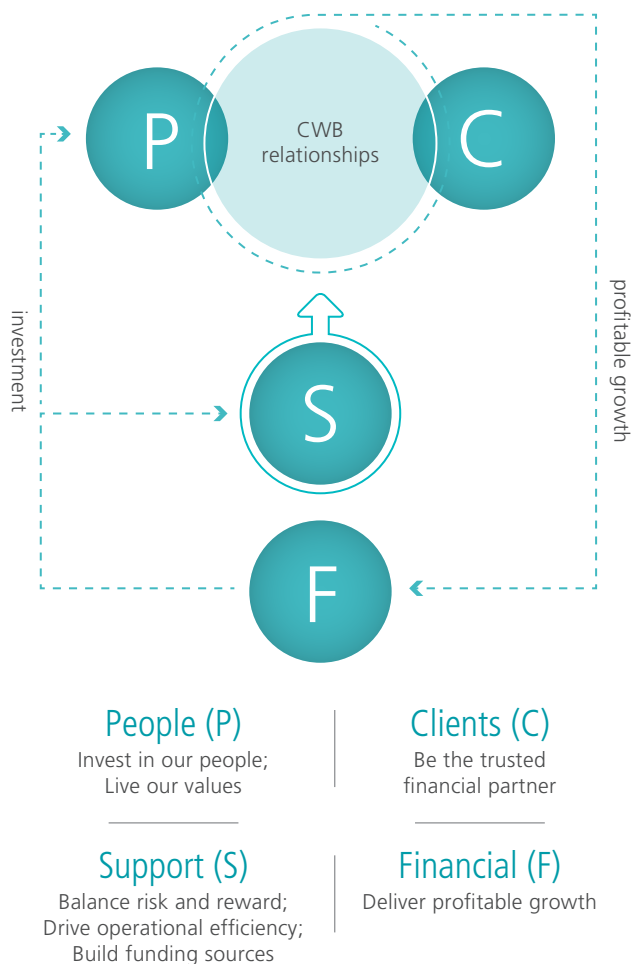
To complement our commercial banking focus, CWB's full-service banking strategy delivers a wide variety of personal financial products and services, including personal loans and mortgages, deposit accounts and investment products. Customer access to all banking services is primarily provided through a network of 42 client-focused branches in select locations across the four western provinces. Canadian Direct Financial® (CDF) is CWB's Internet-based division offering a range of deposit and registered savings products directly to customers in all provinces and territories except Quebec.

National Leasing specializes in small- and mid-sized commercial equipment leases and is represented across all provinces of Canada. CWB Maxium provides loans, leases and structured financing to clients primarily in Ontario. CWB Franchise Finance is a specialty lending division that provides loans and leases to hotel and restaurant franchises across the country. CWB Optimum Mortgage (Optimum) underwrites and administers residential mortgages sourced through an extensive network of mortgage brokers located in Western Canada, Ontario and Atlantic Canada. CWT provides trustee and custody services to independent financial advisors, corporations, brokerage firms and individuals. Comprehensive wealth advisory services are offered through CWB Wealth Management. This includes discretionary wealth management primarily for high net-worth individuals provided through Adroit and McLean & Partners, as well as third-party mutual funds and the proprietary CWB Core Funds and CWB Onyx Portfolio Series of mutual funds offered with financial and investment planning advice through CWB's branch network.

## VISION

To be seen as crucial to our clients' futures.

CWB is focused on becoming the trusted financial partner to a growing base of clients. Our teams focus on key activities which contribute the greatest impact toward the achievement of our vision to be seen as crucial to our clients' futures. We track both financial and non-financial measures within four interdependent realms of activity (People, Support, Clients, Financial) to monitor progress toward achievement of our strategic objectives:



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](http://sedar.com) and on CWB's website at [cwb.com](http://cwb.com).

## FISCAL 2016 SIGNIFICANT EVENTS

### Strategic Acquisitions

On March 1, 2016, CWB acquired the non-securitized lending assets and other net business assets, including key employees, of Maxium Financial Services Inc. and Desante Financial Services Inc., now "CWB Maxium". CWB Maxium provides loans, equipment leases and structured financing solutions to more than 35,000 clients, mainly in Ontario. Specialized financing solutions are primarily provided in the areas of health care, golf, transportation, real estate and general corporate financing. On July 1, 2016, CWB acquired GE Capital's Canadian Franchise Finance platform, now "CWB Franchise Finance". The business provides financing across Canada to a diverse group of established companies in the franchised hotel and restaurant industries.

These acquisitions are integral components of CWB's balanced growth strategy, and represent the strategic redeployment of divestiture gains realized last year. With 70 – 80% of both portfolios based outside of Western Canada and the majority of originations focused within the general commercial sector, CWB Maxium and CWB Franchise Finance will contribute to the targeted expansion of CWB's geographic footprint and further diversification of its asset mix. In combination, the acquisitions were slightly accretive to adjusted cash earnings per share this year, with accelerating contributions expected going forward. Details as to financial consideration are disclosed within the Acquisitions and Divestitures section of this MD&A.

### Core Banking System Implementation

CWB's earnings growth and business diversification are expected to benefit from ongoing success in key strategic initiatives to broaden and deepen multi-product client relationships and attract new clients. The successful launch of CWB's new core banking system on May 2, 2016, is expected to facilitate these initiatives over the medium term and advance efforts to build core funding sources, enhance product and service offerings, and leverage current and future investment in technology. This improved technology will enable CWB to benefit from a client-centric view of branch-based relationships and achieve further operational efficiencies. The new system will also support CWB's application for transition to the *Advanced Internal Ratings Based* (AIRB) methodology for managing credit risk and calculating risk-weighted assets. A project plan has been finalized in support of CWB's application, including an anticipated three-year time frame.

### Oil and Gas-related Provisions for Credit Losses

Credit quality as measured by the provision for credit losses outside of CWB's small portfolio of oil and gas loans was consistent with management's expectations. This reflected CWB's secured lending business model, disciplined underwriting practices and proactive loan management. However, significantly higher provisioning within the oil and gas loans portfolio resulted from the impact of persistently low and volatile energy commodity prices on producer cash flows, as well as the influence of regulatory factors on the liquidity of assets securing these exposures. In view of these factors, management took a proactive approach to resolve positions within this portfolio and recorded cumulative provisions for credit losses on oil and gas production loans of \$41.6 million. Prior to reporting second quarter financial results, management announced revised expectations for the annual provision for credit losses of 35 – 45 basis points, compared with previous expectations of 18 – 23 basis points. The realized annual provision for credit losses of 38 basis points was consistent with these revised expectations, with the increase from 17 basis points last year entirely attributed to the credit performance of oil and gas loans.

## 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, the volatility and level of various commodity prices, changes in monetary policy, changes in economic and political conditions, legislative and regulatory developments, legal developments, the level of competition, the occurrence of 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 over the forecast horizon and how it will affect CWB's businesses are material factors considered when setting organizational objectives and targets. In determining expectations for economic growth, management primarily considers economic data and forecasts provided by the Canadian government and its agencies, as well as an average of certain private sector forecasts. These forecasts are subject to inherent risks and uncertainties that may be general or specific. Where relevant, material economic assumptions underlying forward-looking statements are disclosed within the Outlook sections of this MD&A.

## 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 2016 adjustment to taxable equivalent basis from Continuing Operations of \$3.2 million (2015 – \$5.6 million) increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. The taxable equivalent basis does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other banks. Total revenues, net interest income and income taxes are discussed on a taxable equivalent basis throughout this MD&A.

## NON-IFRS MEASURES

Taxable equivalent basis, adjusted cash earnings per common share, pre-tax, pre-provision income, return on common shareholders' equity, adjusted return on common shareholders' equity, return on assets, efficiency ratio, net interest margin, common equity Tier 1, Tier 1 and total capital adequacy ratios, operating leverage, common share dividend payout ratio 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-IFRS measures used in this MD&A are calculated as follows:

- Taxable equivalent basis – described above.
- Pre-tax, pre-provision income – total revenue (teb) less non-interest expenses, excluding the pre-tax amortization of acquisition-related intangible assets (see calculation on page 17).
- Adjusted cash earnings per common share – diluted earnings per common share excluding the acquisition-related amortization of intangible assets and contingent consideration fair value changes, net of tax (see calculation on page 17). Excluded items are not considered to be indicative of ongoing business performance.
- Return on common shareholders' equity – common shareholders' net income divided by average common shareholders' equity.
- Adjusted return on common shareholders' equity – common shareholders' net income excluding the acquisition-related amortization of intangible assets and contingent consideration fair value changes, net of tax (see calculation on page 17), divided by average common shareholders' equity.
- Return on assets – common shareholders' net income divided by average total assets.
- Efficiency ratio – non-interest expenses, excluding the pre-tax amortization of acquisition-related intangible assets (see calculation on page 17), divided by total revenues, including the net gain related to the sales of the property and casualty insurance subsidiary and CWB's stock transfer business.
- Operating leverage – total revenue (teb) growth less growth of non-interest expenses, excluding the pre-tax amortization of acquisition-related intangible assets.
- Net interest margin – net interest income divided by average total assets.
- Basel III common equity Tier 1, Tier 1 and total capital ratios under the *Standardized* approach for calculating risk-weighted assets – in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).
- Common share dividend payout ratio – common share dividends declared during the year divided by common shareholders' net income.
- Average balances – average daily balances.

**Table 1 - Adjusted Financial Measures (Continuing Operations)<sup>(1)</sup>**

(\$ thousands)

|  | 2016       | 2015       |
|--|------------|------------|
| Non-interest expenses                                      | \$ 313,647 | \$ 293,489 |
| Adjustments (pre-tax):                                     |            |            |
| Amortization of acquisition-related intangible assets      | (6,354)    | (4,548)    |
| Adjusted non-interest expenses                             | \$ 307,293 | \$ 288,941 |
| Common shareholders' net income from Continuing Operations | \$ 177,761 | \$ 208,064 |
| Adjustments (after-tax):                                   |            |            |
| Amortization of acquisition-related intangible assets      | 4,682      | 3,006      |
| Acquisition-related fair value changes                     | 5,775      | 638        |
| Adjusted common shareholders' net income                   | \$ 188,218 | \$ 211,708 |

**Table 2 - Adjusted Financial Measures (Combined Operations)<sup>(1)</sup>**

(\$ thousands)

|  | 2016       | 2015       |
|--|------------|------------|
| Non-interest expenses                                    | \$ 313,647 | \$ 304,593 |
| Adjustments (pre-tax):                                   |            |            |
| Amortization of acquisition-related intangible assets    | (6,354)    | (4,548)    |
| Adjusted non-interest expenses                           | \$ 307,293 | \$ 300,045 |
| Common shareholders' net income from Combined Operations | \$ 177,761 | \$ 319,701 |
| Adjustments (after-tax):                                 |            |            |
| Amortization of acquisition-related intangible assets    | 4,682      | 3,006      |
| Contingent consideration fair value changes              | 5,775      | 638        |
| Adjusted common shareholders' net income                 | \$ 188,218 | \$ 323,345 |

**Table 3 - Pre-tax, Pre-provision (PPTP) Income (Continuing Operations)<sup>(1)</sup>**

(\$ thousands)

|  | 2016       | 2015       |
|--|------------|------------|
| Total revenue (teb)                        | \$ 661,136 | \$ 617,000 |
| Less:                                      |            |            |
| Adjusted non-interest expenses (see above) | 307,293    | 288,941    |
| Pre-tax, pre-provision income              | \$ 353,843 | \$ 328,059 |

(1) See footnote 2 on page 19.

### Highlights of 2016 for Continuing Operations (compared to 2015)

- Completed the acquisitions now known as CWB Maxium Financial and CWB Franchise Finance, supporting CWB's strategic objective to achieve further geographic and business diversification within targeted segments of the commercial banking industry.
- Successfully launched CWB's new core banking system, a key technology investment which is expected to facilitate business process improvements that will empower CWB teams to deliver the highest level of client service, accelerate growth of multi-product client relationships, and optimize CWB's capital and risk management processes.
- Opened CWB's 42<sup>nd</sup> full-service branch through expansion of operations in Lloydminster, Saskatchewan.
- Very strong, well-diversified loan growth of 13%, marking the achievement of double-digit annual loan growth for the 26<sup>th</sup> time in 27 years.
- Very strong branch-raised deposit growth of 12%, including 15% growth of targeted notice and demand deposits.
- Strong core operating performance, with pre-tax, pre-provision income of \$353.8 million, up 8%, and positive operating leverage.
- Common shareholders' net income of \$177.8 million, down 15%.
- Diluted earnings per common share of \$2.13, down 18%, and adjusted cash earnings per common share of \$2.26, down 14%.
- Earnings growth constrained by credit performance of oil and gas loans and continued net interest margin pressure.
- Provision for credit losses as a percentage of average loans of 38 basis points, up from 17 basis points due to losses related to oil and gas loans. The full year provision was within CWB's expectation of 35 – 45 basis points, revised from 18 – 23 basis points prior to CWB reporting second quarter financial results. Excluding oil and gas-related credit losses, the annual provision was 18 basis points of average loans. Gross impaired loans represented 0.58% of total loans, up from 0.49%, primarily due to increased impairments within Alberta.
- Net interest margin (teb) of 2.43%, down 13 basis points. The change primarily reflects lower asset yields, partly due to the impact of the Bank of Canada's 2015 rate cuts, partially offset by the positive impact of these rate cuts on some deposit costs and favourable changes in deposit mix.
- Strengthened capital position through issuance of \$150 million of common shares and \$140 million of preferred shares, contributing to very strong Basel III regulatory capital ratios under the *Standardized* approach for calculating risk-weighted assets of 9.2% common equity Tier 1 (CET1), 11.0% Tier 1 and 13.1% total capital.

**Table 4 - Select Annual Financial Information<sup>(1)</sup>**

(\$ thousands, except per share amounts)

|   | 2016          | 2015          | 2014          | Change from 2015 |                         |
|---|---------------|---------------|---------------|------------------|-------------------------|
|   |               |               |               | \$               | %                       |
| <b>Key Performance Indicators (Continuing Operations)<sup>(2)</sup></b>   |               |               |               |                  |                         |
| Total revenues (teb)  | \$ 661,136    | \$ 617,000    | \$ 590,343    | \$ 44,136        | 7%                      |
| Total revenues  | 657,896       | 611,420       | 583,600       | 46,476           | 8                       |
| Pre-tax, pre-provision income (teb)                                       | 353,843       | 328,059       | 325,720       | 25,784           | 8                       |
| Common shareholders' net income   | 177,761       | 208,064       | 205,288       | (30,303)         | (15)                    |
| Earnings per share  |               |               |               |                  |                         |
| Basic   | 2.13          | 2.59          | 2.57          | (0.46)           | (18)                    |
| Diluted   | 2.13          | 2.59          | 2.54          | (0.46)           | (18)                    |
| Adjusted cash   | 2.26          | 2.63          | 2.59          | (0.37)           | (14)                    |
| Return on common shareholders' equity                                     | 9.3%          | 12.4%         | 13.9%         |                  | (310) bp <sup>(3)</sup> |
| Adjusted return on common shareholders' equity                            | 9.9           | 12.6          | 14.2          |                  | (270)                   |
| Return on assets  | 0.73          | 0.97          | 1.05          |                  | (24)                    |
| Efficiency ratio (teb) <sup>(4)</sup>                                     | 46.5          | 46.8          | 44.8          |                  | (30)                    |
| Efficiency ratio <sup>(4)</sup>   | 46.7          | 47.3          | 45.4          |                  | (60)                    |
| Net interest margin (teb)   | 2.43          | 2.56          | 2.59          |                  | (13)                    |
| Net interest margin   | 2.41          | 2.53          | 2.56          |                  | (12)                    |
| Operating leverage  | 1             | (5)           | -             |                  | 600                     |
| Provision for credit losses as a percentage of average loans              | 0.38          | 0.17          | 0.15          |                  | 21                      |
| <b>Key Performance Indicators (Combined Operations)<sup>(2)</sup></b>     |               |               |               |                  |                         |
| Common shareholders' net income   | \$ 177,761    | \$ 319,701    | \$ 218,549    | \$ (141,940)     | (44)%                   |
| Earnings per share  |               |               |               |                  |                         |
| Basic   | 2.13          | 3.97          | 2.73          | (1.84)           | (46)                    |
| Diluted   | 2.13          | 3.97          | 2.70          | (1.84)           | (46)                    |
| Adjusted cash   | 2.26          | 4.01          | 2.76          | (1.75)           | (44)                    |
| Return on common shareholders' equity                                     | 9.3%          | 19.1%         | 14.8%         |                  | (980) bp <sup>(3)</sup> |
| Adjusted return on common shareholders' equity                            | 9.9           | 19.3          | 15.1          |                  | (940)                   |
| Return on assets  | 0.73          | 1.48          | 1.10          |                  | (75)                    |
| <b>Key Performance Indicators (Discontinued Operations)<sup>(2)</sup></b> |               |               |               |                  |                         |
| Common shareholders' net income   | \$ -          | \$ 111,637    | \$ 13,261     | \$ (111,637)     | (100)%                  |
| Earnings per common share   |               |               |               |                  |                         |
| Basic   | -             | 1.38          | 0.16          | (1.38)           | (100)                   |
| Diluted   | -             | 1.38          | 0.16          | (1.38)           | (100)                   |
| Adjusted cash   | -             | 1.38          | 0.17          | (1.38)           | (100)                   |
| <b>Other Financial Information (Combined Operations)<sup>(2)</sup></b>    |               |               |               |                  |                         |
| Total assets  | \$ 25,222,549 | \$ 22,838,527 | \$ 20,635,046 | \$ 2,384,022     | 10%                     |
| Dividends per common share  | 0.92          | 0.86          | 0.78          | 0.06             | 7                       |

(1) See page 16 for a discussion of teb and non-IFRS measures.

(2) On May 1, 2015, CWB sold its property and casualty insurance subsidiary and CWB's stock transfer business as described in Note 3 of the annual consolidated financial statements. Revenues, expenses and gains on sale associated with the businesses sold are defined and classified on the consolidated statements of income for prior periods as "Discontinued Operations". The remaining operations are defined as "Continuing Operations", and the total Continuing Operations and Discontinued Operations are defined as "Combined Operations". Total revenues from Combined Operations in 2015 include \$107.8 million of divestiture gains. Return on shareholders' equity reflects equity from Combined Operations. All other measures reflect either Continuing or Combined Operations as indicated.

(3) bp – basis points.

(4) A decrease in the ratio reflects improved efficiency, while an increase reflects deterioration.

## Summary of Continuing Operations

CWB's core operating performance was strong based on achievement of record total revenues and 8% growth of pre-tax, pre-provision income to \$353.8 million. However, common shareholders' net income of \$177.8 million was 15% lower. Growth of 7% in net interest income (teb) was driven by very strong 13% loan growth, partially offset by the impact of a 13 basis point reduction in net interest margin (teb) to 2.43%. Of note, 2016 marked the 26<sup>th</sup> time in 27 years CWB has achieved double-digit loan growth. Loan growth within British Columbia (BC) and Ontario accounted for more than 90% of the increase from 2015. The balance of outstanding loans in Alberta was relatively unchanged compared to last year. Very strong overall loan growth in view of the challenging operating environment in the oil-producing provinces demonstrates the benefit of CWB's balanced growth strategy, which includes strategic objectives to achieve a more balanced geographic footprint and broader diversification within targeted sectors of Canada's commercial banking industry. Non-interest income was also 7% higher, mainly due to growth of credit related fees, lower net losses on securities and increased trust services revenue. These positive factors were more than offset by an increase in the annual provision for credit losses to 38 basis points as a percentage of average loans, compared to 17 basis points last year, and a 7% increase in non-interest expenses. Although credit quality outside of CWB's portfolio of oil and gas loans remained stable, higher provisions for credit losses resulted from losses recorded against oil and gas loans. The increase in non-interest expenses primarily reflects higher salaries and benefits, including the impact of acquisition-related increases in staffing, as well as the addition of amortization and sustainment costs related to the new core banking system and increased premises and other expenses to facilitate business growth. Further constraining growth of common shareholders' net income, acquisition-related fair value changes were \$7.9 million, compared to \$0.6 million last year, and preferred share dividends of \$10.6 million were up from \$5.5 million. Diluted earnings per common share of \$2.13 were down 18%, and adjusted cash earnings per common share of \$2.26 were down 14%, reflecting the factors described above and the issuance of common shares.

Adjusted return on common shareholders' equity (ROE) of 9.9% was down from 12.6% in 2015, reflecting both lower earnings, the issuance of common shares and the impact of divestiture gains on total shareholders' equity prior to re-deployment through acquisition. Total cash dividends paid to common shareholders of \$0.92 per share increased 7% from \$0.86 per share paid in the prior year, and resulted in a 2016 dividend payout ratio of 43% of total common shareholders' net income.

Total assets increased 10% to reach \$25,223 million. Loan growth of 13% was very strong, and deposits grew 9%, to reach \$21,961 million and \$21,195 million, respectively. Total branch-raised deposits increased 12%, while the demand and notice component within branch-raised deposits was up 15%. 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 branch-raised deposits represented 55% of total deposits at October 31, 2016, up from 54% a year earlier. The demand and notice component comprised 36% of total deposits, up from 35% last year. The balance of deposits raised through the capital markets represented 9% of total funding, compared to 10% at October 31, 2015, while the proportion of total funding represented by personal fixed rate term deposits raised through the deposit broker network was unchanged at 36%. The ratio of total deposits to total loans at October 31, 2016 was effectively 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. CWB's Basel III CET1, Tier 1 and total capital ratios at October 31, 2016 of 9.2%,

11.0% and 13.1%, respectively, were above both internal and regulatory minimums. OSFI's minimum Basel III regulatory capital ratios for CWB, which include a 250 basis point capital conservation buffer, are 7.0% CET1, 8.5% Tier 1 and 10.5% total capital. The increase in CWB's CET1 capital ratio from last year mainly reflects the issuance of \$150 million of common shares. Higher Tier 1 and Total capital ratios compared to last year reflect the issuance of \$140 million of non-cumulative 5-year rate reset First Preferred Shares Series 7 (Non-Viability Contingent Capital), partially offset within Total capital by the redemption of \$300 million of subordinated debentures.

## Summary of Combined Operations

Common shareholders' net income of \$177.8 million was down from \$319.7 million in 2015. Diluted earnings per share of \$2.13 compared to \$3.97, and adjusted cash earnings per common share of \$2.26 decreased from \$4.01. Excluding the impact of \$107.8 million of divestiture gains and six months of operating contributions from divested businesses last year, the changes in common shareholders' net income and earnings per share reflect the factors discussed within the overview of Continuing Operations above. Adjusted ROE for the year of 9.9% was down from 19.3% last year when divestiture gains were realized.



## Medium-term Performance Target Ranges

CWB's medium-term performance target ranges are unchanged from last year. Targets reflect key areas of shareholder value, the objectives embedded within CWB's strategic direction and a time horizon

consistent with the longer-term interests of CWB shareholders. Target ranges for key financial metrics over a three- to five-year time horizon are presented in the following table:

|   | Medium-term Performance Target Ranges | Current Context   |
|---|---------------------------------------|---|
| Adjusted cash earnings per common share growth <sup>(1)</sup>                     | 7 - 12%                               | Earnings and profitability for 2016 reflect the credit performance of CWB's oil and gas loans, lower net interest margin and the issuance of common shares. |
| Adjusted return on common shareholders' equity <sup>(2)</sup>                     | 12 - 15%                              |   |
| Operating leverage <sup>(3)</sup>   | Positive                              | Fiscal 2016 operating leverage was positive 1%.   |
| Common equity Tier 1 capital ratio under the Standardized approach <sup>(4)</sup> | Strong                                | Q4 2016 ratio of 9.2% is very strong.   |
| Common share dividend payout ratio <sup>(5)</sup>                                 | ~30%                                  | Fiscal 2016 ratio of 43% includes the impact of credit performance of oil and gas loans and the issuance of common shares.                                  |

(1) Adjusted cash earnings per common share is calculated as diluted earnings per common share excluding the acquisition-related amortization of intangible assets and the contingent consideration fair value changes, net of tax, which represent charges that are not considered to be indicative of ongoing operating performance. Performance for adjusted cash earnings per common share is the current year results over the prior year results.

(2) Adjusted return on common shareholders' equity is calculated as common shareholders' net income excluding the acquisition-related amortization of intangible assets and the contingent consideration fair value changes, net of tax, divided by average common shareholders' equity.

(3) Operating leverage is calculated as total revenue (teb) growth, less growth of non-interest expenses excluding the pre-tax amortization of acquisition-related intangible assets.

(4) Common equity Tier 1 capital ratio is calculated in accordance with Basel III guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) using the Standardized approach for credit risk.

(5) Common share dividend payout ratio is calculated as common share dividends declared during the year divided by common shareholders' net income.

Medium-term performance target ranges are based on expectations for moderate economic growth and a relatively stable interest rate environment in Canada over the three- to five-year forecast horizon. Achievement of overall financial results within these target ranges will be largely driven by CWB's commitment to continue to deliver ongoing strong loan growth at levels relatively consistent with recent performance, further optimization of CWB's funding mix, strong credit quality, effective expense management in consideration of revenue growth opportunities and prudent capital management.

## Outlook for Continuing Operations

Financial performance over a three- to five-year time frame is expected to be consistent with CWB's medium-term targets, and to benefit from an expanding geographic footprint with increased business diversification. Ongoing success in key strategic initiatives to enhance client offerings, build core funding sources, and leverage current and future investment in technology is also expected to support strong financial performance over the medium-term. Management expects earnings growth and profitability to fall below medium-term target ranges in fiscal 2017. This reflects expectations for ongoing pressure on net interest margin, incremental increases in CWB's expense base, mainly related to implementation of the new core banking system, a higher share count following the issuance of common shares in 2016, as well as the impact of the current recession in Alberta and Saskatchewan on loan growth and credit quality within those provinces.

Management expects CWB's earnings growth and business diversification to benefit from expansion of existing client relationships and the attraction of new clients. Successful implementation of the new core banking system is expected to facilitate initiatives in support of these objectives over the medium term. This improved technology will enable CWB to benefit from a client-centric view of branch-based relationships and achieve further operational efficiencies. The new system will also support

CWB's application for transition to the *Advanced Internal Ratings Based (AIRB)* methodology for managing credit risk and calculating risk-weighted assets. A project plan has been finalized in support of CWB's application, including an anticipated three-year time frame.

## Strong Loan and Deposit Growth with Strategic Diversification

Over the medium term, ongoing strong, balanced growth of both loans and funding sources remain important strategic objectives. Further geographic and business sector diversification within targeted segments of Canada's commercial banking industry is the foundation of CWB's strategic direction. CWB will continue to focus on prudent growth of secured loans that offer an appropriate return and acceptable risk profile. Loan growth within Alberta and Saskatchewan is expected to remain challenging due to the impact of the current recession.

However, management expects to deliver solid overall loan growth at levels relatively consistent with recent performance, primarily based on higher relative contributions from non-oil producing provinces across CWB's growing geographic footprint. A key strategic objective, supported by CWB's investment in the new core banking system, is to increase the level of branch-raised deposits as this core source of funding is typically lower cost than non-branch-raised funding. Branch-raised deposit products, including business savings, cash management and bare trustee accounts, also represent tools which help clients conveniently manage their business and personal finances, and management considers growth within this category to demonstrate success in strengthening key, multi-product client relationships.

## Net Interest Margin

CWB expects efforts to optimize the overall cost of funds through targeted growth of lower-cost funding sources, along with selective, geographically diversified growth in higher yielding loan portfolios with an acceptable risk profile to mitigate the earnings impact of ongoing margin pressure over the medium term. However, in the near term, management expects these efforts to only partially offset the impacts of ongoing very low interest rates, competitive influences and a flat interest rate curve. As such, net interest margin pressure is expected to persist in 2017.

## Credit Quality

Overall credit quality is expected to reflect CWB's secured lending business model, disciplined underwriting practices and proactive loan management. Gross impaired loans within Alberta have increased in most portfolios compared to last year as the operating environment has remained particularly challenging due to the current recession. CWB continues to work with affected clients, and management will continue to monitor the entire loan portfolio for signs of weakness resulting from the first and second order impacts of lower oil prices. CWB will also continue to closely observe developments within the residential housing sector, with a particular focus on markets where a combination of rapid price escalation and regulatory change could impact pricing and the level of future activity. Although CWB expects periodic increases in the balance of impaired loans across the portfolio, loss rates on impaired loans outside of oil and gas production lending are expected to be consistent with CWB's prior experience, where write-offs have been low as a percentage of impaired loans. The 2017 provision for credit losses as a percentage of average loans is expected to fall below the unusual level of 38 basis points experienced in 2016, within a range between 25 and 35 basis points.

Based on the results of stress tests simulating severe economic conditions in Alberta and Saskatchewan, in combination with very challenging economic conditions throughout the rest of CWB's geographic footprint over a multi-year timeframe, management is confident CWB will continue to deliver positive earnings for shareholders while maintaining financial stability and a strong capital position. Stress test assumptions include severe credit losses, a persistent low interest rate environment and significantly slower loan growth to reflect lower assumed levels of economic activity, as well as increased competition for deposits and much higher levels of gross impaired loans that could combine to result in significant compression of net interest margin.

## Efficient Operations and Operating Leverage

A key priority for CWB is to deliver consistent increases in adjusted cash earnings per share through business growth and strategic investment while maintaining effective control of costs. CWB's ongoing investment in people, technology and infrastructure is expected to contribute to long-term shareholder value through improved financial performance in future periods. In view of the level of necessary future

investment to facilitate ongoing implementation of CWB's strategic direction, as well as the low probability of meaningful short-term improvement in net interest margin, management expects CWB's efficiency ratio to fluctuate at levels moderately higher than the recent past. Management is committed to disciplined control of all discretionary expenses, and positive operating leverage is expected over the medium term.

## Prudent Capital Management and Dividends

With a very strong capital position under the more conservative *Standardized* approach for calculating risk-weighted assets and a targeted dividend payout ratio of approximately 30%, CWB is well-positioned to continue to execute against our balanced growth strategy, strengthen shareholder returns and ensure resilience and flexibility through the maintenance of strong regulatory capital ratios. Ongoing support and development of each of CWB's core businesses will remain a key priority, while potential strategic acquisitions will continue to be evaluated.

At October 31, 2016, CWB's capital ratios were 9.2% CET1, 11.0% Tier 1 and 13.1% total capital. Changes in CWB's capital ratios from last year mainly reflect an increase of approximately 70 basis points related to the issuance of \$150 million of common shares on July 7, 2016. Higher Tier 1 and Total capital ratios compared to last year also reflect the issuance on March 31, 2016 of \$140 million of non-cumulative 5-year rate reset First Preferred Shares Series 7 (Non-Viability Contingent Capital), partially offset by the redemption of \$300 million of subordinated debentures on November 30, 2015. Redemption of \$105 million of CWB Capital Trust Securities Series 1 (the "WesTS") on December 31, 2016 is expected to reduce CWB's Tier 1 and Total capital ratios by approximately 50 basis points.

Common share dividend increases are evaluated every quarter against the dividend payout ratio target of approximately 30%. The timing of future dividend increases will be influenced by capital requirements under the Standardized approach to support ongoing strong and balanced asset growth, as well as challenges related to persistent net interest margin pressure and ongoing macroeconomic uncertainty.

Further guidance related to management's expectations for specific measures of financial performance, as well as related risk factors, is provided within the Outlook sections of this MD&A.

Unless otherwise noted, the remainder of this MD&A refers to financial performance from, and the outlook for, Continuing Operations.

## NET INTEREST INCOME

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

### Highlights of 2016

- Net interest income (teb) increased 7% to a record \$588.5 million primarily based on very strong 13% loan growth.
- Net interest margin (teb) of 2.43% was down 13 basis points as the combined benefits of reduced deposit costs, lower average balances of cash and securities as a percentage of total assets, and beneficial changes in deposit mix were more than offset by lower asset yields. Of note, loan yields remained under pressure due to both the low interest rate environment and competitive factors.

**Table 5 - Net Interest Income (teb)<sup>(1)</sup>**  
(\$ thousands)

|   | 2016                 |             |                   |               | 2015                 |             |                   |               |
|---|----------------------|-------------|-------------------|---------------|----------------------|-------------|-------------------|---------------|
|   | Average Balance      | Mix         | Interest          | Interest Rate | Average Balance      | Mix         | Interest          | Interest Rate |
| <b>Assets</b>   |                      |             |                   |               |                      |             |                   |               |
| Cash, securities and deposits with regulated financial institutions | \$ 2,719,327         | 11%         | \$ 36,352         | 1.34%         | \$ 2,597,920         | 12%         | \$ 48,142         | 1.85%         |
| Securities purchased under resale agreements                        | 131,891              | 1           | 620               | 0.47          | 46,359               | -           | 341               | 0.74          |
| Loans   |                      |             |                   |               |                      |             |                   |               |
| Personal  | 3,659,510            | 15          | 141,277           | 3.86          | 3,027,366            | 14          | 119,358           | 3.94          |
| Business  | 17,264,663           | 71          | 786,980           | 4.56          | 15,470,444           | 72          | 736,009           | 4.76          |
|   | 20,924,173           | 86          | 928,257           | 4.44          | 18,497,810           | 86          | 855,367           | 4.62          |
| Total interest bearing assets                                       | 23,775,391           | 98          | 965,229           | 4.06          | 21,142,089           | 98          | 903,850           | 4.28          |
| Other assets  | 424,060              | 2           | -                 | 0.00          | 339,097              | 2           | -                 | 0.00          |
| <b>Total Assets</b>   | <b>\$ 24,199,451</b> | <b>100%</b> | <b>\$ 965,229</b> | <b>3.99%</b>  | <b>\$ 21,481,186</b> | <b>100%</b> | <b>\$ 903,850</b> | <b>4.21%</b>  |
| <b>Liabilities</b>  |                      |             |                   |               |                      |             |                   |               |
| Deposits  |                      |             |                   |               |                      |             |                   |               |
| Personal  | \$ 12,489,741        | 52%         | \$ 231,429        | 1.85%         | \$ 10,614,819        | 50%         | \$ 205,776        | 1.94%         |
| Business and government   | 7,955,410            | 33          | 114,895           | 1.46          | 7,579,692            | 35          | 110,774           | 1.46          |
|   | 20,445,151           | 85          | 346,324           | 1.70          | 18,194,511           | 85          | 316,550           | 1.74          |
| Other liabilities   | 419,883              | 2           | 174               | 0.04          | 332,050              | 2           | 288               | 0.09          |
| Debt  | 1,226,192            | 5           | 30,267            | 2.47          | 1,150,251            | 5           | 37,960            | 3.30          |
| Shareholders' equity  | 2,107,633            | 8           | -                 | 0.00          | 1,803,047            | 8           | -                 | 0.00          |
| Non-controlling interests   | 592                  | -           | -                 | 0.00          | 1,327                | -           | -                 | 0.00          |
| <b>Total Liabilities and Equity</b>                                 | <b>\$ 24,199,451</b> | <b>100%</b> | <b>\$ 376,765</b> | <b>1.56%</b>  | <b>\$ 21,481,186</b> | <b>100%</b> | <b>\$ 354,798</b> | <b>1.65%</b>  |
| <b>Total Assets/Net Interest Income</b>                             | <b>\$ 24,199,451</b> |             | <b>\$ 588,464</b> | <b>2.43%</b>  | <b>\$ 21,481,186</b> |             | <b>\$ 549,052</b> | <b>2.56%</b>  |

(1) See page 16 for a discussion of teb and other non-IFRS measures.

Net interest income (teb) increased 7% to reach a record \$588.5 million driven by 12% growth in average interest-earning assets. The impact of strong 13% loan growth was partially offset by a 13 basis point reduction in net interest margin (teb) to 2.43%.

The yield on CWB's average loans fell by 18 basis points in 2016, and the yield on average cash, securities and deposits with regulated financial institutions was down 51 basis points. The latter change reflects both the lower interest rate environment and an increase in the proportion of cash

and debt securities held compared to higher yielding preferred shares and common equities. CWB has liquidated its holdings of common equities and has no plans to re-establish this portfolio.

Through strong growth of branch-raised deposits, including 15% growth of targeted notice and demand deposits, CWB realized beneficial changes in deposit mix. However, average deposit costs fell only four basis points compared to the 18 basis point decline in loan yields mentioned above.

## Outlook for Net Interest Income and Net Interest Margin

CWB will maintain its strategic focus on mitigating the earnings impact of ongoing margin pressure through continued implementation of its balanced growth strategy. This strategy includes efforts to optimize the overall cost of funds through targeted growth of lower-cost funding sources, as well as selective, geographically diversified growth in higher yielding loan portfolios with an acceptable risk profile. Loan growth will continue to have a positive influence on net interest income, but the combination of the persistent very low interest rate environment, ongoing competition for both loans and deposits, and a relatively flat yield curve is expected to result in further pressure on net interest margin compared to the 2.43% level realized in 2016. Management expects to sustain positive momentum toward beneficial changes in deposit mix through strong growth in preferred types of branch-raised deposits and ongoing development of new funding channels; however, 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, and/or an increase in the prime lending interest rate would benefit CWB's net interest margin. CWB's projections for 2017 assume no change in the prime rate. Competitive factors, particularly in certain business areas, are expected to result in continued downward pressure on loan pricing and upward pressure on overall deposit costs. Changes in average balances of cash and securities also have an impact on net interest margin, with lower average balances generally enhancing margin, and higher average balances having the opposite effect. Consistent with its liquidity risk appetite, CWB expects to maintain average balances of cash and securities at prudent levels, relatively consistent with 2016.

## NON-INTEREST INCOME

### Highlights of 2016

- Non-interest income of \$72.7 million, up 7%.
- Strong growth in credit related income and lower net losses on securities.
- Non-interest income represented 11% of total revenues (teb), unchanged from 2015.

**Table 6 - Non-interest Income**

(\$ thousands)

|                                  | 2016             | 2015             | Change from 2015 |           |
|----------------------------------|------------------|------------------|------------------|-----------|
|                                  |                  |                  | \$               | %         |
| Credit related                   | \$ 30,598        | \$ 27,855        | \$ 2,743         | 10%       |
| Wealth management                | 14,021           | 14,448           | (427)            | (3)       |
| Retail services                  | 13,617           | 13,697           | (80)             | (1)       |
| Trust services                   | 11,522           | 10,816           | 706              | 7         |
| Losses on securities, net        | (2,830)          | (4,324)          | 1,494            | (35)      |
| Other <sup>(1)</sup>             | 5,744            | 5,456            | 288              | 5         |
| <b>Total Non-interest Income</b> | <b>\$ 72,672</b> | <b>\$ 67,948</b> | <b>\$ 4,724</b>  | <b>7%</b> |

(1) Includes gains on loan portfolio sales, lease administration services, foreign exchange gains/losses, gains/losses on land, buildings and equipment disposals, and other miscellaneous non-interest revenues.

Non-interest income of \$72.7 million was up 7% as the combined benefit of strong growth in credit related income, lower net losses on securities and higher trust services revenues more than offset slight decreases in wealth management income and fees for retail services. Growth in credit related income was consistent with strong lending activity. While market conditions remained persistently challenging in 2016, lower net losses on securities compared to last year reflect reduced equity market exposure following liquidation of CWB's holdings of common equities and improved market conditions within the Canadian preferred share market this year. Management has no plans to re-establish the portfolio of common equities. 'Other' non-interest income mainly reflects gains on the sale of residential mortgages.

Non-interest income as a percentage of total revenues (net interest income (teb) and non-interest income) was 11%, unchanged from 2015.

## Outlook for Non-interest Income

Growth of non-interest income is expected to reflect the extension and deepening of CWB's relationships with both new and existing clients. Increases are expected across most categories of non-interest income reflecting CWB's continued focus on strong, high quality loan growth with associated fee income, as well as enhanced transactional capabilities in cash management and other retail services, including CWB's branch-raised deposit franchise.

CWB has liquidated its holdings of common equities and has no plans to re-establish this portfolio. In view of this change, and based on the current composition of the securities portfolio, net gains/losses on securities are not expected to contribute materially to non-interest income in 2017; however, the magnitude and timing of gains or losses are dependent on market factors that are difficult to predict.

Continued solid growth is expected from Trust Services, resulting from ongoing business development. Management expects further

increases in wealth management revenues to result from solid performance within CWB Wealth Management, including organic growth at McLean & Partners and Adroit, as well as the introduction of discretionary investment services to more CWB banking clients. Further development of CWB's regional wealth management specialist channel is expected to improve CWB Wealth Management's ability to attract new clients through enhanced delivery of value-added financial and investment planning services. CWB's branch-based mutual fund dealer, CWF, is expected to perform well within this segment. Management expects CWF to leverage the introduction of proprietary CWB Core Funds and Onyx Portfolio Series mutual funds within CWB's branch network in support of further growth in, and profitability of, assets under management.

CWB maintains its long-term objective to diversify total revenues and will continue with initiatives to further develop and/or acquire additional sources of complementary non-interest income.

## NON-INTEREST EXPENSES, EFFICIENCY AND OPERATING LEVERAGE

### Highlights of 2016

- The efficiency ratio (teb) of 46.5% improved 30 basis points compared to 2015, primarily reflecting the benefit of total revenue growth and disciplined control of non-interest expenses.
- Operating leverage was positive 1%.

**Table 7 - Non-interest Expenses and Efficiency Ratio**

(\$ thousands)

|   | 2016              | 2015              | Change from 2015 |                              |
|---|-------------------|-------------------|------------------|------------------------------|
|   |                   |                   | \$               | %                            |
| <b>Salaries and Employee Benefits</b>                 |                   |                   |                  |                              |
| Salaries  | \$ 171,332        | \$ 160,352        | \$ 10,980        | 7%                           |
| Employee benefits                                     | 33,571            | 30,937            | 2,634            | 9                            |
|   | <b>204,903</b>    | <b>191,289</b>    | <b>13,614</b>    | <b>7</b>                     |
| <b>Premises</b>                                       |                   |                   |                  |                              |
| Rent  | 19,688            | 18,434            | 1,254            | 7                            |
| Depreciation  | 5,277             | 6,293             | (1,016)          | (16)                         |
| Other   | 3,314             | 3,130             | 184              | 6                            |
|   | <b>28,279</b>     | <b>27,857</b>     | <b>422</b>       | <b>2</b>                     |
| <b>Equipment and Software</b>                         |                   |                   |                  |                              |
| Depreciation  | 12,950            | 9,362             | 3,588            | 38                           |
| Other   | 11,310            | 10,259            | 1,051            | 10                           |
|   | <b>24,260</b>     | <b>19,621</b>     | <b>4,639</b>     | <b>24</b>                    |
| <b>General</b>  |                   |                   |                  |                              |
| Professional fees and services                        | 8,234             | 8,731             | (497)            | (6)                          |
| Marketing and business development                    | 6,939             | 7,880             | (941)            | (12)                         |
| Amortization of acquisition-related intangible assets | 6,354             | 4,548             | 1,806            | 40                           |
| Regulatory costs                                      | 6,281             | 4,748             | 1,533            | 32                           |
| Banking charges                                       | 5,429             | 4,987             | 442              | 9                            |
| Postage and stationery                                | 2,898             | 2,756             | 142              | 5                            |
| Travel  | 2,832             | 2,668             | 164              | 6                            |
| Loan-related credit reports                           | 2,431             | 2,525             | (94)             | (4)                          |
| Community investment                                  | 2,281             | 2,224             | 57               | 3                            |
| Communications  | 1,717             | 1,810             | (93)             | (5)                          |
| Employee training                                     | 1,303             | 1,894             | (591)            | (31)                         |
| Capital and business taxes                            | 1,284             | 1,195             | 89               | 7                            |
| Staff relations                                       | 1,279             | 1,606             | (327)            | (20)                         |
| General insurance                                     | 1,036             | 919               | 117              | 13                           |
| Parking   | 908               | 897               | 11               | 1                            |
| Acquisition-related                                   | 695               | 340               | 355              | 104                          |
| Employee recruitment                                  | 641               | 802               | (161)            | (20)                         |
| Other   | 3,663             | 4,192             | (529)            | (13)                         |
|   | <b>56,205</b>     | <b>54,722</b>     | <b>1,483</b>     | <b>3</b>                     |
| <b>Total Non-interest Expenses</b>                    | <b>\$ 313,647</b> | <b>\$ 293,489</b> | <b>\$ 20,158</b> | <b>7%</b>                    |
| <b>Efficiency Ratio (teb)<sup>(1)(2)</sup></b>        | <b>46.5%</b>      | <b>46.8%</b>      |                  | <b>(30) bp<sup>(3)</sup></b> |

(1) See page 16 for a discussion of non-IFRS measures.

(2) A decrease in this ratio reflects improved efficiency, while an increase reflects deterioration.

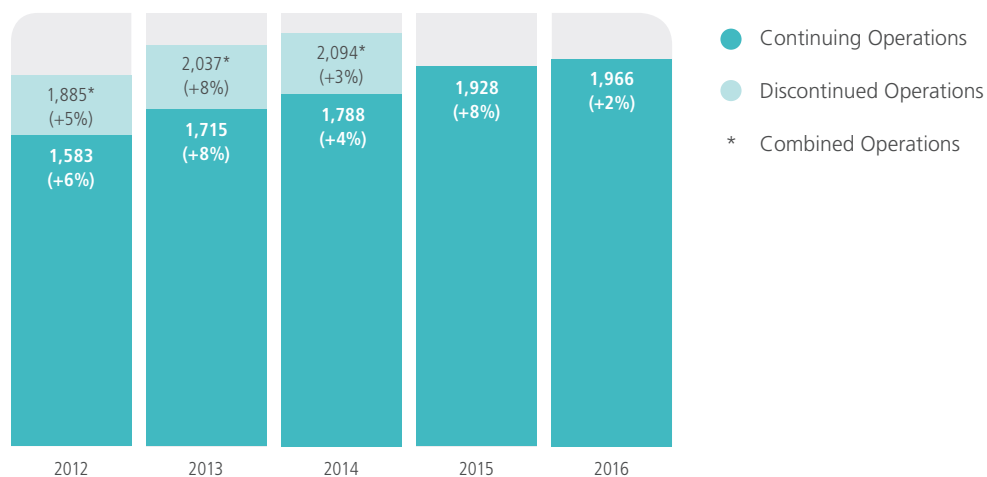
(3) bp – basis points.

Total non-interest expenses of \$313.6 million were up 7%. The 7% increase in salary and benefit costs reflects the combined impact of acquisition-related increases in staffing, hiring activity in support of business growth and annual salary increments. CWB Maxium accounted for approximately 30% of the total increase in non-interest expenses. The net increase in full-time equivalent employees (FTEs) was modest at only 2% (38 FTEs) as the addition of more than 50 FTEs through acquisition was partially offset by the release of contract staff related to the core banking system project. Premises expense was relatively stable, up only 2% including depreciation. Ongoing investment in technology infrastructure necessary to position CWB for future growth also contributed to the increase in non-interest expenses. Equipment expenses increased 24%, including depreciation, primarily reflecting implementation of CWB's new core banking system.

Combined amortization and sustainment costs related to the new core banking system after implementation accounted for approximately 15% of the total increase in non-interest expenses. Growth of general non-interest expenses was also moderate at 3%. Amortization of acquisition-related intangible assets was \$1.8 million higher due to the acquisition of CWB Maxium, and regulatory costs increased \$1.5 million. Disciplined management of discretionary expenses partially offset these factors and small increases in other categories.

The efficiency ratio (teb) of 46.5% improved 30 basis points compared to 2015, primarily reflecting the benefit of total revenue growth despite persistent net interest margin pressure and disciplined control of non-interest expenses. Operating leverage for the year was positive 1%.

Figure 1 – Number of Full-time Equivalent Staff



## Outlook for Non-interest Expenses, Efficiency and Operating Leverage

A key priority for CWB is to deliver strong long-term growth in adjusted cash earnings per share through strategic investment while maintaining effective control of costs. CWB's current investments in people, technology and infrastructure are expected to contribute to long-term shareholder value through improved financial performance in future periods.

The major program to implement a new core banking system culminated with implementation of the system in the third quarter. The core banking and other technology investments are expected to provide considerable efficiencies in the future, including improved client relationship management capabilities and enhanced data management. While the beneficial impact of these efficiencies on CWB's cost structure and revenues will be realized over time, combined amortization and sustainment costs related to the new core banking system are expected to add approximately \$2.0 million to non-interest expenses on a quarterly basis compared to pre-implementation levels.

Certain technology investments, including the new core banking system, are also key requirements to facilitate an eventual transition to the AIRB methodology for managing credit risk and calculating risk-weighted assets.

CWB opened its 42<sup>nd</sup> full-service branch through expansion of operations in Lloydminster, Saskatchewan during the third quarter. Additional opportunities to upgrade and expand branch infrastructure continue to be reviewed.

Compliance with an increasing level of regulatory rules and oversight for all Canadian banks requires the investment of both time and resources.

Anticipated growth in total revenues (teb) should largely offset the impact of increased investment necessary for effective execution of CWB's balanced growth strategy over the medium term. However, in consideration of expense growth related to newly acquired businesses, ongoing investment in growth initiatives, including those discussed above, and expectations for constrained net interest margin in the absence of increases in the prime lending interest rate and/or sustained steepening of the yield curve, periods of negative operating leverage may occur over the short term. Management remains committed to disciplined management of all discretionary expenses based on total revenue growth, and has targeted positive operating leverage over a medium-term, three- to five-year time horizon.

## ACQUISITION-RELATED FAIR VALUE CHANGES

The tax deductible change in the estimated fair value of contingent consideration since the acquisition of CWB Maxium was \$7.9 million. The change in fair value reflects the expected value of the contingent consideration after evaluating actual earnings to date and the estimated

probability-weighted future operating performance of this newly acquired business. Quarterly fair value changes similar in magnitude through the remainder of the three-year earn out period would approximate an amount near the maximum available through the purchase agreement.

## INCOME TAXES

The 2016 effective income tax rate (teb) was 27.3% compared to 26.3% in 2015 while the effective tax rate before the teb adjustment was 26.4% compared to 24.9% last year. The 20% increase in Alberta's provincial corporate income tax rate, from 10% to 12%, effective July 1, 2015, reduced CWB's common shareholders' net income in 2016 by approximately 1.4% (\$3.6 million). The tax increase did not have a material impact on common shareholders' net income in fiscal 2015, as the increase was offset by the related recovery on the deferred tax asset revaluation in that year.

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. 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.

## Outlook for Income Taxes

CWB's expected income tax rate (teb) for fiscal 2017 is approximately 27.5%, relatively unchanged from 2016.



## RESULTS OF DISCONTINUED OPERATIONS

Table 8 summarizes the components of net income from Discontinued Operations included in the consolidated statements of income, which are attributable entirely to CWB common shareholders.

**Table 8 - Results of Discontinued Operations**

(\$ thousands)

|  | 2016 | 2015       | Change from 2015 |        |
|--|------|------------|------------------|--------|
|  |      |            | \$               | %      |
| Non-interest income (teb)  | \$ - | \$ 3,875   | \$ (3,875)       | (100)% |
| Non-interest income  |      |            |                  |        |
| Insurance revenues, net  | -    | 9,416      | (9,416)          | (100)  |
| Trust services   | -    | 3,221      | (3,221)          | (100)  |
| Losses on securities, net  | -    | (283)      | 283              | (100)  |
| Total revenue (teb)  | -    | 16,229     | (16,229)         | (100)  |
| Non-interest expenses  | -    | 11,104     | (11,104)         | (100)  |
| Net income before income taxes   | -    | 5,125      | (5,125)          | (100)  |
| Income taxes (teb)   | -    | 1,296      | (1,296)          | (100)  |
| <b>Net Income from Discontinued Operations before Net Gain on Sale</b> | -    | 3,829      | (3,829)          | (100)  |
| Net gain on sale, after tax  | -    | 107,808    | (107,808)        | (100)  |
| <b>Common Shareholders' Net Income from Discontinued Operations</b>    | \$ - | \$ 111,637 | \$ (111,637)     | (100)% |
| <b>Earnings Per Common Share</b>                                       |      |            |                  |        |
| Basic  | \$ - | \$ 1.38    | \$ (1.38)        | (100)% |
| Diluted  | -    | 1.38       | (1.38)           | (100)  |
| Adjusted cash  | -    | 1.38       | (1.38)           | (100)  |

Common shareholders' net income from Discontinued Operations for 2016 was nil compared to \$1.38 per common share in 2015. Earnings from Discontinued Operations last year were comprised of \$1.33 per common share of divestiture gains and six months of operating contributions from the divested businesses.

## COMPREHENSIVE INCOME

Comprehensive income is comprised of net income and other comprehensive income (OCI), all net of income taxes. CWB's OCI includes changes in unrealized gains and losses on available-for-sale cash and securities, and fair value changes for derivative instruments designated as cash flow hedges. The 2016 decrease in comprehensive income was primarily driven by 42% (\$137.3 million) lower net income from Combined Operations, primarily reflecting \$107.8 million of divestiture gains from Discontinued Operations realized last year, as well as lower net income from Continuing Operations this year, mainly due to the credit performance of oil and gas production loans.

These changes were partially offset by a \$56.4 million increase in OCI. Changes in OCI included an \$80.4 million increase in fair value of available-for-sale securities, partially offset by a \$16.0 million decrease in fair value of derivatives designated as cash flow hedges. While the dollar amount of CWB's investment in available-for-sale securities, which includes preferred shares and included common shares prior to liquidation of these holdings in 2016, is relatively small in relation to total liquid assets, these investments can lead to fluctuations in OCI.

**Table 9 - Comprehensive Income**

(\$ thousands)

|  | 2016              | 2015              | Change from 2015   |
|--|-------------------|-------------------|--------------------|
| Net Income from Continuing Operations                        | \$ 189,334        | \$ 214,965        | \$ (25,631)        |
| Common Shareholders' Net Income from Discontinued Operations | -                 | 111,637           | (111,637)          |
| <b>Net Income from Combined Operations</b>                   | <b>189,334</b>    | <b>326,602</b>    | <b>(137,268)</b>   |
| <b>Other Comprehensive Income (Loss)</b>                     |                   |                   |                    |
| Available-for-sale securities                                |                   |                   |                    |
| Gains (losses) from change in fair value, net of tax         | 20,799            | (59,593)          | 80,392             |
| Reclassification to net income, net of tax                   | 2,158             | 6,612             | (4,454)            |
|  | 22,957            | (52,981)          | 75,938             |
| Derivatives designated as cash flow hedges                   |                   |                   |                    |
| Gains (losses) from change in fair value, net of tax         | (8,157)           | 7,846             | (16,003)           |
| Reclassification to net income, net of tax                   | 113               | 3,640             | (3,527)            |
|  | (8,044)           | 11,486            | (19,530)           |
| Other Comprehensive Income (Loss), net of tax                | 14,913            | (41,495)          | 56,408             |
| <b>Total Comprehensive Income</b>                            | <b>\$ 204,247</b> | <b>\$ 285,107</b> | <b>\$ (80,860)</b> |

## CASH AND SECURITIES

Cash, securities and securities purchased under resale agreements totalled \$2,792 million at October 31, 2016, compared to \$2,995 million one year ago. The cash and securities portfolio is mainly comprised of high-quality debt instruments and a comparatively smaller component of preferred shares. The portfolio previously included a small portfolio of common shares; however, CWB liquidated these holdings in 2016 and has no plans to re-establish this portfolio. Securities are not held for trading purposes and, where applicable, are typically held until maturity.

Fluctuations in the value of securities are generally attributed to changes in interest rates and movements in market credit spreads. Volatility in equity markets caused fluctuations in the value of common shares during the period in which CWB held these investments. Total net unrealized losses before tax recorded on the balance sheet at October 31, 2016 were \$44.7 million, compared to \$76.2 million last year. Net unrealized gains or losses are reflected in Table 10.

**Table 10 - Unrealized Gains (Losses) on Available-for-Sale Cash and Securities**

(\$ thousands)

|   | As at October 31, 2016 |                               |                     | As at October 31, 2015 |                               |                     |
|---|------------------------|-------------------------------|---------------------|------------------------|-------------------------------|---------------------|
|   | Amortized Cost         | Net Unrealized Gains (Losses) | Fair Value          | Amortized Cost         | Net Unrealized Gains (Losses) | Fair Value          |
| <b>Deposits with Regulated Financial Institutions</b> | \$ 890,597             | \$ (81)                       | \$ 890,516          | \$ 413,145             | \$ (377)                      | \$ 412,768          |
| <b>Securities Issued or Guaranteed by</b>             |                        |                               |                     |                        |                               |                     |
| Canada  | 1,142,651              | 147                           | 1,142,798           | 1,373,476              | (8,614)                       | 1,364,862           |
| A province or municipality                            | 291,814                | 133                           | 291,947             | 626,300                | (5,396)                       | 620,904             |
| <b>Other Debt Securities</b>                          | 153,126                | 1,522                         | 154,648             | 347,322                | (1,023)                       | 346,299             |
| <b>Preferred Shares</b>                               | 165,606                | (46,405)                      | 119,201             | 198,325                | (54,457)                      | 143,868             |
| <b>Common Shares</b>                                  | -                      | -                             | -                   | 81,528                 | (6,349)                       | 75,179              |
| <b>Total</b>  | <b>\$ 2,643,794</b>    | <b>\$ (44,684)</b>            | <b>\$ 2,599,110</b> | <b>\$ 3,040,096</b>    | <b>\$ (76,216)</b>            | <b>\$ 2,963,880</b> |

The decrease in unrealized losses on securities compared to 2015 primarily relates to the impact of changes in interest rates on pricing within the debt securities market, improvements in market conditions within the Canadian preferred share market and liquidation of CWB's common share holdings. The level of unrealized losses on securities is regularly reviewed. Impairment charges on debt securities and preferred shares are reflected in net gains/losses on securities only in the case of an issuer credit event. CWB has no direct investment in any non-Canadian sovereign debt or other securities issued outside of Canada or the United States (U.S.).

Net losses on securities of \$2.8 million were realized in 2016, compared to net losses of \$4.3 million in the prior year. While market conditions remained persistently challenging in 2016, lower net losses on securities compared to last year reflect reduced equity market exposure following liquidation of CWB's holdings of common equities and certain preferred shares, as well as improved market conditions within the Canadian preferred share market this year.

See Table 28 – 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 2017, is included in the Liquidity Management discussion of this MD&A.

## LOANS

### Highlights of 2016

- Very strong, well-diversified 13% loan growth, largely driven by very strong performance in British Columbia and Ontario, with contributions led by general commercial loans, real estate project loans and personal loans and mortgages.
- Double-digit loan growth achieved in 26 of the past 27 years (the exception being 2009 when loan growth during the global financial crisis was 7%).

**Table 11 - Outstanding Loans by Portfolio**

(\$ millions)

|                                 | 2016             | 2015             | Change from 2015 |            |
|---------------------------------|------------------|------------------|------------------|------------|
|                                 |                  |                  | \$               | %          |
| General commercial loans        | \$ 4,808         | \$ 3,805         | \$ 1,003         | 26%        |
| Real estate project loans       | 4,181            | 3,266            | 915              | 28         |
| Personal loans and mortgages    | 4,064            | 3,318            | 746              | 22         |
| Commercial mortgages            | 3,999            | 3,839            | 160              | 4          |
| Equipment financing and leasing | 3,693            | 3,772            | (79)             | (2)        |
| Corporate lending               | 1,099            | 1,257            | (158)            | (13)       |
| Oil and gas production loans    | 221              | 313              | (92)             | (29)       |
| <b>Total Outstanding Loans</b>  | <b>\$ 22,065</b> | <b>\$ 19,570</b> | <b>\$ 2,495</b>  | <b>13%</b> |

Total loans before the allowance for credit losses increased 13% to reach \$22,065 million at year end. Acquisition of the CWB Franchise Finance portfolio contributed approximately \$350 million for the year, and net originations within CWB Maxium were approximately \$300 million, both primarily within the general commercial category. Securitized assets originated by the CWB Maxium team prior to March 1, 2016, were not included as part of the acquisition; however, CWB holds renewal rights related to these assets. General commercial loans made the greatest contribution to annual loan growth measured in dollars, as shown in Table 11, followed by very strong performance in real estate project loans, and personal loans and mortgages. Of note, loan growth within BC and Ontario accounted for more than 90% of the increase from 2015.

General commercial loans increased 26%. Based on industry sector, as shown in Table 12, general commercial loans include categories such as manufacturing, finance and insurance, and wholesale and retail trade. CWB's promising pipeline of new commercial loans, including opportunities within CWB Maxium and CWB Franchise Finance,

along with management's ongoing efforts to emphasize the strategic relevance of this area to CWB's funding diversification objectives, support expectations for strong relative growth in this portfolio over time.

Growth in real estate project loans remained strong as CWB has continued to finance well-capitalized developers on the basis of sound loan structures and acceptable pre-sale/lease levels. Growth within this segment slowed late in the year, in a manner consistent with management's expectations. Total exposure to real estate project loans remains within CWB's established risk appetite.

Personal loans and mortgages include CWB's broker-sourced residential mortgage business, Optimum, lending activity in banking branches, and CWB's participation in the *National Housing Act* Mortgage-backed Securities (NHA MBS) program. Participation in the NHA MBS program contributed \$391 million to growth in 2016 (2015 – nil). Net of the sale of three portfolios totalling \$71 million, total loans of \$2,283 million in Optimum represented net growth of 18% (\$355 million). 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 69%. The book value of alternative mortgages represented approximately 92% (2015 – 88%) of Optimum’s total portfolio. Ontario continues to account for over half of Optimum’s new originations. At approximately 49% of the total, Ontario represents the largest geographic exposure by province within Optimum’s portfolio, followed by Alberta at 23% and BC at 17%. The average size of Optimum mortgages originated in 2016 was approximately \$308,000, and the average size of mortgages outstanding at October 31, 2016 was approximately \$241,000. Management remains committed to the ongoing development of this business, including further expansion in Ontario, as it continues to produce solid returns while maintaining an acceptable risk profile.

The balance of loans in equipment financing and leasing includes the branch-based heavy equipment financing business and \$1,720 million of small- and mid-ticket leases within National Leasing. Strong, double-digit growth of 10% within National Leasing reflects the company’s solid market position and coast-to-coast footprint. Areas outside of Western Canada account for more than half of National Leasing’s leasing exposure by geography. The balance of branch-based equipment finance loans contracted, primarily due to the challenging operating environment within Alberta.

Corporate lending represents a diversified portfolio that is centrally sourced and administered through designated lending groups. Corporate lending includes participation in select syndications structured and led primarily by the major Canadian banks, but excludes 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 11.

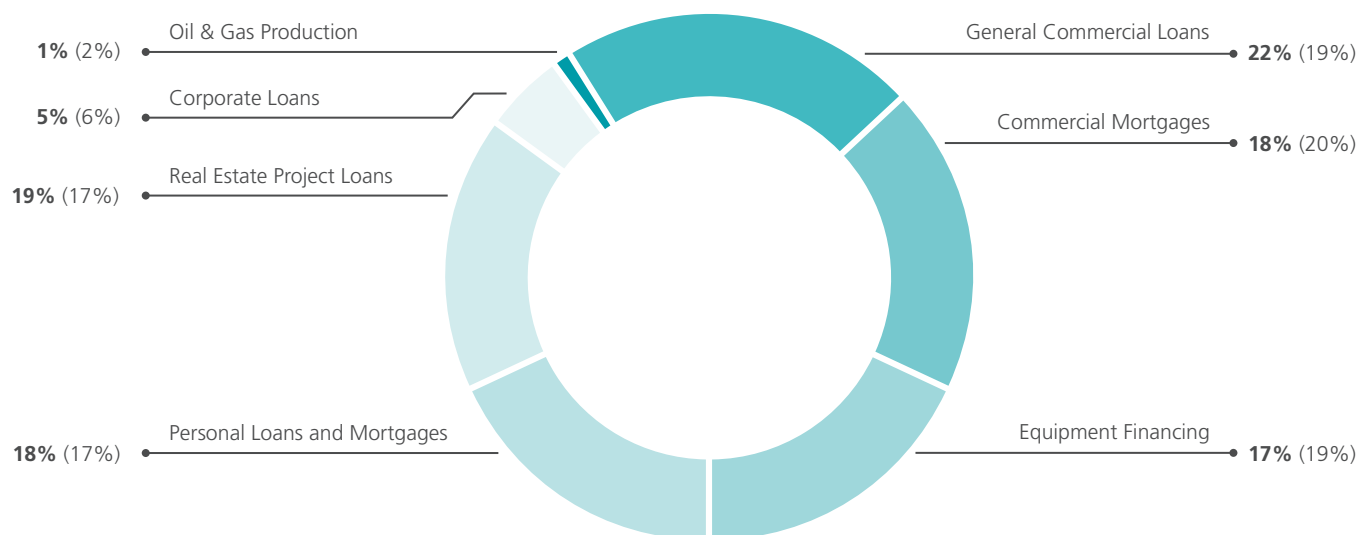
Management took a conservative approach to resolving positions within CWB’s small portfolio of oil and gas production loans in 2016. The balance of loans in this category now represents 1% of the total portfolio (2015 – 2%).

The mix of CWB’s portfolio (see Figure 2) shifted in a manner generally consistent with management’s strategic diversification objectives during the year. Strong growth in general commercial loans, real estate project loans, and personal loans and mortgages combined with a more modest increase in commercial mortgages and contractions in corporate lending, equipment financing and leasing, and oil and gas production loans to result in decreased concentrations in the latter four categories. The lower balance of outstanding loans within equipment financing and leasing primarily reflects the impact of the current recession in Alberta. Alberta borrowers within this segment have been proactive in reducing the size of their fleets, with a resulting increase in early pay-outs.

Based on the location of security (see Figure 3), Alberta and BC each represented 36% of total loans at year end, compared to 41% and 33%, respectively, in 2015. The material shift resulted from the combined impact of strong growth in Ontario related to contributions from CWB Franchise Finance, CWB Maxium, Optimum and National Leasing, strong growth in BC primarily driven by real estate project loans, and a slight net contraction of CWB’s portfolio in Alberta.

**Figure 2 - Outstanding Loans by Portfolio**

(October 31, 2015 in brackets)



## Outlook for Loans

CWB will continue to support high-quality borrowers operating within targeted industry segments across Canada. Management will selectively pursue opportunities for prudent growth of secured loans that offer an appropriate return and acceptable risk profile. Growth in Canada's domestic economy is expected to continue at a moderate pace in 2017. Continued economic strength in the U.S. and a lower Canadian dollar are expected to support an escalation of manufacturing and exporting activity in all provinces, especially BC and Ontario. Taken together, these two provinces now account for greater than half of CWB's geographic exposure, and the current overall outlook for generating new business opportunities continues to be positive. Management believes ongoing strong overall loan growth at levels relatively consistent with CWB's recent performance will be supported over the medium term through further geographic diversification and incremental market share gained from the combined positive influences of an expanded market presence and the effective execution of CWB's strategic plan focused on targeted client solutions and superior customer service.

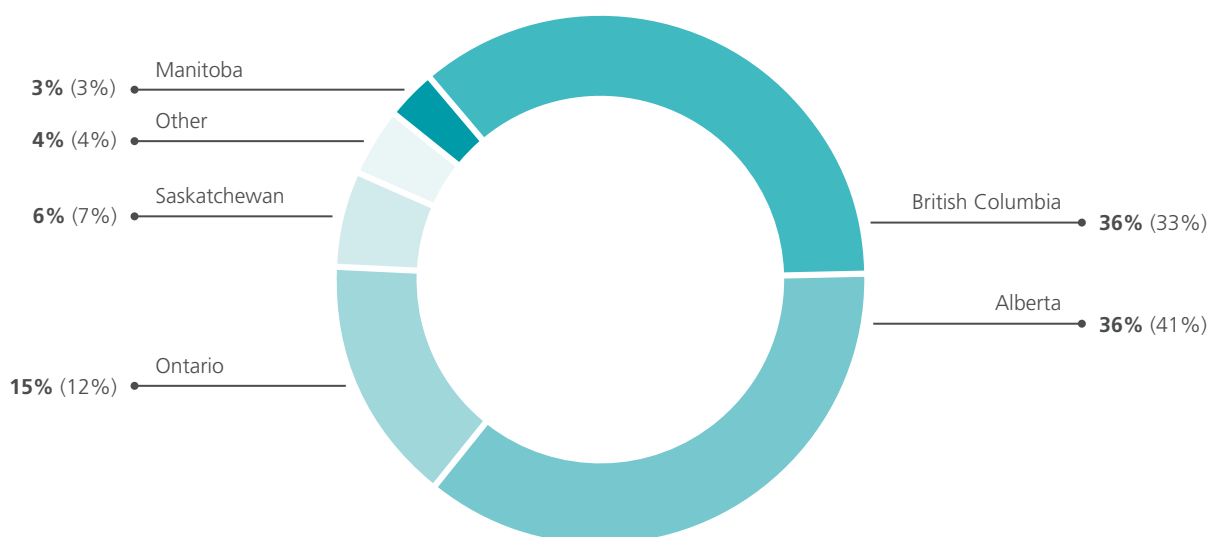
The protracted period of low energy and other commodity prices poses a risk to the outlook for economic growth in Canada overall, and Alberta and Saskatchewan in particular. Loan growth across all portfolio segments within Alberta and Saskatchewan is expected to remain challenging in view of the current recession. CWB's direct exposure to the energy industry is small relative to its overall portfolio at approximately 3% of total loans outstanding, including direct loans to oil and gas producers and lending to service-related companies. However, negative impacts on employment, in-migration, housing sector activity and consumer spending in the oil-producing provinces are apparent as a result of the material contraction in the level of overall capital expenditure within the energy industry, despite ongoing maintenance expenditures in the oil sands.

Canadian residential real estate markets have been resilient and affordability in most geographic areas outside of certain neighbourhoods in Toronto and Vancouver remains within historical ranges, largely reflecting very low interest rates. Moderately reduced housing sector activity and softer pricing is apparent in Greater Vancouver, Alberta and Saskatchewan. Reduced activity is particularly apparent within higher-priced segments of the housing market. The combination of historically high price levels, sentiment related to potential economic headwinds caused by low energy prices, recent counter-cyclical measures undertaken by the federal government and tax changes within British Columbia could lead to further moderation of housing sector activity in these and other markets. Recent regulatory changes target both insured mortgages and mortgages funded through securitization, neither of which represents a core business focus for CWB. In isolation, management expects these changes will have no material impact to CWB's outlook for residential mortgage originations.

Potential risks that could have a material adverse impact on loan growth expectations include further material weakening of energy and other commodity prices compared to recent levels, a slowing rate of economic growth in the U.S., material changes to standing free trade agreements which could affect the outlook for Canadian exports, a significant and sustained deterioration in Canadian residential real estate prices, or a significant disruption in major global economies.

## Diversification of Portfolio

Figure 3 - Geographical Distribution of Loans Based on Location of Security  
(October 31, 2015 in brackets)



**Table 12 - Total Advances Based on Industry Sector<sup>(1)</sup>**

(% at October 31)

|   | 2016        | 2015        |
|---|-------------|-------------|
| Construction  | 21%         | 22%         |
| Real estate operations                                  | 21          | 21          |
| Consumer loans and residential mortgages <sup>(2)</sup> | 18          | 16          |
| Finance and insurance                                   | 7           | 6           |
| Transportation and storage                              | 6           | 7           |
| Hotel/motel   | 5           | 4           |
| Health and social services                              | 4           | 4           |
| Retail trade  | 3           | 2           |
| Other services  | 3           | 2           |
| Wholesale trade   | 2           | 2           |
| Manufacturing   | 2           | 2           |
| Agriculture   | 2           | 2           |
| Oil and gas service                                     | 2           | 3           |
| Logging/forestry  | 2           | 2           |
| Oil and gas production                                  | 1           | 2           |
| All other   | 1           | 3           |
| <b>Total</b>  | <b>100%</b> | <b>100%</b> |

(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 maintained centralized administration based in Alberta in 2016, and sourced residential mortgages throughout Western Canada and select regions of Ontario and Atlantic Canada through an established network of mortgage brokers.

## Outlook for Diversification of Portfolio

Strong loan growth this year was the result of significantly higher relative contributions from non-oil producing provinces across CWB's growing geographic footprint and includes the impact of Optimum, National Leasing and CWB's newly acquired businesses. Growth is expected across all lending sectors in 2017 with the exception of oil and gas production loans. Relatively stronger economic activity in BC and increased lending exposure in Ontario are expected to lead to comparatively faster growth in these areas. In combination with the impact of the current recession in Alberta, this may result in a further reduction to the relative concentration of CWB's Alberta-based lending exposures. Management has targeted higher net growth in areas such as general commercial loans, personal loans and mortgages, and equipment financing and leasing, compared to commercial mortgages and real estate project loans. Combined annual general commercial lending originations from CWB Maxium and CWB Franchise Finance are expected to exceed \$500 million in fiscal 2017, and management expects CWB Maxium to surpass \$1,000 million of total on-balance sheet loans and leases by 2019. Approximately 70 – 80% of the current business in both cases is outside of Western Canada. Originations within these new businesses are therefore expected to contribute both to strong growth in general commercial loans and further geographic diversification. Growth of personal loans and mortgages is expected to benefit from

continued expansion of Optimum. Of note, Optimum expects to add an Ontario-based underwriting centre in 2017, making use of space within the CWB Maxium premises in Richmond Hill. Equipment financing and leasing exposures comprise CWB's branch-based heavy equipment lending operations, a specialized underwriting centre which partners with the finance companies of original equipment manufacturers, National Leasing, and a portion of the business of CWB Maxium. Expectations for slower growth in real estate project loans compared to that achieved in 2016 reflect the combined impact of this portfolio's relatively short duration and forecasted moderation in Canadian residential real estate activity, partly as a result of recent regulatory changes intended to constrain growth of the housing sector. Within the parameters of its established risk appetite, CWB will continue to finance well-capitalized developers on the basis of sound loan structures and acceptable pre-sale/lease levels as such opportunities arise. 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. CWB maintains its long-term objective to deliver further industry and geographic diversification, and management will continue with initiatives to develop and/or acquire complementary sources of high-quality growth.

### Highlights of 2016

- Credit quality reflected strain within CWB's small portfolio of oil and gas loans, and management's proactive approach to resolving positions within this portfolio. Very low commodity prices early in 2016 affected producer cash flows, and certain regulatory factors affected the liquidity of assets securing these exposures. Loss rates related to impaired loans within this portfolio exceeded those experienced during prior economic cycles and the overall level of provisioning was elevated compared to historical experience.
- Prior to reporting second quarter financial results, management announced revised expectations for the annual provision for credit losses of 35 – 45 basis points, compared to previous expectations of 18 – 23 basis points.
- The total provision for credit losses of \$79.1 million represented 38 basis points of average loans, consistent with revised expectations and up from 17 basis points in 2015.
- The total provision for credit losses included cumulative provisions of \$41.6 million recorded against oil and gas production loans.
- Credit quality as measured by the provision for credit losses was stable outside of the oil and gas production loan portfolio.
- Gross impaired loans increased 34% and represented 58 basis points as a percentage of total loans, compared to 49 basis points one year ago.
- Growth in the collective allowance of 11% generally reflected the level of overall loan growth.
- The total allowance for credit losses as a percentage of gross impaired loans (coverage ratio) was 100%, down from 122% in 2015.

### Impaired Loans

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 current 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.

As shown in the table below, gross impaired loans totalled \$127.2 million and represented 0.58% of total loans, compared to \$94.9 million or 0.49% at the end of 2015. Total gross impaired loans within Alberta of \$64.8 million increased from \$41.7 million last year. Gross impaired loans

within the oil and gas production lending portfolio totalled \$16.9 million, compared to \$22.8 million last year. The increase in write-offs this year primarily related to losses within this portfolio. Gross impaired loans from CWB's equipment financing and leasing exposures were \$40.2 million compared to \$19.6 million last year. Approximately 52% of the impaired balance in this category is comprised of Alberta exposures, compared to 24% last year. The ten largest accounts classified as impaired, measured by dollars outstanding, represented approximately 48% of total gross impaired loans at year end, down from 59%. New formations of impaired loans totalled \$164.4 million, compared to \$120.3 million last year.

**Table 13 - Change in Gross Impaired Loans**

(\$ thousands)

|  | 2016       | 2015      | Change from 2015 |                     |
|--|------------|-----------|------------------|---------------------|
|  |            |           | \$               | %                   |
| Gross impaired loans, beginning of period  | \$ 94,905  | \$ 62,120 | \$ 32,785        | 53%                 |
| New formations   | 164,386    | 120,338   | 44,048           | 37                  |
| Reductions, impaired accounts paid down<br>or returned to performing status      | (61,619)   | (71,744)  | 10,125           | (14)                |
| Write-offs   | (70,460)   | (15,809)  | (54,651)         | 346                 |
| Total, end of period <sup>(1)</sup>  | \$ 127,212 | \$ 94,905 | \$ 32,307        | 34%                 |
| Balance of the ten largest impaired accounts                                     | \$ 61,397  | \$ 55,665 | \$ 5,732         | 10%                 |
| Total number of accounts classified as impaired <sup>(2)</sup>                   | 232        | 117       | 115              | 98                  |
| Total number of accounts classified as impaired under \$1 million <sup>(2)</sup> | 217        | 104       | 113              | 109                 |
| Gross impaired loans as a percentage of total loans <sup>(3)</sup>               | 0.58%      | 0.49%     |                  | 9 bp <sup>(4)</sup> |

(1) Gross impaired loans includes foreclosed assets held for sale with a carrying value of \$3,876 (2015 – \$979). 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 points.

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 higher balance of gross impaired loans reflects the increase in new formations, partially offset by the success of ongoing

loan realization efforts and work-out programs. Outside of the oil and gas portfolio, actual credit losses as a percentage of total loans continue to demonstrate the benefits of CWB's secured lending practices and disciplined underwriting.

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. An impaired loans report is reviewed quarterly by the Board Risk Committee. Please see the Risk Management section of this MD&A for further information.

## Outlook for Impaired Loans

Gross impaired loans remain low as a percentage of total loans, with the current level of 0.58% comparing to a peak during the prior credit cycle of 1.68% in the second quarter of 2010. Partially due the extended period of economic weakness within Alberta, we expect periodic further increases in the balance of impaired loans across the portfolio; however, we anticipate loss rates on impaired loans outside of oil and gas production lending to reflect the combined positive impact of our disciplined underwriting, secured lending practices and proactive account management, and to be more consistent with our prior experience. Ongoing loan management processes include assignment of experienced credit adjudicators to help branches and credit teams proactively identify and address higher risk loans. Gross impaired loans within Optimum are expected

to increase in view of softer housing market conditions, particularly in Alberta. Management remains confident in the strength, diversity and underwriting structure of the overall loan portfolio and lending exposures will continue to be closely monitored.

Potential risks that could have a material adverse impact on loan growth expectations include further material weakening of energy and other commodity prices compared to recent levels, a slowing rate of economic growth in the U.S., material changes to standing free trade agreements which could affect the outlook for Canadian exports, a significant and sustained deterioration in Canadian residential real estate prices, or a significant disruption in major global economies.

## Allowance for Credit Losses

Current estimates of expected write-offs for existing loans classified as impaired are reflected in the specific provisions for credit losses, which totalled \$16.3 million at year end, compared to \$15.8 million a year earlier. Estimates are established through detailed analyses of both the overall quality and ultimate marketability of the security held against each

impaired account. The year-over-year change in the allowance for credit losses split between the specific allowance by category of impaired loans and the collective allowance for credit risk is provided in Table 14.

**Table 14 - Allowance for Credit Losses**

(\$ thousands)

|   | 2016<br>Opening<br>Balance | Provision<br>for Credit<br>Losses | Write-Offs,<br>net of<br>Recoveries <sup>(1)</sup> | 2016<br>Ending<br>Balance |
|---|----------------------------|-----------------------------------|--|---------------------------|
| <b>Specific Allowance</b>                             |                            |                                   |  |                           |
| Equipment financing                                   | \$ 4,346                   | \$ 19,904                         | \$ (14,687)  | \$ 9,563                  |
| Energy  | 9,300                      | 41,558                            | (48,715)   | 2,143                     |
| Real estate   | 1,770                      | 4,026                             | (2,807)  | 2,989                     |
| Commercial  | 128                        | 1,726                             | (484)  | 1,370                     |
| Consumer and personal                                 | 262                        | 571                               | (629)  | 204                       |
|   | 15,806                     | 67,785                            | (67,322)   | 16,269                    |
| <b>Collective Allowance</b>                           | 99,613                     | 11,330                            | -  | 110,943                   |
| <b>Total</b>  | \$ 115,419                 | \$ 79,115                         | \$ (67,322)  | \$ 127,212                |
| <b>Represented by:</b>                                |                            |                                   |  |                           |
| Loans   |                            |                                   |  | \$ 103,788                |
| Committed but undrawn credit exposures <sup>(2)</sup> |                            |                                   |  | 23,424                    |
| <b>Total</b>  |                            |                                   |  | \$ 127,212                |

(1) Recoveries in 2016 totalled \$3,138.

(2) The collective allowance for credit losses related to committed but undrawn credit exposures is included in Other Liabilities on the consolidated balance sheets.

Allowances for credit losses are maintained to absorb both identified and unidentified losses in the loan portfolio and, at October 31, 2016, consisted of \$16.3 million (2015 – \$15.8 million) of specific allowances and \$110.9 million (2015 – \$99.6 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 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.



Growth in the collective allowance of 11% generally reflected the level of overall loan growth. The total allowance for credit losses as a percentage of gross impaired loans (coverage ratio) was 100%, down from 122% in 2015.

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 composition and 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.

### Outlook for Allowance for Credit Losses

Specific allowances will continue to be determined on an account-by-account basis and reviewed at least quarterly. Lower levels of specific allowances are expected in strong economic times and higher levels of specific allowances in weaker economic times. As such, the level of specific allowances may increase as a result of relative economic weakness within the oil exporting provinces in Western Canada. The

collective allowance is expected to fluctuate as a result of portfolio growth and normal progress through the credit cycle. 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 2016 provision for credit losses of \$79.1 million increased 155%, primarily due to \$41.6 million of specific provisions related to oil and gas production loans. Significantly higher provisioning within the oil and gas portfolio resulted from the impact of persistently low and volatile energy commodity prices on producer cash flows, as well as the influence of regulatory factors on the liquidity of assets securing these exposures.

The provision for credit losses represented 38 basis points of average loans in 2016 (see Table 15), up 21 basis points from the previous year. Net new specific provisions represented 32 basis points of average loans, compared to 12 basis points in 2015. CWB has a long history of strong

credit quality and low loan losses, both of which compare very favourably to the Canadian banking industry. Of the 32 basis points of net new specific provisions this year, approximately 20 basis points related to oil and gas production loans. Approximately 99% of CWB's portfolio is comprised of non-oil and gas loans, and this portion accounted for approximately 12 basis points of net new specific provisions this year, consistent with 2015. Increases to the collective allowance comprised the remainder of the total provision. Macroeconomic and other external factors that may impact core geographic regions and/or industry sectors in which CWB customers operate are continually analyzed.

**Table 15 - Provision for Credit Losses**

(\$ thousands)

|  | 2016       | 2015      | 2014      | 2013      | 2012      |
|--|------------|-----------|-----------|-----------|-----------|
| Provision for credit losses <sup>(1)</sup>                     | 0.38%      | 0.17%     | 0.15%     | 0.19%     | 0.19%     |
| Net new specific provisions (net of recoveries) <sup>(2)</sup> | 0.32       | 0.12      | 0.07      | 0.13      | 0.14      |
| Collective allowance   | \$ 110,943 | \$ 99,613 | \$ 90,075 | \$ 76,217 | \$ 67,344 |
| Coverage ratio <sup>(3)</sup>                                  | 100%       | 122%      | 154%      | 134%      | 122%      |

(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

Credit quality is expected to continue to reflect CWB's secured lending business model and disciplined underwriting processes. Based on CWB's current economic outlook, management's assessment of the overall quality of the portfolio and its underlying security, and the adequacy of the collective allowance for credit losses, management expects the provision for credit losses to decrease moderately compared to 2016, and for loss rates on impaired loans outside of oil and gas production lending to be consistent with our prior experience. The 2017 provision as a percentage of average loans is expected to fall within a range of

25 – 35 basis points. The assessment process is continuous and updated expectations are communicated no less than quarterly.

Potential risks that could have a material adverse impact on credit quality expectations include further material weakening of energy and other commodity prices compared to recent levels, a slowing rate of economic growth in the U.S., material changes to standing free trade agreements which could affect the outlook for Canadian exports, a significant and sustained deterioration in Canadian residential real estate prices, or a significant disruption in major global economies.

## DEPOSITS

### Highlights of 2016

- Strong branch-raised deposit growth of 12%, including very strong 15% growth of targeted notice and demand deposits.
- Branch-raised deposits were 55% of total deposits, up from 54% in 2015.
- Capital markets deposits were reduced to 9% of total deposits by source (2015 – 10%), while broker deposits were unchanged at 36% reflecting current deposit pricing advantages in the latter funding market as compared to the former.

**Table 16 - Deposits**

(\$ thousands)

|                         | Demand            | Notice              | Term                 | 2016 Total           | % of Total  |
|-------------------------|-------------------|---------------------|----------------------|----------------------|-------------|
| Personal                | \$ 34,681         | \$ 3,866,441        | \$ 9,322,580         | \$ 13,223,702        | 62%         |
| Business and government | 761,523           | 3,031,090           | 2,317,038            | 6,109,651            | 29          |
| Capital markets         | -                 | -                   | 1,861,200            | 1,861,200            | 9           |
| <b>Total Deposits</b>   | <b>\$ 796,204</b> | <b>\$ 6,897,531</b> | <b>\$ 13,500,818</b> | <b>\$ 21,194,553</b> | <b>100%</b> |
| <b>% of Total</b>       | <b>4%</b>         | <b>32%</b>          | <b>64%</b>           | <b>100%</b>          |             |

|                         | Demand            | Notice              | Term                 | 2015 Total           | % of Total  |
|-------------------------|-------------------|---------------------|----------------------|----------------------|-------------|
| Personal                | \$ 33,129         | \$ 3,188,276        | \$ 8,195,216         | \$ 11,416,621        | 59%         |
| Business and government | 590,411           | 2,907,597           | 2,431,917            | 5,929,925            | 31          |
| Capital markets         | -                 | -                   | 2,018,861            | 2,018,861            | 10          |
| <b>Total Deposits</b>   | <b>\$ 623,540</b> | <b>\$ 6,095,873</b> | <b>\$ 12,645,994</b> | <b>\$ 19,365,407</b> | <b>100%</b> |
| <b>% of Total</b>       | <b>3%</b>         | <b>32%</b>          | <b>65%</b>           | <b>100%</b>          |             |

Total deposits of \$21,195 million increased 9% over 2015 reflecting 16% growth in personal deposits, which include those issued through the deposit broker network, and 3% growth in business and government

deposits, partially offset by an 8% decrease in capital markets deposits outstanding.

**Table 17 - Deposits by Source**

(as a percentage of total deposits at October 31)

|                 | 2016        | 2015        |
|-----------------|-------------|-------------|
| Branches        | 55%         | 54%         |
| Deposit brokers | 36          | 36          |
| Capital markets | 9           | 10          |
| <b>Total</b>    | <b>100%</b> | <b>100%</b> |

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's deposit taking franchise. 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 sources of funding. The importance of growing these funding sources increased under the Basel III rules governing liquidity implemented 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 CWB'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, 2016 totalled \$324 million, a 9% decrease compared to a year earlier. Management has elected to continue to emphasize client retention over growth within this channel as pricing competition from new and existing market participants continues

to be intense. Valiant's deposit taking franchise provides an additional channel to raise insured deposits through CWB branches, and is separate from Valiant's stock transfer business which was sold last year.

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 12% in 2016, while the demand and notice component within branch-raised deposits increased by a very strong 15%. Notice deposits raised within CWT accounted for a material portion of this growth. Demand and notice deposits, which include lower-cost funding sources, comprised 36% of total deposits at year end, up from 35% in the previous year. Branch-raised deposits comprised 55% of total deposits, up from 54% in 2015. 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 debt capital markets. Insured deposits raised through deposit brokers remain an efficient source of funding. Although these funds are subject to commissions, this cost is countered by a reduced dependence on a more extensive branch network and the benefit of generating insured fixed term retail deposits over a wide geographic base.

Additional sources of funding in 2016 included \$734 million from the securitization of equipment leases (2015 – \$371 million), maintenance of CWB's bearer deposit note program, issuance of \$250 million of senior deposit notes in the capital markets (2015 – \$300 million), and whole loan sales of \$71 million (2015 – \$29 million) of residential mortgages.

## Outlook for Deposits and Funding

The strategic focus to increase branch-raised deposits will continue, with particular emphasis on the demand and notice component, which is often lower cost and provides associated transactional fee income. Various strategic initiatives, which include the offering of enhanced cash management products and a competitive business savings account, are also intended to further augment growth of desired branch-raised funding. CWB's growing market presence, which includes the expansion of full-service branches, also supports objectives to generate branch-raised deposits. The successful launch of CWB's new core banking system has facilitated a client-centric view of branch-based relationships, and is expected to enhance the effectiveness of efforts to build core funding sources. CWB will re-establish CDF as an effective channel for funding growth through a planned strategic brand repositioning in 2017. The deposit broker

network remains an efficient source for raising insured fixed term retail deposits and has proven to be a reliable and effective 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 will continue to utilize securitization channels for a portion of its funding requirements, provided that both related costs and the regulatory capital impact remain satisfactory. CWB commenced securitization of residential mortgages in 2016 through the NHA MBS program, and expects to initiate participation in the Canada Mortgage Bond (CMB) Program in 2017.

## OTHER ASSETS AND OTHER LIABILITIES

Other assets at October 31, 2016 totalled \$469 million (2015 – \$369 million). The amount of goodwill and intangible assets recorded on the balance sheet at October 31, 2016 was \$85 million (2015 – \$44 million) and \$149 million (2015 – \$106 million), respectively. The increase in goodwill primarily relates to the acquisition of CWB Maxium. Higher

intangible assets relate to both investment in CWB's core banking system and the CWB Maxium acquisition.

Other liabilities totalled \$417 million at October 31, 2016 (2015 – \$374 million).

## LIQUIDITY MANAGEMENT

### Highlights of 2016

- Maintained a prudent liquidity position and conservative investment profile.
- Maintained compliance with OSFI's Liquidity Adequacy Requirement Guideline.
- Initial utilization of CWB's NHA MBS allocation for liquidity purposes.
- CWB liquidated its holdings of common equities in 2016 and has no plans to re-establish this portfolio.

A schedule outlining the consolidated securities portfolio at October 31, 2016 is provided in Note 5 to the consolidated financial statements. A conservative investment profile is maintained by ensuring:

- all investments are high quality and include government debt securities, short-term money market instruments, preferred shares, and other marketable securities;
- specific investment criteria and procedures are in place;
- regular review, monitoring and approval of investment policies is completed by CWB's Asset Liability Committee (ALCo); and,
- quarterly reports on the composition of the portfolio are provided to the Board Risk Committee. The Board Risk Committee annually reviews and approves investment policies.

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

- maintaining a pool of high-quality liquid assets;
- comprehensive liquidity scenario stress testing;
- monitoring the quality of the cash and securities portfolio;
- monitoring liability diversification and maturity profile;
- monitoring deposit behaviour;
- maintaining access to deposit and capital market funding sources; and,
- monitoring microeconomic and macroeconomic factors and early warning indicators.

**Table 18 - High-quality Liquid Assets**

(\$ thousands)

|  | 2016                 | 2015                 | Change from 2015              |
|--|----------------------|----------------------|-------------------------------|
| Cash and non-interest bearing deposits with financial institutions                     | \$ 11,490            | \$ 23,949            | \$ (12,459)                   |
| Interest bearing deposits with regulated financial institutions                        | 890,516              | 412,768              | 477,748                       |
| Cheques and other items in transit   | 18,050               | 6,705                | 11,345                        |
| <b>Total Cash Resources</b>  | <b>920,056</b>       | <b>443,422</b>       | <b>476,634</b>                |
| Government of Canada, provincial and municipal debt, term to maturity 1 year or less   | 420,108              | 33,007               | 387,101                       |
| Government of Canada, provincial and municipal debt, term to maturity more than 1 year | 1,014,637            | 1,952,759            | (938,122)                     |
| Other debt securities  | 141,094              | 346,299              | (205,205)                     |
| Common shares <sup>(1)</sup>   | -                    | 33,707               | (33,707)                      |
| Securities purchased under resale agreements   | 163,318              | -                    | 163,318                       |
| <b>Total Securities Purchased Under Resale Agreements and Marketable Securities</b>    | <b>1,739,157</b>     | <b>2,365,772</b>     | <b>(626,615)</b>              |
| <b>Total Liquid Assets</b>   | <b>\$ 2,659,213</b>  | <b>\$ 2,809,194</b>  | <b>\$ (149,981)</b>           |
| <b>Total Assets</b>  | <b>\$ 25,222,549</b> | <b>\$ 22,838,527</b> | <b>\$ 2,384,022</b>           |
| <b>Liquid Assets as a Percentage of Total Assets</b>                                   | <b>11%</b>           | <b>12%</b>           | <b>(100) bp<sup>(2)</sup></b> |
| <b>Total Deposit Liabilities</b>   | <b>\$ 21,194,553</b> | <b>\$ 19,365,407</b> | <b>\$ 1,829,146</b>           |
| <b>Liquid Assets as a Percentage of Total Deposit Liabilities</b>                      | <b>13%</b>           | <b>15%</b>           | <b>(200) bp<sup>(2)</sup></b> |

(1) Represents the portion of the common share portfolio which supported compliance with the OSFI Liquidity Adequacy Requirements, effective January 1, 2015.

(2) bp - basis points.

As shown in Table 18, high-quality liquid assets, as defined by OSFI, comprised of cash, deposits, securities purchased (or sold) under resale agreements and marketable securities totalled \$2,659 million at October 31, 2016 (2015 – \$2,809). High-quality liquid assets represented 11% (2015 – 12%) of total assets and 13% (2015 – 15%) of total deposit liabilities at year end.

The composition of total high-quality liquid assets supports ongoing compliance with the OSFI Liquidity Adequacy Requirements. Key changes in the composition of liquid assets at October 31, 2016 compared to the prior year generally reflect reduced duration of CWB's holdings, including:

- maturities within one year comprising 61% (2015 – 18%);
- Government of Canada, provincial and municipal debt securities comprising 54% (2015 – 70%);
- deposits with regulated financial institutions comprising 33% (2015 – 15%); and,
- other marketable securities comprising 5% with liquidation of common share holdings (2015 – 14%).

Additional sources of liquidity and funding in 2016 included \$734 million from the securitization of equipment leases (2015 – \$371 million), \$391 million of residential mortgages which represent utilization of CWB's NHA MBS allocation, and \$71 million (2015 – \$29 million) of residential mortgages sold via whole loan sales. The primary source of incremental

new funding was branch-raised deposits supported by the issuance of personal fixed term deposits through the broker deposit market. A summary of all outstanding deposits by contractual maturity date is presented in Tables 19 and 20.

**Table 19 - Deposit Maturities Within One Year**

(\$ millions)

| October 31, 2016                 | Within 1 Month  | 1 to 3 Months   | 3 Months to 1 Year | Cumulative Within 1 Year |
|----------------------------------|-----------------|-----------------|--------------------|--------------------------|
| Demand deposits                  | \$ 796          | \$ -            | \$ -               | \$ 796                   |
| Notice deposits                  | 6,898           | -               | -                  | 6,898                    |
| Deposits payable on a fixed date | 643             | 1,408           | 4,116              | 6,167                    |
| <b>Total</b>                     | <b>\$ 8,337</b> | <b>\$ 1,408</b> | <b>\$ 4,116</b>    | <b>\$ 13,861</b>         |
| October 31, 2015 Total           | \$ 7,327        | \$ 893          | \$ 4,739           | \$ 12,959                |

**Table 20 - Total Deposit Maturities**

(\$ millions)

| October 31, 2016                 | 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                  | \$ 796           | \$ -            | \$ -            | \$ -            | \$ -            | \$ -              | \$ 796           |
| Notice deposits                  | 6,898            | -               | -               | -               | -               | -                 | 6,898            |
| Deposits payable on a fixed date | 6,167            | 3,515           | 1,554           | 1,008           | 1,257           | -                 | 13,501           |
| <b>Total</b>                     | <b>\$ 13,861</b> | <b>\$ 3,515</b> | <b>\$ 1,554</b> | <b>\$ 1,008</b> | <b>\$ 1,257</b> | <b>\$ -</b>       | <b>\$ 21,195</b> |
| October 31, 2015 Total           | \$ 12,959        | \$ 3,582        | \$ 1,369        | \$ 726          | \$ 729          | \$ -              | \$ 19,365        |

A breakdown of deposits by source is provided in Table 17. 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. Deposits raised through deposit brokers remain an effective incremental funding source. 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 Table 21.

**Table 21 - Subordinated Debentures Outstanding**

(\$ thousands)

| Interest Rate         | Maturity Date     | Earliest Date Redeemable by CWB at Par | As at October 31 2016 | As at October 31 2015 |
|-----------------------|-------------------|--|-----------------------|-----------------------|
| 3.463% <sup>(1)</sup> | December 17, 2024 | December 17, 2019                      | \$ 250,000            | \$ 250,000            |
| 5.571% <sup>(2)</sup> | March 21, 2022    | March 22, 2017                         | 75,000                | 75,000                |
| 4.389% <sup>(3)</sup> | November 30, 2020 | November 30, 2015                      | -                     | 300,000               |
| <b>Total</b>          |                   |  | <b>\$ 325,000</b>     | <b>\$ 625,000</b>     |

(1) 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 3-month Canadian dollar CDOR rate plus 160 basis points.

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

(3) These conventional debentures 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 193 basis points. These debentures were fully redeemed at par on November 30, 2015.

## Outlook for Liquidity Management

Internal methodologies for managing liquidity risk are continuously refined. CWB utilizes comprehensive stress testing to manage, measure and monitor liquidity risk to ensure a prudent approach. CWB will maintain prudent liquidity levels in 2017 while maintaining

compliance with the OSFI Liquidity Adequacy Guideline. Management has initiated a multi-year program to upgrade CWB's treasury infrastructure, with expected benefits related to all aspects of liquidity and asset/liability management.

## CAPITAL MANAGEMENT

### Highlights of 2016

- Very strong Basel III common equity Tier 1, Tier 1 and total capital adequacy ratios of 9.2%, 11.0% and 13.1%, respectively.
- Redemption of \$300 million of 4.389% subordinated debentures in November 2015.
- Issuance of \$140 million of non-convertible preferred shares Series 7 in March 2016.
- Issuance of \$150 million of common shares in July 2016.
- Implementation of initiatives which resulted in lower overall capital requirements for CWB's existing pool of securitized leases.
- Cash dividends of \$0.92 per share paid to common shareholders, up 7%.
- Very conservative Basel III leverage ratio of 8.6%, compared to the regulatory minimum of 3%.

### Subsequent Highlights

- On December 31, 2016, CWB will redeem through CWB Capital Trust all \$105 million outstanding 6.199% Trust Capital Securities (the WestTS) at par plus accrued interest. The redemption will result in an approximate 50 basis point reduction to CWB's Tier 1 and total capital ratios; however, CWB's capital ratios will remain strong.
- In November 2016, the Board of Directors declared a quarterly cash dividend of \$0.23 per common share, unchanged from the prior quarter and the dividend declared last year. The Board also declared a cash dividend of \$0.275 per Series 5 Preferred Share, and a cash dividend of \$0.390625 per Series 7 Preferred Share.

Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Board Risk Committee. 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 establish target capital levels deemed prudent to effectively manage risks, including potential capital shocks from unexpected macroeconomic and/or CWB-specific events.

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 overall profitability, earnings growth, 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](http://cwb.com/investor_relations).

### 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).

CWB's minimum Basel III regulatory capital ratios, including a 250 basis point capital conservation buffer, are 7.0% CET1, 8.5% Tier 1 and 10.5% total capital, and a 3.0% leverage ratio. The Basel III rules provide for transitional adjustments whereby certain aspects of the new rules are 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 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 2016.

**Table 22 - Capital Structure and Basel III Regulatory Ratios at Year End**  
(\$ thousands)

|                                       | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|---------------------------------------|-----------------------------|-----------------------------|
| Regulatory capital, net of deductions |                             |                             |
| Common equity Tier 1                  | \$ 1,863,264                | \$ 1,636,718                |
| Tier 1                                | 2,233,364                   | 1,866,873                   |
| Total                                 | 2,669,334                   | 2,439,022                   |
| Capital ratios                        |                             |                             |
| Common equity Tier 1                  | 9.2%                        | 8.5%                        |
| Tier 1                                | 11.0                        | 9.7                         |
| Total                                 | 13.1                        | 12.7                        |
| Leverage ratio                        | 8.6                         | 7.9                         |

The net change in CWB's 2016 CET1 capital ratio reflects increases of approximately 70 basis points from the common share issuance, 15 basis points from initiatives which resulted in lower overall capital requirements for CWB's existing pool of securitized leases and 10 basis points from the reduction of unrealized losses on available-for-sale securities. These increases were partially offset by approximately 40 basis points of capital invested in support of strategic acquisitions and 10 basis points absorbed by other items.

Changes in CWB's Tier 1 and total capital ratios reflect the common share issuance, as well as the issuance of \$140 million of NVCC preferred shares, partially offset by capital invested in support of acquisitions, and, within total capital, the redemption of \$300 million outstanding 4.389% subordinated debentures.

**Table 23 - Regulatory Capital**

(\$ thousands)

|   | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|---|-----------------------------|-----------------------------|
| <b>Common Equity Tier 1 Capital Instruments and Reserves</b>                                      |                             |                             |
| Directly issued qualifying common share capital plus related share-based payment reserve          | \$ 749,653                  | \$ 566,721                  |
| Retained earnings   | 1,354,966                   | 1,261,678                   |
| Accumulated other comprehensive income and other reserves   | (32,710)                    | (55,667)                    |
| Common equity Tier 1 capital before regulatory adjustments  | 2,071,909                   | 1,772,732                   |
| Regulatory adjustments to common equity Tier 1 <sup>(1)</sup>                                     | (208,645)                   | (136,014)                   |
| Common equity Tier 1 capital  | 1,863,264                   | 1,636,718                   |
| <b>Additional Tier 1 Capital Instruments</b>  |                             |                             |
| Directly issued capital instruments qualifying as Additional Tier 1 instruments                   | 265,000                     | 125,000                     |
| Directly issued capital instruments subject to phase-out from Additional Tier 1 <sup>(2)(3)</sup> | 105,000                     | 105,000                     |
| Additional Tier 1 instruments issued by subsidiaries and held by third parties                    | 100                         | 155                         |
| Additional Tier 1 capital   | 370,100                     | 230,155                     |
| Tier 1 capital  | 2,233,364                   | 1,866,873                   |
| <b>Tier 2 Capital Instruments and Allowances</b>  |                             |                             |
| Directly issued capital instruments subject to phase-out from Tier 2 <sup>(2)</sup>               | 325,000                     | 472,500                     |
| Tier 2 instruments issued by subsidiaries and held by third parties                               | 27                          | 36                          |
| Collective allowance for credit losses  | 110,943                     | 99,613                      |
| Tier 2 capital before regulatory adjustments  | 435,970                     | 572,149                     |
| Total capital   | \$ 2,669,334                | \$ 2,439,022                |

(1) CET1 deductions include goodwill and intangible assets, net of related tax.

(2) Basel III capital balances exclude 40% (2015 – 30%) of the balance of non-common equity instruments outstanding at January 1, 2013 that do not include non-viability contingent capital clauses. At October 31, 2016 and 2015, there was no exclusion from Tier 1 regulatory capital related to the WesTS (disclosed in deposits). At October 31, 2016, no outstanding subordinated debentures were excluded from regulatory capital (October 31, 2015 – \$153 million).

(3) CWB has obtained regulatory approval to proceed with the redemption of the \$105,000 senior deposit note held by CWB Capital Trust and all outstanding WesTS on December 31, 2016, which will reduce both the Tier 1 and Total capital ratios by approximately 50 bp.

**Table 24 - Risk-Weighted Assets**

(\$ thousands)

|                                   | As at October 31, 2016                 |                      |                   |                      |                      |
|-----------------------------------|--|----------------------|-------------------|----------------------|----------------------|
|                                   | Cash, Securities and Resale Agreements | Loans                | Other Items       | Total                | Risk-Weighted Assets |
| Corporate                         | \$ 141,166                             | \$ 14,553,429        | \$ -              | \$ 14,694,595        | \$ 14,605,432        |
| Sovereign                         | 1,733,179                              | 27,504               | -                 | 1,760,683            | 5,501                |
| Bank                              | 744,666                                | 77,708               | -                 | 822,374              | 193,976              |
| Retail residential mortgages      | 5,369                                  | 4,025,861            | -                 | 4,031,230            | 1,222,422            |
| Other retail                      |  |                      |                   |                      |                      |
| Excluding small business entities | -                                      | 186,144              | -                 | 186,144              | 128,626              |
| Small business entities           | -                                      | 2,198,647            | -                 | 2,198,647            | 1,699,096            |
| Equity                            | 133,411                                | -                    | -                 | 133,411              | 133,411              |
| Undrawn commitments               | -                                      | 330,145              | -                 | 330,145              | 325,611              |
| Operational risk                  | -                                      | -                    | 89,568            | 89,568               | 1,119,599            |
| Securitization risk               | -                                      | 102,593              | -                 | 102,593              | 531,070              |
| Other                             | -                                      | 175,445              | 455,369           | 630,814              | 396,839              |
| <b>As at October 31, 2016</b>     | <b>\$ 2,757,791</b>                    | <b>\$ 21,677,476</b> | <b>\$ 544,937</b> | <b>\$ 24,980,204</b> | <b>\$ 20,361,583</b> |
| As at October 31, 2015            | \$ 2,997,607                           | \$ 19,510,753        | \$ 439,753        | \$ 22,948,113        | \$ 19,198,092        |

**Table 25 - Risk-Weighting Category**

(\$ thousands)

|                                   | As at October 31, 2016 |                   |                     |                   |                     |                      |                   |                      | Balance              | Weighted |
|-----------------------------------|------------------------|-------------------|---------------------|-------------------|---------------------|----------------------|-------------------|----------------------|----------------------|----------|
|                                   | 0 %                    | 20 %              | 35 %                | 50 %              | 75 %                | 100 %                | 150% and greater  |                      |                      |          |
| Corporate                         | \$ 49,272              | \$ 7,701          | \$ -                | \$ 138,756        | \$ -                | \$ 14,427,569        | \$ 71,297         | \$ 14,694,595        | \$ 14,605,432        |          |
| Sovereign                         | 1,733,179              | 27,504            | -                   | -                 | -                   | -                    | -                 | 1,760,683            | 5,501                |          |
| Bank                              | 163,327                | 581,339           | -                   | -                 | -                   | 77,708               | -                 | 822,374              | 193,976              |          |
| Retail residential mortgages      | 615,816                | -                 | 3,362,699           | -                 | 28,953              | 23,762               | -                 | 4,031,230            | 1,222,422            |          |
| Other retail                      |                        |                   |                     |                   |                     |                      |                   |                      |                      |          |
| Excluding small business entities | 14,086                 | 1,284             | -                   | -                 | 170,389             | -                    | 385               | 186,144              | 128,626              |          |
| Small business entities           | 7,577                  | 1,306             | -                   | -                 | 2,016,264           | 147,226              | 26,274            | 2,198,647            | 1,699,096            |          |
| Equity                            | -                      | -                 | -                   | -                 | -                   | 133,411              | -                 | 133,411              | 133,411              |          |
| Undrawn commitments               | -                      | -                 | -                   | -                 | 18,207              | 311,902              | 36                | 330,145              | 325,611              |          |
| Operational risk                  | -                      | -                 | -                   | -                 | -                   | -                    | 89,568            | 89,568               | 1,119,599            |          |
| Securitization risk               | -                      | -                 | -                   | -                 | -                   | 65,334               | 37,259            | 102,593              | 531,070              |          |
| Other                             | 251,518                | 37,173            | -                   | -                 | 34,297              | 271,169              | 36,657            | 630,814              | 396,839              |          |
| <b>As at October 31, 2016</b>     | <b>\$ 2,834,775</b>    | <b>\$ 656,307</b> | <b>\$ 3,362,699</b> | <b>\$ 138,756</b> | <b>\$ 2,268,110</b> | <b>\$ 15,458,081</b> | <b>\$ 261,476</b> | <b>\$ 24,980,204</b> | <b>\$ 20,361,583</b> |          |
| As at October 31, 2015            | \$ 2,681,408           | \$ 563,429        | \$ 2,565,052        | \$ 90,918         | \$ 2,878,813        | \$ 13,929,747        | \$ 238,746        | \$ 22,948,113        | \$ 19,198,092        |          |



## Outlook for Capital Management

CWB will maintain strong capital ratios under the Standardized approach for calculating risk-weighted assets, above its target thresholds and OSFI's required minimums, and is well positioned to manage future business growth and unexpected events. Target capital ratios, including an appropriate capital buffer over the prescribed OSFI minimums, are reconfirmed regularly through CWB's Regulatory Capital Plan. The ongoing retention of earnings, net of expected common and preferred share dividends, is expected to support capital requirements associated with the anticipated achievement of CWB's medium-term performance target range for a strong common equity Tier 1 ratio. With a very conservative Basel III leverage ratio of 8.6% at October 31, 2016, CWB is not constrained by OSFI's stated requirement for banks to maintain a minimum leverage ratio of 3%.

Based on the results of stress tests simulating severe economic conditions in Alberta and Saskatchewan, in combination with very challenging economic conditions throughout the rest of CWB's geographic footprint over a multi-year time frame, management is confident CWB will continue to deliver positive earnings for shareholders while maintaining financial stability and a strong capital position.

Stress test assumptions include severe credit losses, a persistent low interest rate environment and significantly slower loan growth to reflect lower assumed levels of economic activity, as well as increased competition for deposits and much higher levels of gross impaired loans that could combine to result in significant compression of net interest margin.

The resilience of CWB's capital position under the severe conditions assumed within its stress tests reflects both CWB's commercial lending focus and its use of the Standardized approach for calculating risk-weighted assets. Under the Standardized approach, most of CWB's commercial lending exposures are risk-weighted at 100%. In view of the assumption for constrained loan growth in the stress scenario, incremental increases in risk-weighted assets mainly result from a 50% increase in risk weights on loans assumed to be in default. This increase is effectively offset by the runoff of CWB's relatively short duration portfolio, resulting in stable regulatory capital ratios over a multi-year time frame.

Management continues to evaluate alternatives to deploy capital for the long-term benefit of CWB shareholders, which includes

a medium-term target range for the common share dividend payout ratio of approximately 30% and the potential for strategic acquisitions.

## AIRB Transition Plan

A project plan has been finalized in support of CWB's application for transition to an AIRB methodology for managing credit risk and calculating risk-weighted assets, including an anticipated three-year time frame. CWB's new core banking system is a critical component for a number of requirements necessary for AIRB compliance, including the collection of certain types of data. The AIRB approach will put CWB on more equal footing with its competition. It will add risk sensitivity to CWB's framework for capital management, increase risk quantification processes, improve risk-based pricing capabilities and economic capital estimations, and enhance CWB's ability to comply with new accounting standards. These improved risk management capabilities will better equip CWB to target business segments that generate the most attractive risk-adjusted returns and allocate resources accordingly.

CWB's AIRB transition project is separated into several discrete phases, including: establishment of formalized project governance; creation of models including data collection, development, validation, deployment, operationalization and use test; commencement of model validation; implementation of risk-weighted asset calculator; and, submission of final application to OSFI.

In 2016, management commenced development of an enhanced enterprise data warehouse to serve as a repository for the required data. Development, validation and deployment of AIRB models for Optimum, National Leasing and branch-based residential mortgages was also undertaken, with initiation of a pilot phase of model use underway for Optimum and branch-based residential mortgages. Management expects all models to be developed and deployed with operational testing underway by the end of 2017.

Readers are cautioned that CWB's move to the AIRB approach is dependent on regulatory approval with the potential impact also dependent upon future changes in both the Standardized and/or AIRB approaches. Both approaches are currently under review by the Basel Committee.

## 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 revenues, expenses, gains and losses related to the same.

Financial instrument assets include cash resources, securities, securities purchased under resale agreements, 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 non-interest 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 26 - Derivative Financial Instruments**

(\$ thousands)

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| <b>Notional Amounts</b>  |                     |                     |
| Interest rate contracts designated as accounting hedges <sup>(1)</sup> | \$ 3,698,000        | \$ 2,805,000        |
| Equity swaps designated as accounting hedges <sup>(2)</sup>            | 20,117              | 19,860              |
| Equity swaps not designated as accounting hedges <sup>(3)</sup>        | 3,628               | 3,024               |
| Foreign exchange contracts <sup>(4)</sup>                              | 124,056             | 233,129             |
| <b>Total</b>   | <b>\$ 3,845,801</b> | <b>\$ 3,061,013</b> |

(1) Interest rate contracts are used as hedging devices to manage interest rate risk. The outstanding contracts mature between November 2016 and September 2021.

(2) Equity swaps designated as hedges mature between June 2017 and June 2019. Equity swaps are used to reduce the earnings volatility from restricted share units linked to CWB's common share price.

(3) Equity swaps not designated as hedges mature between June and December 2017. Equity swaps are used to reduce the earnings volatility from deferred share units linked to CWB's common share price.

(4) U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. Forward foreign exchange contracts outstanding mature between November 2016 and April 2017.

The active use of interest rate contracts remains an integral component to manage the interest rate gap position. The increase in the volume of outstanding contracts (measured by the notional amount) reflects normal course management of interest rate risk. 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 Risk Committee no less than annually.

## ACQUISITIONS AND DIVESTITURES

On March 1, 2016, CWB acquired the non-securitized lending assets and other net business assets, including key employees, of Maxium Financial Services Inc. and Desante Financial Services Inc., now referred to as "CWB Maxium Financial" (CWB Maxium). CWB Maxium provides loans, equipment leases and structured financing solutions to more than 35,000 clients, mainly in Ontario. Specialized financing solutions are primarily provided in the areas of health care, golf, transportation, real estate, and general corporate financing. Securitized assets of approximately \$1,000 million that were originated prior to March 1, 2016 were not included in the transaction; however, CWB holds rights of renewal related to these assets. The maximum total consideration is \$120 million. The acquisition was funded at closing with 1,250,312 common shares valued at \$26 million and \$20 million in cash. Remaining consideration consists of contingent payments to the vendors that could total up to \$71 million, with an estimated fair value at the acquisition date of \$16 million. Contingent payment instalments will be made annually with determination of the total amount payable based on CWB Maxium's cumulative business performance over a 36-month purchase price adjustment period. Up to 50% of the total contingent consideration may be settled with CWB shares at the vendors' option, provided the average share price over the 20 days preceding issuance exceeds \$30.00, with the remainder to be paid in cash. Full disclosure of the accounting treatment

of the transaction is provided in Note 3 of the audited consolidated financial statements. Other than the contingent consideration payable to the vendors, there were no other contingent liabilities or commitments arising from the acquisition.

On July 1, 2016, CWB acquired GE Capital's Canadian Franchise Finance platform, now referred to as "CWB Franchise Finance". The business provides financing across Canada to a diverse group of established companies in the franchised hospitality and restaurant industries. The acquisition included key employees to support CWB's continued strategic commercial banking growth and geographic expansion. The balance of loans acquired was approximately \$350 million. Financial consideration was comprised of cash and no goodwill or intangible assets were included in the purchase structure.

The sales of CWB's property and casualty insurance subsidiary, Canadian Direct Insurance (CDI), and the stock transfer business of its subsidiary, Valiant Trust Company, closed effective May 1, 2015. The transactions consisted of the sale of 100% of the shares of CDI as well as the transfer of certain operating assets, systems and employees that supported the stock transfer business.

## 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, third-party leases under administration, and mortgages under service agreements, totalled \$10,689 million at October 31, 2016, compared to \$9,294 million one year ago.

Assets under management held within Adroit and McLean & Partners were \$1,924 million at year end, compared to \$1,883 million last year.

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

## SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

### QUARTERLY RESULTS

The financial results for each of the last eight quarters are summarized in Table 27. In general, CWB's performance reflects a consistent growth trend, although the second quarter contains three fewer revenue-earning days, or two fewer days during leap years. Results from Combined Operations for the third quarter of 2015 reflect the impact of divestiture gains. Results from Continuing Operations in the second and third quarters of 2016 reflect the credit performance of oil and gas production loans.

Quarterly financial results were subject to some fluctuation due to exposure to property and casualty insurance prior to the divestiture of Canadian Direct Insurance, completed on May 1, 2015. Insurance operations, which were primarily reflected in non-interest income within the results of Discontinued and Combined Operations, were subject to seasonal weather conditions, cyclical patterns of the industry and natural catastrophes.

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, are available for review on SEDAR at [sedar.com](http://sedar.com) and on CWB's website at [cwb.com](http://cwb.com). Copies of the quarterly reports to shareholders can also be obtained, free of charge, by contacting [InvestorRelations@cwbank.com](mailto:InvestorRelations@cwbank.com).

**Table 27 - Quarterly Financial Highlights<sup>(1)</sup>**

(\$ thousands, except per share amounts)

|   | 2016       |            |            |            | 2015       |            |            |            |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
|   | Q4         | Q3         | Q2         | Q1         | Q4         | Q3         | Q2         | Q1         |
| <b>Results from Continuing Operations</b>   |            |            |            |            |            |            |            |            |
| Net interest income (teb)                   | \$ 149,704 | \$ 149,547 | \$ 145,106 | \$ 144,107 | \$ 141,096 | \$ 140,503 | \$ 133,064 | \$ 134,389 |
| Less teb adjustment                         | 579        | 676        | 754        | 1,231      | 1,377      | 1,280      | 1,455      | 1,468      |
| Net interest income                         | 149,125    | 148,871    | 144,352    | 142,876    | 139,719    | 139,223    | 131,609    | 132,921    |
| Non-interest income                         | 19,127     | 19,541     | 19,378     | 14,626     | 17,949     | 13,269     | 18,435     | 18,295     |
| Total revenues (teb)                        | 168,831    | 169,088    | 164,484    | 158,733    | 159,045    | 153,772    | 151,499    | 152,684    |
| Total revenues                              | 168,252    | 168,412    | 163,730    | 157,502    | 157,668    | 152,492    | 150,044    | 151,216    |
| Pre-tax, pre-provision income (teb)         | 89,497     | 92,360     | 87,628     | 84,358     | 84,378     | 80,397     | 81,174     | 82,110     |
| Common shareholders' net income             | 47,834     | 45,582     | 32,213     | 52,132     | 52,969     | 51,170     | 51,520     | 52,405     |
| Earnings per common share                   |            |            |            |            |            |            |            |            |
| Basic                                       | 0.54       | 0.55       | 0.40       | 0.65       | 0.66       | 0.64       | 0.64       | 0.65       |
| Diluted                                     | 0.54       | 0.55       | 0.40       | 0.65       | 0.66       | 0.64       | 0.64       | 0.65       |
| Adjusted cash                               | 0.59       | 0.60       | 0.41       | 0.66       | 0.67       | 0.65       | 0.65       | 0.66       |
| Return on common                            |            |            |            |            |            |            |            |            |
| shareholders' equity                        | 9.3%       | 9.4%       | 7.1%       | 11.5%      | 11.9%      | 11.7%      | 13.1%      | 13.1%      |
| Adjusted return on common                   |            |            |            |            |            |            |            |            |
| shareholders' equity                        | 10.1       | 10.3       | 7.4        | 11.7       | 12.0       | 11.9       | 13.3       | 13.4       |
| Return on average total assets              | 0.76       | 0.73       | 0.55       | 0.90       | 0.94       | 0.94       | 1.00       | 1.01       |
| Efficiency ratio (teb)                      | 47.0       | 45.4       | 46.7       | 46.9       | 46.9       | 47.7       | 46.4       | 46.2       |
| Efficiency ratio                            | 47.2       | 45.6       | 46.9       | 47.2       | 47.4       | 48.1       | 46.9       | 46.7       |
| Net interest margin (teb)                   | 2.36       | 2.40       | 2.47       | 2.48       | 2.49       | 2.57       | 2.57       | 2.59       |
| Net interest margin                         | 2.35       | 2.39       | 2.45       | 2.46       | 2.47       | 2.55       | 2.54       | 2.56       |
| Provision for credit losses as              |            |            |            |            |            |            |            |            |
| a percentage of average loans               | 0.24       | 0.32       | 0.78       | 0.18       | 0.18       | 0.17       | 0.17       | 0.16       |
| <b>Results from Combined Operations</b>     |            |            |            |            |            |            |            |            |
| Net interest income (teb)                   | \$ 149,704 | \$ 149,547 | \$ 145,106 | \$ 144,107 | \$ 141,096 | \$ 140,503 | \$ 134,886 | \$ 136,442 |
| Non-interest income                         | 19,127     | 19,541     | 19,378     | 14,626     | 17,949     | 13,269     | 25,362     | 23,722     |
| Net gain on sale of businesses, after tax   | -          | -          | -          | -          | 169        | 107,639    | -          | -          |
| Total revenues (teb)                        | 168,831    | 169,088    | 164,484    | 158,733    | 159,214    | 261,411    | 160,248    | 160,164    |
| Total revenues                              | 168,252    | 168,412    | 163,730    | 157,502    | 157,837    | 260,131    | 158,598    | 158,478    |
| Common shareholders' net income             | 47,834     | 45,582     | 32,213     | 52,132     | 53,138     | 158,809    | 53,545     | 54,209     |
| Earnings per common share                   |            |            |            |            |            |            |            |            |
| Basic                                       | 0.54       | 0.55       | 0.40       | 0.65       | 0.66       | 1.97       | 0.67       | 0.67       |
| Diluted                                     | 0.54       | 0.55       | 0.40       | 0.65       | 0.66       | 1.97       | 0.67       | 0.67       |
| Adjusted cash                               | 0.59       | 0.60       | 0.41       | 0.66       | 0.67       | 1.98       | 0.68       | 0.69       |
| Return on common                            |            |            |            |            |            |            |            |            |
| shareholders' equity                        | 9.3%       | 9.4%       | 7.1%       | 11.5%      | 11.9%      | 36.3%      | 13.6%      | 13.5%      |
| Adjusted return on common                   |            |            |            |            |            |            |            |            |
| shareholders' equity                        | 10.1       | 10.3       | 7.4        | 11.7       | 12.1       | 36.5       | 13.9       | 13.9       |
| Return on average total assets              | 0.76       | 0.73       | 0.55       | 0.90       | 0.94       | 2.90       | 1.02       | 1.03       |
| <b>Results from Discontinued Operations</b> |            |            |            |            |            |            |            |            |
| Total revenues (teb)                        | \$ -       | \$ -       | \$ -       | \$ -       | \$ 169     | \$ 107,639 | \$ 8,749   | \$ 7,480   |
| Total revenues                              | -          | -          | -          | -          | 169        | 107,639    | 8,554      | 7,262      |
| Common shareholders' net income             | -          | -          | -          | -          | 169        | 107,639    | 2,025      | 1,804      |
| Earnings per common share                   |            |            |            |            |            |            |            |            |
| Basic                                       | -          | -          | -          | -          | -          | 1.33       | 0.03       | 0.02       |
| Diluted                                     | -          | -          | -          | -          | -          | 1.33       | 0.03       | 0.02       |
| Adjusted cash                               | -          | -          | -          | -          | -          | 1.33       | 0.03       | 0.03       |

(1) See page 16 for a discussion of teb and non-IFRS measures.

## FOURTH QUARTER OF 2016

### Overview of Continuing Operations

#### Q4 2016 vs. Q4 2015

Core operating performance was strong based on 6% growth of pre-tax, pre-provision (PTPP) income to \$89.5 million. Common shareholders' net income of \$47.8 million was down 10% from \$53.0 million a year ago. Net interest income and non-interest income both increased 7%; however, the combined impact of moderate growth of non-interest expenses, increased provisions for credit losses, acquisition-related fair value changes and higher preferred share dividends resulted in lower earnings. Higher net interest income reflects the benefit of very strong 13% loan growth, partially offset by a 13 basis point decrease in net interest margin (teb) to 2.36%. Increased non-interest income mainly reflects growth in credit related fees and trust services revenue, partially offset by a decrease in 'other' non-interest income. Increased non-interest expenses primarily relate to higher salaries and benefits reflecting the combined impact of acquisition-related increases in staffing, hiring activity in support of business growth and annual salary increments. The fourth quarter provision for credit losses was 24 basis points, compared to 18 basis points last year. Of the provision this quarter, 13 basis points related to non-oil and gas loans, and 11 basis points comprised an increase in the collective allowance. The latter factor is consistent with expectations for the collective allowance to fluctuate as a result of portfolio growth and normal progress through the credit cycle. Provisions for direct oil and gas exposures were not material this quarter. Diluted earnings per common share of \$0.54 and adjusted cash earnings per common share, which excludes the acquisition-related amortization of intangible assets and contingent consideration fair value changes, net of tax, of \$0.59 declined 18% and 12%, respectively. This reflects the factors discussed above, as well as the issuance of common shares this year.

#### Q4 2016 vs. Q3 2016

Common shareholders' net income increased 5% mainly due to lower provisions for credit losses. Net interest income was relatively unchanged as 1% loan growth was offset by a four basis point decline in net interest margin (teb). Non-interest income was also relatively consistent with the prior quarter, as the positive impact of increased credit related and retail services fees was offset by lower 'other' non-interest income. Gains on the sale of residential mortgages led to elevated 'other' non-interest income last quarter. Non-interest expenses increased 3% primarily due to higher full-time salaries as certain previously capitalized salaries related to the new core banking system are now expensed. Diluted and adjusted cash earnings per common share were both down 2%. PTPP income was 3% lower as total revenues were relatively unchanged while non-interest expenses increased 3%.

#### ROE and ROA

The quarterly adjusted return on common shareholders' equity (ROE) of 10.1% decreased 190 basis points from a year earlier and was down from 10.3% in the prior quarter. Fourth quarter return on assets (ROA) was 0.76%, compared to 0.94% last year and 0.73% in the previous quarter.

#### Net Interest Margin

Fourth quarter net interest margin (teb) of 2.36% declined 13 basis points compared to last year primarily due to lower asset yields and slightly increased marginal funding costs, partially offset by favourable changes in deposit mix. Loan yields remained under pressure due to both the low interest rate environment and competitive factors. Net interest margin (teb) was down four basis points from the prior quarter reflecting similar factors, partially offset by the absence of the one-time impact of a change in methodology for the recognition of certain loan fees recorded last quarter.

#### Efficient Operations and Positive Operating Leverage

The quarterly efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues (teb), excluding acquisition-related fair value changes, was 47.0%, relatively unchanged from the fourth quarter last year.

### Overview of Combined Operations

#### Q4 2016 vs. Q4 2015 and Q4 2016 vs. Q3 2016

The results of Combined Operations did not differ materially from Continuing Operations.

#### ROE and ROA

The quarterly adjusted ROE and ROA were materially consistent with the results of Continuing Operations.

## 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, 2016 CWB's total allowance for credit losses was \$127.2 million (2015 – \$115.4 million) which included specific allowances of \$16.3 million (2015 – \$15.8 million) and a collective allowance of \$110.9 million (2015 – \$99.6 million). Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of Credit Quality in this MD&A and in Note 8 to the consolidated financial statements.

#### Financial Instruments Measured at Fair Value

Cash resources, securities, securities purchased under resale agreements, acquisition-related 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.

Table 28 summarizes the significant financial assets and liabilities recorded on the consolidated balance sheets at fair value.

**Table 28 - Valuation of Financial Instruments**

(\$ thousands)

| As at October 31, 2016                       | Fair Value           | Valuation Technique |                      |                      |
|--|----------------------|---------------------|----------------------|----------------------|
|  |                      | Level 1             | Level 2              | Level 3              |
| <b>Financial Assets</b>                      |                      |                     |                      |                      |
| Cash resources                               | \$ 920,056           | \$ 45,426           | \$ 874,630           | \$ -                 |
| Securities                                   | 1,708,594            | 322,509             | 1,386,085            | -                    |
| Securities purchased under resale agreements | 163,318              | -                   | 163,318              | -                    |
| Loans  | 22,376,753           | -                   | -                    | 22,376,753           |
| Derivative related                           | 10,370               | -                   | 10,370               | -                    |
| <b>Total Financial Assets</b>                | <b>\$ 25,179,091</b> | <b>\$ 367,935</b>   | <b>\$ 2,434,403</b>  | <b>\$ 22,376,753</b> |
| <b>Financial Liabilities<sup>(1)</sup></b>   |                      |                     |                      |                      |
| Deposits                                     | \$ 21,281,835        | \$ -                | \$ 21,281,835        | \$ -                 |
| Debt   | 1,271,036            | -                   | 1,271,036            | -                    |
| Other liability                              | 24,257               | -                   | -                    | 24,257               |
| Derivative related                           | 7,172                | -                   | 7,172                | -                    |
| <b>Total Financial Liabilities</b>           | <b>\$ 22,584,300</b> | <b>\$ -</b>         | <b>\$ 22,560,043</b> | <b>\$ 24,257</b>     |

| As at October 31, 2015                     | Fair Value           | Valuation Technique |                      |                      |
|--|----------------------|---------------------|----------------------|----------------------|
|  |                      | Level 1             | Level 2              | Level 3              |
| <b>Financial Assets</b>                    |                      |                     |                      |                      |
| Cash resources                             | \$ 443,422           | \$ 27,939           | \$ 415,483           | \$ -                 |
| Securities                                 | 2,551,112            | 219,041             | 2,332,071            | -                    |
| Loans                                      | 19,889,076           | -                   | -                    | 19,889,076           |
| Derivative related                         | 23,245               | -                   | 23,245               | -                    |
| <b>Total Financial Assets</b>              | <b>\$ 22,906,855</b> | <b>\$ 246,980</b>   | <b>\$ 2,770,799</b>  | <b>\$ 19,889,076</b> |
| <b>Financial Liabilities<sup>(1)</sup></b> |                      |                     |                      |                      |
| Deposits                                   | \$ 19,457,102        | \$ -                | \$ 19,457,102        | \$ -                 |
| Debt                                       | 1,206,101            | -                   | 1,206,101            | -                    |
| Other liability                            | 650                  | -                   | -                    | 650                  |
| Derivative related                         | 4,503                | -                   | 4,503                | -                    |
| <b>Total Financial Liabilities</b>         | <b>\$ 20,668,356</b> | <b>\$ -</b>         | <b>\$ 20,667,706</b> | <b>\$ 650</b>        |

(1) The Level 3 financial liability at October 31, 2016 is related to the acquisition of CWB Maxium. At October 31, 2015, the Level 3 financial liability was comprised of contingent consideration related to a business sold in 2015.

Notes 2, 4, 5, 6, 11 and 27 to the consolidated financial statements provide additional information regarding these financial instruments.

## CHANGES IN ACCOUNTING POLICIES AND FINANCIAL STATEMENT PRESENTATION

New and amended accounting pronouncements issued by the International Accounting Standards Board (IASB) did not result in a change in CWB's accounting policies during 2016.

### FUTURE CHANGES IN ACCOUNTING POLICIES

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, if any, on the financial statements.

#### IFRS 9 – Financial Instruments

In July 2014, the IASB issued the complete version of IFRS 9, which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement of financial assets and liabilities, impairment and hedge accounting.

Additional guidance from regulatory bodies has been issued since the final release of IFRS 9. In December 2015, the Basel Committee on Banking Supervision (BCBS) issued "Guidance on credit risk and accounting for expected credit losses" and, in June 2016, OSFI issued "IFRS 9 Financial Instruments and Disclosure". OSFI's guidance sets the Canadian expectations for IFRS 9 adoption and is consistent with the BCBS guidance.

IFRS 9 specifies that financial assets be classified into one of three categories (amortized cost, fair value through profit or loss or fair value through other comprehensive income) based on the cash flow characteristics and the business model under which the assets are held.

The final standard also introduces a new "expected credit loss" (ECL) model for calculating impairment on all financial assets classified at amortized cost or fair value through comprehensive income, with the most significant impact being to loans. The new impairment model categorizes a financial asset into three stages based on changes in credit risk since inception. Under stage one, if there has not been a significant increase in credit risk at the reporting date, the ECL will be measured and recognized at 12-month expected credit losses. A financial asset will move to stage two if it has experienced a significant increase in credit risk since inception and recognition of lifetime expected losses is required. When a financial asset is identified as credit impaired, it will move to stage three where interest income is recognized on the carrying amount of the asset, net of the impairment allowance. A financial asset can move between stages depending on improvement or deterioration of credit risk. CWB plans to leverage models being developed for AIRB to satisfy IFRS 9 requirements.

IFRS 9 also introduces a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting, and aligns hedge accounting more closely with risk management.

IFRS 9 will be mandatorily effective for CWB's fiscal year beginning on November 1, 2018, and early adoption is permitted. In January 2015, OSFI determined that Domestic Systemically Important Banks (D-SIBs) should adopt IFRS 9 beginning November 1, 2017, while early adoption is permitted but not required for other federally regulated Canadian banks with October year ends, such as CWB. CWB plans to adopt IFRS 9 on November 1, 2018.

During 2015, CWB commenced its IFRS 9 transition project and established a formal project governance structure, including a Steering Committee, to monitor the progress and critical decisions during the

transition to IFRS 9. The transition project focuses on the three main areas of IFRS 9: classification and measurement, impairment, and hedge accounting. IFRS 9 training for affected stakeholders has been and will continue to be delivered on an ongoing basis throughout the transition. The transition impact of IFRS 9 on CWB's consolidated financial statements has not been determined.

#### IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, which requires most leases to be recorded on the balance sheet. For lessees, most operating leases other than short-term or low-value leases will be capitalized, and will result in a balance sheet increase in lease assets and lease liabilities, and a decrease in operating lease expenses and an increase in financing costs on the income statement. The new standard will not impact lessor accounting beyond additional disclosures. The new standard is effective for CWB's fiscal year beginning November 1, 2019 with early adoption permitted if "IFRS 15 Revenue from Contracts with Customers" is applied. The impact on CWB of the new standard has not yet been determined.

#### IFRS 15 – Revenue from Contracts with Customers

The IASB has established principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles-based model for revenue recognition to be applied to contracts with customers. The new standard does not apply to financial instruments or lease contracts, which fall in the scope of other IFRSs.

In April 2016, the IASB issued amendments to IFRS 15, which clarify the underlying principles of IFRS 15 and provide additional transitional relief on initial application. These amendments are effective for CWB's fiscal year beginning November 1, 2018. The impact on CWB of the new standard has not yet been determined.

#### IFRS 2 – Share-based Payment Transactions

In June 2016, the IASB issued amendments to IFRS 2, which clarify how to account for certain types of share-based payment transactions. These amendments are effective for CWB's fiscal year beginning November 1, 2018 and can be applied prospectively. The impact on CWB of these amendments has not yet been determined.

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, such as macro-hedging, may have an 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 53 to 70 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2016.

### Our Approach to Risk Management

Maintenance of an integrated and disciplined approach to risk management is a key success factor for CWB. Our risk management framework guides us in prudent, balanced and measured risk-taking aligned with CWB's business strategy. The Enterprise Risk Management (ERM) group develops CWB's risk metrics, risk appetite, risk policies and limits, and provides independent review and oversight across the enterprise on risk-related issues.

CWB's vision – *to be seen as crucial to our clients' futures* – requires continuous consideration, understanding and responsible management of all key risks at both the strategic and operational levels. CWB's core strategic objective to balance risk and reward requires each team member to make common-sense business decisions by assessing risk and reward trade-offs considering CWB's strategy, risk appetite and regulatory/legal requirements. We consciously accept risks to add value for stakeholders and support

the responsible and efficient delivery of products and services provided those risks:

- Are aligned with our strategic objectives;
- Are thoroughly understood, measured and managed within the confines of well-communicated CWB risk tolerances, including the highest ethical standards; and,
- Serve the interests of stakeholders, including our clients, shareholders, creditors, employees, regulators and communities.

### Highlights of 2016

Further enhancements to CWB's risk management framework were undertaken in 2016 as part of the ongoing development and implementation of CWB's risk management processes, including the following key initiatives:

- Further enhanced CWB's three lines of defence risk governance framework;
- Established an integrated risk management function as the second line of defence for structural market risk and operational risk, as well as for CWB's Internal Capital Adequacy Assessment Process (ICAAP) and stress testing under AIRB;
- Established market risk metrics with corresponding risk appetite and limits for structural market risk exposures;
- Monitored and reported structural market risk exposures against the risk appetite and limits, independent of the first line of defence;
- Initiated the multi-year project plan in support of application for transition to the AIRB approach for managing credit risk and calculating risk-weighted assets. Transition to the AIRB approach will enhance CWB's competitive position and facilitate risk-based pricing, enable further optimization of capital allocation, and enhance CWB's risk quantification and stress testing capabilities;
- Initiated development of certain AIRB models and AIRB-based stress testing capabilities for Optimum Mortgage, branch-based mortgage and National Leasing portfolios;
- Developed IFRS 9 models for Optimum Mortgage, branch-based mortgage and National Leasing portfolios;
- Further developed an information services and data risk management platform and initiated an information services and data platform for the estimation of risk-weighted assets under the AIRB approach; and,
- Revised the mandate of, and re-named, CWB's Credit Analytics Department as the Risk Data Aggregation, Analytics, and Reporting Group (RDAAR).

## Outlook for Risk Management

With ongoing enhancement of CWB's enterprise-wide risk management framework in 2017, ERM will contribute to further progress toward CWB's eventual transition to the AIRB approach and enhancements to stress testing processes.

Further development of an enhanced operational risk management framework consistent with industry best practices is underway.

## RISK MANAGEMENT OVERVIEW

Risk management processes are designed to complement CWB's overall size, level of complexity, risk profile and philosophy regarding risk. CWB's risk management philosophy emphasizes risk measurement, 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, not all risks are within 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 risk mitigation strategies.

### Risk Management Strengths

- Strong risk culture with robust risk management framework which addresses risks throughout CWB;
- Low operational risk profile;
- In-depth knowledge of our clients;
- Secured lending business model;
- Disciplined underwriting with demonstrated strength through multiple credit cycles;
- Increasing geographic diversification;
- Low balance sheet leverage;
- Low average duration of lending portfolios; and,
- Relatively low exposure to economically sensitive retail lending portfolios.

### Risk Management Challenges

- Ongoing global macroeconomic volatility, especially the persistence of low oil prices and related economic challenges within parts of Western Canada;
- Increasing volume and complexity of regulatory requirements and expectations; and,
- Capital requirements under the Standardized approach decoupled from the underlying economic risk.

### Risk Management Principles

The following principles guide the management of risks across all operations and companies of CWB (enterprise-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 preventive and detection controls;
- An enterprise-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;
- The belief that every employee is accountable to understand 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; and,
- Ongoing commitment to a three lines of defence risk governance framework with independent oversight and effective challenge from the second line.

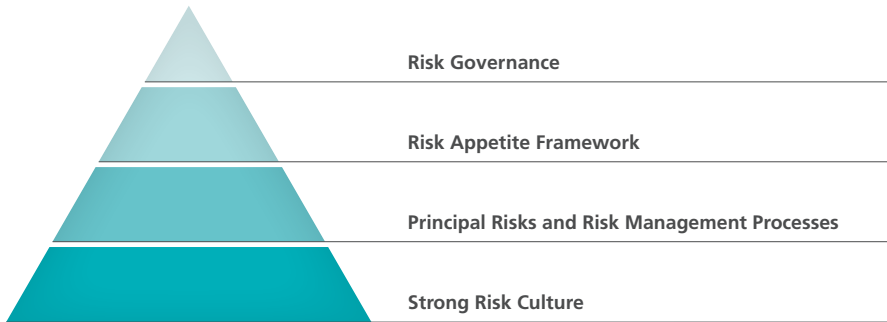
The mandate of CWB's ERM function is to enhance existing processes and structure to help identify and appropriately mitigate risks on an enterprise-wide basis. The intent is to provide a suitable framework for CWB to properly balance risk and reward while ensuring risk management practices satisfy regulatory requirements.

## 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 enterprise-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.

Figure 4 depicts the four main elements which comprise CWB's enterprise-wide risk management framework:

Figure 4 – Risk Management Framework



### Risk Culture

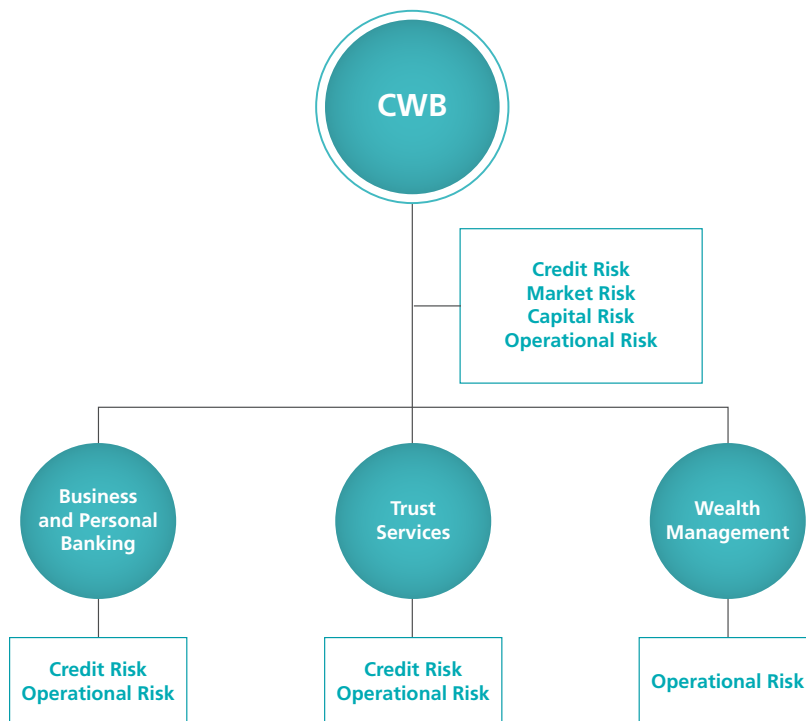
A strong risk culture emphasizes transparency and accountability. Organizations with a strong risk culture have a consistent and repeatable approach to risk management when making key business decisions, including regular discussions of risk and reviews of risk scenarios that can help management and 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 CWB 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 enterprise-wide risk management. Certain principal risks have been identified that have the greatest potential to materially impact operations.

Figure 5 is a visual representation of CWB's principal risk exposures by business line:

Figure 5 – Principal Risks



Reputational risk is also a principal risk, which arises as a consequence of not managing other risks effectively. There are three main subsets of operational risk: regulatory risk, people risk, and technology risk. Other types of operational risk include cybersecurity risk and reputation risk.

## Risk Appetite

Our Risk Appetite Framework consists of our Risk Appetite Statement, as well as all supporting key risk metrics and corporate policies and standards, including limits. Our risk appetite defines the amount of risk that CWB is willing to assume for all risk types, given our guiding risk management principles and capital capacity. Key attributes of CWB's overall risk appetite include the following:

- A conservative risk culture that is prevalent throughout CWB, from the Board to senior management to front-line staff;
- 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;
- A philosophy of only taking risks that are transparent and understood, and that can be measured, monitored and managed. Management strives to thoroughly understand the risks of the businesses in which CWB chooses to engage and has extensive knowledge and experience in CWB's chosen lending sectors, key geographic regions and other complementary business areas;

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 based on both quantitative and qualitative inputs.

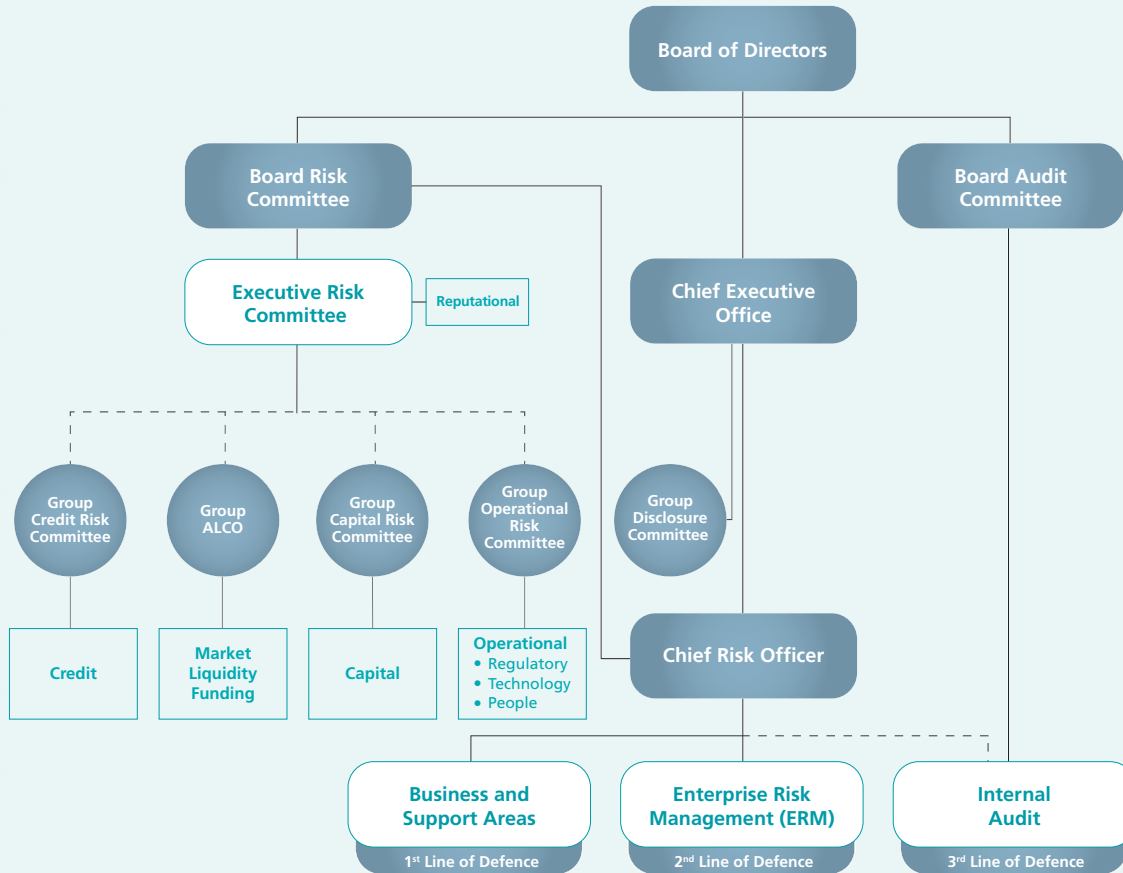
- Careful and diligent management of risks at all levels led by a knowledgeable and experienced management team committed to sound management practices and the promotion of a highly ethical culture;
- A continuous commitment and focus on the achievement of high-quality, sustainable long-term financial results;
- Targeted financial performance which supports maintenance of investment grade credit ratings to allow for competitive access to funding;
- Maintenance of effective policies, procedures, guidelines, compliance standards and controls, training and oversight to guide the business practices and risk-taking activities of all employees in support of CWB's reputation, and adherence to all legal and regulatory obligations; and,
- Risk Appetites for key risk types are established based on both quantitative and qualitative risk types by ERM as the second line of defence, endorsed by senior management and ultimately approved by the Board Risk Committee.

## Risk Management Governance Structure

The foundation of our enterprise-wide risk management framework is a governance framework which includes a robust committee structure and a comprehensive set of corporate policies and limits approved by the Board of Directors or its committees, as well as

supporting corporate standards and operating guidelines. This enterprise-wide risk management framework is governed through a hierarchy of committees and individual responsibilities as outlined in Figure 6.

Figure 6 – Enterprise-Wide Risk Management Framework



**Board of Directors** – Responsible for supervising management and the business of CWB. The Board, either directly or through its committees, is responsible for oversight in the following areas: strategic planning, risk appetite, identification and management of risk, capital management, promoting a culture of integrity, internal controls, evaluation of senior management and succession planning, public disclosure and corporate governance.

**Board Risk Committee** – Assists the Board in fulfilling its oversight responsibilities in relation to CWB’s identification and management of risk, adherence to corporate risk management policies and procedures, and compliance with risk-related regulatory requirements. Prior to formation of this committee, its responsibilities were owned either by the full Board or other committees of the Board. The Board Risk Committee includes a loan adjudication panel.

**Board Audit Committee** – Assists the Board in fulfilling its oversight responsibilities for the integrity of CWB’s financial reporting, effectiveness of CWB’s internal controls and the performance of its internal and external audit functions.

**Chief Executive Officer** – Directly accountable to the Board for all of CWB’s risk-taking activities. The Chief Executive Officer is supported by the Executive Risk Committee and its subcommittees, as well as ERM.

**Chief Risk Officer** – Directly accountable to the Chief Executive Officer. As head of ERM, the Chief Risk Officer is responsible for providing independent review and oversight of enterprise-wide risks and leadership on risk issues, developing and maintaining a risk management framework which includes key risk metrics and risk policies and fostering a strong risk culture across the enterprise. The Chief Risk Officer reports functionally to the Board Risk Committee.

**Executive Risk Committee** – CWB’s senior risk committee provides risk oversight and governance at the highest levels of management. The Executive Risk Committee reviews and discusses significant risk issues and action plans that arise in executing the enterprise-wide strategy. The Committee is chaired by the Chief Risk Officer and membership includes the Chief Executive Officer and the Chief Financial Officer.

**Subcommittees of the Executive Risk Committee** – The Executive Risk Committee and its sub-committees provide oversight of the processes whereby the risks assumed across the enterprise are identified, measured, monitored, held within delegated limits and reported in accordance with policy guidelines. They include:

**Group Credit Risk Committee** – Approves loans within delegated limits and is responsible for ensuring that appropriate credit policies are in place.

**Group Asset Liability Committee (ALCo)** – Responsible for the establishment and maintenance of operational policies and programs for liquidity management and control, funding sources, investments, foreign exchange risk, structural interest rate risk and derivatives risk.

**Group Capital Risk Committee** – Responsible for the oversight of capital adequacy, CWB’s regulatory capital plan, ICAAP and stress testing.

**Group Operational Risk Committee** – Reviews the group operational risk management framework, operational loss reporting and business continuity plans. Reviews action plans for mitigating and improving the management of operational risk. Responsible for the emerged/emerging risk identification processes.

**Group Disclosure Committee** – Supports CEO/Chief Financial Officer (CFO) certification over public disclosures. Responsible for reviewing CWB’s internal control over financial reports and disclosure controls and procedures to help ensure the accuracy, completeness and timeliness of related public disclosures.

CWB’s risk management framework is anchored in the Three Lines of Defence approach to managing risk, which is fundamental to our operating model, as described in Table 29.

**Table 29 – Three Lines of Defence**

| First Line  | Second Line  | Third Line   |
|---|--|--|
| Business and Support Areas  | ERM  | Internal Audit   |
| Own and manage all risks within their lines of business   | Set key risk metrics on which risk appetite and limits are based; ERM establishes policies, processes and practices that address all significant risks across the enterprise | Provide independent assurance to the Audit Committee and the Board Risk Committee as to the effectiveness and appropriateness of (and adherence to) the risk framework |
| Pursue suitable business opportunities within their established risk appetite and limits                      | Independently assess, quantify, monitor, control and report all significant risk exposures against the risk appetite and limits  | Independently reviews adherence to controls, policies, rules and regulations   |
| Act within their delegated risk-taking authority as set out in established policies                           | Provide independent oversight, effective challenge and independent assessment of risk  | Identifies operational weaknesses; recommends and tracks remediation actions   |
| Establish appropriate operating policies and internal control structures in accordance with the risk policies |  |  |

The following CWB oversight functions provide key support within the enterprise-wide risk management framework:

- Regulatory Compliance – Establishes risk-based processes to actively manage known and emerging risks related to applicable regulatory requirements. The group is headed by the Chief Compliance Risk Officer (CCRO). Prior to August, 2016, the Chief Risk Officer fulfilled the responsibilities of the CCRO.
- 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 on finance related issues, tax and accounting related functions. The CFO reports functionally to the Audit Committee.

## REPORT ON PRINCIPAL RISKS

While CWB's operations are exposed to numerous types of risk, certain risks, identified as principal risks, 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 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. CWB's approach to managing credit risk has proven to be very effective, as demonstrated by CWB's relatively stable long-term average annual provision for credit losses and customarily low write-offs measured as a percentage of total loans.

Refer to the Loans and Credit Quality sections of this MD&A for additional information.

#### 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 originating business. Requests for credit approval beyond the lending limit of the CEO are referred to the Group Credit Risk Committee or the Board Risk Committee's loan adjudication panel.

#### Risk Management

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

- Oversight provided by the Board Risk Committee;
- 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, 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 credit 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. A summary report of less than satisfactory accounts is reviewed on a quarterly basis by the Board Risk Committee.

## 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 \$100 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 Risk Committee. 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 is targeted to small- and medium-sized businesses, 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 National Leasing's representation across all provinces of Canada, residential mortgages underwritten and serviced by Optimum in select regions of Ontario and Atlantic Canada, participation in syndicated lending facilities primarily led by other Canadian banks, and increasingly through CWB Maxium and CWB Franchise Finance.

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



## MARKET RISK

Market risk is the impact on earnings and economic value of equity resulting from changes in financial market variables such as interest rates and foreign exchange rates. CWB's Market Risk is primarily comprised of structural interest rate risk on the balance sheet, and liquidity and funding risk. A smaller amount of market risk relates to investment risk in the relatively small securities portfolio, and foreign exchange.

### Risk Overview

Market risk arises when extending loans, taking deposits and making investments. The most material market risks for CWB are those related to changes in interest rates. CWB does not have a trading book; it 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 cash and securities portfolio is maintained

that is primarily comprised of high-quality debt instruments, with some exposure to preferred shares. These instruments are subject to price fluctuations based on movements in interest rates and volatility in financial markets. CWB liquidated its holdings of common equities in 2016 and has no plans to re-establish this portfolio. CWB has limited direct exposure to foreign exchange risk.

### Risk Governance

Market risk is managed in accordance with the approved market risk policy and the corresponding operational policies. As the first line of defence, Treasury owns and manages the market risk on a daily

basis. ALCo provides tactical and strategic direction and is responsible for ongoing oversight, and reviews and endorses the operational policies.

### Subcategories of Market Risk

#### Interest Rate Risk

Interest rate risk is the impact on earnings and economic value of equity resulting from changes in interest rates.

Structural interest rate risk arises when changes in interest rates affect the cash flows, earnings and values of assets and liabilities. The objective of structural interest rate risk management is to maintain high-quality earnings, maximize sustainable product spreads and maintain an appropriate balance between earnings volatility and economic value volatility while keeping both within their respective risk appetite limits.

Structural Interest Rate Risk arises due to the duration mismatch between our assets and liabilities. Adverse interest rate movements may cause a reduction in earnings; and/or a reduction in the economic value of CWB's assets; and/or an increase in the economic value of CWB's liabilities. Structural interest rate risk is primarily comprised of duration mismatch risk and product embedded option risk. Duration mismatch risk arises when there are differences in the scheduled maturity, repricing dates or reference rates of assets, liabilities and derivatives. The net duration mismatch, representing residual assets funded by common shareholders' equity, is managed to a target profile through interest rate swaps and CWB's cash and securities portfolio. Product embedded option risk arises when product features allow customers to alter scheduled maturity or repricing dates. Product embedded options include loan prepayment, deposit redemption privileges and committed rates on unadvanced mortgages.

Variation in market interest rates can affect net interest income by altering cash flows and spreads. Variation in market interest rates can also affect the economic value of a bank's assets, liabilities, and off-balance sheet (OBS) positions. Thus, the sensitivity of a bank's economic value to fluctuations in interest rates is an important consideration of shareholders, management and regulators. The economic value of an instrument represents an assessment of the present value of its expected net cash flows, discounted to reflect market rates. By extension, the economic value of CWB's equity can be viewed as the present value

of CWB's expected net cash flows, defined as the expected cash flows on interest-sensitive assets minus the expected cash flows on interest-sensitive liabilities plus the expected net cash flows on OBS positions. In this sense, the economic value perspective reflects one view of the sensitivity of net worth to fluctuations in interest rates.

Management of structural interest rate risk is a balancing act between short-term income volatility and volatility in the long-term value of CWB's equity. Treasury manages the economic value of the banking book to a "benchmark duration" which reflects this trade-off. Benchmark duration is recommended by Treasury and approved by ALCo. The benchmark duration considers an appropriate trade-off between:

- earnings volatility and volatility in the economic value of CWB's equity;
- risk and return (e.g. increasing duration increases the exposure to rising interest rates, but also enables an interest income pick-up from a positively sloping yield curve); and,
- expected interest rate movements.

While management of the benchmark duration is the responsibility of the first line of defence (recommended by Treasury and approved by ALCo) and detailed in the operational policies, it is important that the resulting risk exposures stay within CWB's risk appetite.

## Risk Metrics

Structural interest rate risk is measured using simulations, earnings sensitivity and economic value sensitivity analysis, stress testing and gap analysis, in addition to other traditional risk metrics.

- Earnings at Risk - Earnings at risk (EaR) is defined as the potential reduction in net interest income due to adverse interest rate movements over a one-year horizon. It is measured both against stress scenarios historically observed (historical simulation or historical Value at Risk (VaR)) and standard parallel interest shocks (interest rate sensitivity).
- Economic Value of Equity at Risk - Economic value of equity at risk (EVAR) is defined as the potential reduction in economic value of CWB's equity due to adverse interest rate movements. This is not an earnings measure, but rather a value measure; and it is also measured against both stress scenarios historically observed (historical simulation or historical VaR) and standard parallel interest shocks (interest rate sensitivity).

## CWB's Interest Rate Risk Exposures

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. This is supplemented by historical VaR for economic value of CWB's equity, estimated by applying historical interest rate scenarios to interest sensitive assets and interest sensitive liabilities. These analyses are 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 after Treasury hedging activity. The interest rate gap is measured at least monthly. Note 26 to the consolidated financial statements shows the gap position at October 31, 2016 for select time intervals.

The analysis in Note 26 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 3.5% of total assets at October 31, 2016, compared to negative 3.5% one year ago, while the one-month and under gap was 0.8%, compared to negative 1.5% a year earlier.

Interest rate risk is managed to ensure sustainable earnings over time, balancing the impact on current year earnings against changes in economic value at risk over the life of the asset and liability portfolios.

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

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

**Table 30 - Estimated Sensitivity of Net Interest Income as a Result of One Percentage Point Change in Interest Rates**  
(\$ thousands)

| Impact of 1% increase in interest rates |      |        |          |
|---|------|--------|----------|
| Period                                  | 2016 |        | 2015     |
| 90 days                                 | \$   | 7,608  | \$ (518) |
| 1 year                                  |      | 12,582 | (2,989)  |
| 1 year percentage change                |      | 2.15%  | (0.61)%  |

| Impact of 1% decrease in interest rates |      |         |         |
|---|------|---------|---------|
| Period                                  | 2016 |         | 2015    |
| 90 days                                 | \$   | (3,570) | \$ (43) |
| 1 year                                  |      | (5,150) | (201)   |
| 1 year percentage change                |      | (0.88)% | (0.04)% |

Higher sensitivity to an increase in rates reflects reduction in CWB's duration of equity.

It is estimated that a one-percentage point increase in all interest rates at October 31, 2016 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 \$57.1 million, net of tax (October 31, 2015 – \$90.1 million); it is estimated that a one-percentage point decrease in all interest rates at October 31, 2016 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 \$58.6 million, net of tax (October 31, 2015 – \$87.1 million).

Treasury maintains the asset liability structure and interest rate sensitivity within CWB's established policies through pricing and product initiatives, as well as the use of interest rate swaps and other appropriate strategies. Differences in the respective sensitivity of net interest income and other comprehensive income to changes in interest rates compared to last year primarily reflects the increased use of interest rate swaps to maintain management's targeted asset liability structure and interest rate sensitivity.

## Foreign Exchange Risk

Foreign exchange risk is the risk to changes in earnings or economic value arising from changes in foreign exchange rates. This risk arises when various assets and liabilities are denominated in different currencies.

In providing financial services to its customers, CWB has assets and liabilities denominated in U.S. dollars. At October 31, 2016, assets denominated in U.S. dollars were 1.4% (2015 – 1.0%) of total assets and U.S. dollar liabilities were 1.5% (2015 – 1.1%) of total liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific client needs. CWB has no material 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 Risk Committee. Any deviations from policy are reported regularly to ALCo and quarterly to the Board Risk Committee.

## Liquidity And Funding Risk

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

### Risk Overview

CWB maintains a sound, prudent and conservative approach to managing exposure to liquidity risk, including targeting a contingency planning horizon under stressed 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 cost of risk mitigation that considers 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 Liquidity Management section of this MD&A for additional information.

### Risk Governance

Liquidity management is centralized to better facilitate the effective management of liquidity risk. The Board Risk Committee approves market risk management policies and delegates liquidity risk authorities to senior management. As the first line of defence, Treasury is responsible for managing the liquidity and funding

risk. ALCo oversees the treasury function and provides tactical and strategic guidance. ERM, as the second line of defence, is responsible for independent oversight.

## Risk Management

CWB has a comprehensive liquidity risk management policy. 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, Executive Risk Committee and the Board Risk Committee. 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 modelling – 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 – Treasury oversight of all significant liquidity risks that support analysis, risk measurement, stress testing, monitoring and reporting to both ALCo and the Board Risk Committee;
- Stress testing – CWB performs liquidity stress testing on a regular basis to evaluate the potential effect of both systemic and company-specific (idiosyncratic) 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. CWB stress tests liquidity as per guidance from OSFI as described in the Liquidity Adequacy Requirement. Stress test results are reviewed by ALCo and considered in making liquidity management decisions. Liquidity stress testing has many purposes, including, but not limited to:
  - helping the Board Risk Committee and senior management understand the potential behavior of various positions on CWB's balance sheet in circumstances of stress; and,
  - facilitating the development of effective funding, risk mitigation and contingency plans.
- Contingency planning – A liquidity contingency plan is maintained that defines a liquidity event and 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 currently include securitization, capital market issuance and whole loan sales; and,
- 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.

CWB has remained in compliance with OSFI's Liquidity Coverage Ratio (LCR) and the Net Cumulative Cash Flow monitoring tool, since its introduction on January 1, 2015.

## 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, 17, 21 and 30 of the consolidated financial statements, contractual obligations outstanding at October 31, 2016 are disclosed in Table 31.

**Table 31 - Contractual Obligations**

(\$ thousands)

|   | Within 1<br>Year | 1 to 3<br>Years  | 4 to 5<br>Years  | More than<br>5 Years | Total             |
|---|------------------|------------------|------------------|----------------------|-------------------|
| Lease commitments   | \$ 13,205        | \$ 23,754        | \$ 20,487        | \$ 34,582            | \$ 92,028         |
| Purchase obligations for operating and capital expenditures | 2,909            | 5,792            | 364              | 108                  | 9,173             |
| <b>October 31, 2016</b>                                     | <b>\$ 16,114</b> | <b>\$ 29,546</b> | <b>\$ 20,851</b> | <b>\$ 34,690</b>     | <b>\$ 101,201</b> |
| October 31, 2015  | \$ 17,054        | \$ 22,682        | \$ 19,428        | \$ 40,479            | \$ 99,643         |

## Credit Ratings

CWB's ability to efficiently access capital markets 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.

Table 32 summarizes the credit ratings issued for CWB, as well as the corresponding rating agency outlook at October 31, 2016.

**Table 32 – Credit Ratings**

| The following CWB ratings issued by DBRS, along with the corresponding outlook, were last confirmed on November 17, 2016. |                                    |                 |                         |                  |         |
|---|------------------------------------|-----------------|-------------------------|------------------|---------|
|   | Long-term senior debt and deposits | Short-term debt | Subordinated debentures | Preferred shares | Outlook |
| DBRS  | A (low)                            | R1 (low)        | BBB (high)              | Pfd-3            | Stable  |

## CAPITAL RISK

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

### Risk Overview

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

- Capital management involves a dynamic and ongoing process to determine, allocate and maintain appropriate amounts of capital; and,
- The optimal amount and composition of capital must consider regulatory and economic capital requirements, as well as the expectation of CWB shareholders and other stakeholders.
- The objective of capital management is to ensure:
  - capital is, and will continue to be, adequate to maintain confidence in the safety and stability of 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 approves the annual regulatory capital plan, Internal Capital Adequacy Assessment Process (ICAAP) and the Board Risk Committee approves capital management policies. The Group Capital Risk Committee is responsible for capital risk management. The CFO as the head of Finance is responsible for the available capital as the supply side, while the CRO as the head of Risk is responsible for

risk capital as the demand side. In addition, Finance, Risk, Strategy and RDAAR Analytics comprise the ICAAP core team and are closely involved in capital management. The core team 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 annual regulatory capital plan, inclusive of the capital management policy and three-year capital projections;
- A quarterly regulatory capital risk update provided to the Board Risk Committee;
- Consolidated forecast models used to analyze the likely capital impact of projected operations, stress testing and/or significant transactions; and,
- Regulatory capital ratios reported to senior management and the Board on a monthly basis.

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

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from human error, inadequate or failed processes, systems or controls, or external events. There are three main subsets of operational risk: regulatory risk, people risk and technology risk. Other types of operational risk include cybersecurity risk and reputation risk.

### Risk Overview

Operational risk is inherent in all of CWB's business activities including banking, trust, wealth management and, up to May 1, 2015, 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. 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 2016 or 2015.

The regulatory framework requires certain amounts of capital to be allocated to support operational risk. 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. This is supported by specific operational risk training for all staff.

### Risk Governance

Business and support areas as the first line of defence are fully accountable for the management and control of operational risks to which they are exposed. The Group Operational Risk Committee has responsibility for operational risk, with oversight by the Board Risk Committee, the Executive Risk Committee and senior management.

ERM, as the second line of defence, is responsible for the continual enhancement of the Group Operational Risk Framework and supporting policies. The Board Risk Committee has ultimate oversight and approves the Group's Operational Risk Management Framework.

### Risk Management

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

- Management remains close to operations, which helps to facilitate effective internal communication and operational control;
- Surveys on employee engagement and corporate culture;

- Communication of, and specific training related to, the importance of effective operational risk management to all levels;
- Management that is very engaged with promoting CWB's operational risk tolerance and appetite; and,
- 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 Group Operational Risk Management Framework and supporting policies.
- **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);
- continual enhancements to fraud prevention processes, policies and communication;
- established "whistleblower" processes and employee code of conduct;
- maintenance of an outsourcing management program;
- at least annual assessment and benchmarking of business insurance;
- human resource policies and processes to ensure staff are adequately trained for the tasks for which they are responsible and to enable retention and recruitment;
- a Regulatory Compliance team focused on key regulatory compliance areas such as privacy, anti-money laundering, anti-terrorist financing and consumer regulations;

- use of technology that incorporates automated systems with built-in controls and active management of configuration and change management along with information security management programs;
- enhanced focus on data quality as an important and strategic asset;
- 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).

### Subcategories of Operational Risk

#### Regulatory Compliance Risk

Regulatory compliance 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 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 support compliance with governing laws and regulations.

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 and non-compliance for all regulated entities. CWB has intensified its efforts for regulatory compliance risk management. A number of initiatives are underway to further its compliance risk management capabilities.

#### People Risk

People risk is the risk that CWB is not able to attract and retain sufficient qualified employees to implement its strategies and/or achieve its objectives.

Competition for qualified employees in CWB's key markets remains apparent, reflecting the general level of economic activity and the needs of other financial services participants within and outside CWB's geographic footprint.

CWB intends to continually attract and retain sufficient qualified employees to successfully execute against its strategic direction. Inability to maintain an appropriate staff complement would adversely affect CWB's ability to achieve its strategic objectives.

#### Technology Risk

Technology risk is related to the operational performance, confidentiality, integrity and availability of our information, systems and infrastructure.

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. Implementation of CWB's new core banking system reduces technology risk compared to the legacy system; however, CWB currently has a number of other technology projects underway which increase risk exposure related to information systems and technology.



## Cybersecurity Risk

Cybersecurity risk is related to the ongoing threat that systems and their data may be attacked, damaged or subject to unauthorized access.

CWB manages cyber security risk by ensuring appropriate technologies, processes and practices are effectively designed and implemented to help prevent, detect and respond to threats as they emerge and evolve. CWB relies upon a complete suite of advanced controls to protect itself and its customers from attack and has partnered with leading third-party service

providers to provide counsel and support should the need arise. CWB regularly tests the completeness and effectiveness of its cybersecurity program and, through ongoing vigilance, has not experienced a cybersecurity event of any materiality.

## Reputation Risk

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 the CWB Group's personal conduct policies and in a manner that minimizes reputational risk. In addition to members of senior management, the Legal, Strategy and Investor Relations, and Regulatory Compliance departments are particularly involved in the management of reputation risk.

## 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, with a growing business presence in Ontario. Accordingly, CWB's overall financial performance is impacted by general business and economic conditions across the country. Several factors that could impact general business and economic conditions in CWB's markets include, but are not limited to, changes in: short-term and long-term interest rates; energy and other commodity prices; real estate prices; adverse global economic events and/or elevated economic uncertainties; inflation; exchange rates; levels of consumer, business and government spending; levels of consumer, business and government debt; and consumer confidence.

### 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 about customers and counterparties. In deciding whether to extend credit or enter into other transactions with clients and counterparties, CWB may rely on information furnished by them, including financial statements, appraisals, external credit ratings and other financial information. CWB may also rely on the representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on the reports of auditors. CWB's financial condition

and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with standard accounting practices, that are materially misleading, or that do not fairly present, in all material respects, the financial condition and results of operations of the customer or counterparties.

### Ability to Execute Growth Initiatives

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

### Adequacy of CWB's Risk Management Framework

The Risk Management Framework is made up of various processes and strategies for managing risk exposure. Given the structure and scope of its operations, CWB is primarily subject to credit, market (mainly interest rate), liquidity, operational, reputation, regulatory, environmental, and other risks. There can be no assurance that the framework to manage risks, including the framework's underlying assumptions and models, will be effective under all conditions and circumstances. If the risk management framework proves ineffective, 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 beyond CWB's control that may affect future results include changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits, timely development and introduction of new products, and the anticipation of and success in managing the associated risks.

## UPDATED SHARE INFORMATION

As at November 24, 2016, there were 88,122,562 common shares and 4,946,904 stock options outstanding. On November 30, 2016, CWB's Board of Directors declared a cash dividend of \$0.23 per common share, payable on January 5, 2017 to shareholders of record on December 15, 2016. This quarterly dividend is consistent with the prior quarter and the dividend declared one year ago. The Board of Directors also declared a cash dividend of \$0.275 per Series 5 Preferred Share, and a cash dividend of \$0.390625 per Series 7 Preferred Share, both payable on January 31, 2017 to shareholders of record on January 20, 2017.

## CONTROLS AND PROCEDURES

During the year ended October 31, 2016, CWB implemented its new core banking system. Implementation of this system impacted CWB's disclosure controls and internal controls over financial reporting. The evaluation of the changes to the design of the disclosure controls and internal controls over financial reporting concluded there is reasonable assurance that material and required disclosure information is appropriately identified and reported and that financial reporting is reliable and in accordance with IFRS.

CWB's certifying officers have limited the scope of the design of disclosure controls and procedures and internal controls over financial reporting to exclude the controls, policies and procedures of CWB Maxium, acquired on March 1, 2016. This limitation will be removed in 2017 within the time frame permitted by regulation. CWB Maxium contributed approximately 1% to CWB's consolidated total revenue for the eight months ended October 31, 2016 and its contribution to consolidated net income primarily comprised the after-tax impact of the \$7.9 million acquisition-related fair value change, or \$5.8 million. Additionally, at October 31, 2016, CWB Maxium's contribution to consolidated total assets and liabilities was 2% and less than 1%, respectively.

As of October 31, 2016, 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, 2016, 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 the preparation of financial statements in accordance with IFRS. Based on that evaluation, the CEO and CFO will certify that the design and operating effectiveness of internal controls over financial reporting were effective.

There were no other changes in CWB's ongoing internal controls over financial reporting that occurred during the year ended October 31, 2016 that have materially affected, or are reasonably likely to materially affect, CWB's internal controls over financial reporting. Prior to its release, this MD&A was reviewed by the Audit Committee and, on the Audit Committee's recommendation, approved by the Board of Directors of CWB.

This Management's Discussion and Analysis is dated December 1, 2016.

## 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 National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings).



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

December 1, 2016

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 Financial Officer, Chief Internal Auditor and the external auditors without management present.

The Governance Committee, appointed by the Board of Directors, is comprised 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.



**Carolyn J. Graham, FCPA, FCA**  
*Executive Vice President and Chief Financial Officer*

# Independent Auditors' Report

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## 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, 2016 and October 31, 2015, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canadian Western Bank as at October 31, 2016 and October 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

The logo for KPMG LLP, featuring the letters 'KPMG' in a bold, sans-serif font, followed by 'LLP' in a smaller, similar font. A horizontal line is drawn underneath the text.

Chartered Professional Accountants

December 1, 2016  
Edmonton, Canada

## CONSOLIDATED BALANCE SHEETS

(\$ thousands)

|  |           | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|--|-----------|-----------------------------|-----------------------------|
| <b>Assets</b>  |           |                             |                             |
| <b>Cash Resources</b>  |           |                             |                             |
|  | (Note 4)  |                             |                             |
| Cash and non-interest bearing deposits with financial institutions |           | \$ 11,490                   | \$ 23,949                   |
| Interest bearing deposits with regulated financial institutions    |           | 890,516                     | 412,768                     |
| Cheques and other items in transit                                 |           | 18,050                      | 6,705                       |
|  |           | <b>920,056</b>              | <b>443,422</b>              |
| <b>Securities</b>  |           |                             |                             |
|  | (Note 5)  |                             |                             |
| Issued or guaranteed by Canada                                     |           | 1,142,798                   | 1,364,862                   |
| Issued or guaranteed by a province or municipality                 |           | 291,947                     | 620,904                     |
| Other debt securities  |           | 154,648                     | 346,299                     |
| Preferred shares   |           | 119,201                     | 143,868                     |
| Common shares  |           | -                           | 75,179                      |
|  |           | <b>1,708,594</b>            | <b>2,551,112</b>            |
| <b>Securities Purchased under Resale Agreements</b>                |           |                             |                             |
|  | (Note 6)  | <b>163,318</b>              | -                           |
| <b>Loans</b>   |           |                             |                             |
|  | (Note 7)  |                             |                             |
| Personal   |           | 4,063,552                   | 3,318,254                   |
| Business   |           | 18,001,584                  | 16,251,530                  |
|  |           | <b>22,065,136</b>           | <b>19,569,784</b>           |
| Allowance for credit losses  | (Note 8)  | <b>(103,788)</b>            | <b>(94,401)</b>             |
|  |           | <b>21,961,348</b>           | <b>19,475,383</b>           |
| <b>Other</b>   |           |                             |                             |
| Property and equipment   | (Note 9)  | 57,330                      | 61,356                      |
| Goodwill   | (Note 10) | 84,762                      | 43,781                      |
| Intangible assets  | (Note 10) | 149,312                     | 106,103                     |
| Derivative related   | (Note 11) | 10,370                      | 23,245                      |
| Other assets   | (Note 12) | 167,459                     | 134,125                     |
|  |           | <b>469,233</b>              | <b>368,610</b>              |
| <b>Total Assets</b>  |           | <b>\$ 25,222,549</b>        | <b>\$ 22,838,527</b>        |
| <b>Liabilities and Equity</b>                                      |           |                             |                             |
| <b>Deposits</b>  |           |                             |                             |
|  | (Note 13) |                             |                             |
| Personal   |           | \$ 13,223,702               | \$ 11,416,621               |
| Business and government  |           | 7,970,851                   | 7,948,786                   |
|  |           | <b>21,194,553</b>           | <b>19,365,407</b>           |
| <b>Other</b>   |           |                             |                             |
| Cheques and other items in transit                                 |           | 27,683                      | 60,258                      |
| Derivative related   | (Note 11) | 7,172                       | 4,503                       |
| Other liabilities  | (Note 15) | 382,130                     | 308,837                     |
|  |           | <b>416,985</b>              | <b>373,598</b>              |
| <b>Debt</b>  |           |                             |                             |
|  | (Note 16) |                             |                             |
| Debt securities  |           | 943,198                     | 562,623                     |
| Subordinated debentures  |           | 325,000                     | 625,000                     |
|  |           | <b>1,268,198</b>            | <b>1,187,623</b>            |
| <b>Equity</b>  |           |                             |                             |
| Preferred shares   | (Note 17) | 265,000                     | 125,000                     |
| Common shares  | (Note 17) | 718,377                     | 537,511                     |
| Retained earnings  |           | 1,354,966                   | 1,261,678                   |
| Share-based payment reserve  |           | 31,276                      | 29,210                      |
| Other reserves   |           | (27,579)                    | (42,492)                    |
| <b>Total Shareholders' Equity</b>                                  |           | <b>2,342,040</b>            | <b>1,910,907</b>            |
| Non-controlling interests  | (Note 19) | 773                         | 992                         |
| <b>Total Equity</b>  |           | <b>2,342,813</b>            | <b>1,911,899</b>            |
| <b>Total Liabilities and Equity</b>                                |           | <b>\$ 25,222,549</b>        | <b>\$ 22,838,527</b>        |

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

Robert L. Phillips  
Chair of the Board



Chris Fowler  
President and Chief Executive Officer



## CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended October 31

(\$ thousands, except per share amounts)

|   | 2016                    | 2015              |
|---|-------------------------|-------------------|
| <b>Interest Income</b>  |                         |                   |
| Loans   | \$ 928,257              | \$ 855,367        |
| Securities  | 28,703                  | 40,381            |
| Deposits with regulated financial institutions                      | 5,029                   | 2,522             |
|   | <b>961,989</b>          | <b>898,270</b>    |
| <b>Interest Expense</b>   |                         |                   |
| Deposits  | 346,498                 | 316,838           |
| Debt  | 30,267                  | 37,960            |
|   | <b>376,765</b>          | <b>354,798</b>    |
| <b>Net Interest Income</b>  | <b>585,224</b>          | <b>543,472</b>    |
| <b>Non-interest Income</b>  |                         |                   |
| Credit related  | 30,598                  | 27,855            |
| Wealth management   | 14,021                  | 14,448            |
| Retail services   | 13,617                  | 13,697            |
| Trust services  | 11,522                  | 10,816            |
| Losses on securities, net   | (2,830)                 | (4,324)           |
| Other   | 5,744                   | 5,456             |
|   | <b>72,672</b>           | <b>67,948</b>     |
| <b>Total Revenue</b>  | <b>657,896</b>          | <b>611,420</b>    |
| <b>Provision for Credit Losses</b>                                  | (Note 8) <b>79,115</b>  | 31,009            |
| <b>Acquisition-related Fair Value Changes</b>                       | (Note 3) <b>7,857</b>   | 638               |
| <b>Non-interest Expenses</b>  |                         |                   |
| Salaries and employee benefits                                      | 204,903                 | 191,289           |
| Premises and equipment  | 52,539                  | 47,478            |
| Other expenses  | 56,205                  | 54,722            |
|   | <b>313,647</b>          | <b>293,489</b>    |
| <b>Net Income before Income Taxes from Continuing Operations</b>    | <b>257,277</b>          | <b>286,284</b>    |
| <b>Income Taxes</b>   | (Note 22) <b>67,943</b> | 71,319            |
| <b>Net Income from Continuing Operations</b>                        | <b>189,334</b>          | <b>214,965</b>    |
| Net Income Attributable to Non-controlling Interests                | 961                     | 1,401             |
| <b>Shareholders' Net Income from Continuing Operations</b>          | <b>188,373</b>          | <b>213,564</b>    |
| Preferred share dividends   | 10,612                  | 5,500             |
| <b>Common Shareholders' Net Income from Continuing Operations</b>   | <b>177,761</b>          | <b>208,064</b>    |
| <b>Common Shareholders' Net Income from Discontinued Operations</b> | (Note 3) <b>-</b>       | <b>111,637</b>    |
| <b>Common Shareholders' Net Income</b>                              | <b>\$ 177,761</b>       | <b>\$ 319,701</b> |
| Average number of common shares (in thousands)                      | <b>83,411</b>           | 80,442            |
| Average number of diluted common shares (in thousands)              | <b>83,419</b>           | 80,582            |
| <b>Earnings Per Common Share</b>                                    | (Note 23)               |                   |
| Basic - Continuing Operations                                       | \$ 2.13                 | \$ 2.59           |
| - Combined Operations   | 2.13                    | 3.97              |
| - Discontinued Operations   | -                       | 1.38              |
| Diluted - Continuing Operations                                     | 2.13                    | 2.59              |
| - Combined Operations   | 2.13                    | 3.97              |
| - Discontinued Operations   | -                       | 1.38              |

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended October 31

(\$ thousands)

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| <b>Net Income from Continuing Operations</b>                        | <b>\$ 189,334</b> | <b>\$ 214,965</b> |
| <b>Common Shareholders' Net Income from Discontinued Operations</b> | <b>-</b>          | <b>111,637</b>    |
| <b>Net Income from Combined Operations</b>                          | <b>189,334</b>    | <b>326,602</b>    |
| Available-for-sale securities                                       |                   |                   |
| Gains (losses) from change in fair value <sup>(1)</sup>             | 20,799            | (59,593)          |
| Reclassification to net income <sup>(2)</sup>                       | 2,158             | 6,612             |
|   | <b>22,957</b>     | <b>(52,981)</b>   |
| Derivatives designated as cash flow hedges                          |                   |                   |
| Gains (losses) from change in fair value <sup>(3)</sup>             | (8,157)           | 7,846             |
| Reclassification to net income <sup>(4)</sup>                       | 113               | 3,640             |
|   | <b>(8,044)</b>    | <b>11,486</b>     |
| <b>Other Comprehensive Income (Loss), Net of Tax, for the Year</b>  | <b>14,913</b>     | <b>(41,495)</b>   |
| <b>Comprehensive Income for the Year</b>                            | <b>\$ 204,247</b> | <b>\$ 285,107</b> |
| Comprehensive income for the year attributable to:                  |                   |                   |
| Shareholders of CWB   | \$ 203,286        | \$ 283,706        |
| Non-controlling interests   | 961               | 1,401             |
| <b>Comprehensive Income for the Year</b>                            | <b>\$ 204,247</b> | <b>\$ 285,107</b> |

(1) Net of income tax of \$7,699 (2015 - \$22,033).

(2) Net of income tax of \$796 (2015 - \$2,403).

(3) Net of income tax of \$3,002 (2015 - \$2,887).

(4) Net of income tax of \$42 (2015 - \$1,339).

Items presented in other comprehensive income will be subsequently reclassified to the Consolidated Statements of Income when specific conditions are met.

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)

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| <b>Retained Earnings</b>  |                     |                     |
| Balance at beginning of year  | \$ 1,261,678        | \$ 1,011,147        |
| Shareholders' net income from Continuing Operations                                 | 188,373             | 213,564             |
| Common shareholders' net income from Discontinued Operations                        | -                   | 111,637             |
| Dividends - Preferred shares  | (10,612)            | (5,500)             |
| - Common shares   | (76,424)            | (69,170)            |
| Issuance costs on common and preferred shares                                       | (8,049)             | -                   |
| Balance at end of year  | 1,354,966           | 1,261,678           |
| <b>Other Reserves</b>   |                     |                     |
| Balance at beginning of year  | (42,492)            | (997)               |
| Changes in available-for-sale securities  | 22,957              | (52,981)            |
| Changes in derivatives designated as cash flow hedges                               | (8,044)             | 11,486              |
| Balance at end of year  | (27,579)            | (42,492)            |
| <b>Preferred Shares</b>   |                     |                     |
| Balance at beginning of year  | 125,000             | 125,000             |
| Issued  | 140,000             | -                   |
| Balance at end of year  | 265,000             | 125,000             |
| <b>Common Shares</b>  |                     |                     |
| Balance at beginning of year  | 537,511             | 533,038             |
| Issued to public  | 150,063             | -                   |
| Issued on acquisition of subsidiary   | 25,606              | -                   |
| Issued under dividend reinvestment plan   | 4,491               | 3,650               |
| Transferred from share-based payment reserve on the exercise or exchange of options | 706                 | 823                 |
| Balance at end of year  | 718,377             | 537,511             |
| <b>Share-based Payment Reserve</b>  |                     |                     |
| Balance at beginning of year  | 29,210              | 25,339              |
| Amortization of fair value of options   | 2,772               | 4,694               |
| Transferred to common shares on the exercise or exchange of options                 | (706)               | (823)               |
| Balance at end of year  | 31,276              | 29,210              |
| <b>Total Shareholders' Equity</b>   | <b>2,342,040</b>    | <b>1,910,907</b>    |
| <b>Non-controlling Interests</b>  |                     |                     |
| Balance at beginning of year  | 992                 | 1,066               |
| Net income attributable to non-controlling interests                                | 961                 | 1,401               |
| Dividends to non-controlling interests  | (1,033)             | (1,376)             |
| Partial ownership increase  | (147)               | (99)                |
| Balance at end of year  | 773                 | 992                 |
| <b>Total Equity</b>   | <b>\$ 2,342,813</b> | <b>\$ 1,911,899</b> |

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended October 31

(\$ thousands)

|  | 2016             | 2015               |
|--|------------------|--------------------|
| <b>Cash Flows from Operating Activities</b>                          |                  |                    |
| Net income from Continuing Operations                                | \$ 189,334       | \$ 214,965         |
| Common shareholders' net income from Discontinued Operations         | -                | 111,637            |
| Adjustments to determine net cash flows:                             |                  |                    |
| Gain on sale of Discontinued Operations (Note 3)                     | -                | (107,808)          |
| Provision for credit losses (Note 8)                                 | 79,115           | 31,009             |
| Depreciation and amortization  | 24,581           | 21,417             |
| Current income taxes receivable and payable                          | (17,424)         | 1,054              |
| Amortization of fair value of employee stock options (Note 18)       | 2,772            | 4,694              |
| Accrued interest receivable and payable, net                         | 7,705            | 3,157              |
| Losses on securities, net  | 2,830            | 4,607              |
| Deferred taxes, net  | (3,045)          | (4,589)            |
| Acquisition-related fair value changes (Note 3)                      | 7,857            | 638                |
| Change in operating assets and liabilities                           |                  |                    |
| Deposits, net  | 1,829,146        | 1,992,393          |
| Loans, net   | (2,218,973)      | (1,969,903)        |
| Securities purchased under resale agreements, net                    | (163,318)        | 99,566             |
| Other items, net   | 29,242           | (9,549)            |
|  | <b>(230,178)</b> | <b>393,288</b>     |
| <b>Cash Flows from Financing Activities</b>                          |                  |                    |
| Common shares issued, net of issuance costs (Note 17)                | 145,176          | 3,650              |
| Preferred shares issued, net of issuance costs (Note 17)             | 136,838          | -                  |
| Debt securities issued   | 734,376          | 371,336            |
| Debt securities repaid   | (353,801)        | (220,703)          |
| Debentures redeemed (Note 16)  | (300,000)        | -                  |
| Dividends  | (82,545)         | (74,670)           |
| Distributions to non-controlling interests                           | (1,033)          | (1,376)            |
|  | <b>279,011</b>   | <b>78,237</b>      |
| <b>Cash Flows from Investing Activities</b>                          |                  |                    |
| Interest bearing deposits with regulated financial institutions, net | (477,748)        | 44,411             |
| Securities, purchased  | (10,760,756)     | (6,663,035)        |
| Securities, sales proceeds   | 8,638,234        | 4,979,789          |
| Securities, matured  | 2,990,500        | 1,001,632          |
| Proceeds from disposal of Discontinued Operations (Note 3)           | -                | 215,710            |
| Property, equipment and intangibles                                  | (38,507)         | (41,153)           |
| Partial ownership increase   | (4,572)          | (816)              |
| Acquisitions (Note 3)  | (364,523)        | -                  |
|  | <b>(17,372)</b>  | <b>(463,462)</b>   |
| <b>Change in Cash and Cash Equivalents</b>                           | <b>31,461</b>    | <b>8,063</b>       |
| <b>Cash and Cash Equivalents at Beginning of Year</b>                | <b>(29,604)</b>  | <b>(37,667)</b>    |
| <b>Cash and Cash Equivalents at End of Year *</b>                    | <b>\$ 1,857</b>  | <b>\$ (29,604)</b> |
| <b>* Represented by:</b>   |                  |                    |
| Cash and non-interest bearing deposits with financial institutions   | \$ 11,490        | \$ 23,949          |
| Cheques and other items in transit (included in Cash Resources)      | 18,050           | 6,705              |
| Cheques and other items in transit (included in Other Liabilities)   | (27,683)         | (60,258)           |
| <b>Cash and Cash Equivalents at End of Year</b>                      | <b>\$ 1,857</b>  | <b>\$ (29,604)</b> |
| Supplemental Disclosure of Cash Flow Information                     |                  |                    |
| Interest and dividends received                                      | \$ 975,727       | \$ 918,485         |
| Interest paid  | 366,737          | 345,762            |
| Income taxes paid  | 88,674           | 81,455             |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended October 31, 2016 and 2015

(\$ 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 1, 2016.

### b) 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. Non-controlling interest in subsidiaries is presented on the consolidated balance sheets as a separate component of equity that is distinct from shareholders' equity. The net income attributable to non-controlling interest in subsidiaries is presented separately in the consolidated income statements. See Note 31 for details of the subsidiaries.

The consolidated financial statements have been prepared on a historic cost basis, except the revaluation of the following items: available-for-sale financial assets; derivative financial instruments and contingent consideration.

### c) 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.

### d) 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, 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.

### e) Significant Judgments

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

- Impairment of loans (Note 7)
- Allowance for credit losses (Note 8)

### 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 acquisition-related fair value changes in the consolidated statements of 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) Held for Sale Classification and Discontinued Operations

Assets and liabilities subject to a plan of disposal are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when a sale is highly probable and the assets are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of this nature. Assets and liabilities classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss is recognized as a reduction to the carrying amount of the assets held for sale.

Discontinued Operations are presented if the operations and cash flows can be clearly distinguished operationally and financially from the rest of CWB, and if it represents a separate major line of business or geographic area of operations that either has been disposed of, is classified as held for sale, or is part of a single coordinated plan of disposal.

### h) 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 non-interest income, except for unrealized foreign exchange gains and losses on available-for-sale equity securities that are included in other comprehensive income.

### i) Provisions and Contingent Liabilities

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability. Provisions are recognized in the consolidated financial statements when management determines that it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Management as well as internal and external experts are involved in estimating any amounts required. The actual costs of resolving these obligations may be significantly higher or lower than the recognized provision.

## j) Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as noted. 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    | Strategic transactions                       |
| 4    | Cash resources                               |
| 5    | Securities                                   |
| 6    | Securities purchased under resale agreements |
| 7    | Loans  |
| 8    | Allowance for credit losses                  |
| 9    | Property and equipment                       |
| 10   | Goodwill and intangible assets               |
| 11   | Derivative financial instruments             |
| 12   | Other assets                                 |
| 13   | Deposits                                     |
| 14   | Interest in unconsolidated structured entity |
| 15   | Other liabilities                            |
| 16   | Debt   |
| 17   | Capital stock                                |
| 18   | Share-based payments                         |
| 19   | Non-controlling interests                    |
| 20   | Contingent liabilities and commitments       |
| 21   | Employee future benefits                     |
| 22   | Income taxes                                 |
| 23   | Earnings per common share                    |
| 24   | Assets under administration and management   |
| 25   | Related party transactions                   |
| 26   | Interest rate sensitivity                    |
| 27   | Fair value of financial instruments          |
| 28   | Financial instruments - offsetting           |
| 29   | Risk management                              |
| 30   | Capital management                           |
| 31   | Subsidiaries                                 |

## k) 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 9 – Financial Instruments*

In July 2014, the IASB issued the complete version of IFRS 9, which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement of financial assets and liabilities, impairment and hedge accounting.

Under the finalized guidance, IFRS 9 specifies that financial assets be classified into one of three categories (amortized cost, fair value through profit or loss, or fair value through other comprehensive income) based on the cash flow characteristics and the business model under which the assets are held. Classification of financial liabilities is unchanged, but for financial liabilities measured at fair value, changes in fair value of an entity's own credit risk will be recognized in other comprehensive income rather than in profit or loss. The final standard also introduces a new "expected credit loss" model for calculating impairment on all financial assets classified at amortized cost or fair value through comprehensive income, with the most significant impact being to loans. Specifically, IFRS 9 requires entities to recognize 12-month expected credit losses from

the date a financial asset is first recognized and to recognize lifetime expected credit losses if there is a significant increase in credit risk since inception. IFRS 9 also introduces a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting, and aligns hedge accounting more closely with risk management.

IFRS 9 will be mandatorily effective for CWB's fiscal year beginning on November 1, 2018, and early adoption is permitted. In January 2015, OSFI determined that Domestic Systemically Important Banks (D-SIBs) should adopt IFRS 9 beginning November 1, 2017, while early adoption is permitted but not required for other federally regulated Canadian banks with October year ends, such as CWB. CWB plans to adopt IFRS 9 on November 1, 2018.

During 2015, CWB commenced its IFRS 9 transition project focused on the three main areas of IFRS 9: classification and measurement, impairment, and hedge accounting. CWB continues to analyze the impact of the accounting policy changes under IFRS 9 on its consolidated financial statements and is currently on track with its project plan. Further details will be provided as the project progresses.

### *IFRS 16 – Leases*

In January 2016, the IASB issued IFRS 16, which requires most leases to be recorded on the balance sheet. For lessees, most operating leases other than short-term or low-value leases will be capitalized, and will result in a balance sheet increase in lease assets and lease liabilities, and a decrease in operating lease expenses and an increase in financing costs on the income statement. The new standard will not impact lessor accounting beyond additional disclosures. The new standard is effective for CWB's fiscal year beginning November 1, 2019 with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* is applied. The impact on CWB of the new standard has not yet been determined.

### *IFRS 15 – Revenue from Contracts with Customers*

The IASB has established principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles-based model for revenue recognition to be applied to contracts with customers. The new standard does not apply to financial instruments or lease contracts, which fall in the scope of other IFRSs.

In April 2016, the IASB issued amendments to IFRS 15, which clarify the underlying principles of IFRS 15 and provide additional transitional relief on initial application. These amendments are effective for CWB's fiscal year beginning November 1, 2018. The impact on CWB of the new standard has not yet been determined.

### *IFRS 2 – Share-based Payment Transactions*

In June 2016, the IASB issued amendments to IFRS 2, which clarify how to account for certain types of share-based payment transactions. These amendments are effective for CWB's fiscal year beginning November 1, 2018 and can be applied prospectively. The impact on CWB of these amendments has not yet been determined.

## 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 assets include cash resources, securities, securities purchased under resale agreements, loans, derivative financial instruments and certain other assets. Financial liabilities include deposits, 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 Management's Discussion and Analysis (MD&A).

Income and expenses are classified as to source, either securities or loans for income, and deposits or debt for expense. Gains (losses) on the sale of securities, net and fair value changes in certain derivatives are classified to non-interest income. Contingent consideration fair value changes are classified as acquisition-related fair value changes in the consolidated statements of income.

## 3. STRATEGIC TRANSACTIONS

### a) Acquisitions

#### *Maxium Financial Services Inc. and Desante Financial Services Inc.*

On March 1, 2016, CWB acquired the non-securitized lending assets and other business assets of the privately held Maxium Financial Services Inc. and Desante Financial Services Inc., now referred to as "CWB Maxium Financial" (CWB Maxium) in exchange for \$19,500 in cash, as well as 1,250,312 common shares of CWB and contingent consideration with fair values on the acquisition date of \$25,606 and \$16,400, respectively, for a total initial acquisition cost of \$61,506.

Contingent consideration, to a maximum of \$70,500, will be paid in annual instalments with determination of the total amount payable based on CWB Maxium's cumulative business performance over a 36-month period. Up to 50% of the total contingent consideration may be settled with CWB shares at the vendors' option, provided the average share price over the 20 days preceding issuance exceeds \$30.00, with the

remainder to be paid in cash. During 2016, the fair value of contingent consideration was increased by \$7,857, which was recognized as an acquisition-related fair value change on the consolidated statements of income (see Note 27).

CWB Maxium provides loans, equipment leases and structured financing solutions to more than 35,000 clients, mainly in Ontario. Specialized financing solutions are primarily provided in the areas of health care, golf, transportation, real estate, and general corporate financing. Securitized assets that were originated prior to March 1, 2016 were not included in the transaction. The results of operations from CWB Maxium have been included in CWB's consolidated financial statements since the acquisition date.

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

|  |                  |
|--|------------------|
| <b>Fair Value of Initial Consideration Transferred</b> | <b>\$ 61,506</b> |
| <b>Assets and Liabilities Acquired at Fair Values</b>  |                  |
| Intangible assets                                      | 21,700           |
| Deferred income tax asset                              | 723              |
| Other items, net                                       | 214              |
| <b>Goodwill</b>  | <b>\$ 38,869</b> |

Intangible assets include customer relationships, a trademark, proprietary technology, and non-competition agreements. The trademark, which has an estimated value of \$3,680, is not subject to amortization. The total

amount of goodwill and intangible assets are deductible over time for income tax purposes.

#### *CWB Franchise Finance*

On July 1, 2016, CWB acquired a portfolio of franchise finance loan assets and the team from GE Canada Equipment Financing G.P., which added \$344,018 to performing loans. No goodwill or intangible assets were included in the purchase structure. No allowance for credit losses

was recorded on the acquisition date and loans are evaluated for impairment at each balance sheet date using the same methodology as loans originated by CWB.

## b) Dispositions

The sales of CWB's property and casualty insurance subsidiary, Canadian Direct Insurance (CDI), and the stock transfer business of its subsidiary, Valiant Trust Company, closed effective May 1, 2015. The transactions consisted of the sale of 100% of the shares of CDI as well as the transfer of certain operating assets, systems and employees that supported the stock transfer business.

Revenues, expenses and net gains on sale associated with the businesses sold are reflected in common shareholders' net income from Discontinued Operations in the 2015 consolidated statement of income.

The components of net income from Discontinued Operations, which are attributable entirely to CWB common shareholders, are as follows:

|   | 2016 | 2015 <sup>(1)</sup> |
|---|------|---------------------|
| <b>Interest Income</b>  |      |                     |
| Securities  | \$ - | \$ 3,389            |
| Deposits with regulated financial institutions                          | -    | 73                  |
|   | -    | 3,462               |
| <b>Non-interest Income</b>  |      |                     |
| Net earned premiums   | -    | 66,262              |
| Commissions and processing fees   | -    | 742                 |
| Net claims and adjustment expenses                                      | -    | (44,451)            |
| Policy acquisition costs  | -    | (13,137)            |
| Insurance revenues, net   | -    | 9,416               |
| Trust services  | -    | 3,221               |
| Gains (losses) on securities, net                                       | -    | (283)               |
|   | -    | 12,354              |
| <b>Net Interest and Non-interest Income</b>                             | -    | 15,816              |
| <b>Non-interest Expenses</b>  |      |                     |
| Salaries and employee benefits  | -    | 6,596               |
| Premises and equipment  | -    | 2,572               |
| Other expenses  | -    | 1,936               |
|   | -    | 11,104              |
| <b>Net Income from Discontinued Operations before Income Taxes</b>      | -    | 4,712               |
| Income taxes  | -    | 883                 |
| <b>Net Income from Discontinued Operations before Net Gains on Sale</b> | -    | 3,829               |
| Net gains on sale   | -    | 107,808             |
| <b>Common Shareholders' Net Income from Discontinued Operations</b>     | \$ - | \$ 111,637          |

(1) Fiscal 2015 results include operations from November 1, 2014 to April 30, 2015.

The details of the cash flows from Discontinued Operations, excluding the net proceeds of \$215,710, included in the consolidated statements of cash flows are as follows:

|  | 2016 | 2015        |
|--|------|-------------|
| Net cash used in operating activities        | \$ - | \$ (13,975) |
| Net cash used in financing activities        | -    | (8,000)     |
| Net cash provided by investing activities    | -    | 22,028      |
| <b>Increase in Cash and Cash Equivalents</b> | \$ - | \$ 53       |

## 4. CASH RESOURCES

Cash resources include highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value. Cheques and other items in transit included in cash resources are recorded at cost and represent the net position of uncleared cheques and other items in transit.

Interest-bearing deposits with regulated financial institutions included in 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. At October 31, 2016, the fair value of deposits with regulated financial institutions was \$890,516 (October 31, 2015 – \$412,768), which is \$81 lower (October 31, 2015 – \$377) than amortized cost. At October 31, 2016, \$16,262 of interest-bearing deposits with regulated financial institutions was restricted from use in relation to a debt securitization agreement (October 31, 2015 – nil).

## 5. SECURITIES

Available-for-sale securities 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 when the right to receive payment is established, which is typically 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 non-interest income.

At each reporting date, CWB assesses whether there is objective evidence that available-for-sale securities 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 certain equity securities, a significant or prolonged decline in fair value below 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 (losses) on securities, net'. The reclassified amount is the difference between the 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 accumulated other comprehensive income until the equity security is sold or redeemed.

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

|   | Maturities        |                   |                   |                  | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|---|-------------------|-------------------|-------------------|------------------|-----------------------------|-----------------------------|
|   | Within<br>1 Year  | 1 to<br>3 Years   | 3 to<br>5 Years   | Over 5<br>Years  |                             |                             |
| <b>Securities Issued or Guaranteed by</b> |                   |                   |                   |                  |                             |                             |
| Canada                                    | \$ 339,687        | \$ 175,357        | \$ 575,790        | \$ 51,964        | \$ 1,142,798                | \$ 1,364,862                |
| A province or municipality                | 80,421            | 68,912            | 142,614           | -                | 291,947                     | 620,904                     |
| <b>Other Debt Securities</b>              | 126,079           | 5,019             | 23,550            | -                | 154,648                     | 346,299                     |
| <b>Preferred Shares</b>                   | 11,711            | 56,836            | 50,654            | -                | 119,201                     | 143,868                     |
| <b>Common Shares</b>                      | -                 | -                 | -                 | -                | -                           | 75,179                      |
| <b>Total</b>                              | <b>\$ 557,898</b> | <b>\$ 306,124</b> | <b>\$ 792,608</b> | <b>\$ 51,964</b> | <b>\$ 1,708,594</b>         | <b>\$ 2,551,112</b>         |

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

|   | As at October 31, 2016 |                  |                   |                     | As at October 31, 2015 |                  |                   |                     |
|---|------------------------|------------------|-------------------|---------------------|------------------------|------------------|-------------------|---------------------|
|   | Amortized Cost         | Unrealized Gains | Unrealized Losses | Fair Value          | Amortized Cost         | Unrealized Gains | Unrealized Losses | Fair Value          |
| <b>Securities Issued or Guaranteed by</b> |                        |                  |                   |                     |                        |                  |                   |                     |
| Canada                                    | \$ 1,142,651           | \$ 676           | \$ 529            | \$ 1,142,798        | \$ 1,373,476           | \$ 296           | \$ 8,910          | \$ 1,364,862        |
| A province or municipality                | 291,814                | 274              | 141               | 291,947             | 626,300                | 84               | 5,480             | 620,904             |
| <b>Other Debt Securities</b>              | <b>153,126</b>         | <b>1,589</b>     | <b>67</b>         | <b>154,648</b>      | <b>347,322</b>         | <b>12</b>        | <b>1,035</b>      | <b>346,299</b>      |
| <b>Preferred Shares</b>                   | <b>165,606</b>         | <b>-</b>         | <b>46,405</b>     | <b>119,201</b>      | <b>198,325</b>         | <b>-</b>         | <b>54,457</b>     | <b>143,868</b>      |
| <b>Common Shares</b>                      | <b>-</b>               | <b>-</b>         | <b>-</b>          | <b>-</b>            | <b>81,528</b>          | <b>800</b>       | <b>7,149</b>      | <b>75,179</b>       |
| <b>Total</b>                              | <b>\$ 1,753,197</b>    | <b>\$ 2,539</b>  | <b>\$ 47,142</b>  | <b>\$ 1,708,594</b> | <b>\$ 2,626,951</b>    | <b>\$ 1,192</b>  | <b>\$ 77,031</b>  | <b>\$ 2,551,112</b> |

The securities portfolio is primarily comprised of high-quality debt and equity instruments 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. As at October 31,

2016, CWB assessed the securities with unrealized losses and based on available objective evidence, concluded that the unrealized losses resulted from changes in interest rates and not from deterioration in the creditworthiness of the issuers. No impairment charges were included in gains (losses) on securities, net (2015 – nil).

## 6. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

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

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

## 7. LOANS

Loans, including leases, are recorded at amortized cost and stated net of unearned income, unamortized premiums and allowance for credit losses (see Note 8). 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 allowances for credit losses, by loan type, are as follows:

|  | As at October 31, 2016 |                                      |                    |                    | As at October 31, 2015 |                                      |                    |                    |
|--|------------------------|--------------------------------------|--------------------|--------------------|------------------------|--------------------------------------|--------------------|--------------------|
|  | Gross Amount           | Gross Impaired Amount <sup>(2)</sup> | Specific Allowance | Net Impaired Loans | Gross Amount           | Gross Impaired Amount <sup>(2)</sup> | Specific Allowance | Net Impaired Loans |
| <b>Personal</b>                                      | \$ 4,063,552           | \$ 21,968                            | \$ 204             | \$ 21,764          | \$ 3,318,254           | \$ 16,145                            | \$ 262             | \$ 15,883          |
| <b>Business</b>                                      |                        |                                      |                    |                    |                        |                                      |                    |                    |
| Real estate <sup>(1)</sup>                           | 8,424,777              | 29,784                               | 2,989              | 26,795             | 7,460,414              | 32,541                               | 1,770              | 30,771             |
| Commercial   | 5,644,231              | 18,363                               | 1,370              | 16,993             | 4,658,219              | 3,870                                | 128                | 3,742              |
| Equipment financing                                  | 3,711,504              | 40,201                               | 9,563              | 30,638             | 3,819,965              | 19,573                               | 4,346              | 15,227             |
| Energy   | 221,072                | 16,896                               | 2,143              | 14,753             | 312,932                | 22,776                               | 9,300              | 13,476             |
| <b>Total</b>   | <b>\$22,065,136</b>    | <b>\$ 127,212</b>                    | <b>\$ 16,269</b>   | <b>110,943</b>     | <b>\$19,569,784</b>    | <b>\$ 94,905</b>                     | <b>\$ 15,806</b>   | <b>79,099</b>      |
| <b>Collective Allowance<sup>(3)</sup></b>            |                        |                                      |                    | <b>(110,943)</b>   |                        |                                      |                    | <b>(99,613)</b>    |
| <b>Net Impaired Loans After Collective Allowance</b> |                        |                                      |                    | <b>\$ -</b>        |                        |                                      |                    | <b>\$ (20,514)</b> |

(1) Multi-family residential mortgages are included in real estate loans.

(2) Gross impaired loans include foreclosed assets with a carrying value of \$3,876 (October 31, 2015 - \$979). CWB pursues timely realization on foreclosed assets and does not use the assets for its own operations.

(3) The collective allowance for credit loss includes amounts related to committed but undrawn credit exposures and is not allocated by loan type (see Note 8).

During the year, interest recognized as income on impaired loans totalled \$1,801 (2015 - \$2,019).

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

|  | As at October 31, 2016 |                    |                    | As at October 31, 2015 |                    |                    |
|--|------------------------|--------------------|--------------------|------------------------|--------------------|--------------------|
|  | Gross Impaired Amount  | Specific Allowance | Net Impaired Loans | Gross Impaired Amount  | Specific Allowance | Net Impaired Loans |
| Alberta  | \$ 64,751              | \$ 6,137           | \$ 58,614          | \$ 41,749              | \$ 11,020          | \$ 30,729          |
| British Columbia                                     | 29,074                 | 2,868              | 26,206             | 30,539                 | 1,932              | 28,607             |
| Ontario  | 16,596                 | 4,680              | 11,916             | 9,256                  | 1,019              | 8,237              |
| Saskatchewan   | 8,688                  | 712                | 7,976              | 8,437                  | 606                | 7,831              |
| Manitoba   | 3,903                  | 543                | 3,360              | 1,539                  | 240                | 1,299              |
| Other  | 4,200                  | 1,329              | 2,871              | 3,385                  | 989                | 2,396              |
| <b>Total</b>   | <b>\$ 127,212</b>      | <b>\$ 16,269</b>   | <b>110,943</b>     | <b>\$ 94,905</b>       | <b>\$ 15,806</b>   | <b>79,099</b>      |
| <b>Collective Allowance<sup>(1)</sup></b>            |                        |                    | <b>(110,943)</b>   |                        |                    | <b>(99,613)</b>    |
| <b>Net Impaired Loans After Collective Allowance</b> |                        |                    | <b>\$ -</b>        |                        |                    | <b>\$ (20,514)</b> |

(1) The collective allowance for credit loss includes amounts related to committed but undrawn credit exposures and 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, 2016 | 1 - 30 days       | 31 - 60 days     | 61 - 90 days    | More than 90 days | Total             |
|------------------------|-------------------|------------------|-----------------|-------------------|-------------------|
| Personal               | \$ 66,647         | \$ 23,735        | \$ 1,508        | \$ 2,981          | \$ 94,871         |
| Business               | 101,506           | 23,401           | 7,801           | 1,510             | 134,218           |
|                        | <b>\$ 168,153</b> | <b>\$ 47,136</b> | <b>\$ 9,309</b> | <b>\$ 4,491</b>   | <b>\$ 229,089</b> |
| As at October 31, 2015 | \$ 81,469         | \$ 46,723        | \$ 8,874        | \$ 3,495          | \$ 140,561        |



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

| October 31, 2016<br>(\$ millions)  |          |          |          |          |        |        |           | Composition Percentage |                 |
|------------------------------------|----------|----------|----------|----------|--------|--------|-----------|------------------------|-----------------|
|                                    | BC       | AB       | ON       | SK       | MB     | Other  | Total     | Oct. 31<br>2016        | Oct. 31<br>2015 |
| <b>Personal<sup>(1)</sup></b>      | \$ 1,154 | \$ 1,219 | \$ 1,317 | \$ 190   | \$ 102 | \$ 82  | \$ 4,064  | 18%                    | 17%             |
| <b>Business</b>                    |          |          |          |          |        |        |           |                        |                 |
| Real estate                        | 4,102    | 3,259    | 410      | 478      | 175    | 1      | 8,425     | 38                     | 38              |
| Commercial                         | 1,925    | 2,173    | 831      | 284      | 259    | 172    | 5,644     | 26                     | 24              |
| Equipment financing <sup>(2)</sup> | 627      | 1,148    | 789      | 382      | 168    | 597    | 3,711     | 17                     | 19              |
| Energy                             | -        | 200      | -        | 21       | -      | -      | 221       | 1                      | 2               |
|                                    | 6,654    | 6,780    | 2,030    | 1,165    | 602    | 770    | 18,001    | 82                     | 83              |
| <b>Total Loans<sup>(3)</sup></b>   | \$ 7,808 | \$ 7,999 | \$ 3,347 | \$ 1,355 | \$ 704 | \$ 852 | \$ 22,065 | 100%                   | 100%            |
| <b>Composition Percentage</b>      |          |          |          |          |        |        |           |                        |                 |
| October 31, 2016                   | 36%      | 36%      | 15%      | 6%       | 3%     | 4%     | 100%      |                        |                 |
| October 31, 2015                   | 33%      | 41%      | 12%      | 7%       | 3%     | 4%     | 100%      |                        |                 |

(1) Includes mortgages securitized through the *National Housing Act* Mortgage-backed Securities program reported on-balance sheet of \$391 (October 31, 2015 - nil).

(2) Includes securitized leases reported on-balance sheet of \$1,030 (October 31, 2015 - \$635) (see Note 16).

(3) This table does not include an allocation of the allowance for credit losses.

## 8. 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 and committed but undrawn credit exposures assessed collectively (collective allowance). The adequacy of the allowance for credit losses is reviewed at least quarterly. The allowance for credit losses related to drawn exposures is deducted from the outstanding loan balance. The allowance for credit losses related to committed but undrawn credit exposures is included with other liabilities. 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 7 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:

|  | 2016               |                      |                   | 2015               |                      |                   |
|--|--------------------|----------------------|-------------------|--------------------|----------------------|-------------------|
|  | Specific Allowance | Collective Allowance | Total             | Specific Allowance | Collective Allowance | Total             |
| Balance at beginning of year                     | \$ 15,806          | \$ 99,613            | \$ 115,419        | \$ 5,523           | \$ 90,075            | \$ 95,598         |
| Provision for credit losses                      | 67,785             | 11,330               | 79,115            | 21,471             | 9,538                | 31,009            |
| Write-offs                                       | (70,460)           | -                    | (70,460)          | (15,810)           | -                    | (15,810)          |
| Recoveries                                       | 3,138              | -                    | 3,138             | 4,622              | -                    | 4,622             |
| <b>Balance at End of Year</b>                    | <b>\$ 16,269</b>   | <b>\$ 110,943</b>    | <b>\$ 127,212</b> | <b>\$ 15,806</b>   | <b>\$ 99,613</b>     | <b>\$ 115,419</b> |
| Represented by:                                  |                    |                      |                   |                    |                      |                   |
| Loans  | \$ 16,269          | \$ 87,519            | \$ 103,788        | \$ 15,806          | \$ 78,595            | \$ 94,401         |
| Committed but undrawn credit exposures (Note 15) | -                  | 23,424               | 23,424            | -                  | 21,018               | 21,018            |
| <b>Total Allowance</b>                           | <b>\$ 16,269</b>   | <b>\$ 110,943</b>    | <b>\$ 127,212</b> | <b>\$ 15,806</b>   | <b>\$ 99,613</b>     | <b>\$ 115,419</b> |

## 9. 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 non-interest 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            |
|--|------------------------|--------------------|--------------------|------------------|------------------|
| <b>Cost</b>                                    |                        |                    |                    |                  |                  |
| Balance at November 1, 2015                    | \$ 68,794              | \$ 18,663          | \$ 26,045          | \$ 37,114        | \$ 150,616       |
| Additions                                      | 1,345                  | 38                 | 2,269              | 1,901            | 5,553            |
| Business acquisition (Note 3)                  | 7                      | -                  | 50                 | 86               | 143              |
| Disposals                                      | -                      | -                  | (45)               | -                | (45)             |
| Balance at October 31, 2016                    | 70,146                 | 18,701             | 28,319             | 39,101           | 156,267          |
| <b>Accumulated Depreciation and Impairment</b> |                        |                    |                    |                  |                  |
| Balance at November 1, 2015                    | 39,092                 | 4,418              | 19,853             | 25,897           | 89,260           |
| Depreciation for the year                      | 4,307                  | 598                | 2,113              | 2,704            | 9,722            |
| Disposals                                      | -                      | -                  | (45)               | -                | (45)             |
| Balance at October 31, 2016                    | 43,399                 | 5,016              | 21,921             | 28,601           | 98,937           |
| <b>Net Carrying Amount at October 31, 2016</b> | <b>\$ 26,747</b>       | <b>\$ 13,685</b>   | <b>\$ 6,398</b>    | <b>\$ 10,500</b> | <b>\$ 57,330</b> |

|  |                  |                  |                 |                  |                  |
|--|------------------|------------------|-----------------|------------------|------------------|
| <b>Cost</b>                                    |                  |                  |                 |                  |                  |
| Balance at November 1, 2014                    | \$ 69,000        | \$ 18,539        | \$ 31,073       | \$ 37,696        | \$ 156,308       |
| Additions                                      | 3,213            | 124              | 2,179           | 2,770            | 8,286            |
| Disposals                                      | -                | -                | -               | (578)            | (578)            |
| Sale of businesses (Note 3)                    | (3,419)          | -                | (7,207)         | (2,774)          | (13,400)         |
| Balance at October 31, 2015                    | 68,794           | 18,663           | 26,045          | 37,114           | 150,616          |
| <b>Accumulated Depreciation and Impairment</b> |                  |                  |                 |                  |                  |
| Balance at November 1, 2014                    | 36,558           | 3,830            | 23,760          | 25,903           | 90,051           |
| Depreciation for the year                      | 5,542            | 588              | 2,418           | 2,859            | 11,407           |
| Disposals                                      | -                | -                | -               | (578)            | (578)            |
| Sale of businesses (Note 3)                    | (3,008)          | -                | (6,325)         | (2,287)          | (11,620)         |
| Balance at October 31, 2015                    | 39,092           | 4,418            | 19,853          | 25,897           | 89,260           |
| <b>Net Carrying Amount at October 31, 2015</b> | <b>\$ 29,702</b> | <b>\$ 14,245</b> | <b>\$ 6,192</b> | <b>\$ 11,217</b> | <b>\$ 61,356</b> |

## 10. 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:

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

|                               | MX        | NL        | M&P      | AIM      | VTC      | CDI      | Total     |
|-------------------------------|-----------|-----------|----------|----------|----------|----------|-----------|
| Balance at November 1, 2015   | \$ -      | \$ 35,776 | \$ 4,194 | \$ 3,811 | \$ -     | \$ -     | \$ 43,781 |
| Business acquisition (Note 3) | 38,869    | -         | -        | -        | -        | -        | 38,869    |
| Partial ownership change      | -         | -         | 2,112    | -        | -        | -        | 2,112     |
| Balance at October 31, 2016   | \$ 38,869 | \$ 35,776 | \$ 6,306 | \$ 3,811 | \$ -     | \$ -     | \$ 84,762 |
| Balance at November 1, 2014   | \$ -      | \$ 35,776 | \$ 3,888 | \$ 3,811 | \$ 3,679 | \$ 3,254 | \$ 50,408 |
| Sale of businesses (Note 3)   | -         | -         | -        | -        | (3,679)  | (3,254)  | (6,933)   |
| Partial ownership change      | -         | -         | 306      | -        | -        | -        | 306       |
| Balance at October 31, 2015   | \$ -      | \$ 35,776 | \$ 4,194 | \$ 3,811 | \$ -     | \$ -     | \$ 43,781 |

### 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 acquisition-related intangible assets with finite useful lives is reported in other expenses and amortization of internally generated software is included in premises and equipment expenses on the consolidated statements of income and provided on a straight-line basis from the date at which it is available for use as follows:

- Software and related assets: 3 to 15 years
- Customer relationships: 10 to 15 years
- Non-competition agreements: 4 to 5 years
- Other: 3 to 5 years

|  | Software and Related Assets | Customer Relationships | Non-competition Agreements | Trademarks and Tradenames | Other           | Total             |
|--|-----------------------------|------------------------|----------------------------|---------------------------|-----------------|-------------------|
| <b>Cost</b>                                    |                             |                        |                            |                           |                 |                   |
| Balance at November 1, 2015                    | \$ 109,414                  | \$ 39,576              | \$ 9,770                   | \$ 2,552                  | \$ 4,480        | \$ 165,792        |
| Additions                                      | 32,954                      | -                      | -                          | -                         | -               | 32,954            |
| Business acquisition (Note 3)                  | -                           | 17,250                 | 100                        | 3,680                     | 670             | 21,700            |
| Partial ownership change                       | -                           | 2,080                  | 1,052                      | 282                       | -               | 3,414             |
| Disposals                                      | (441)                       | -                      | -                          | -                         | -               | (441)             |
| Balance at October 31, 2016                    | 141,927                     | 58,906                 | 10,922                     | 6,514                     | 5,150           | 223,419           |
| <b>Accumulated Amortization</b>                |                             |                        |                            |                           |                 |                   |
| Balance at November 1, 2015                    | 34,493                      | 15,256                 | 7,525                      | -                         | 2,415           | 59,689            |
| Amortization                                   | 8,505                       | 4,351                  | 1,243                      | -                         | 760             | 14,859            |
| Disposals                                      | (441)                       | -                      | -                          | -                         | -               | (441)             |
| Balance at October 31, 2016                    | 42,557                      | 19,607                 | 8,768                      | -                         | 3,175           | 74,107            |
| <b>Net Carrying Amount at October 31, 2016</b> | <b>\$ 99,370</b>            | <b>\$ 39,299</b>       | <b>\$ 2,154</b>            | <b>\$ 6,514</b>           | <b>\$ 1,975</b> | <b>\$ 149,312</b> |

|                             |           |           |          |          |          |            |
|-----------------------------|-----------|-----------|----------|----------|----------|------------|
| <b>Cost</b>                 |           |           |          |          |          |            |
| Balance at November 1, 2014 | \$ 88,740 | \$ 43,196 | \$ 9,719 | \$ 2,811 | \$ 4,680 | \$ 149,146 |
| Additions                   | 32,867    | -         | -        | -        | -        | 32,867     |
| Partial ownership change    | -         | 330       | 181      | 41       | -        | 552        |
| Sale of businesses (Note 3) | (10,798)  | (3,950)   | (130)    | (300)    | (200)    | (15,378)   |
| Disposals                   | (1,395)   | -         | -        | -        | -        | (1,395)    |
| Balance at October 31, 2015 | 109,414   | 39,576    | 9,770    | 2,552    | 4,480    | 165,792    |

|  |                  |                  |                 |                 |                 |                   |
|--|------------------|------------------|-----------------|-----------------|-----------------|-------------------|
| <b>Accumulated Amortization</b>                |                  |                  |                 |                 |                 |                   |
| Balance at November 1, 2014                    | 39,003           | 16,235           | 6,648           | -               | 2,123           | 64,009            |
| Amortization                                   | 5,540            | 2,971            | 1,007           | -               | 492             | 10,010            |
| Sale of businesses (Note 3)                    | (8,655)          | (3,950)          | (130)           | -               | (200)           | (12,935)          |
| Disposals                                      | (1,395)          | -                | -               | -               | -               | (1,395)           |
| Balance at October 31, 2015                    | 34,493           | 15,256           | 7,525           | -               | 2,415           | 59,689            |
| <b>Net Carrying Amount at October 31, 2015</b> | <b>\$ 74,921</b> | <b>\$ 24,320</b> | <b>\$ 2,245</b> | <b>\$ 2,552</b> | <b>\$ 2,065</b> | <b>\$ 106,103</b> |

### 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 five-year future business plan. Cash flows for a further 15-year period were extrapolated using a constant growth rate of 1.9%, 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 11.0% 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 2016 or 2015.

## 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 earnings volatility related to restricted share units and deferred share units linked to CWB's common share price. Foreign exchange contracts are used for the purposes of meeting the needs of clients, day-to-day business and liquidity management.

### *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 and deferred 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 and any re-invested dividends should the counterparty default.

In addition to monitoring the creditworthiness of counterparties, CWB limits its exposure to credit losses related to derivative financial instruments by entering into Credit Support Annexes that provide for the exchange of collateral between parties where the fair value of the outstanding transactions exceeds an agreed upon threshold.

### *Designated Accounting Hedges*

When designated as accounting hedges by CWB, certain derivative financial instruments are designated 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 forecast 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 statements of income. When a forecast 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 statements of income.

### *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 accounting hedge, a derivative not designated as an accounting hedge and all other derivative financial instruments are reported in other non-interest 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 and is inclusive of interest receivable related to the contracts, which is included with other assets on the consolidated

balance sheets. 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, net of cash collateral held related to contracts with a positive fair value, weighted according to the creditworthiness of the counterparty as prescribed by OSFI. Additional discussion of OSFI's capital adequacy requirements is provided within the Capital Management section of the MD&A.

|                            | As at October 31, 2016 |                  |                        |                        |                       | As at October 31, 2015 |                  |                        |                        |                       |
|----------------------------|------------------------|------------------|------------------------|------------------------|-----------------------|------------------------|------------------|------------------------|------------------------|-----------------------|
|                            | Notional Amount        | Replacement Cost | Future Credit Exposure | Credit Risk Equivalent | Risk-Weighted Balance | Notional Amount        | Replacement Cost | Future Credit Exposure | Credit Risk Equivalent | Risk-Weighted Balance |
| Interest rate swaps        | \$3,698,000            | \$ 12,800        | \$ 10,490              | \$ 23,290              | \$ 3,244              | \$2,805,000            | \$ 24,193        | \$ 8,775               | \$ 32,968              | \$ 6,594              |
| Equity swaps               | 23,745                 | -                | 1,642                  | 1,642                  | 328                   | 22,884                 | -                | 1,576                  | 1,576                  | 315                   |
| Foreign exchange contracts | 124,056                | 35               | 1,247                  | 1,282                  | 281                   | 233,129                | 3,178            | 2,330                  | 5,508                  | 1,108                 |
| <b>Total</b>               | <b>\$3,845,801</b>     | <b>\$ 12,835</b> | <b>\$ 13,379</b>       | <b>\$ 26,214</b>       | <b>\$ 3,853</b>       | <b>\$3,061,013</b>     | <b>\$ 27,371</b> | <b>\$ 12,681</b>       | <b>\$ 40,052</b>       | <b>\$ 8,017</b>       |

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, 2016 |                  |                        |                   | As at October 31, 2015 |                  |                        |                   |
|---|------------------------|------------------|------------------------|-------------------|------------------------|------------------|------------------------|-------------------|
|   | 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 accounting hedges | \$ 2,035,000           | \$ 10,335        | \$ 1,663,000           | \$ (3,014)        | \$ 2,330,000           | \$ 20,073        | \$ 475,000             | \$ (733)          |
| Equity swaps designated as accounting hedges        | -                      | -                | 20,117                 | (1,449)           | -                      | -                | 19,860                 | (3,317)           |
| Equity swaps not designated as accounting hedges    | -                      | -                | 3,628                  | (134)             | -                      | -                | 3,024                  | (307)             |
| Foreign exchange contracts                          | 1,330                  | 35               | 122,726                | (2,575)           | 213,183                | 3,172            | 19,946                 | (146)             |
| <b>Total</b>  | <b>\$ 2,036,330</b>    | <b>\$ 10,370</b> | <b>\$ 1,809,471</b>    | <b>\$ (7,172)</b> | <b>\$ 2,543,183</b>    | <b>\$ 23,245</b> | <b>\$ 517,830</b>      | <b>\$ (4,503)</b> |

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:

|   | 2016      | 2015      |
|---|-----------|-----------|
| Favourable derivative financial instruments (assets)        | \$ 18,811 | \$ 16,621 |
| Unfavourable derivative financial instruments (liabilities) | \$ 9,324  | \$ 3,477  |

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

|  | As at October 31, 2016 |                           |                    |                           | As at October 31, 2015 |                           |                    |                           |
|--|------------------------|---------------------------|--------------------|---------------------------|------------------------|---------------------------|--------------------|---------------------------|
|  | Maturity               |                           |                    |                           | Maturity               |                           |                    |                           |
|  | 1 Year or Less         |                           | More than 1 Year   |                           | 1 Year or Less         |                           | More than 1 Year   |                           |
|  | Notional Amount        | Contractual Interest Rate | Notional Amount    | Contractual Interest Rate | Notional Amount        | Contractual Interest Rate | Notional Amount    | Contractual Interest Rate |
| Interest rate swaps designated as accounting hedges <sup>(1)</sup> | \$1,600,000            | 1.35%                     | \$2,098,000        | 0.95%                     | \$1,050,000            | 1.32%                     | \$1,755,000        | 1.23%                     |
| Equity swaps designated as accounting hedges <sup>(2)</sup>        | 10,053                 | 1.65%                     | 10,064             | 1.67%                     | 9,736                  | 1.72%                     | 10,124             | 1.65%                     |
| Equity swaps not designated as accounting hedges <sup>(3)</sup>    | 2,839                  | 1.50%                     | 789                | 1.50%                     | 3,024                  | 1.44%                     | -                  | -                         |
| Foreign exchange contracts <sup>(4)</sup>                          | 124,056                |                           | -                  |                           | 233,129                |                           | -                  |                           |
| <b>Total</b>   | <b>\$1,736,948</b>     |                           | <b>\$2,108,853</b> |                           | <b>\$1,295,889</b>     |                           | <b>\$1,765,124</b> |                           |

(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 accounting hedges outstanding at October 31, 2016 mature between November 2016 and September 2021.

(2) Equity swaps designated as accounting hedges outstanding at October 31, 2016 mature between June 2017 and June 2019.

(3) Equity swaps not designated as accounting hedges outstanding at October 31, 2016 mature in June and December 2017.

(4) Foreign exchange contracts mature between November 2016 and April 2017. The contractual interest rate is not meaningful for foreign exchange contracts.

The impact of gains related to hedge ineffectiveness recognized in other non-interest income within the consolidated statements of income follows:

|  | 2016     | 2015 |
|--|----------|------|
| <b>Fair Value Hedges</b>   |          |      |
| Change in fair value of hedging instruments                      | \$ 1,135 | \$ - |
| Change in fair value of hedged items attributable to hedged risk | (501)    | -    |
|  | 634      | -    |
| <b>Cash Flow Hedges</b>  | -        | -    |

During the year, \$8,157 net unrealized after-tax losses (2015 – \$7,846 after-tax gains) were recorded in other comprehensive income for changes in fair value of the effective portion of derivatives designated 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, \$113 of net losses after tax (2015 – \$3,640) were reclassified to net income.

At October 31, 2016, hedged cash flows are expected to occur and affect profit or loss within the next five years (2015 – five years).

## 12. OTHER ASSETS

|                                  | As at October 31 2016 | As at October 31 2015 |
|----------------------------------|-----------------------|-----------------------|
| Accrued interest receivable      | \$ 56,264             | \$ 52,666             |
| Accounts receivable              | 44,931                | 34,640                |
| Deferred tax asset               | (Note 22) 31,704      | 27,417                |
| Income tax receivable            | 14,191                | 10                    |
| Prepaid expenses                 | 11,034                | 10,943                |
| Financing costs <sup>(1)</sup>   | 4,605                 | 4,423                 |
| Derivative collateral receivable | 2,540                 | -                     |
| Other                            | 2,190                 | 4,026                 |
| <b>Total</b>                     | <b>\$ 167,459</b>     | <b>\$ 134,125</b>     |

(1) Amortization for the year amounted to \$1,962 (2015 - \$2,246).

## 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, 2016 |                         |                      |
|-------------------------|------------------------|-------------------------|----------------------|
|                         | Individuals            | Business and Government | Total                |
| Payable on demand       | \$ 34,681              | \$ 761,523              | \$ 796,204           |
| Payable after notice    | 3,866,441              | 3,031,090               | 6,897,531            |
| Payable on a fixed date | 9,322,580              | 4,178,238               | 13,500,818           |
| <b>Total</b>            | <b>\$ 13,223,702</b>   | <b>\$ 7,970,851</b>     | <b>\$ 21,194,553</b> |

|                         | As at October 31, 2015 |                         |                      |
|-------------------------|------------------------|-------------------------|----------------------|
|                         | Individuals            | Business and Government | Total                |
| Payable on demand       | \$ 33,129              | \$ 590,411              | \$ 623,540           |
| Payable after notice    | 3,188,276              | 2,907,597               | 6,095,873            |
| Payable on a fixed date | 8,195,216              | 4,450,778               | 12,645,994           |
| <b>Total</b>            | <b>\$ 11,416,621</b>   | <b>\$ 7,948,786</b>     | <b>\$ 19,365,407</b> |

A summary of all outstanding deposits payable on a fixed date by contractual maturity date is as follows:

|               | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|---------------|-----------------------------|-----------------------------|
| Within 1 year | \$ 6,167,088                | \$ 6,240,394                |
| 1 to 2 years  | 3,515,358                   | 3,582,039                   |
| 2 to 3 years  | 1,554,168                   | 1,369,497                   |
| 3 to 4 years  | 1,007,829                   | 725,558                     |
| 4 to 5 years  | 1,256,375                   | 728,506                     |
| <b>Total</b>  | <b>\$ 13,500,818</b>        | <b>\$ 12,645,994</b>        |

## 14. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITY

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 structured 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. The deposit note of \$105,000 (2015 - \$105,000) is included in Deposits in the consolidated balance sheets.

CWB has obtained regulatory approval to proceed with the redemption of both the \$105,000 senior deposit note held by CWB Capital Trust and all outstanding WesTS on December 31, 2016. Subsequent to the redemptions and the satisfaction of all outstanding liabilities of CWB Capital Trust, the structured entity will be terminated, effective December 31, 2016, in accordance with the Amended and Restated Declaration of Trust.

Based on the guidance provided in IFRS 10 *Consolidated Financial Statements*, CWB has determined that it does not control, and consequently does not consolidate, CWB Capital Trust. However, CWB Capital Trust qualifies as an unconsolidated structured entity under the guidance of IFRS 12 *Disclosure of Interests in Other Entities* and, accordingly, additional disclosures regarding CWB Capital Trust are provided herein.

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 | Any time             |
| 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, all of the outstanding WesTS amounts are currently included in Tier 1 capital.
- 7) The non-cumulative cash distribution on the WesTS will be 6.199% paid semi-annually until December 31, 2016 and, thereafter, at the Canadian Dollar Offered Rate (CDOR) 180-day Bankers' Acceptance rate plus 255 basis points.

## 15. OTHER LIABILITIES

|   |           | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|---|-----------|-----------------------------|-----------------------------|
| Accounts payable and accrued liabilities              |           | \$ 166,544                  | \$ 125,184                  |
| Accrued interest payable                              |           | 134,077                     | 124,050                     |
| Contingent consideration                              | (Note 27) | 24,257                      | 650                         |
| Provisions for committed but undrawn credit exposures | (Note 8)  | 23,424                      | 21,018                      |
| Deferred tax liability                                | (Note 22) | 9,658                       | 8,354                       |
| Income taxes payable                                  |           | 7,726                       | 10,970                      |
| Derivative collateral payable                         |           | 7,070                       | 9,870                       |
| Deferred revenue                                      |           | 3,110                       | 3,816                       |
| Leasehold inducements                                 |           | 2,939                       | 2,871                       |
| Other   |           | 3,325                       | 2,054                       |
| <b>Total</b>  |           | <b>\$ 382,130</b>           | <b>\$ 308,837</b>           |

## 16. DEBT

### a) 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. On November 30, 2015, CWB redeemed all outstanding 4.389% subordinated debentures at par plus accrued interest to, but excluding, the redemption date.

| Interest Rate         | Maturity Date     | Earliest Date Redeemable<br>by CWB at Par | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|-----------------------|-------------------|---|-----------------------------|-----------------------------|
| 3.463% <sup>(1)</sup> | December 17, 2024 | December 17, 2019                         | \$ 250,000                  | \$ 250,000                  |
| 5.571% <sup>(2)</sup> | March 21, 2022    | March 22, 2017                            | 75,000                      | 75,000                      |
| 4.389% <sup>(3)</sup> | November 30, 2020 | November 30, 2015                         | -                           | 300,000                     |
| <b>Total</b>          |                   |   | <b>\$ 325,000</b>           | <b>\$ 625,000</b>           |

(1) 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 3-month CDOR rate plus 160 basis points.

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

(3) 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 3-month CDOR rate plus 193 basis points.

### b) 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, 2016 was \$943,198 (October 31, 2015 – \$562,623), and the associated carrying amount of the lease assets recorded on the balance sheet was \$1,030,499 (October 31, 2015 – \$634,754), which does not include an allocation of the allowance for credit losses.

## 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
- An unlimited number of first preferred shares, without nominal or par value, issuable in series, provided that the maximum aggregate consideration for all outstanding first preferred shares at any time does not exceed \$1,000,000.

### Issued and fully paid:

|  | 2016             |                   | 2015             |                   |
|--|------------------|-------------------|------------------|-------------------|
|  | Number of Shares | Amount            | Number of Shares | Amount            |
| <b>Preferred Shares - Series 5</b>                       |                  |                   |                  |                   |
| Outstanding at beginning and end of year                 | 5,000,000        | \$ 125,000        | 5,000,000        | \$ 125,000        |
| <b>Preferred Shares - Series 7</b>                       |                  |                   |                  |                   |
| Outstanding at beginning of year                         | -                | -                 | -                | -                 |
| Issued   | 5,600,000        | 140,000           | -                | -                 |
| Outstanding at end of year                               | 5,600,000        | 140,000           | -                | -                 |
| <b>Common Shares</b>                                     |                  |                   |                  |                   |
| Outstanding at beginning of year                         | 80,526,069       | 537,511           | 80,369,305       | 533,038           |
| Issued to public   | 6,125,000        | 150,063           | -                | -                 |
| Issued on acquisition of subsidiary (Note 3)             | 1,250,312        | 25,606            | -                | -                 |
| Issued under dividend reinvestment plan                  | 185,111          | 4,491             | 133,321          | 3,650             |
| Issued on exercise or exchange of options <sup>(1)</sup> | 16,628           | 706               | 23,443           | 823               |
| Outstanding at end of year                               | 88,103,120       | 718,377           | 80,526,069       | 537,511           |
| <b>Share Capital</b>                                     |                  | <b>\$ 983,377</b> |                  | <b>\$ 662,511</b> |

(1) Represents shares issued and amounts transferred from the share-based payment reserve to share capital upon cashless settlement of option exercises.

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 14), 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) Common shares

On July 7, 2016, CWB issued 6,125,000 common shares at a price of \$24.50 per share for gross proceeds of \$150,063.

### b) Preferred Shares

On March 31, 2016, CWB issued 5,600,000 non-cumulative, five-year rate reset First Preferred Shares Series 7 (Non-Viability Contingent Capital) (Series 7 Preferred Shares) at \$25.00 per share, for gross proceeds of \$140,000.

### Non-Viability Contingent Capital Preferred Share Rights and Privileges

|                                    | Redemption Amount | Quarterly Non-cumulative Dividend <sup>(1)</sup> | Annual Yield <sup>(4)</sup> | Date Redeemable/Convertible <sup>(5)(6)</sup> | Convertible to <sup>(7)</sup> |
|------------------------------------|-------------------|--|-----------------------------|---|-------------------------------|
| <b>Preferred Shares - Series 5</b> | \$ 25.00          | \$ 0.275 <sup>(2)</sup>                          | 4.40%                       | April 30, 2019                                | Preferred Shares - Series 6   |
| <b>Preferred Shares - Series 7</b> | \$ 25.00          | \$ 0.390625 <sup>(3)</sup>                       | 6.25%                       | July 31, 2021                                 | Preferred Shares - Series 8   |

(1) Non-cumulative fixed dividends are payable quarterly as and when declared by the Board of Directors of CWB.

(2) The dividend rate will reset on the date redeemable and every five years thereafter at a level of 276 basis points over the then five-year Government of Canada bond yield.

(3) The dividend rate will reset on the date redeemable and every five years thereafter at a level of 547 basis points over the then five-year Government of Canada bond yield.

(4) Based on the stated issue price per share of \$25.00.

(5) Redeemable by CWB, subject to the approval of OSFI, on the date noted and every five years thereafter.

(6) Convertible by the shareholders, subject to certain conditions, on the date noted and every five years thereafter if not redeemed by CWB to an equal number of First Preferred Shares Series 6 and Series 8, which are non-cumulative, floating rate preferred shares.

(7) If converted, holders of the First Preferred Shares Series 6 and Series 8 will be entitled to receive quarterly floating rate dividends, as and when declared by the Board of Directors of CWB, equal to the 90-day Government of Canada Treasury Bill rate plus 276 and 547 basis points, respectively.

Upon the occurrence of a trigger event (as defined by OSFI), each preferred share will be automatically converted, without the consent of the holders, into CWB common shares. Conversion to common shares will be determined by dividing the preferred share conversion value (\$25.00 per preferred share plus any declared but unpaid dividends) by

the common share value (the greater of (i) the floor price of \$5.00 and (ii) the current market price calculated as the volume-weighted average trading price for the ten consecutive trading days ending on the day immediately prior to the date of the conversion).

## c) Dividends

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

|   | 2016             | 2015             |
|---|------------------|------------------|
| \$0.92 per common share (2015 - \$0.86)                           | \$ 76,424        | \$ 69,170        |
| \$1.10 per preferred share - Series 5 (2015 - \$1.10)             | 5,500            | 5,500            |
| \$0.91 per preferred share - Series 7 (2015 - nil) <sup>(1)</sup> | 5,112            | -                |
| <b>Total</b>  | <b>\$ 87,036</b> | <b>\$ 74,670</b> |

(1) The Series 7 Preferred Share dividend payment is related to the period from the issuance on March 31, 2016 to October 31, 2016. Thereafter, the annual dividend rate will be \$1.5625 per share, payable quarterly, for the initial period ending July 31, 2021.

Subsequent to October 31, 2016, the Board of Directors of CWB declared a dividend of \$0.23 per common share payable on January 5, 2017 to shareholders of record on December 15, 2016, a dividend of \$0.275 per Series 5 preferred share payable on January 31, 2017 to shareholders of

record on January 20, 2017, and a dividend of \$0.390625 per Series 7 preferred share payable on January 31, 2017 to shareholders of record on January 20, 2017. With respect to these dividend declarations, no liability was recorded on the consolidated balance sheet at October 31, 2016.

## d) 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 5 and Series 7 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, 185,111 (2015 – 133,321) common shares were issued under the plan from CWB's treasury with no discount (2015 – no discount).

## 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 6,790,509 common shares (2015 – 6,807,137) for issuance under the share incentive plan. Of the amount authorized, options exercisable into 5,205,794 shares (2015 – 5,232,366) are issued and outstanding. The outstanding options 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. Options granted after 2015 expire within seven years of date of grant. Previously granted options expire within five years of date of grant. Outstanding options expire from December 2016 to March 2023.

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

| Options                           | 2016              |                                 | 2015              |                                 |
|-----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                   | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance at beginning of year      | 5,232,366         | \$ 30.26                        | 4,743,277         | \$ 30.76                        |
| Granted                           | 610,731           | 23.70                           | 705,725           | 26.13                           |
| Exercised or exchanged            | (149,340)         | 25.52                           | (128,100)         | 24.23                           |
| Forfeited                         | (78,865)          | 33.21                           | (82,001)          | 32.77                           |
| Expired                           | (409,098)         | 29.71                           | (6,535)           | 28.99                           |
| <b>Balance at End of Year</b>     | <b>5,205,794</b>  | <b>\$ 29.63</b>                 | <b>5,232,366</b>  | <b>\$ 30.26</b>                 |
| <b>Exercisable at End of Year</b> | <b>2,599,039</b>  | <b>\$ 27.44</b>                 | <b>1,488,783</b>  | <b>\$ 26.90</b>                 |

Further details relating to stock options outstanding and exercisable follow:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |  |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|--|
|                          | Number of Options   | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of Options   | Weighted Average Exercise Price |  |
| \$23.70 to \$26.13       | 1,781,798           | 3.6   | \$ 25.13                        | 481,854             | \$ 25.46                        |  |
| \$26.40 to \$28.47       | 2,117,185           | 1.2   | 27.88                           | 2,117,185           | 27.88                           |  |
| \$37.50 to \$39.42       | 1,306,811           | 2.4   | 38.59                           | -                   | -                               |  |
| <b>Total</b>             | <b>5,205,794</b>    | <b>2.3</b>  | <b>\$ 29.63</b>                 | <b>2,599,039</b>    | <b>\$ 27.44</b>                 |  |

All exercised options are settled via cashless settlement, which provides the option holder 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. During fiscal 2016, option holders exchanged the rights to 149,340 (2015 – 128,100) options and received 16,628 (2015 – 23,443) shares in return by way of the cashless settlement.

Salary expense of \$2,772 (2015 – \$4,694) was recognized relating to the estimated fair value of options granted. The fair value of options granted during the year was estimated using a binomial option pricing model with the following variables and assumptions: (i) risk-free interest rate of 0.8% (2015 – 0.7%), (ii) expected option life of 5.0 (2015 – 4.0) years, (iii) expected annual volatility of 26% (2015 – 24%), and (iv) expected annual

dividends of 3.8% (2015 – 3.4%). 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 \$3.47 (2015 – \$2.96) per share.

During the year, \$706 (2015 – \$823) was transferred from the share-based payment reserve to share capital, representing the estimated fair value recognized for 149,340 (2015 – 128,100) 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 employee to receive the cash equivalent of the market value of CWB's common shares at the vesting date. Throughout the vesting period, common share dividend equivalents accrue to the employee in the form of additional units. 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 \$9,514 (2015 – \$9,498) was recognized related to RSUs. As at October 31, 2016, the liability for the RSUs held under this plan was \$9,436 (October 31, 2015 – \$8,372). 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                | 2016           | 2015           |
|-------------------------------|----------------|----------------|
| Balance at beginning of year  | 638,807        | 590,847        |
| Granted                       | 442,559        | 387,332        |
| Vested and paid out           | (308,988)      | (318,555)      |
| Forfeited                     | (31,134)       | (20,817)       |
| <b>Balance at End of Year</b> | <b>741,244</b> | <b>638,807</b> |

## c) Performance Share Units

Under the Performance Share Unit (PSU) plan, certain employees are eligible to receive an award in the form of PSUs on an annual basis. At the time of a grant, each PSU represents a unit with an underlying value equivalent to the value of a CWB common share. Throughout the vesting period, common share dividend equivalents accrue to the employee in the form of additional units. Under the PSU Plan, each PSU vests at the end of a three-year period and is settled in cash.

and any accrued notional dividends such that the total value of the PSUs may vary from 0% to 200% of the value of an equal number of CWB common shares.

During the year, salary expense of \$990 (2015 – \$372) was recognized related to PSUs. As at October 31, 2016, the liability for the PSUs held under this plan was \$1,876 (October 31, 2015 – \$829). At the end of each period, the liability and salary expense are adjusted to reflect changes in the fair value of the PSUs.

At the end of each specified performance period, a multiplier based on performance targets is applied to a portion of the PSUs originally granted

| Number of PSUs                | 2016           | 2015          |
|-------------------------------|----------------|---------------|
| Balance at beginning of year  | 91,404         | 25,305        |
| Granted                       | 86,175         | 66,099        |
| <b>Balance at End of Year</b> | <b>177,579</b> | <b>91,404</b> |

## d) 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, other non-interest expenses included \$624 (2015 – \$662) related to the DSUs. As at October 31, 2016, the liability for DSUs held under this plan was \$3,639 (October 31, 2015 – \$2,893). 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                | 2016           | 2015           |
|-------------------------------|----------------|----------------|
| Balance at beginning of year  | 115,123        | 101,844        |
| Granted                       | 27,846         | 27,629         |
| Paid out                      | -              | (14,350)       |
| <b>Balance at End of Year</b> | <b>142,969</b> | <b>115,123</b> |

## 19. NON-CONTROLLING INTERESTS

Non-controlling interests relate to the following:

|  | As at<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|--|-----------------------------|-----------------------------|
| McLean & Partners Wealth Management Ltd. | \$ 629                      | \$ 861                      |
| Adroit Investment Management Ltd.        | 144                         | 131                         |
| <b>Total</b>                             | <b>\$ 773</b>               | <b>\$ 992</b>               |

## 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<br>October 31<br>2016 | As at<br>October 31<br>2015 |
|--|-----------------------------|-----------------------------|
| <b>Credit Instruments</b>                |                             |                             |
| Commitments to extend credit             | \$ 4,739,091                | \$ 4,829,622                |
| Guarantees and standby letters of credit | 492,327                     | 465,649                     |
| <b>Total</b>                             | <b>\$ 5,231,418</b>         | <b>\$ 5,295,271</b>         |

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 \$2,265,566 (October 31, 2015 - \$2,547,444) and authorized but unfunded loan commitments of \$2,473,525 (October 31, 2015 - \$2,282,178). 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. The allowance for credit losses related to committed but undrawn credit exposures is included in other liabilities on the consolidated balance sheets (see Note 15). 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.

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.

## 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:

|                     |           |               |
|---------------------|-----------|---------------|
| 2017                | \$        | 13,205        |
| 2018                |           | 12,303        |
| 2019                |           | 11,451        |
| 2020                |           | 10,921        |
| 2021                |           | 9,566         |
| 2022 and thereafter |           | 34,582        |
| <b>Total</b>        | <b>\$</b> | <b>92,028</b> |

## 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. 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 totalled \$13,267 (2015 – \$12,693).



## 22. 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:

|  | 2016             | 2015             |
|--|------------------|------------------|
| Consolidated statements of income          |                  |                  |
| Current                                    | \$ 65,714        | \$ 73,784        |
| Deferred                                   | 2,229            | (2,465)          |
|  | <b>67,943</b>    | <b>71,319</b>    |
| Other comprehensive income                 |                  |                  |
| Tax expense (recovery) related to:         |                  |                  |
| Available-for-sale securities              | 8,495            | (19,630)         |
| Derivatives designated as cash flow hedges | (2,960)          | 4,226            |
|  | <b>5,535</b>     | <b>(15,404)</b>  |
| <b>Total</b>                               | <b>\$ 73,478</b> | <b>\$ 55,915</b> |

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:

|  | 2016             |              | 2015             |              |
|--|------------------|--------------|------------------|--------------|
| Combined Canadian federal and provincial income taxes and statutory tax rate | \$ 68,975        | 26.8%        | \$ 74,466        | 26.0%        |
| Increase (decrease) arising from:  |                  |              |                  |              |
| Tax-exempt income  | (2,362)          | (0.9)        | (4,141)          | (1.4)        |
| Deferred tax related to tax rate increase <sup>(1)</sup>                     | -                | -            | (1,753)          | (0.6)        |
| Stock-based compensation   | 745              | 0.3          | 1,209            | 0.4          |
| Other  | 585              | 0.2          | 1,538            | 0.5          |
| <b>Provision for Income Taxes and Effective Tax Rate</b>                     | <b>\$ 67,943</b> | <b>26.4%</b> | <b>\$ 71,319</b> | <b>24.9%</b> |

(1) The combined statutory tax rate changed in 2015 as a result of an increase in the Alberta provincial tax rate from 10% to 12% which was substantively enacted effective July 1, 2015.

Deferred tax balances are comprised of the following:

|                                    | 2016             | 2015             |
|------------------------------------|------------------|------------------|
| <b>Deferred Tax Assets</b>         |                  |                  |
| Allowance for credit losses        | \$ 26,260        | \$ 24,488        |
| Deferred loan fees                 | 12,814           | 12,730           |
| Deferred deposit broker commission | (6,844)          | (5,102)          |
| Leasing income                     | 7,764            | (665)            |
| Other temporary differences        | (8,290)          | (4,034)          |
|                                    | <b>\$ 31,704</b> | <b>\$ 27,417</b> |
| <b>Deferred Tax Liabilities</b>    |                  |                  |
| Intangible assets                  | \$ 6,578         | \$ 6,947         |
| Other temporary differences        | 3,080            | 1,407            |
|                                    | <b>\$ 9,658</b>  | <b>\$ 8,354</b>  |

## 23. EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated based on the weighted 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:

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| <b>Numerator</b>  |                   |                   |
| Common shareholders' net income from Continuing Operations            | \$ 177,761        | \$ 208,064        |
| Common shareholders' net income from Discontinued Operations          | -                 | 111,637           |
| <b>Common Shareholders' Net Income</b>                                | <b>\$ 177,761</b> | <b>\$ 319,701</b> |
| <b>Denominator</b>  |                   |                   |
| Weighted average of common shares outstanding - basic                 | 83,411,226        | 80,441,845        |
| Dilutive instruments:   |                   |                   |
| Stock options <sup>(1)</sup>  | 7,941             | 140,205           |
| <b>Weighted Average Number of Common Shares Outstanding - Diluted</b> | <b>83,419,167</b> | <b>80,582,050</b> |
| <b>Earnings Per Common Share</b>                                      |                   |                   |
| Basic - Continuing Operations   | \$ 2.13           | \$ 2.59           |
| - Combined Operations   | 2.13              | 3.97              |
| - Discontinued Operations   | -                 | 1.38              |
| Diluted - Continuing Operations                                       | 2.13              | 2.59              |
| - Combined Operations   | 2.13              | 3.97              |
| - Discontinued Operations   | -                 | 1.38              |

(1) At October 31, 2016, the denominator excludes 5,205,794 (2015 – 2,642,435) of employee stock options with an average exercise price of \$30.02, adjusted for unrecognized stock-based compensation, that is greater than the average market price.

## 24. ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Assets under administration of \$10,689,398 (October 31, 2015 – \$9,293,683) and assets under management of \$1,924,181 (October 31, 2015 – \$1,882,736) 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.

## 25. RELATED PARTY TRANSACTIONS

Transactions with and between subsidiary entities are made at normal market prices and 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 \$105,634 (October 31, 2015 – \$113,178). 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 \$318,569 (October 31, 2015 – \$284,727).

*Compensation of key management personnel is as follows:*

|  | 2016            | 2015            |
|--|-----------------|-----------------|
| Salaries, benefits and directors' compensation                           | \$ 4,815        | \$ 5,156        |
| Share-based payments (stock options, RSUs, PSUs and DSUs) <sup>(1)</sup> | 3,117           | 3,203           |
| Termination benefits (included in discontinued operations)               | -               | 1,244           |
| <b>Total</b>   | <b>\$ 7,932</b> | <b>\$ 9,603</b> |

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

Loans outstanding with key management personnel totaled \$386 as at October 31, 2016 (October 31, 2015 – \$405). CWB's policies preclude lending to CWB's independent directors.

### *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.

## 26. 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 adjusting the repricing behaviour of interest sensitive assets or liabilities to ensure the gap falls within the risk appetite of CWB. The repricing profile of these assets and

liabilities has been incorporated in the table following, which contains 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)

| <b>October 31, 2016</b>                               | <b>Floating Rate and Within 1 Month</b> | <b>1 to 3 Months</b> | <b>3 Months to 1 Year</b> | <b>Total Within 1 Year</b> | <b>1 Year to 5 Years</b> | <b>More than 5 Years</b> | <b>Non-interest Sensitive</b> | <b>Total</b>  |
|---|---|----------------------|---------------------------|----------------------------|--------------------------|--------------------------|-------------------------------|---------------|
| <b>Assets</b>   |   |                      |                           |                            |                          |                          |                               |               |
| Cash resources and securities                         | \$ 1,394                                | \$ 590               | \$ 11                     | \$ 1,995                   | \$ 743                   | \$ 52                    | \$ 2                          | \$ 2,792      |
| Loans <sup>(1)</sup>                                  | 10,321                                  | 1,379                | 3,179                     | 14,879                     | 6,971                    | 208                      | (96)                          | 21,962        |
| Other assets <sup>(2)</sup>                           | -                                       | -                    | -                         | -                          | -                        | -                        | 469                           | 469           |
| Derivative financial instruments <sup>(3)</sup>       | 150                                     | 500                  | 950                       | 1,600                      | 2,098                    | -                        | 148                           | 3,846         |
| <b>Total</b>  | <b>11,865</b>                           | <b>2,469</b>         | <b>4,140</b>              | <b>18,474</b>              | <b>9,812</b>             | <b>260</b>               | <b>523</b>                    | <b>29,069</b> |
| <b>Liabilities and Equity</b>                         |   |                      |                           |                            |                          |                          |                               |               |
| Deposits  | 7,893                                   | 1,288                | 4,149                     | 13,330                     | 7,886                    | -                        | (21)                          | 21,195        |
| Other liabilities <sup>(2)</sup>                      | -                                       | -                    | -                         | -                          | -                        | -                        | 417                           | 417           |
| Debt <sup>(1)</sup>                                   | 31                                      | 165                  | 223                       | 419                        | 849                      | -                        | -                             | 1,268         |
| Equity  | -                                       | -                    | -                         | -                          | 265                      | -                        | 2,078                         | 2,343         |
| Derivative financial instruments <sup>(3)</sup>       | 3,722                                   | -                    | -                         | 3,722                      | -                        | -                        | 124                           | 3,846         |
| <b>Total</b>  | <b>11,646</b>                           | <b>1,453</b>         | <b>4,372</b>              | <b>17,471</b>              | <b>9,000</b>             | <b>-</b>                 | <b>2,598</b>                  | <b>29,069</b> |
| <b>Interest Rate Sensitive Gap</b>                    | <b>\$ 219</b>                           | <b>\$ 1,016</b>      | <b>\$ (232)</b>           | <b>\$ 1,003</b>            | <b>\$ 812</b>            | <b>\$ 260</b>            | <b>\$ (2,075)</b>             | <b>\$ -</b>   |
| <b>Cumulative Gap</b>                                 | <b>\$ 219</b>                           | <b>\$ 1,235</b>      | <b>\$ 1,003</b>           | <b>\$ 1,003</b>            | <b>\$ 1,815</b>          | <b>\$ 2,075</b>          | <b>\$ -</b>                   | <b>\$ -</b>   |
| <b>Cumulative Gap as a Percentage of Total Assets</b> | <b>0.8%</b>                             | <b>4.2%</b>          | <b>3.5%</b>               | <b>3.5%</b>                | <b>6.2%</b>              | <b>7.1%</b>              | <b>-</b>                      | <b>-</b>      |
| <b>October 31, 2015</b>                               |   |                      |                           |                            |                          |                          |                               |               |
| Cumulative Gap  | \$ (380)                                | \$ (373)             | \$ (906)                  | \$ (906)                   | \$ 1,650                 | \$ 1,930                 | \$ -                          | \$ -          |
| Cumulative Gap as a Percentage of Total Assets        | (1.5)%                                  | (1.4)%               | (3.5)%                    | (3.5)%                     | 6.4%                     | 7.5%                     | -                             | -             |

(1) 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.

(2) Accrued interest is included in calculating interest sensitive assets and liabilities.

(3) Derivative financial instruments are included in this table at the notional amount.

The effective, weighted average interest rates for each class of financial asset and liability are shown below:

## Weighted Average Effective Interest Rates

(%)

|                             | 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 |
|-----------------------------|----------------------------------|---------------|--------------------|---------------------|-------------------|-------------------|-------|
| <b>October 31, 2016</b>     |                                  |               |                    |                     |                   |                   |       |
| Total Assets                | 3.1%                             | 2.5%          | 3.7%               | 3.2 %               | 3.4%              | 4.1%              | 3.3%  |
| Total Liabilities           | 0.9                              | 2.4           | 1.7                | 1.3                 | 2.2               | -                 | 2.0   |
| Interest Rate Sensitive Gap | 2.2%                             | 0.1%          | 2.0%               | 1.9 %               | 1.2%              | 4.1%              | 1.3%  |
| <b>October 31, 2015</b>     |                                  |               |                    |                     |                   |                   |       |
| Total Assets                | 3.4%                             | 2.7%          | 3.7%               | 3.4%                | 3.4%              | 1.8%              | 3.4%  |
| Total Liabilities           | 1.1                              | 1.7           | 1.8                | 1.3                 | 2.3               | -                 | 1.6   |
| Interest Rate Sensitive Gap | 2.3%                             | 1.0%          | 1.9%               | 2.1%                | 1.1%              | 1.8%              | 1.8%  |

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 2.15% or \$12,582 (October 31, 2015 – decrease 0.61% or \$2,989) and decrease other comprehensive income \$57,109 (October 31, 2015 – \$90,099) 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 0.88% or \$5,150 (October 31, 2015 – 0.04% or \$201) and increase other comprehensive income \$58,646 (October 31, 2015 – \$87,091), net of tax.

## 27. 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, subordinated debentures and debt securities 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. The table also excludes assets and liabilities which are considered financial instruments, but are not recorded at fair value and for which the carrying amount approximates fair value.

| October 31, 2016 <sup>(1)</sup>              |          | Loans and Receivables, and Non-trading Liabilities |                      |                     |                      | Total Carrying Amount | Fair Value        | Fair Value Over Carrying Amount |
|--|----------|--|----------------------|---------------------|----------------------|-----------------------|-------------------|---------------------------------|
|  |          | Derivatives  |                      | Available-for-sale  |                      |                       |                   |                                 |
| <b>Financial Assets</b>                      |          |  |                      |                     |                      |                       |                   |                                 |
| Cash resources                               | (Note 4) | \$ -   | \$ -                 | \$ 920,056          | \$ 920,056           | \$ 920,056            | \$ -              |                                 |
| Securities                                   | (Note 5) | -  | -                    | 1,708,594           | 1,708,594            | 1,708,594             | -                 |                                 |
| Securities purchased under resale agreements |          | -  | -                    | 163,318             | 163,318              | 163,318               | -                 |                                 |
| Loans <sup>(2)</sup>                         |          | -  | 22,049,997           | -                   | 22,049,997           | 22,376,753            | 326,756           |                                 |
| Derivative related                           |          | 10,370   | -                    | -                   | 10,370               | 10,370                | -                 |                                 |
| <b>Total Financial Assets</b>                |          | <b>\$ 10,370</b>                                   | <b>\$ 22,049,997</b> | <b>\$ 2,791,968</b> | <b>\$ 24,852,335</b> | <b>\$ 25,179,091</b>  | <b>\$ 326,756</b> |                                 |
| <b>Financial Liabilities</b>                 |          |  |                      |                     |                      |                       |                   |                                 |
| Deposits <sup>(2)</sup>                      |          | \$ -   | \$ 21,215,842        | \$ -                | \$ 21,215,842        | \$ 21,281,835         | \$ 65,993         |                                 |
| Debt   |          | -  | 1,268,198            | -                   | 1,268,198            | 1,271,036             | 2,838             |                                 |
| Contingent consideration                     |          | -  | 24,257               | -                   | 24,257               | 24,257                | -                 |                                 |
| Derivative related                           |          | 7,172  | -                    | -                   | 7,172                | 7,172                 | -                 |                                 |
| <b>Total Financial Liabilities</b>           |          | <b>\$ 7,172</b>                                    | <b>\$ 22,508,297</b> | <b>\$ -</b>         | <b>\$ 22,515,469</b> | <b>\$ 22,584,300</b>  | <b>\$ 68,831</b>  |                                 |

| October 31, 2015                   |          | Loans and Receivables, and Non-trading Liabilities |                      |                     |                      | Total Carrying Amount | Fair Value        | Fair Value Over Carrying Amount |
|------------------------------------|----------|--|----------------------|---------------------|----------------------|-----------------------|-------------------|---------------------------------|
|                                    |          | Derivatives  |                      | Available-for-sale  |                      |                       |                   |                                 |
| <b>Financial Assets</b>            |          |  |                      |                     |                      |                       |                   |                                 |
| Cash resources                     | (Note 4) | \$ -   | \$ -                 | \$ 443,422          | \$ 443,422           | \$ 443,422            | \$ -              |                                 |
| Securities                         | (Note 5) | -  | -                    | 2,551,112           | 2,551,112            | 2,551,112             | -                 |                                 |
| Loans <sup>(2)</sup>               |          | -  | 19,541,676           | -                   | 19,541,676           | 19,889,076            | 347,400           |                                 |
| Derivative related                 |          | 23,245   | -                    | -                   | 23,245               | 23,245                | -                 |                                 |
| <b>Total Financial Assets</b>      |          | <b>\$ 23,245</b>                                   | <b>\$ 19,541,676</b> | <b>\$ 2,994,534</b> | <b>\$ 22,559,455</b> | <b>\$ 22,906,855</b>  | <b>\$ 347,400</b> |                                 |
| <b>Financial Liabilities</b>       |          |  |                      |                     |                      |                       |                   |                                 |
| Deposits <sup>(2)</sup>            |          | \$ -   | \$ 19,384,468        | \$ -                | \$ 19,384,468        | \$ 19,457,102         | \$ 72,634         |                                 |
| Debt                               |          | -  | 1,187,623            | -                   | 1,187,623            | 1,206,101             | 18,478            |                                 |
| Contingent consideration           |          | -  | 650                  | -                   | 650                  | 650                   | -                 |                                 |
| Derivative related                 |          | 4,503  | -                    | -                   | 4,503                | 4,503                 | -                 |                                 |
| <b>Total Financial Liabilities</b> |          | <b>\$ 4,503</b>                                    | <b>\$ 20,572,741</b> | <b>\$ -</b>         | <b>\$ 20,577,244</b> | <b>\$ 20,668,356</b>  | <b>\$ 91,112</b>  |                                 |

(1) For further information on interest rates associated with financial assets and liabilities, including derivative instruments, refer to Note 26.

(2) Loans and deposits exclude deferred premiums, deferred revenue and allowances for credit losses, which are not financial instruments.

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 4 and 5. Securities purchased under resale agreements are reported at the fair value as disclosed on the consolidated balance sheets. 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;
- Fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated and exclude 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;
- With the exception of derivative financial instruments and acquisition contingent consideration, other assets and other liabilities reported on the consolidated balance sheets are either not considered financial instruments, or are assumed to approximate their carrying value due to their short-term nature. Other assets and other liabilities which are not considered financial instruments include property and equipment, goodwill and other intangible assets, deferred tax asset, prepaid and deferred expenses, financing costs, deferred tax liability, deferred revenue, and other items that are not financial instruments;
- 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 contingent consideration, included in other liabilities, where an active market does not exist, fair value is determined by estimating the expected value of the contingent consideration, taking into consideration the potential financial outcomes and their associated probabilities;
- 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 according to a three-level hierarchy. Level 1 fair value measurements reflect unadjusted quoted prices in active markets for identical assets and liabilities that CWB can access at the measurement date. Level 2 fair value measurements were estimated using observable inputs, including quoted market prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and model inputs that are either observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 fair value measurements were determined using one or more inputs that are unobservable and significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date.

| As at October 31, 2016                       | Valuation Technique  |                   |                      |                      |
|--|----------------------|-------------------|----------------------|----------------------|
|  | Fair Value           | Level 1           | Level 2              | Level 3              |
| <b>Financial Assets</b>                      |                      |                   |                      |                      |
| Cash resources                               | \$ 920,056           | \$ 45,426         | \$ 874,630           | \$ -                 |
| Securities                                   | 1,708,594            | 322,509           | 1,386,085            | -                    |
| Securities purchased under resale agreements | 163,318              | -                 | 163,318              | -                    |
| Loans  | 22,376,753           | -                 | -                    | 22,376,753           |
| Derivative related                           | 10,370               | -                 | 10,370               | -                    |
| <b>Total Financial Assets</b>                | <b>\$ 25,179,091</b> | <b>\$ 367,935</b> | <b>\$ 2,434,403</b>  | <b>\$ 22,376,753</b> |
| <b>Financial Liabilities</b>                 |                      |                   |                      |                      |
| Deposits                                     | \$ 21,281,835        | \$ -              | \$ 21,281,835        | \$ -                 |
| Debt   | 1,271,036            | -                 | 1,271,036            | -                    |
| Contingent consideration <sup>(1)</sup>      | 24,257               | -                 | -                    | 24,257               |
| Derivative related                           | 7,172                | -                 | 7,172                | -                    |
| <b>Total Financial Liabilities</b>           | <b>\$ 22,584,300</b> | <b>\$ -</b>       | <b>\$ 22,560,043</b> | <b>\$ 24,257</b>     |

| As at October 31, 2015                  | Valuation Technique  |                   |                      |                      |
|---|----------------------|-------------------|----------------------|----------------------|
|   | Fair Value           | Level 1           | Level 2              | Level 3              |
| <b>Financial Assets</b>                 |                      |                   |                      |                      |
| Cash resources                          | \$ 443,422           | \$ 27,939         | \$ 415,483           | \$ -                 |
| Securities                              | 2,551,112            | 219,041           | 2,332,071            | -                    |
| Loans                                   | 19,889,076           | -                 | -                    | 19,889,076           |
| Derivative related                      | 23,245               | -                 | 23,245               | -                    |
| <b>Total Financial Assets</b>           | <b>\$ 22,906,855</b> | <b>\$ 246,980</b> | <b>\$ 2,770,799</b>  | <b>\$ 19,889,076</b> |
| <b>Financial Liabilities</b>            |                      |                   |                      |                      |
| Deposits                                | \$ 19,457,102        | \$ -              | \$ 19,457,102        | \$ -                 |
| Debt                                    | 1,206,101            | -                 | 1,206,101            | -                    |
| Contingent consideration <sup>(1)</sup> | 650                  | -                 | -                    | 650                  |
| Derivative related                      | 4,503                | -                 | 4,503                | -                    |
| <b>Total Financial Liabilities</b>      | <b>\$ 20,668,356</b> | <b>\$ -</b>       | <b>\$ 20,667,706</b> | <b>\$ 650</b>        |

(1) The Level 3 financial liability at October 31, 2016 is related to the acquisition of CWB Maxium as described in Note 3. At October 31, 2015, Level 3 financial liabilities were comprised of contingent consideration related to a business sold in 2015 as described in Note 3.

## b) Level 3 Financial Instruments Carried at Fair Value

The Level 3 financial liability measured at fair value on the consolidated balance sheet as at October 31, 2016 is related to the acquisition of CWB Maxium (see Note 3). Contingent consideration related to a business sold in 2015 was extinguished during 2016 with no payment required. Fair

value is determined by estimating the expected value of the contingent consideration, taking into consideration the potential financial outcomes and their associated probabilities.

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

|   |          | 2016             | 2015     |
|---|----------|------------------|----------|
| <b>Business Acquisitions</b>                | (Note 3) |                  |          |
| Balance at beginning of year                |          | \$ -             | \$ 2,679 |
| Business acquisition                        |          | 16,400           | -        |
| Contingent consideration fair value changes |          | 7,857            | 638      |
| Settlement of contingent consideration      |          | -                | (3,317)  |
|   |          | <b>24,257</b>    | -        |
| <b>Business Dispositions</b>                | (Note 3) |                  |          |
| Balance at beginning of year                |          | 650              | -        |
| Contingent consideration fair value changes |          | -                | 650      |
| Extinguishment of contingent consideration  |          | (650)            | -        |
|   |          | -                | 650      |
| Balance at end of year                      |          | <b>\$ 24,257</b> | \$ 650   |

## 28. FINANCIAL INSTRUMENTS - OFFSETTING

The following table provides a summary of financial assets and liabilities which are subject to enforceable master netting agreements and similar arrangements, as well as financial collateral received to mitigate credit exposures related to these financial instruments. The agreements do

not meet the netting criteria required by IAS 32 *Financial Instruments: Presentation* as the right to set-off is only enforceable in the event of default or occurrence of other predetermined events.

| As at October 31, 2016       | Gross amounts reported on the consolidated balance sheet | Amounts not offset on the consolidated balance sheet |                                |   |        | Net amount |
|------------------------------|--|--|--------------------------------|---|--------|------------|
|                              |  | Impact of master netting agreements                  | Cash collateral <sup>(1)</sup> | Securities received as collateral <sup>(1)(2)</sup> |        |            |
| <b>Financial Assets</b>      |  |  |                                |   |        |            |
| Derivative instruments       | \$ 10,370  | \$ 4,345   | \$ 5,730                       | \$ 49   | \$ 246 |            |
| <b>Financial Liabilities</b> |  |  |                                |   |        |            |
| Derivative instruments       | \$ 7,172   | \$ 4,345   | \$ 2,121                       | \$ -  | \$ 706 |            |

| As at October 31, 2015       | Gross amounts reported on the consolidated balance sheet | Amounts not offset on the consolidated balance sheet |                                |   |          | Net amount |
|------------------------------|--|--|--------------------------------|---|----------|------------|
|                              |  | Impact of master netting agreements                  | Cash collateral <sup>(1)</sup> | Securities received as collateral <sup>(1)(2)</sup> |          |            |
| <b>Financial Assets</b>      |  |  |                                |   |          |            |
| Derivative instruments       | \$ 23,245  | \$ 4,503   | \$ 9,535                       | \$ -  | \$ 9,207 |            |
| <b>Financial Liabilities</b> |  |  |                                |   |          |            |
| Derivative instruments       | \$ 4,503   | \$ 4,503   | \$ -                           | \$ -  | \$ -     |            |

(1) Financial collateral is reflected at fair value. The amount of financial instruments and cash collateral disclosed is limited to the net balance sheet exposure, and any over-collateralization is excluded from the table.

(2) Collateral received in the form of securities is not recognized on the consolidated balance sheets.



## 29. 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, market risk, capital risk and operational risk. The nature of these risks and how they are managed is provided in the Risk Management section of the MD&A.

As permitted by the IASB, certain of the risk management disclosure related to risks inherent with financial instruments is included in

## 30. CAPITAL MANAGEMENT

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors or Board Risk Committee 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.

Regulatory capital and capital ratios are calculated in accordance with the requirements of OSFI. 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.

the MD&A. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of these audited consolidated financial statements.

Information on specific measures of risk, including the allowance for credit losses, derivative financial instruments, interest rate sensitivity, fair value of financial instruments and liability for unpaid claims are included elsewhere in these notes to the consolidated financial statements.

The required minimum regulatory capital ratios for a bank using the Standardized approach for credit risk, including a 250 basis point capital conservation buffer, are 7.0% common equity Tier 1 (CET1), 8.5% Tier 1 and 10.5% total capital. In addition, OSFI requires banks and trust companies to maintain a minimum leverage ratio of 3%. The leverage ratio provides the ratio of Tier 1 capital to on-balance sheet and off-balance sheet exposures.

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 2016 inclusion of non-qualifying capital instruments in non-common Tier 1 (WesTS) and total capital (subordinated debentures) under Basel III are capped at 60% (October 31, 2015 – 70%) of the balance of non-common equity instruments outstanding at January 1, 2013. At October 31, 2016, there were no exclusions from regulatory capital related to the WesTS Tier 1 capital (disclosed in deposits) or outstanding subordinated debentures (October 31, 2015 – \$152,500).

On July 7, 2016, CWB issued 6,125,000 common shares at a price of \$24.50 per share for gross proceeds of \$150,063 (see Note 17), which increased the CET1 capital ratio by approximately 70 basis points. The issuance of 5,600,000 Series 7 Preferred Shares for gross proceeds of \$140,000 on March 31, 2016 positively impacted the Tier 1 and total capital ratios by approximately 70 basis points. The \$300 million redemption of all 4.389% subordinated debentures on November 30, 2015, which did not qualify as non-viability contingent capital under the Basel III regulatory capital requirements, decreased the total capital ratio by approximately 80 basis points.

In fiscal 2017, the redemption of all outstanding WesTS will reduce both the Tier 1 and total capital ratios by approximately 50 basis points.

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

### Capital Structure And Regulatory Ratios

|                                       | 2016         | 2015         |
|---------------------------------------|--------------|--------------|
| Regulatory Capital, net of deductions |              |              |
| Common equity Tier 1                  | \$ 1,863,264 | \$ 1,636,718 |
| Tier 1                                | 2,233,364    | 1,866,873    |
| Total                                 | 2,669,334    | 2,439,022    |
| Capital ratios                        |              |              |
| Common equity Tier 1                  | 9.2%         | 8.5%         |
| Tier 1                                | 11.0         | 9.7          |
| Total                                 | 13.1         | 12.7         |
| Leverage ratio                        | 8.6          | 7.9          |

## 31. SUBSIDIARIES

### CWB Subsidiaries<sup>(1)</sup>

(annexed in accordance with subsection 308 (3) of the Bank Act)

October 31, 2016

|  | Address of<br>Head Office                            | Carrying Value of<br>Voting Shares Owned<br>by CWB <sup>(2)</sup> |
|--|--|---|
| National Leasing Group Inc.              | 1525 Buffalo Place<br>Winnipeg, Manitoba             | \$ 134,458  |
| CWB Maxium Financial Inc.                | 30 Vogell Road, Suite 1<br>Richmond Hill, Ontario    | 30,812  |
| Canadian Western Trust Company           | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 19,136  |
| McLean & Partners Wealth Management Ltd. | 801 10th Avenue SW<br>Calgary, Alberta               | 17,481  |
| Adroit Investment Management Ltd.        | Suite 1250, 10303 Jasper Avenue<br>Edmonton, Alberta | 8,449   |
| Valiant Trust Company                    | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 8,080   |
| CWB Wealth Management Ltd.               | Suite 3000, 10303 Jasper Avenue<br>Edmonton, Alberta | 1,750   |
| 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. (84.0% ownership) and McLean & Partners Wealth Management Ltd. (October 31, 2016 – 73.6% ownership).

(2) The carrying value of voting shares is stated at the cost of CWB's equity in the subsidiaries in thousands of dollars.

# Shareholder Information

## CWB Group Corporate Headquarters

Suite 3000, 10303 Jasper Avenue NW  
Canadian Western Bank Place  
Edmonton, AB T5J 3X6  
Telephone: (780) 423-8888  
Fax: (780) 423-8897  
Website: cwb.com

## Transfer Agent and Registrar

Computershare  
100 University Avenue, 8th Floor  
Toronto, ON M5J 2Y1  
Telephone: (416) 263-9200  
Toll-free: 1-800-564-6253  
Fax: (888) 453-0330  
Website: computershare.com

## Stock Exchange Listings

The Toronto Stock Exchange (TSX)  
Common Shares: CWB  
Series 5 Preferred Shares: CWB.PR.B  
Series 7 Preferred Shares: CWB.PR.C

## Shareholder Administration

Computershare 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 inquire online at computershare.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, 10303 Jasper Avenue N.W.  
Canadian Western Bank Place  
Edmonton, AB T5J 3X6  
Telephone: (800) 836-1886  
Fax: (780) 969-8326  
E-mail: 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 in the Investor Relations section at cwb.com.

This 2016 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 sedar.com.

## 2017 Annual Meeting

The annual meeting of the common shareholders of Canadian Western Bank will be held in Edmonton, AB, on March 2, 2017 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,  
Chief Legal Officer and  
Corporate Secretary  
Canadian Western Bank  
Suite 3000, 10303 Jasper Avenue N.W.  
Edmonton, AB T5J 3X6  
Telephone: (780) 969-1525  
Fax: (780) 969-1503

## Complaints or Concerns regarding Accounting, Internal Accounting Controls or Auditing Matters

Please contact either:

**Carolyn J. Graham**  
Executive Vice President and Chief Financial Officer  
Canadian Western Bank  
Telephone: (780) 423-8854  
Fax: (780) 423-8899  
E-mail: carolyn.graham@cwbank.com  
or

**Robert A. Manning**  
Chairman of the Audit Committee  
c/o 210 – 5324 Calgary Trail  
Edmonton, AB T6H 4J8  
Telephone: (780) 438-2626  
Fax: (780) 438-2632  
E-mail: rmanning@shawbiz.ca

## SENIOR OFFICERS Group Executive Officers

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

**Carolyn J. Graham, FCPA, FCA**  
Executive Vice President and Chief Financial Officer

**Kelly S. Blackett**  
Executive Vice President, Human Resources and Corporate Communications

**Glen Eastwood**  
Executive Vice President, Business Transformation

**Darrell Jones**  
Executive Vice President, Chief Technology Officer and Chief Information Officer

**Stephen Murphy**  
Executive Vice President, Banking

**H. Bogac (Bogie) Ozdemir**  
Executive Vice President and Chief Risk Officer

## Senior Corporate Officers

**Niall Boles**  
Senior Vice President and Treasurer

**David L. Thompson**  
Senior Vice President,  
Credit Risk Management

**Gail L. Harding, Q.C.**  
Senior Vice President,  
Chief Legal Officer and  
Corporate Secretary

**Allen D. Stephen, CPA, CA**  
Vice President and  
Chief Accountant

## Commercial and Retail Banking

**Jeff Bowling**  
Senior Vice President and  
Regional General Manager, Prairies

**Mario Furlan**  
Senior Vice President and  
Regional General Manager,  
British Columbia

**Michael Halliwell**  
Senior Vice President and Regional  
General Manager, Northern Alberta

**Keith Hughes**  
Senior Vice President,  
Business and Personal Banking

## National Leasing

**Tom Pundyk**  
President and Chief Executive Officer

## Canadian Western Trust

**Matt Colpitts**  
Vice President and General Manager

## CWB Wealth Management

**David Schaffner**  
President and  
Chief Executive Officer

## Adroit Investment Management

**Maria Holowsky**  
President and  
Chief Executive Officer

## McLean & Partners Wealth Management

**Kevin Dehod**  
President and  
Chief Executive Officer

## CWB Maxium Financial

**Paul McLean**  
Chief Executive Officer

**Daryl MacLellan**  
President

## Ombudsmen

**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 N.W.  
Edmonton  
(780) 423-8888  
Michael Halliwell

**Prairies**  
606 - 4 Street S.W.  
Calgary  
(403) 262-8700  
Jeff Bowling

**Equipment Financing**  
3000, 10303 Jasper Avenue N.W.  
Edmonton  
(780) 441-3770  
Kirby Hill

## BRANCHES Alberta

**Edmonton**  
*Edmonton Main*  
100, 12230 Jasper Avenue N.W.  
(780) 424-4846  
George Bawden

**103 Street**  
10303 Jasper Avenue N.W.  
(780) 423-8801  
Bruce Young

**Old Strathcona**  
7933 - 104 Street N.W.  
(780) 433-4286  
Donna Austin

**South Edmonton Common**  
2142 - 99 Street N.W.  
(780) 988-8607  
Robert Ovics

**West Point**  
17603 - 100 Avenue N.W.  
(780) 484-7407  
David Hardy

**Calgary**  
*Calgary Main*  
606 - 4 Street S.W.  
(403) 262-8700  
Dean Proctor

**Calgary Chinook**  
6606 Macleod Trail S.W.  
(403) 252-2299  
Rick Vandergraaf

**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  
Nancy Matheos

**Broker Buying Centre**  
285, 2880 Glenmore Trail S.E.  
(403) 720-8960  
David Miller

**Calgary Westjet  
Banking Centre**  
22 Aerial Place N.W.  
Westjet Campus  
(403) 452-5869

**Grande Prairie**  
11226 - 100 Avenue  
(780) 831-1888  
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