

Management's Discussion and Analysis

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Business Profile and Strategy

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

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

Vision

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

Mission

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

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

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

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

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

Additional strategic priorities include:

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

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

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

Forward-Looking Statements

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

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

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

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

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

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

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

Taxable Equivalent Basis (teb)

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

Non-GAAP Measures

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

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

Group Financial Performance

Overview

Highlights of 2011 (compared to 2010)

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

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

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

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

(2) bp – basis points.

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

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

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

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

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

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

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

Minimum Performance Targets and Outlook

The performance targets established for the 2011 fiscal year, together with actual performance, and new minimum targets for fiscal 2012 are presented in Table 2. The 2012 minimum targets are calculated under Canadian GAAP. Starting in the first quarter of 2012, the Bank will transition to International Financial

Reporting Standards (IFRS) and the following targets will change when calculated under IFRS. The Bank intends to pre-release the 2011 transition adjustments between GAAP and IFRS before the end of the first quarter 2012, and the minimum targets will be amended accordingly at that time.

TABLE 2 – PERFORMANCE TARGETS

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

(1) Net income before preferred share dividends.

(2) Net income before income taxes (teb), non-controlling interest in subsidiary and preferred share dividends.

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

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

(5) n/a – not applicable.

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

Management believes Canada will see modest growth in 2012 despite ongoing impacts of the European debt crisis and economic uncertainties in the United States (U.S.). The Bank's key markets in Western Canada are expected to perform well relative to the rest of Canada largely owing to strong capital investment related to a favourable long-term outlook for commodities, including the positive impact on demand from developing economies. The Bank will maintain its focus on quality, secured loans that offer a fair and profitable return. While certain challenges will persist related to increased competition and uncertainty about the strength of economic recovery, the volume in the pipeline for new loans remains solid. The 2012 target for loan growth has been set at 10%. Overall credit quality is within expectations and the provision

for credit losses is targeted between 20 to 25 basis points of average loans. Targets for growth in total revenues and net income reflect confidence in CWB's proven business model and overall strategic direction, but also consider ongoing challenges. The growth target for total revenues (teb) of 6% compares to actual growth achieved in 2011 of 13%; the difference largely reflects a comparatively higher starting point that includes a full year of revenue recognition from National Leasing, as well as expectations for limited gains on sale of securities in 2012. Net interest margin is also expected to be lower in 2012. Minimum targets for return on common shareholders' equity and return on assets have been established at 15% and 1.10%, respectively. One of management's key priorities is to maintain effective control of costs while ensuring the Bank is positioned to deliver continued strong growth. In consideration of targeted revenue growth and planned expenditures, the 2012 efficiency ratio (teb) is expected to remain at 46% or less.

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

Net Interest Income

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

Highlights of 2011

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

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

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

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

Record net interest income (teb) of \$384.7 million increased 17% (\$56.0 million) for the year, reflecting the combined positive impact of 14% (\$1,590 million) growth in average interest earning assets, a slightly higher overall asset yield and lower deposit costs. Growth in average interest earning assets was mainly driven by very strong growth in total average loans of 16% (\$1,523 million). Net interest margin increased eight basis points to 2.82% based on lower average costs on fixed rate term deposits, a slight increase in average loan yields (with the exception of residential mortgages), a 17% (\$179 million) increase in the average balance of

shareholders' equity and 23% (\$108 million) growth in the average balance of zero cost demand deposits. The improvement in margin was partially offset by the impact of higher average liquidity measured as a percentage of average assets, increased expense related to the higher balance of subordinated debentures and lower yields on securities. Margin further benefited from increased yields on fixed rate loans reflecting a generally favourable pricing environment and a full-year contribution from National Leasing. The average yield on residential mortgages was down for the year, mainly due to changes in benchmark bond rates and competitive factors.

The current very low interest rate environment, the relatively flat shape of the interest rate curve, increased competitive influences and higher average liquidity levels have a negative impact on net interest margin. Generally, increases in the prime interest rate positively impact the Bank's net interest margin because prime-based loans reprice more quickly than deposits, which

subsequently expands the interest spread earned on the Bank's assets. The prime rate averaged 3.00% compared to 2.46% last year. The prime rate as at October 31, 2011 was 3.00%, up slightly from its historic low of 2.25% established in April 2009, but unchanged throughout fiscal 2011.

Outlook for Net Interest Income

Fiscal 2012 net interest income is expected to increase with the targeted 10% loan growth. The current very low interest rate environment and relatively flat shape of the interest rate curve will limit the Bank's ability to enhance margins from current levels, particularly on low and no-cost deposits where margin is diminished. In a more normal interest rate environment, a steeper upward sloping interest rate curve would be observed that would allow for a significant incremental earnings benefit from the Bank's growing base of core deposits that are less interest sensitive. In addition, a steeper curve provides a more meaningful positive differential between the incremental price on

loans and the cost of matched funding based on the duration of certain portfolios. Increased competition currently encountered in certain business areas also lowers overall loan pricing. The Bank expects to carry higher than normal liquidity due to elevated global economic uncertainties, including concerns about the ongoing European debt crisis. Higher liquidity generally pressures net interest margin due to the increased level of lower yielding assets. The foregoing factors support management's current expectations that net interest margin (teb) will continue to be pressured in 2012, consistent with what was observed in the latter part of 2011.

Other Income

Highlights of 2011

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

TABLE 4 – OTHER INCOME
(\$ thousands)

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

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

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

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

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

Outlook for Other Income

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

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

change in fair value of the acquisition-related contingent consideration for National Leasing. The 'other' category of other income is expected to be lower in future periods, partially reflecting a reduction in lease administration revenues due to the termination of a servicing contract.

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

Non-interest Expenses and Efficiency

Highlights of 2011

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

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

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

(1) Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income). See page 35 for a discussion of teb and other non-GAAP measures.

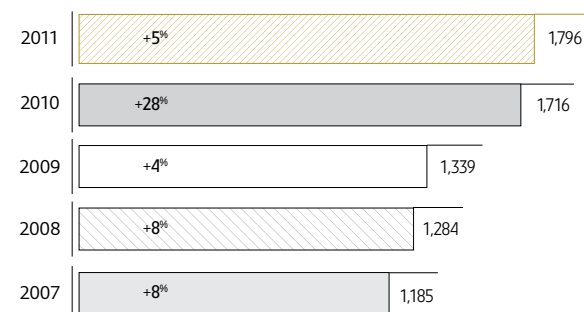
(2) A decrease in this ratio reflects improved efficiency, while an increase reflects deterioration.

(3) bp – basis points.

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

22% (\$7.8 million) reflecting costs to manage the ongoing growth and development of CWB's businesses and the first full year of National Leasing's operations. Excluding National Leasing and the related amortization of intangibles, general non-interest expenses were up 14% (4.3 million).

FIGURE 1 – NUMBER OF FULL-TIME EQUIVALENT STAFF



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

Outlook for Non-interest Expenses and Efficiency

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

and expansion of existing branch infrastructure will also continue. Lower provincial capital tax payments combined with expectations for modest inflationary pressures in 2012 will help moderate growth in non-interest expenses.

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

Income and Capital Taxes

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

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

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

Capital taxes applicable to CWB for 2011 were lower than prior years. In the past two years, capital tax has been eliminated for CWB in both BC and Manitoba, while Alberta has not had a capital

tax for several years. CWB remains subject to provincial capital tax in Saskatchewan. Capital taxes for 2011 totaled \$1.4 million, representing a 10% decline from 2010. Provincial capital taxes in 2011 include final payments to provinces where CWB's capital tax requirements have been eliminated.

Outlook

CWB's expected income tax rate (teb) for fiscal 2012 is approximately 27.0%, or 23.5% before the teb adjustment. Total provincial capital taxes will decline significantly as only CWB's Saskatchewan operations will be subject to capital tax. Capital

taxes in Saskatchewan will increase with the ongoing retention of earnings and any potential impact from the issuance of new capital, if material.

Comprehensive Income

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

Comprehensive income totaled \$159.1 million for the year, compared to \$167.4 million last year. Lower OCI in 2011 reflects \$11.7 million

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

TABLE 6 – COMPREHENSIVE INCOME
(\$ thousands)

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

Cash and Securities

Cash, securities and securities purchased under resale agreements totaled \$2,238 million at October 31, 2011, compared to \$1,876 million one year ago. Total net unrealized gains before tax recorded on the balance sheet at October 31, 2011 were \$5.4 million, compared to \$32.1 million last year. The significant change in net unrealized gains mainly reflects fluctuations in the market value of common and preferred equities, as well as net gains realized through the income statement. The portfolio of preferred shares included net unrealized gains of \$6.9 million at year end, down from \$18.3 million a year earlier. The common equities portfolio showed net unrealized losses of \$3.0 million, compared to net unrealized gains of \$7.7 million at October 31, 2010. The cash and securities

portfolio is mainly comprised of high quality debt instruments and a comparatively smaller component of preferred and common equities. Securities are not held for trading purposes and, where applicable, are typically held until maturity. Fluctuations in the value of securities, other than common equities, are generally attributed to changes in interest rates, movements in market credit spreads and shifts in the interest rate curve. Volatility in financial markets directly affects the value of common and preferred equities and, while the combined value of these investments is relatively small in relation to total liquid assets, it does increase the potential for comparatively larger fluctuations in OCI. The Bank's common equity portfolio is mainly comprised of Canadian large market

capitalization entities and is managed under a mandate to achieve dividend income with reasonable long-term capital appreciation. The IFRS transition in 2012 will introduce additional potential for volatility in reported earnings as it relates to accounting for unrealized losses on available-for-sale securities.

In the past three years, the Bank capitalized on opportunities to realize gains on sale of securities resulting from a combination of investment strategies and market conditions. Realized net gains on sale of securities in 2011 were \$10.3 million, a \$2.1 million decline compared to the prior year, but still well above the Bank's longer term historical average. Based on the current composition of the securities portfolio, interest rate curves and elevated volatility in

financial markets due to global uncertainties, management expects the level of gains on sale of securities in 2012 will be significantly lower than has been achieved in each of the past three years.

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

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

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

Loans

Highlights of 2011

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

TABLE 7 – OUTSTANDING LOANS BY PORTFOLIO
(\$ millions)

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

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

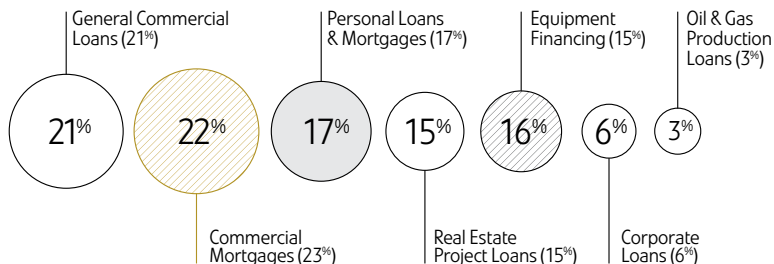
Edmonton. These loans include participation in select syndications structured and led primarily by the major Canadian banks, but exclude participation in various other syndicated facilities sourced through relationships developed at CWB branches. Syndicated facilities that are sourced in branches are primarily real estate project loans and oil and gas production loans and are included under the related classifications in Table 7.

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

While the mix of the portfolio remained relatively unchanged during the year (see Figure 2), the distribution did shift slightly from commercial mortgages to equipment financing. Based on the location of security, Alberta and BC represented 46% and 33% of total loans at year end, respectively. The geographic distribution

of loans (see Figure 3 of this MD&A) shifted slightly from Alberta to “other” provinces reflecting the broader geographic footprint of National Leasing’s portfolio, increased participation in syndicated facilities led by other Canadian banks and growth of Optimum Mortgage’s business in Ontario.

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



Outlook for Loans

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

Canada’s domestic economy is expected to grow modestly in 2012 despite impacts from the ongoing European debt crisis and U.S. economic uncertainties. The Bank’s key markets in Western Canada are expected to perform well relative to the rest of Canada, largely owing to strong capital investment related to a favourable long-term outlook for commodities. In Alberta, the forecast for 2012 is supported by significant long-term capital investment in the oilsands, as well as a relatively positive outlook for activity related to conventional oil production. Activity related to the resource sector in BC has also remained solid due to current favourable energy and commodity prices. Construction activity (both residential and non-residential) largely attributed to ongoing in-migration, as well as exports to Pacific Rim

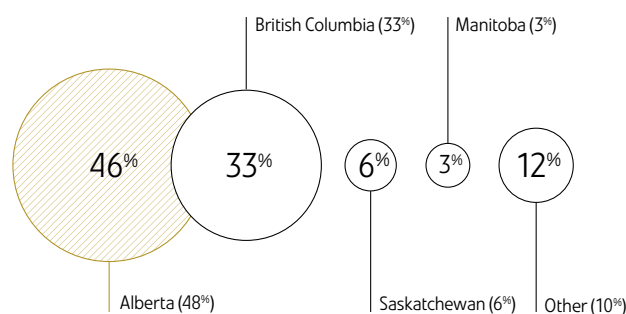
countries, including China, are expected to remain key economic drivers for BC in 2012. Growth in Saskatchewan will be supported by the region’s growing energy sector, potash production and the potential for improvement in agriculture output. Manitoba’s economy is diverse with positive economic growth contributions mainly expected from agriculture production, mining, and energy. Prices for natural gas have been very low for several years and no meaningful change is expected in the foreseeable future. This will likely continue to adversely affect companies that rely on activities related to natural gas exploration and production, drilling activity and supporting services. Relatively stable employment, real income growth, the expected very low interest rate environment, and continued migration of individuals and families toward Western Canada will help maintain an adequate balance between supply and demand for residential real estate.

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

Diversification of Portfolio

Total advances based on location of security.

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



(1) Includes letters of credit.

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

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

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

(1) Table is based on the North American Industry Classification System (NAICS) codes.

(2) Residential mortgages in this table include only single-family properties.

The loan portfolio is focused on areas of demonstrated lending expertise, while concentrations measured by geographic area and industry sector are managed within specified tolerance levels. The portfolio is well diversified with a mix of commercial and personal business. Heavy equipment financing is primarily sourced within branches or through stand-alone equipment financing centres, while small- and mid-sized leases are offered

across Canada through National Leasing. Oil and gas production lending is conducted by specialists located in Calgary. Real estate specialists are established in the major centres of Edmonton, Calgary and Vancouver. Optimum Mortgage maintains centralized administration based in Edmonton and sources residential mortgages throughout Western Canada and select regions of Ontario through an established network of mortgage brokers.

Outlook for Diversification of Portfolio

Solid loan growth is expected to continue across all lending sectors and portfolio diversification by geography will likely remain relatively consistent with October 31, 2011. The proportion of total loans in general commercial mortgages

could reduce slightly in 2012, reflecting increased competition and comparatively faster growth in other areas such as oil and gas production loans, general commercial loans and equipment financing.

Credit Quality

Highlights of 2011

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

Impaired Loans

As shown in Table 9, gross impaired loans totaled \$97.0 million and represented 0.79% of outstanding loans, compared to \$143.2 million, or 1.35% of total loans last year. The ten largest accounts classified as impaired, measured by dollars outstanding, represented approximately 48% of total gross impaired loans at quarter end, down from 56% a year earlier. New formations of impaired loans totaled \$94.6 million, compared to \$165.8 million last year and \$158.1 million in 2009. While the trends are positive,

management expects the dollar level of gross impaired loans will fluctuate from the current level until global uncertainties subside and overall economic conditions strengthen further. The dollar level of gross impaired loans fluctuates as loans become impaired and are subsequently resolved and does not directly reflect the dollar value of expected write-offs given the tangible security held against the Bank's lending positions.

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

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

(1) Gross impaired loans includes foreclosed assets held for sale with a carrying value of \$3,241 (2010 – \$867).

(2) Total number of accounts excludes National Leasing accounts.

(3) Total loans do not include an allocation for credit losses or deferred revenue and premiums.

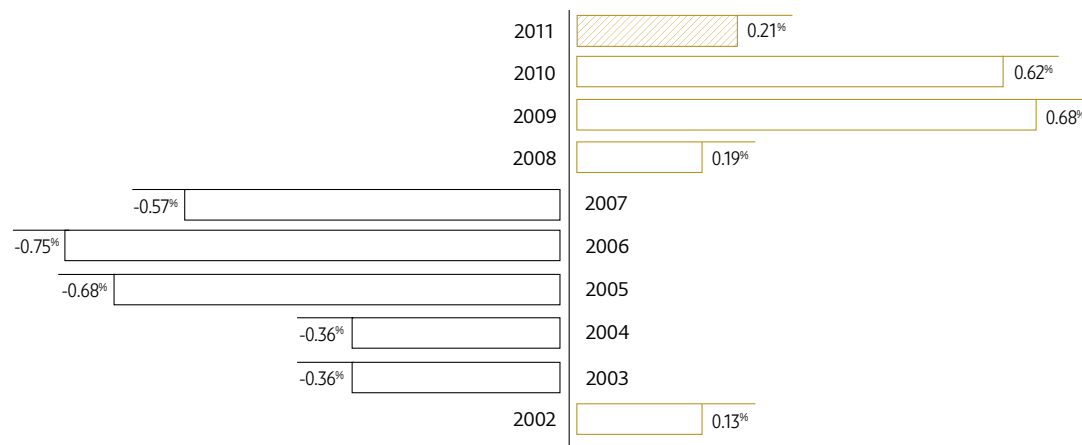
(4) bp – basis point change.

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

2011 write-offs reflects five quarters of finalized losses. This is a change in timing only and is expected to improve both data quality and efficiency.

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

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



The overall loan portfolio is reviewed regularly with credit decisions undertaken on a case-by-case basis to provide early identification of possible adverse trends. Loans that have become

impaired are monitored closely by a specialized team with regular quarterly, or more frequent, reviews of each loan and its realization plan.

Outlook for Impaired Loans

Overall credit quality is expected to remain satisfactory in view of management's current economic outlook and actual losses should be within CWB's range of acceptable levels. The level of gross impaired loans has returned to more normal

levels, but is expected to continue to fluctuate from this point. Lending exposures will continue to be closely monitored and management remains confident in the strength, diversity and underwriting structure of the overall loan portfolio.

Allowance for Credit Losses

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

TABLE 10 – ALLOWANCE FOR CREDIT LOSSES
(\$ thousands)

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

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

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

groups of loans with a common risk rating is utilized to test the adequacy of the general allowance. The dollar level of the general allowance increased in four of the past five years as the provision for credit losses exceeded the amount allocated to specific credits. The exception was 2010 when challenging economic conditions contributed to a decrease in the general allowance.

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

Outlook for Allowance for Credit Losses

Specific allowances will continue to be determined on an account-by-account basis and reviewed at least quarterly. The general allowance is expected to fluctuate to account for portfolio growth, lower levels of specific allowances in strong economic times and higher levels of specific allowances in weaker economic times. Based on management's current outlook for credit performance, actual historical loss experience and results from stress testing of the portfolio, the existing level of

the general allowance is deemed sufficient to mitigate losses inherent in the portfolio that are not presently identifiable.

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

Provision for Credit Losses

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

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

TABLE 11 – PROVISION FOR CREDIT LOSSES
(\$ thousands)

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

(1) As a percentage of average loans.

(2) Portion of the year's provision for credit losses allocated to specific provisions as a percentage of average loans.

(3) Allowance for credit losses as a percentage of gross impaired loans.

Outlook for the Provision for Credit Losses

The provision for credit losses in 2012 is expected to be 20 to 25 basis points of average loans, consistent with the target range established for 2011. The expected provision reflects the Bank's current assessment based on assumptions about the economic outlook, expected loan growth, the overall quality of the portfolio

and its underlying security, and the adequacy of the general allowance for credit losses. This assessment is ongoing and the Bank's updated expectations are communicated no less than quarterly.

Deposits

Highlights of 2011

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

TABLE 12 – DEPOSITS
(\$ thousands)

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

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

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

Total deposits at year end of \$12,500 million increased 16% (\$1,687 million) over 2010 reflecting, 14% (\$1,020 million) growth in personal deposits, 12% (\$411 million) growth in business and government deposits, and a \$250 million issuance of senior deposit notes representing the Bank's first issue of floating rate senior debt in the capital markets. Consistent with the Bank's commercial

focus, a considerable portion of branch deposits are generated from corporate clients that tend to hold larger balances compared to personal retail clients (See the Liquidity Management section of this MD&A). Subsequent to year end, \$150 million of senior deposit notes were issued to a broad group of investors.

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

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

Deposits are primarily generated from the branch network (including CWT and Valiant) and a deposit broker network. Increasing the level of retail deposits is an ongoing focus as success in this area provides the most reliable and stable source of funding. CWT raises deposits through notice accounts (comprised primarily of cash balances held in self-directed registered accounts), corporate trust deposits and through the Bank's branch network, in addition to deposits generated through the deposit broker network. Valiant's status as a federal deposit-taking institution adds a third Canada Deposit Insurance Corporation (CDIC) licence and provides an additional channel to raise insured deposits. Valiant deposits are currently offered only in CWB branches. Management is optimistic

about the potential for Canadian Direct Financial[®] to provide an enhanced source of funding in the future. Canadian Direct Financial[®] currently offers deposits and registered saving products via the Internet to customers in all provinces and territories except Quebec. Insured deposits raised through deposit brokers remain a valued funding source. Although these funds are subject to commissions, this cost is countered by a reduced dependence on a more extensive branch network and the benefit of generating insured fixed term retail deposits over a wide geographic base. Corporate wholesale deposits represent larger deposits raised through CWB's corporate office rather than the branch network.

Growth in total branch-raised deposits, which includes deposits raised through trust operations, was 9% in 2011. The demand and notice component within branch-raised deposits increased 13% and comprised 32% of total deposits at year end, down from 33% the previous year. Branch-raised deposits comprised 58% of total deposits, compared to 61% in the previous year, with the decrease reflecting growth in fixed rate term deposits raised through the

deposit broker network and \$250 million of senior deposit notes raised in the debt capital markets. The level of growth in demand and notice deposits reflects ongoing execution of strategies to further enhance and diversify the Bank's core funding sources as well as CWT's success in generating deposits through its fiduciary trust business.

Outlook for Deposits

A strategic focus on increasing branch-raised deposits (including CWT and Valiant) will continue in 2012, with emphasis on the demand and notice component, which is often lower cost and provides associated transactional fee income. CWB's expanded market presence, which includes the opening of three new full-service branches since September 2010, also supports objectives to generate branch-raised deposits. The Bank's deposit broker network remains a valued source for raising insured fixed term retail deposits and has proven to be an extremely effective and efficient way to access funding and liquidity over a wide

geographic base. Selectively utilizing the debt capital markets is also part of management's strategy to further diversify the Bank's funding base over time. Provided costs remain satisfactory, National Leasing is planning to utilize securitization channels for a portion of its funding requirements in 2012 to broaden overall funding sources. Management continues to evaluate the benefits of using loan securitization and/or whole loan sales as additional sources of funding for certain other types of portfolios, most notably residential mortgages.

Other Assets and Other Liabilities

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

claims. Other assets at October 31, 2011 included goodwill and intangible assets of \$38 million and \$37 million, respectively.

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

Liquidity Management

Highlights of 2011

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

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

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

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

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

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

TABLE 14 – LIQUID ASSETS
(\$ thousands)

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

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

Compared to October 31, 2010, the Bank shifted the composition of total liquid assets in response to the current interest rate environment and elevated market risks attributed to the European debt crisis. This strategy resulted in significant increases in the balance of total cash resources and government securities with

maturities greater than one year. Highlights of the composition of liquid assets at October 31, 2011 are as follows:

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

When applicable, securities purchased under resale agreements are included in liquid assets. These represent short-term loans to securities dealers that require subsequent repurchase of the securities given as collateral, typically within a few days. CWB may also enter into reverse resale agreements, which are included in other liabilities. These are short-term advances from securities dealers, typically no more than a few days in duration, and require the bank to repurchase the securities. Collateral securities are comprised of government or other high quality liquid securities. Short-term uncommitted and committed facilities have been arranged with a number of financial institutions. The government insured/guaranteed mortgage portfolios held by the Bank also represent a potential source of liquidity; this was confirmed

in the fourth quarter of 2011 with the sale of a relatively small portfolio of residential mortgages by Optimum Mortgage. Total liquid assets contained no securities purchased under resale agreements at October 31, 2011. This compares to October 31, 2010 when securities purchased under resale agreements totaled \$178 million. These agreements are primarily used for cash management purposes.

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

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

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

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

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

TABLE 16 – TOTAL DEPOSIT MATURITIES
(\$ millions)

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

A breakdown of deposits by source is provided in Table 13. Target limits by source have been established as part of the overall liquidity policy and are monitored to ensure an acceptable level of funding diversification is maintained. The Bank continues to aggressively pursue deposits through the branch network as its core funding source. At the same time, the total dollar value of

broker-generated deposits is expected to increase to support asset growth or when higher levels of liquidity are required. Insured deposits raised through deposit brokers remain a highly effective and valued funding source. At October 31, 2011, CWT's notice account balances totaled \$1,124 million (2010 – \$993 million), reflecting ongoing business and client growth.

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

TABLE 17 – SUBORDINATED DEBENTURES OUTSTANDING
(\$ thousands)

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

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

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

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

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

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

Outlook for Liquidity Management

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

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

Contractual Obligations

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

TABLE 18 – CONTRACTUAL OBLIGATIONS
(\$ thousands)

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

Capital Management

Highlights of 2011

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

Subsequent Highlights

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

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

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

Basel II Capital Adequacy Accord

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

Current regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. CWB's Tier 1 capital is primarily comprised of common shareholders'

equity, preferred shares and innovative capital, while Tier 2 capital primarily includes subordinated debentures and the general allowance for credit losses (to a prescribed regulatory maximum). Refer to Table 19 for additional details on CWB's capital structure and regulatory capital ratios.

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

TABLE 19 – CAPITAL STRUCTURE AND BASEL II REGULATORY RATIOS AT YEAR END
(\$ thousands)

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

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

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

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

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

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

TABLE 20 – RISK-WEIGHTED ASSETS
(\$ thousands)

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

TABLE 21 – RISK-WEIGHTED CATEGORY
(\$ thousands)

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

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

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

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

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

Basel III Capital Adequacy Accord

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

Significant capital changes most relevant to CWB include:

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

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

Outlook for Capital Management

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

Additional strategies are under development to further optimize the Bank's existing capital structure and the redemption of CWB's warrants in 2011 reflects this focus. Implementation of the new loan origination system in all branches, completed in the third quarter of 2011, will enhance statistical tracking and portfolio

management capabilities, and was also a preliminary step in the plan for the Bank's possible transition to an Advanced Internal Ratings Based (AIRB) methodology for calculating risk-weighted assets. Although the potential implementation of an AIRB methodology is a few years away and requires the approval of OSFI, the eventual transition is expected to meaningfully enhance the data available to manage credit risk associated with the Bank's growing loan portfolio. The transition would also likely reduce capital requirements for certain types of risk-weighted assets and provide additional capital flexibility for management to pursue accretive growth opportunities in the future. Management recently engaged a third-party consultant to help identify existing gaps and develop a road map for the Bank's potential compliance with AIRB requirements.

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

Financial Instruments and Other Instruments

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

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

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

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

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

Derivative Financial Instruments

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

TABLE 22 – DERIVATIVE FINANCIAL INSTRUMENTS
(\$ thousands)

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

(1) Interest rate contracts are used as economic hedging devices to manage interest rate risk. The outstanding contracts mature between November 2012 and April 2014.

(2) U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. Forward foreign exchange contracts outstanding mature between November 2011 and April 2012.

(3) The equity contract was used to offset the return paid to depositors on certain deposit products where the return was linked to a stock index.

The active use of interest rate contracts remains an integral component in managing the Bank's short-term gap position; however, the volume of outstanding contracts (measured by the notional amount) continues to decrease. During 2010, CWB allowed outstanding interest rate swaps designated as cash flow hedges for interest rate risk to mature without replacement. This strategy positions CWB to benefit further in a period of increasing interest rates while maintaining interest rate risk within prudent policy guidelines. Derivative financial instruments are entered into only

for the Bank's own account and CWB does not act as an intermediary in this market. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review, including an assessment of the credit worthiness of the counterparty. Policies regarding the use of derivative financial instruments are approved, reviewed and monitored on a regular basis by ALCO and reviewed and approved by the Board of Directors at least annually.

Acquisitions

On February 1, 2010, the Bank acquired 100% of the outstanding common shares of National Leasing in exchange for \$53 million in cash, 2,065,088 common shares of the Bank (equating to an equivalent dollar value of \$43 million) and contingent consideration for a total cost of \$127 million. Both the Bank and the vendors have the option to trigger payment of the contingent consideration no earlier than November 1, 2012. The final amount of the contingent consideration is not yet determinable and, under Canadian GAAP, any change would be recognized as an adjustment to goodwill in the period in which the contingency is resolved. Under IFRS, contingent consideration related to a business combination is accounted for as a financial liability and fair valued at the time of the acquisition. An adjustment of the liability to current fair

value is recorded through net income every period thereafter until settlement (refer to Future Changes in Accounting Policies in this MD&A for additional information on accounting for business combinations and contingent consideration under IFRS).

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

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

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

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

Intangible assets include customer relationships, computer software, non-competition agreements, lease administration contracts and trademarks. The trademarks were assigned an estimated value of \$1.6 million and are not subject to amortization. National Leasing's financial results, the goodwill and other

intangible assets related to the acquisition are included in the banking and trust segment. The total amount of goodwill and intangible assets are not deductible for income tax purposes. The long-term debt was repaid immediately after the acquisition.

Off-Balance Sheet Arrangements

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

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

Operating Segment Review

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

Banking and Trust

Highlights of 2011

- Realized record net income of \$166.0 million, an increase of 10%.
- Achieved record total revenues (teb) of \$462.5 million, an increase of 14%.
- Surpassed \$12 billion of total loans based on very strong loan growth of 16%.
- Surpassed \$14 billion of total assets and \$9 billion of total assets under administration.
- Realized improved credit quality as evidenced by a \$46.2 million (32%) reduction in total gross impaired loans.
- Maintained a provision for credit losses of 20 basis points of average loans while realizing a \$0.8 million increase in the dollar level of the general allowance for credit losses.
- Increased branch and trust generated deposits 9%, with the demand and notice component up 13%.
- Reported an efficiency ratio (teb) of 45.4%, a slight deterioration from 44.4%.
- Opened a new full-service business and retail banking centre in Richmond, BC, bringing CWB's total number of branches to 40.
- Expanded CWB's existing branch in Medicine Hat, Alberta to offer full-service business and retail banking.
- Implemented the Bank's new loan origination system in all CWB branches.
- Obtained a credit rating on deposits and senior debt from DBRS Limited of A (low) with a stable outlook; the rating issued on subordinated debentures was BBB (high), also with a stable outlook.
- Completed a \$250 million offering of senior deposit notes representing the Bank's first issue of floating rate senior debt in the capital markets.
- CWB recognized as one of the 50 Best Employers in Canada for a sixth consecutive year.

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

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

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

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

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

(2) bp – basis points.

(3) Loans and assets are disclosed on an average daily balance basis as this measure is most relevant to a financial institution and is the measure reviewed by management.

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

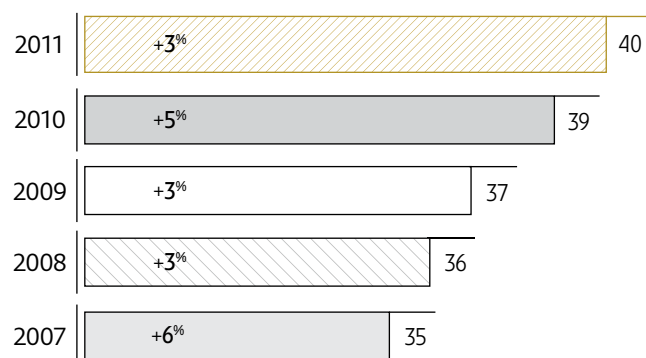
Overall credit quality remained satisfactory and showed continuous improvement throughout the year. Gross impaired loans totaled \$97.0 million at year end, compared to \$143.2 million a year earlier. The annual provision for credit losses exceeded net new specific provisions and led to a \$0.8 million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

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

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

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

FIGURE 5 – NUMBER OF BANK BRANCHES



Outlook for Banking and Trust

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

Gains on the sale of securities are expected to be significantly lower in fiscal 2012, reflecting the current composition of the securities portfolio, interest rate curves and elevated volatility in financial markets due to global uncertainties. The IFRS transition in 2012 will introduce additional potential for volatility in other income as it relates to accounting for unrealized losses in the available-for-sale securities portfolio. The acquisition-related

contingent consideration for National Leasing will add further volatility as the amount will be fair valued each period going forward under IFRS.

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

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

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

Insurance

Highlights of 2011

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

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

Canadian Direct's mission is to provide customers with attractively priced products and a high level of customer service – "better insurance for less money." The core strategy includes the use of sophisticated underwriting techniques to offer more competitively

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

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

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

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

(2) bp – basis points.

(3) Average total assets are disclosed on an average daily balance basis as this measure is more relevant to a financial institution and is the measure reviewed by management.

Canadian Direct reported net income of \$12.1 million, down 2% (\$0.3 million) from 2010, as the positive revenue impact of 6% growth in net earned premiums was offset by higher net claims expense. Growth in net earned premiums was attributed to 3% growth in policies outstanding and a higher average premium per policy in the home product lines of business. Net claims expense in Alberta increased due to higher frequency and severity in auto claims and \$1.8 million of losses in the home product line related to a catastrophic wildfire in Slave Lake. Net claims expense was also higher for Canadian Direct's share of the Alberta auto risk sharing pools (the Pools), as 2010 results included a \$1.5 million reduction to unpaid claims reserves

specifically related to a December 2009 decision by the Supreme Court that denied leave to appeal the cap on minor injuries suffered in an automobile accident. Following the Supreme Court decision, the Pools' unpaid claims reserves were reduced. Excluding the Pools' impact in both years, 2011 net income was \$11.5 million, up 14% (\$1.4 million) over 2010. Net claims experience in BC was favourable compared to the prior year.

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

Outlook for Insurance Operations

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

help cover costs of the increasing frequency of storms and water-related losses.

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

Summary of Quarterly Results and Fourth Quarter

Quarterly Results

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

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

The acquisition of National Leasing was effective February 1, 2010 and the results of its operations and financial position are consolidated as part of the Bank's overall financial performance

beginning with the second quarter of that year. The acquisition had a positive impact on all categories included in Table 26 except for the provision for credit losses. The impact of the higher loan loss experience inherent in National Leasing's portfolio compared to the Bank's core lending business is more than offset by the relatively higher yield earned on its portfolio.

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

Detailed management's discussion and analysis along with unaudited interim consolidated financial statements for each

quarter, except for the fourth quarter of fiscal 2011, are available for review on SEDAR at www.sedar.com and on the Bank's website at www.cwbankgroup.com. Copies of the quarterly reports to

shareholders can also be obtained, free of charge, by contacting the Bank's Investor Relations department via email at InvestorRelations@cwbank.com.

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

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

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

Fourth Quarter of 2011

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

Compared to the third quarter, net income increased 1% (\$0.3 million) as the positive revenue contribution from 2% quarterly loan growth was partially offset by the combined impact of an 11 basis point reduction in net interest margin (teb), 2% (\$0.5 million) lower other income and slightly higher non-interest expenses. Diluted earnings per common share increased 4% (\$0.02) over

the prior quarter while diluted cash earnings per share was up 2% (\$0.01). Higher percentage growth in diluted earnings per common share compared to growth in net income reflects the positive impact from the redemption of warrants completed on August 31, 2011.

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

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

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

Overall credit quality remained satisfactory and continued to show improvement. Gross impaired loans totaled \$97.0 million at quarter end, compared to \$107.9 million in the third quarter and

\$143.2 million a year earlier. This represented the sixth consecutive quarter of declining gross impaired loans. The quarterly provision for credit losses exceeded net new specific provisions and led to a \$2.8 million increase in the dollar level of the general allowance for credit losses compared to the third quarter.

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

Accounting Policies and Estimates

Critical Accounting Estimates

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

Allowance for Credit Losses

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

Provision for Unpaid Claims and Adjustment Expenses

A provision for unpaid claims is maintained, with the provision representing the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. A provision for adjustment expenses is also maintained, which represents the estimated expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions. The process of determining the provision for unpaid

claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. Changes in circumstances may cause future assessments of unpaid claims and adjustment expenses to be significantly different than current assessments and may require an increase or decrease in the provision. In estimating the provision for unpaid claims and adjustment expenses, a number of uncertainties are taken into account and assumptions made, which makes it difficult to estimate a range for the provision. Further, as noted above, the provision includes a margin for adverse deviations in assumptions. At October 31, 2011, the provision for unpaid claims and adjustment expenses totaled \$76.9 million (2010 – \$80.1 million). Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Note 22 to the consolidated financial statements. This critical estimate relates to CWB's insurance segment.

Financial Instruments Measured at Fair Value

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

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

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

TABLE 27 – VALUATION OF FINANCIAL INSTRUMENTS
(\$ thousands)

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

Financial liabilities

Derivative related	\$ 436	\$ –	\$ 436
October 31, 2011	\$ 436	\$ –	\$ 436
October 31, 2010	\$ 992	\$ –	\$ 992

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

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

Changes in Accounting Policies

There were no changes in accounting policies during 2011.

Future Changes in Accounting Policies

International Financial Reporting Standards

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

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

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

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

IFRS Transition Plan

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

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

Progress Towards Transition Plan

The final implementation phase of the transition plan is now substantially complete. The following table is a summary of the

Bank's progress towards completion of selected key activities of the IFRS transition plan:

	Activity	Milestones	Status
Financial Statement - Preparation	<p>Identify applicable differences in Canadian GAAP/IFRS accounting policies and practices and design and implement solutions.</p> <p>Select IFRS 1 choices.</p> <p>Develop financial statement and related note disclosure format.</p> <p>Quantify effects of transition.</p>	<p>Senior management and Steering Committee sign-off for all key IFRS accounting policy choices.</p> <p>Development and review of draft financial statement format.</p>	<p>The Diagnostic phase and Design & Planning phases are complete, which involved a detailed impact assessment of the differences between Canadian GAAP and IFRS.</p> <p>Completed the analysis of accounting policy choices.</p> <p>The development of the annual and quarterly IFRS financial statement and note disclosure formats is substantially complete.</p>
Training	<p>Define and introduce appropriate level of IFRS expertise for each of the following:</p> <ul style="list-style-type: none"> • Finance group • CWB lenders • Audit Committee & Board of Directors 	<p>Timely training provided to align with work under transition – all training completed by the third quarter of 2011.</p> <p>Communication of effects of transition in time for 2012 financial reporting process.</p>	<p>Participated in industry IFRS specialist groups.</p> <p>Finance group, Audit Committee and Board of Directors training occurred from 2007 to 2011. Regular status reports continue. Finance resources are available to all lenders.</p> <p>Engaged a third-party subject matter expert to assist in certain IFRS topics and training.</p>
Information Systems	<p>Identify and address IFRS differences that require changes to financial systems.</p> <p>Evaluate and select methods to address need for dual record-keeping during 2011 (i.e. IFRS and Canadian GAAP) for comparatives.</p>	<p>Confirmation that business processes and systems are IFRS compliant throughout the project.</p> <p>Confirmation that systems can address 2011 dual record-keeping processing requirements.</p>	<p>Diagnostic analysis regarding current systems completed; no significant business processes or system changes required.</p> <p>Dual record-keeping process confirmed during first quarter of 2009.</p>
Control Environment	<p>Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2011.</p> <p>Design and implement internal controls with respect to one-time transition adjustments and related communications.</p>	<p>Assessment of all key control and design effectiveness implications throughout 2010.</p> <p>Documentation of changes during the third and fourth quarter of 2011.</p>	<p>Completed analysis of control requirements and there was no significant impact on the Bank's internal controls over financial reporting or disclosure controls and procedures.</p>

Impact on Financial Reporting and Accounting Policies

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

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

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

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

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

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

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

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

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

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

- 5) IFRS 1 – IFRS 1: First Time Adoption of IFRS** provides a framework for the transition to IFRS. Generally, retroactive application is applied to the opening balance sheet at November 1, 2010 as though the Bank had always applied IFRS. However, IFRS 1 permits both mandatory exceptions to retroactive application and optional exemptions from other IFRS standards. The Bank has evaluated all optional exemptions under IFRS 1, with the most significant potential exemption relating to business combinations. The Bank expects to elect not to apply IFRS 3 – Business Combinations retrospectively to acquisitions that occurred before February 1, 2010 (further described above).
- 6) Loan loss accounting** – Although both existing Canadian GAAP and IFRS calculate loan losses using the incurred loss model, IFRS is more specific as to what qualifies as an "incurred event." Under IFRS, incurred losses require objective evidence of impairment, must have a reliably measurable effect on the present value of estimated cash flows and be supported by currently observable data. The Bank has developed an IFRS compliant methodology, and management currently estimates no difference between the specific or general (collective under IFRS) allowances for credit losses between Canadian GAAP and IFRS.

TABLE 28 - RECONCILIATION OF CONDENSED CONSOLIDATED BALANCE SHEET

As at November 1, 2010 (Unaudited)

(\$ millions)

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

TABLE 29 - RECONCILIATION OF NET INCOME

For the year ended October 31, 2011 (Unaudited)

(\$ millions)

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

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

Impact on Capital Adequacy Requirements

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

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

Risk Management

The shaded areas of this MD&A represent a discussion of risk management policies and procedures relating to credit, market and liquidity risks as required under the CICA Handbook section 3862, Financial Instruments – Disclosures, which permits these

specific disclosures to be included in the MD&A. Therefore, the shaded areas presented on pages 76 to 80 of this MD&A form an integral part of the audited consolidated financial statements for the year ended October 31, 2011.

Overview

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

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

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

Risk Management Principles

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

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

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

Risk Appetite

Risk appetite is simply the formalization of basic business principles such as making decisions based on risk-reward tradeoffs, understanding potential outcomes of different decisions, and deciding whether the organization is comfortable with the risk associated with different decisions. It provides a context to discuss

risks and reach a shared understanding of appropriate risk thresholds. Setting these risk tolerances is dynamic and requires flexible processes as well as continuous guidance from both management and the Board.

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

Environmental Risk

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

Portfolio Quality

The Bank's strategy is to maintain a quality, secured portfolio. Efforts are directed toward achieving a diversified loan portfolio by engaging experienced personnel who provide a hands-on

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

Liquidity Risk

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

Liquidity policies include:

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

Key features of liquidity management are:

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

Credit ratings

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

Credit ratings do not comment on market price or suitability of any financial instrument for a particular investor and are not recommendations to purchase, sell or hold securities. Ratings are subject to revision or withdrawal at any time by the rating organization. Credit ratings are largely determined by the quality of the Bank's earnings, the adequacy of capital and the effectiveness of risk management programs. There can be no assurance that CWB's credit ratings and rating outlooks will not be lowered or that rating agencies will not issue adverse

commentaries about CWB, potentially resulting in adverse consequences for the Bank's funding capacity or access to capital markets. A lowering of CWB's credit ratings may also affect the Bank's ability, and the cost, to enter into normal course derivative or hedging transactions. Management believes the ratings will increase the breadth of clients and investors who can participate in CWB's deposit and debt offerings while also lowering the Bank's overall cost of capital.

Market Risk

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

Interest Rate Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract desired assets and liabilities, as well as through the use of interest rate swaps or other appropriate hedging techniques (see discussion under Derivative Financial Instruments on page 61). Assets and liabilities having a term to maturity in excess of five years are subject to specific review

and control, and, with the exception of subordinated debentures and the deposit from CWB Capital Trust, were not material. The subordinated debentures, which are typically redeemed (subject

to OSFI approval) after five years, and the deposit from CWB Capital Trust are discussed in Notes 18 and 15 to the consolidated financial statements.

Foreign Exchange Risk

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

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

Insurance Risk

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

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

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

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

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

Operational Risk

Operational risk is inherent in all business activities, including banking, trust, wealth management and insurance operations and is embedded in the processes that support other risks, like credit, liquidity and market risk. It is the potential for loss as a result of external events, human error or inadequacy, or failure of processes, procedures or controls. Its impact can be financial loss, loss of reputation, loss of competitive position or

regulatory penalties. CWB is exposed to operational risk from internal business activities, external threats and activities that are outsourced. While operational risk cannot be completely eliminated, proactive operational management is a key strategy to mitigate this risk. The financial measure of operational risk is actual losses incurred. No material losses occurred in 2011.

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

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

Management

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

Framework and supporting policies

- A mature company-wide Operational Risk Framework that uses a common language of risk coupled with programs and methodologies for identification, measurement, control, reporting and management of operational risk;
- Implementation of policies and procedural controls appropriate to address identified risks and which include segregation of duties and built-in checks and balances;
- An annual anonymous employee survey on the internal control environment;
- Adoption of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) for Smaller Business framework for internal control assessment;
- Ongoing enhancements to CWB's fraud prevention processes and policies;
- Regular meetings of ALCO, Canadian Direct's Operational Risk Committee and the risk committees of CWT and Valiant;

- Regular meetings of the Bank's Operations Committee;
- Established "whistleblower" processes and employee codes of conduct;
- Certification of National Leasing under ISO 9001 standards for quality management and quality management systems;
- Operational risk assessments conducted by business managers closest to the identified risks that are annually reviewed and reported to ALCO and the Board;
- Regular internal audits for compliance and the effectiveness of procedural controls by a strong, independent internal audit group;
- Centralized reporting of operating losses to senior management and the Board;
- Maintenance of a company-wide outsourcing risk management program;
- Continual assessment and benchmarking of the amount and type of business insurance to ensure coverage is appropriate;
- Use of technology via automated systems with built-in controls;
- Effective change management processes supported by a designated committee comprised of both executive and senior management;
- Continual review and upgrading of systems and procedures; and,
- Continual updating and testing of procedures and contingency plans for disaster recovery and business continuity (including pandemic planning).

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

General Business and Economic Conditions

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

Level of Competition

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

Regulatory and Legal Risk

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

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

Accuracy and Completeness of Information on Customers and Counterparties

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

Ability to Execute Growth Initiatives

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

Information Systems and Technology

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

Reputation Risk

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

Other Factors

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

Updated Share Information

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

On December 5, 2011, the Board of Directors declared a quarterly cash dividend of \$0.15 per common share payable on January 4, 2012

to shareholders of record on December 22, 2011. The Board of Directors also declared a cash dividend of \$0.453125 per Series 3 Preferred Share payable on January 31, 2012 to shareholders of record on January 20, 2012.

Controls and Procedures

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

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

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

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

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