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Sumit Malhotra
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PRESENTATION

Operator

Good afternoon. My name is Audrey and I will be your conference operator today. At this time I would like to welcome to the Canadian Western Bank Third Quarter 2013 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star and then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Tracey Ball, Executive Vice President and Chief Financial Officer, you may begin your conference.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thank you, Audrey, and good afternoon and welcome, everyone, to our 2013 third quarter results conference call for Canadian Western Bank.

Before we begin please note that the conference call graphs, quarterly results news release, and supplemental financial information are available on our website at CWB.com in the Investor Relations section. Also note our forward-looking statements advisory is on slide number 11.

The agenda for today's call is on slide two. Joining me today is our President and Chief Executive Officer, Chris Fowler, and also in attendance are Executive Vice-Presidents Randy Garvey, Brian Young, and Greg Sprung. Recognizing the number of other banks reporting today, we will keep our formal commentary brief and leave as much time as necessary for Q&A at the end of the call. I will begin by providing a summary of our third quarter and year-to-date financial highlights and then I'll turn things over to Chris for an overview of our outlook on strategy.

Moving to slide three, CWB reported solid third quarter performance, highlighted by strong loan growth of 3 percent in the quarter, 10 percent year to date, and 12 percent in the past year, as total loans surpassed the $15 billion milestone. Other quarterly highlights included a meaningful sequential improvement in net interest margin and finalization of our strategic investment in McLean & Partners. The results also included the material impact on net insurance revenues from Alberta's catastrophic floods in June.

Loan growth reflected good performance across almost all lending sectors with the strongest year-to-date and year-over-year increases coming from our equipment financing and leasing portfolio. National leasing realized record leasing volumes in the quarter while the overall volume in the bank's heavy equipment portfolio also showed good performance. The 9 basis point sequential improvement in net interest margin primarily reflected the implementation of our previously-disclosed strategy to prudently reduce average liquidity in line with our ALCO policies and a generally positive economic outlook. Based on the standardized approach for calculating risk-weighted assets our all-in Basel ratios were 7.9 percent common equity Tier 1, 9.6 percent Tier 1, and 13.9

percent total capital, all of which are above respective regulatory minimums and within our target thresholds.

Moving to the next slide, net income available to common shareholders of $47.5 million was down 1 percent compared to the record results in the same quarter last year while diluted earnings per common share declined 2 percent to $0.60. Adjusted cash earnings per share was down 3 percent to $0.61. The impact on earnings per share owing to net claims expensed from the Alberta flooding was approximately $0.05. Quarterly total revenues of $145.7 million represented a 5 percent increase over the same period last year as the positive influence of strong loan growth offset the impact of an 11 basis point reduction in net interest margin to 2.74 percent.

Third quarter other income of $23 million was relatively consistent with a year ago, although to composition varied considerably. Net insurance revenues declined $8.5 million owing to debt claims expensed from Alberta's flood and severe hail storms that followed in the month of July. Net gains on securities increased $5.1 million reflecting the realization of gains following unexpectedly strong performance within the bank's portfolio of common shares. Based on the level of gains realized in the current composition of the securities portfolio, including the significant increase toward quarter end of the level of unrealized losses on preferred shares, net gains on securities are not expected to provide a meaningful source of revenue in the fourth quarter. Within the other category of other income the sale of two insured residential mortgage portfolios within Optimum Mortgage resulted in gains of $1.7 million, further offsetting the decline in net insurance revenues. Compared to the previous quarter, net income available to common shareholders increased 10 percent and adjusted cash earnings per share was 11 percent higher reflecting the combined benefit of three additional revenue earning days, a 9 basis point improvement in net interest margin, and strong loan growth.

Turning to slide five, overall credit quality remained within expectations. The dollar provision for credit losses represented 20 basis points of average loans compared to 19 basis points both in the previous quarter and a year earlier. The level of growth impaired loans remains very low in relation to total loans outstanding with the increase over the past two quarters representing normal fluctuations. The Alberta floods had no impact on the level of impaired loans. Yesterday our Board declared a quarterly cash dividend of $0.18 per common share, unchanged from the previous quarter and 13 percent higher than the quarterly dividend declared one year ago. As a result of ongoing margin pressure and the corresponding impact on gross and total revenues, we do expect to be at the top end or slightly above our target payout ratio of 25 to 30 percent of net income available to common shareholders. The Board also declared a quarterly dividend on preferred shares.

Slide six shows year-to-date performance compared to our fiscal 2013 target. Excluding net insurance claims specifically related to the Alberta flood, year-to-date growth in both total revenues and net income available to common shareholders was on target at 8 percent while the year-to-date efficiency ratio was 45.6 percent. Loan growth through the first nine months has already met our annual target of 10 percent and the volume in our pipeline for new loans is encouraging. Based on our positive view of overall credit quality the annual provision for credit losses should remain below the midpoint of our target range of 18 to 23 basis points of average loan. Based on results through the first nine months and in the absence of further severe weather events in the fourth quarter, all of our 2013 minimum targets are attainable, but the achievement of measures relating to total revenue growth, profitability, and efficiency will be challenging.

The next slide shows the historical trend of net interest margin, the spread on loans, and the prime lending interest rate. Third quarter net interest margin of 2.74 percent represented an 11 basis point decline from the same period last year with the difference largely reflecting lower loan yields, partially offset by more favourable fixed term deposit costs. As I mentioned earlier, net interest margin was up 9 basis points compared to the previous quarter, primarily owing to our strategy to reduce average liquidity. While the recent steepening of the yield curve, lower liquidity and other factors are expected to help offset margin pressure in future quarters, this key measure will continue to be constrained. All else equal, achieving further improvement in net interest margin over the near term will be challenging. Of course, any increase in the prime lending interest rate and/or further and persistent steepening of the yield curve would have a positive impact. Year-to-date net interest margin of 2.68 percent was down 13 basis points compared to the same period in 2012, reflecting the factors already noted.

I would now like to turn things over to Chris.

Chris Fowler, President & Chief Executive Officer

Thank you, Tracey.

To start off, I'd like to commend our employees for their tremendous efforts in coming together and taking care of our clients during the events that occurred in Southern

Alberta in June. While the floods had a meaningful impact on our reported results, particularly for Canadian Direct Insurance, our main concern through this catastrophe was for the wellbeing of our clients and our employees. Our objective now is to help those affected get back to their normal lives as soon as possible, which includes offering appropriate client support and efficient processing of claims for home and auto insurance.

On slide eight, moving to the discussion of our business outlook, slide seven shows our quarterly loan growth on a net basis over the past five years. When we look at the current level of overall activity in our markets in conjunction with our pipeline of new loans we are encouraged about our ability to deliver ongoing double-digit loan growth for CWB shareholders. Looking forward, and in support of our strategic objectives, we expect the largest growth contributions in dollar terms will continue to come from our focus on general commercial loans and equipment financing. We stated in previous quarters that we expected a relatively slower rate of growth in new real estate project loans but overall activity in the housing sector has continued to be relatively stable across most markets. Our opportunities to finance well-capitalized developers on the basis of sound loan structures and acceptable pre-sale levels has exceeded our expectations from the beginning of the year. Growth in the commercial mortgage portfolio has also exceeded our expectations as we continue to selectively grow this portfolio by accommodating existing client relationships and participating in deals that meet our thresholds for both profitability and loan quality.

Turning to slide eight, the dollar level of gross impaired loans was up slightly in the third quarter but continues to be consistent with expectations. While there was no material impact on credit resulting from the floods, the catastrophic nature of this event did temporarily compromise the ability of many businesses within the affected regions to operate. Through regular and ongoing communication with clients we have completed property inspections at numerous client locations and confirmed there's no extensive damage. Based on our current view we believe the consolidated collective allowance for credit losses is sufficient to absorb any flood-related losses that may be identified in the future. Overall, credit quality is expected to remain sound.

Our strategy priorities have not changed. Our objective is to continue to build a strategically-important, western-based financial services franchise. We remain focused on integrating our complementary businesses to solidify and grow our client base, increase revenues by client, and grow both organically and through acquisition. We are currently in the process of completing our 2014 budget, which will provide the basis for establishing our minimum performance targets for next year. Our key strategic goals significantly influence the budget process and focus on four key elements of financial performance. First is to ensure growth is accretive to adjusted earnings per share. One underlying emphasis of this goal is to enhance our focus on how and where we allocate capital given the realities of the Basel III framework as well as the competitive implications of using the standardized approach for calculating risk-weighted assets. We also continue to grow and diversify funding sources, increase revenue diversification, and carefully control growth and non interest expenses while continuing to strategically invest in our businesses.

While there are many factors that contribute to overall performance, the primary drivers for CWB are loan growth and net interest margin. We have met our loan growth targets but the significant impact of total revenue growth from margin compression continues to pose challenges. In addition to prudent management of liquidity, which we expect to remain relatively consistent with current levels, our goal to diversify funding sources is also intended to lower our overall cost of funds to support net interest margin and enhance our competitive position in the future.

During the third quarter we initiated a bearer deposit note program and expect to issue approximately $250 million by year end. This new source of funding is a better match for floating rate assets, which comprise approximately 50 percent of our loan portfolio, at a lower cost than broker-generated deposits. Securing additional sources of floating rate deposits will provide us with flexibility to match a greater portion of our core deposits to longer duration assets, also creating opportunities to enhance margin over time.

We've completed our strategic investment in McLean & Partners this quarter and are pleased to welcome their entire team of professionals to the CWB Group. The acquisition was slightly accretive to earnings per share and made a material contribution to the quarterly increase in trust and wealth management revenues; however, it did have a modest negative impact on the efficiency ratio. We look forward to growing our collective presence in wealth management with primary objectives to deepen client relationships and grow revenue contributions from less capital-intensive sources.

Controlling growth in non-interest expenses while we continue to strategically invest in our business is crucial to enhance our client offerings and deliver long-term value for CWB shareholders. Part of our discipline in managing costs is to carefully prioritize between what needs to be done now and what can be potentially postponed. It's necessary that we continue to invest significantly in areas that support our mandate to deliver superior growth, efficiency, and profitability over the long term. Our key areas of focus for ongoing investment are people, technology, and infrastructure. Notwithstanding ongoing challenges in certain areas, we are very optimistic about our opportunities to continue growing across all key business areas. Consistent with consensus forecasts, we anticipate a modest acceleration of overall economic growth in 2014 and 2015, including stronger relative performance in our key Western Canadian markets.

Our overall outlook is positive and we look forward to providing our fiscal 2014 minimum performance targets with the release of our fourth quarter results in December. Thank you all very much for your time. I will now turn things back over to Tracey.

Tracey Ball, Executive Vice President & Chief Financial Officer

Okay, thank you, Chris. That concludes our formal presentation for today's call. At this time I'll ask Audrey to begin the question and answer period.

QUESTION AND ANSWER SESSION

Operator

Thank you. Please press star one at this time if you have a question. There will be a brief pause while participants register for questions. We thank you for your patience.

The first question is from John Reucassel from BMO Capital Markets. Please go ahead.

John Reucassel, BMO Capital Markets

Thank you. Tracey, just a question on the net interest margins. I appreciate that they can't go much higher but do you think they're stable where they are sequentially next quarter and over the next year?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, they're looking relatively stable, John. We are, you know, there's, as you know, many moving parts, but we believe that we're through most of the loan re-pricing and deposit re-pricing continues to be in our favour. As Chris mentioned, we introduced the (BDN) program at the end of July, which will help us reduce some short-term funding costs. As well, one of our high-interest savings accounts, which is about $1 billion, we re-priced down, and that hasn't worked its way through. And obviously there will be some things that'll work the other way but, you know, so we see it pretty stable at this point. Once we get through our budget process it will be much—

John Reucassel, BMO Capital Markets

So I take it that the competitive environment remains, ah, that it is not competitive, but rational or...? On the pricing side.

Chris Fowler, President & Chief Executive Officer

Well, you know, I think we still see definitely pricing challenges in certain of the markets, but, again, we are pretty disciplined in how we approach that and we've been able to increase and, particularly in the commercial mortgage market group, identify that as a key area of competition. We're able to still renew existing loans and take on new ones that make sense for us on the profitability side.

John Reucassel, BMO Capital Markets

Okay. And, Chris, while you're here I just—you did mention the real estate project loans. Can you talk where—are these condo projects? Are they in Vancouver? You know, what are these? And are you in a syndicate with a bunch of other banks? Or could you just give us some more details on the $267 million increase?

Chris Fowler, President & Chief Executive Officer

Well, it's a blend across the different products. It would go from land development to townhouse to, you know, four- or five-storey condos to some high rise. So there's no particular concentration in one area, it's just generally, ah, general growth across that, both in BC and Alberta. That's where the growth is being.

John Reucassel, BMO Capital Markets

Okay. Thank you.

Operator

Thank you. Our next question is from Robert Sedran from CIBC. Please go ahead, sir.

Robert Sedran, CIBC World Markets

Hi. Good afternoon. Tracey, a question on securities gains, and I know you mentioned the outlook for 2013 and that you're probably not ready to talk about 2014 yet, but should I think about that line in terms of the unrealized balance? In other words, as long as I see an unrealized loss in the financial statements on securities, that we're probably not going to see much by way of securities gains being booked in 2014 either?

Tracey Ball, Executive Vice President & Chief Financial Officer

Rob, it's, as you know, the preferred share market portfolio has been under some significant pressure and actually irrational so, you know, that's there. It really depends on your outlook of where you think the capital markets are.

I'm quite sure we will budget some gains throughout the year. We tend to be conservative in that regard so, you know, there'll be some numbers in there, in our expectations.

Robert Sedran, CIBC World Markets

But is that the balance I should watch? Like should the unrealized balance—I mean you suggested perhaps it's gone too far and maybe it's going to rebound and give you some unrealized gains back again, but is that the number? I mean, as long as it stays negative, it's tough to see gains coming out?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah. I mean we tend to hold things until we're ready to move on them, so you could have some things where you have gains but they're masked by losses. But I would say that's a good indicator to look at that, the fair values, the unrealized losses and gains.

Robert Sedran, CIBC World Markets

Okay. And just one point of clarification, I think, Chris, and maybe even Tracey, you said it in your comments, that the collective allowance is sufficient to cover any further potential losses. Understanding that it's sufficient, is it your intent to then use it to cover any further losses? Or might they still flow through the revenue line?

Tracey Ball, Executive Vice President & Chief Financial Officer

No, we just don't—we don't expect anything to be material. So it'll just be normal course.

Robert Sedran, CIBC World Markets

Okay. Thank you.

Operator

Thank you. Our next question is from Shubha Khan from National Bank Financial. Please go ahead, sir.

Shubha Khan, National Bank Financial

Thanks. Good afternoon. Just the one question, a follow-up on the net interest margin, so obviously a nice lift in NIM from the reduction in liquidity, now average liquidity in the quarter was a fair bit lower than I've seen it go in recent years so I'm just wondering, and I know you had talked about managing towards a new normal, lower normal in the last conference call, so is this quarter representative of the level to which you want to manage liquidity going forward? Or how should I think about that?

Tracey Ball, Executive Vice President & Chief Financial Officer

It would be consistent, relatively consistent level in normal operations, yes. When Basel came out with the revisions they did to the liquidity framework we were able to look for ways to improve our own view of liquidity, so we have been able to look at our policies and tweak them in a way that we think were quite prudent and comfortable to have brought those liquidity levels down. So, yes, as long as operations and the environment is normal, then we should be fairly consistent with that number

Shubha Khan, National Bank Financial

Okay, thanks. And just a quick follow up on your comments surrounding securities gains as well: Did you say that securities gains would not be material relative to Q3 in Q4 or that they would not be material at all on an absolute basis?

Tracey Ball, Executive Vice President & Chief Financial Officer

We just said for the fourth quarter we said they'll be no meaningful contributor to revenue.

Shubha Khan, National Bank Financial

I see. Okay, that's great. Thank you.

Operator

Thank you. Our next question is from Sumit Malhotra from Macquarie Capital Management. Please go ahead.

Sumit Malhotra, Macquarie Capital Management

Good afternoon. First question is in the insurance business. I'll make it a two-parter. I just want to be clear here. I think it's in the documentation that if there are any further claims associated with the flooding in Alberta the Bank has reinsurance for this. Is that the right way to think about it?

Tracey Ball, Executive Vice President & Chief Financial Officer

Absolutely, Sumit. We're capped at $5 million and that's all been recognized in the third quarter.

Sumit Malhotra, Macquarie Capital Management

All right. The second part of the insurance question then is even without the flood activity what, if anything, has changed in the outlook for this business? I know some of the larger P&C insurers in the country have talked about not only the severe weather events in the past number of months but also some changes, particularly here in Ontario. Could you give us an idea as to the regulatory outlook for P&C insurance in the provinces that you operate in and whether that $5 million to $6 million revenue range that you've normally trended in is still a reasonable way to think about the Business?

Brian Young, Executive Vice President & President & Chief Executive Officer, Canadian Direct Insurance

Sumit, it's Brian. I think it's still a reasonable way to look at the business. As you're aware, the regulatory scrutiny and oversight has increased in all markets across Canada. It is less disruptive in the west than it is sort of in your homeland in Ontario. Ontario has gone through some particular issues and have gone in I think for most of a decade now. In the west it's become—we've went through that a number of years ago in Alberta and in British Columbia having a dominant government insurer has stabilized that market and so we're not looking for, you know, rapid market dislocation from a market conduct perspective.

In terms of OSFI, they continue to, you know, we're subject to the same issues that the banks are as well, that is, you know, rising capital levels, better solvency testing, more scrutiny, but I don't think it's anything untoward in our particular market.

And finally, what the market will do in terms of this flooding home insurance and a lot of the—a lot of the catastrophic weather that has happened has tended to be in Alberta and you're going to see a market reaction to that in terms of product redesign, continued price increases, and continued use of reinsurance to try to reduce volatility. All of those things we think might present a market opportunity to make that product, particularly the home product, a more profitable product over the medium term.

Sumit Malhotra, Macquarie Capital Management

So lots of moving parts but insofar as the contribution that the business has provided to the bank's revenue and earnings it doesn't seem like you feel there's any structural impediment from that being achieved in the interim?

Brian Young, Executive Vice President & President & Chief Executive Officer, Canadian Direct Insurance

No, we think that we can manage through this process quite well. You know, it was a—this was quite a shock to us. Canadian Direct did experience its first quarterly loss in 11 years. But by the end of the year, given normal weather in Q4, we're still expecting to generate an underwriting profit for the whole year.

Sumit Malhotra, Macquarie Capital Management

All right. Thank you for that detail. And then lastly, over to—

Tracey Ball, Executive Vice President & Chief Financial Officer

Sumit, can I just interrupt? Because I think one thing that was a real eye-opener for me when I looked at its impact to the Alberta floods is over 85 percent of our losses were in High River. But we don't have, we have, you know, our normal amount of market share there. So High River, and Brian will correct me if I don't say this quite right, I know that, but where we were in High River was not expected to be a real flood area. So in other flood areas, like we had adjusted policies in Calgary to limit the amount of coverage that we would have in, say, a Calgary property that was subject to being in some kind of a flood zone, but High River never was so there was no limit to what we ended up paying on a lot of these claims, it's full replacement costs, and I think, Brian, maybe giving an average of what one claim cost for a completely redone basement might be helpful.

Brian Young, Executive Vice President & President & Chief Executive Officer, Canadian Direct Insurance

You know, 80 percent of the claims that we experienced really came from that High River area and our level of exposure from the Calgary itself was contained, well managed, and wouldn't have been a meaningful impact to our results. So that's one way to look at it. And then in terms of the averages, what you would say, ah, the High River averages were six times the level of the average losses that we experienced in Calgary on sort of a per-home basis. Six times.

Tracey Ball, Executive Vice President & Chief Financial Officer

So, Sumit, I think that just helps you understand like going forward, you know, your question about what kind of revenue contribution can we expect, so I think it's important to understand that.

Sumit Malhotra, Macquarie Capital Management

Thank you for the additional detail. I'll keep it moving here with just one on net interest margin. So I think you've given us some colour that, if I heard that last question correctly, probably not too much more benefit to net interest margin from further liquidities management. I think we've seen in the past that the Bank's NIM is more driven by short rates or increases in short rates will be very beneficial to net interest margin. So how do we think about this move up we've had at the long end of the curve and what that does to your loan pricing? I think in previous conversations you've told me the mix of the book is not too far from 50/50 on a fixed/floating perspective, so with long rates having moved as sharply as they have, does that give you some benefit on margin or is it not that material yet?

Tracey Ball, Executive Vice President & Chief Financial Officer

It wouldn't be that material yet, Sumit. It has to be there for a while. That steepening did allow us to take advantage of putting some interest rate swaps on, which were good. The other thing I meant to mention as well is that we have had good growth in our equipment lending in Optimum Mortgage, so those are our higher-margin and lower-capital businesses, so that's going to be helpful going forward. But we need to see that steepening there for a while to really get the benefit. So we're happy to see the steepening but it's too early to make a meaningful impact.

Sumit Malhotra, Macquarie Capital Management

Thanks for your time.

Operator

Thank you. Our next question is from Gabriel Dechaine from Credit Suisse. Please go ahead, sir.

Gabriel Dechaine, Credit Suisse

Good afternoon and congrats on getting past the $15 billion loan mark. Just a quick one on the real estate loan impairments there: What's the LTV on these loans roughly? And how many of them are there? It sounds like last quarter or the quarter before it's like a small number of loans?

Chris Fowler, President & Chief Executive Officer

It is a small number, Gabriel, and there's a mix between term, like a commercial mortgage and project loans in there. So typically, you know, loan to value would be, depending on a project loan, would often be a loan to cost we would go in at, and they would be in the, you know, normally we'd be in the 75 to 85 percent loan to cost. In one of the loans that went in, of course it's gone impaired, so we need to find a buyer, so I would say that we're probably at 100 percent of cost today. So that would be an issue there. So I mean our underwriting is generally conservative. When there's a problem on the construction side it's—we have one in there right now on the construction side and that has caused the actual completion of the building, so that's an issue. On the term side typically a loan goes impaired and becomes, ah, in that case because you've got a cash flow issue, which then of course affects the loan-to-value. So these are loans that they come onto the impaired and we work with the borrower and we work with the asset to move it out and we've had great success in managing this portfolio both from the origination and the resolution, so we expect these to follow the normal course and we see this as a normal case of the portfolio.

Gabriel Dechaine, Credit Suisse

Okay. And just moving over to the mortgage, the Optimum Mortgage, another quarter with good growth there, 5 percent quarter over quarter, 18 percent year over year, and that's ignoring the sales of mortgages. Is that really the fallout from the B20 that's driving that? And why are you selling the mortgages, just to...?

Chris Fowler, President & Chief Executive Officer

Oh. Well, what occurred in the Optimum portfolio is we, in 2009 and 2010 there wasn't very much volume on the Alt A side, and that was really the target market for Optimum from day one. So we did enter the Insured A market at that point, just we were, you know, adding on assets and they made sense at the time. And those mortgages are all at good yields so it's an opportunity for us to sell them and realize a gain and redeploy those deposits into Alt A, which again is our key focus for Optimum.

Gabriel Dechaine, Credit Suisse

How big is that portfolio approximately?

Chris Fowler, President & Chief Executive Officer

We're about, ah, it's $1.1 billion total portfolio and we're 75 percent Alt A at this point. We used to be about 60 percent Alt A but it's moving up as we've sold off that portfolio of A-insured mortgages.

Gabriel Dechaine, Credit Suisse

Plan on selling more?

Chris Fowler, President & Chief Executive Officer

As it makes sense. I mean we're not originating them at a large percentage because the yields are very tight so, again, our focus (inaudible) is towards that higher-margin Alt A business.

Gabriel Dechaine, Credit Suisse

Okay. My last one here is just can you give me an update on the plan for the pref redemption next year? Is it still, ah, are we talking about a net redemption or is it a refinancing? You're exploring some, I believe some NVCC capital instrument issuance, can you just walk me through your thought process at this stage and what we might expect as far as a possible net benefit next year?

Tracey Ball, Executive Vice President & Chief Financial Officer

Okay, well, as you know, Gabriel, the preferred shares come to their reset date on April 30th and some institutions have reset them. I do not anticipate that we would reset ours, because they're at 500 basis points over Government of Canadas, our typical, our benchmark yield. And of course that was done during the middle of the crisis before we had a rating. So that I would see as highly unlikely happening. And, as you also know, the NVCC market hasn't developed yet. We haven't seen an issue in Canada. That being said, we're aware that the term sheets, there's at least a couple out there that seemed or the indications are that they will be acceptable to OFSI and there does seem to be a demand for preferred share yield from that retail investor. So we're looking at that option. We also have the potential to go back to our existing preferred shareholders and try and amend their reset terms to something that's more reflective of having a rated preferred share. So those are the things that we're looking at and I think our preferred shares are about $0.18 per year on the dividend, so anything we can save there will be beneficial. I don't anticipate that our target would be to replace the whole thing. More like probably $100 million or so would give us the best efficiency.

Gabriel Dechaine, Credit Suisse

Sorry, like redeem $100 million outright and then the other $100 million replace kind of thing?

Tracey Ball, Executive Vice President & Chief Financial Officer

It kind of depends because it depends whether it's the existing preferred share that we can amend the terms of, because then we can use the transition rules, but to get the best benefit transition rules it's about $100 million is all we'd want to end up with. And on a new issue we would take into account the time in a market, you know, what do we think makes sense, but I wouldn't anticipate that we would be raising like $200 million or more. That doesn't make sense to me right now.

Gabriel Dechaine, Credit Suisse

Okay. Appreciate it. Thanks.

Operator

Thank you. Once again, please press star one on your telephone keypad if you have a question or a comment.

Our next question is from Michael Goldberg from Desjardins Securities. Please go ahead, sir.

Michael Goldberg, Desjardins Securities

Thank you. In the absence of the storm losses would you have realized the offsetting gains?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, there are unexpected ones there that, um, primarily in the retail pharmaceutical and grocery sectors that, you know, just happened to arise, and we've always had a view that best to take them while they're there. You know, that said, we were not unhappy that they showed up in the same quarter as the insurance losses. So that's a clear maybe.

Michael Goldberg, Desjardins Securities

And some maybe not?

Tracey Ball, Executive Vice President & Chief Financial Officer

Pardon me?

Michael Goldberg, Desjardins Securities

And some—

Tracey Ball, Executive Vice President & Chief Financial Officer

Well we have a normal, we have a normal portfolio management, so Randy and his treasury group have a budget, so they tend to figure out how they're going to make their budget earlier on in the quarter, but towards the end of the quarter we had some unanticipated gains show up in those common shares, so we realized on them. But that is not an atypical strategy for us, because they weren't expected, so best to get them while they're there. You know, a bird in the hand is worth more than two in the bush.

Michael Goldberg, Desjardins Securities

Okay. Thank you, Tracey.

Operator

Thank you. Our next question is from Darko Mihelic from Cormark Securities. Please go ahead, sir.

Darko Mihelic, Cormark Securities

Hi, thank you. Just to finalize the question with respect to the sales of mortgages, the $1.7 million gain, ah, you have 25 percent left of that portfolio that's quote-unquote sellable. What is it? Are they—just It seems to me that that's a possible area of gains in the future. Would you be budgeting for that, Tracey?

Tracey Ball, Executive Vice President & Chief Financial Officer

We'll probably be budgeting somewhere in the neighbourhood of $1 million just so, you know, we don't have a lot of insured product that we think we can sell right now so early on in the year it's not going to be a big number that we're looking at budgeting. But throughout the year, if we start bringing in a lot more Insured A mortgages, which often happens because the broker wants to bring us those mortgages because we tend to turn them quite quickly and that's really what a broker wants, we could end up with a bunch more. As well, there is the opportunity to buy some insurance. So we're not putting a lot of pressure or expectation on Optimum to deliver but we know that they will look for all those opportunities, because, you know, we like them, it makes sense for us. So I hope that helps.

Darko Mihelic, Cormark Securities

That does help. And just turning to capital, the decline was basically because of the unrealized loss I guess—

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, no matter what it goes through AOCI, so you mark-to-market your available for sale securities and it, um, the effect on comprehensive income is a deduction to your (inaudible).

Darko Mihelic, Cormark Securities

And so that leads to the question of how you're managing your liquidity portfolio. Many of the other banks really don't want to have a lot of unrealized gains or losses because of the volatility around that. Does it concern you at all where you're at now and does it require a change in the future as you get closer to OSFI's all-in minimums and as your Tier 1 instruments sort of fade away?

Tracey Ball, Executive Vice President & Chief Financial Officer

I don't think so, Darko. You know, we're very careful about managing those types of things. We're certainly not known as being anything but conservative. And we intend to continue that. So I mean it's unfortunate when you see what we would call irrational behaviour in the preferred share market. It started in July and went into August. Some of it has come back, as you probably are aware. But Canada is an illiquid market there so it's, um, you know, it was just frustrating. But I don't think—it's not an unmanageable situation for us.

Darko Mihelic, Cormark Securities

Okay. I guess it just goes back to the question that Gabriel was asking earlier with respect to the pref shares in the new year. I guess the issue is that the NVCC market, as much as I'd like to believe it will develop, it may not be well-developed by that time.

Tracey Ball, Executive Vice President & Chief Financial Officer

Correct.

Darko Mihelic, Cormark Securities

Yeah. Okay. Thanks very much for your time.

Operator

Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to Ms. Ball.

Tracey Ball, Executive Vice President & Chief Financial Officer

Okay. Thank you, Audrey, and thank you very much, everyone, for your interest in Canadian Western Bank. We look forward to providing our fourth quarter and fiscal year-end results along with our minimum performance targets for 2014 on December fifth. If you have any follow-up questions or comments, please call us or contact us by email. Thank you and have a great day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
