MARKETWIRED

Moderator: Matt Evans
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Operator: Good afternoon. My name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Canadian Western Bank fourth-quarter and annual 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, press star one on your telephone. If you would like to withdraw your question, please press the pound key.

I would now like to turn the call over to Ms. Carolyn Graham, Executive Vice President and Chief Financial Officer. You may begin your conference.

Carolyn Graham: Thank you, Michelle. Good morning, or good afternoon, and welcome to the 2014 fourth-quarter and annual results conference call for Canadian Western Bank.

Before we begin, please note that the conference call graph, quarterly results news release and supplemental financial information are available on the Bank's Web site at CWB.com, in the Investor Relations section. Our 2014 annual report and audited financial statements will be filed on SEDAR and available on our Web site next week. Our forward-looking statements advisory is on slide 11.

The agenda for today's call is on the second slide. Joining me is our President and Chief Executive Officer, Chris Fowler, as well as the other Executive Vice President members of the Canadian Western Bank executive committee,

Kelly Blackett, Randy Garvey, Greg Sprung and Brian Young. Recognizing the number of banks reporting today, we will keep our formal commentary brief and leave time for Q&A at the end of the call.

I'll begin by providing a quick summary of our fourth-quarter and annual financial highlights and then I'll turn things over to Chris for an overview of our performance outlook, including 2015 performance targets and our strategy.

Moving to slide 3, strong fourth-quarter results and another year of double-digit loan growth contributed to CWB Group's record performance, for both the quarter and the year. We achieved all of our annual performance targets and have established performance target ranges for 2015 that reflect ongoing confidence in our client-focused strategy, while acknowledging the realities of very low interest rates and competitive factors.

Highlights for 2014 include the February issuance of CAD125 million of 4.4 percent preferred shares and the subsequent April redemption of CAD209 million 7.25 percent preferred shares. These transactions improved the efficiency of our capital structure under the standardized approach and had a positive impact on growth in net income and earnings per share.

Credit quality was better than expected as our secured lending model and disciplined underwriting practices were supported by ongoing strong economic fundamentals in our key markets. Lower provisions for credit losses at 9 basis points of average loans for the fourth quarter and 15 basis points for the year reflect very strong credit quality.

The provision recorded through the income statement exceeded net new specifics, resulting in increases in the collective allowance for both the quarter and the year. The collective allowance totaled CAD90 million at year end, an increase of 18 percent over one year ago, compared to 12 percent growth in loans. Another highlight was our recent recognition as one of the 50 best employers in Canada for the ninth consecutive year.

Moving to slide 4, fourth-quarter net income available to common shareholders was a record CAD58.2 million, up 14 percent over the same

period last year, while diluted earnings per share increased 13 percent to a record CAD0.72.

Adjusted cash earnings per share, which excludes the after-tax amortization of acquisition related intangible assets and the nontax deductible charge for the fair value of contingent consideration, was up 12 percent to CAD0.73. Record total revenues on a taxable equivalent basis increased 6 percent, driven by the combined benefits of strong 12 percent loan growth and higher non-interest income.

Fourth-quarter net interest margin of 2.56 percent was down 2 basis points from the prior quarter, as a positive influence of lower average balances of cash and securities were only partially offset by lower average – only partially offset lower average loan yields. Net interest margin was 16 basis points lower than the fourth quarter last year, primarily due to lower loan yields and higher balances of cash and securities.

Compared to the prior quarter, net income available to common shareholders and adjusted cash earnings per common share were both up 3 percent. For the full year, net income available to common shareholders of CAD218.5 million, and diluted earnings per common share of CAD2.70, both established new records, increasing 17 percent and 15 percent respectively. Adjusted cash earnings per common share was CAD2.76, also up 15 percent.

Record total revenues represent an 11 percent increase. Net interest income was up 9 percent, as the benefit of strong loan growth was partially offset by a 7 basis point reduction in net interest margin to 2.59 percent. Non-interest income of CAD111.4 million was up 19 percent, as the combined benefit of a CAD9.4 million increase in trust and wealth management fees, CAD4.6 million higher net insurance revenues, CAD3.3 million increase in credit related fee income, and continued growth across other categories more than offset lower net gains on securities.

Very strong growth in wealth management fees primarily reflects a full-year contribution from McLean and Partners and was further supported by ongoing solid performance within trust services.

Growth in net insurance revenues reflects the positive impact of higher net earned premiums and lower claims expense. Results in the past two years include claims resulting from catastrophic weather events, although the 2013 impact from the Southern Alberta floods and other storms exceeded the hail-related Alberta claims in the fourth quarter of this year.

Net gains on securities remained high at CAD14 million, but were CAD1.1 million lower than last year. The 15 percent increase in other non-interest income mainly resulted from the gain on sale of our former Edmonton main branch location.

Yesterday our Board declared a quarterly cash dividend of CAD0.21 per common share, representing a 5 percent increase from last quarter and 11 percent higher than the quarterly dividend declared one year ago. The Board also declared the quarterly cash dividend on our Series 5 preferred shares.

Strong annual loan growth reflects increases across each lending sector, with the exception of oil and gas production loans. Growth in real estate project loans and equipment financing and leasing contributed the largest dollar increases for the year. Growth in real estate project loans continued to exceed expectations, as solid activity in both residential and commercial construction continued to provide opportunities to finance well-capitalized developers on the basis of sound loan structures and acceptable presale and lease levels.

Slide 6 shows our regulatory capital ratios at October 31st. Using the standardized approach for calculating risk weighted assets, our common equity Tier 1 ratio was 8 percent, Tier 1 of 9.3 percent and the total ratio of 12.8 percent. These compare to CWB's regulatory minimums of 7 percent, 8.5 percent, and 10.5 percent respectively.

Slide 7 shows our full-year results compared to 2014 performance target ranges. As I mentioned earlier, we achieved all of our targets, despite the revenue impact from lower net interest margin. Our performance target ranges established for FY15 are provided on the next slide and I'll turn things over to Chris to provide additional comments on these 2015 targets and our outlook and strategy.

Chris Fowler: Thank you, Caroline. Our 2015 performance expectations reflect ongoing confidence in our client-focused strategy and our core geographic footprint while acknowledging the challenges of constrained net interest margin in the persistent low interest rate environment and competition.

While growth expectations supporting our performance target ranges were established prior to the recent turn of events in global oil markets, we remain confident in our ability to deliver on them. These targets reflect our expectations that Canada's economy will grow modestly in 2015 and that our core markets in Western Canada will continue to perform relative the rest of the country.

While a period of lower oil prices may impact near-term decisions to invest in new production, existing resource related infrastructure requires substantial capital expenditure for ongoing production and maintenance. Certain large integrated producers have already announced increased capital budgets for 2015.

However, we do acknowledge that a prolonged period of materially lower energy and other commodity prices could lead producers to revise their budgets and reduce investment.

An extended period of lower oil prices therefore poses a risk to the outlook for economic growth, particularly in our core Western Canadian footprint.

However, when we look at the performance of our share price in the past week and this morning, we believe the market has taken an overly pessimistic view of the near-term outlook. Our clients are our best source of intelligence, with hands-on knowledge of the market today and based on our ongoing conversations, current business sentiment can best be described as wait and see.

The decline in price of Western Canadian heavy oil has been less pronounced than the pullback in headline WTI and Brent crude prices and the lower Canadian dollar also partially offsets the impact of lower oil prices for certain businesses.

It's important to note that along with our clients, we have weathered numerous commodity cycles over the years. In prior periods of volatility, we found opportunities to gain market share as our competitors adjust their strategic focus based on their moderated views of the economic backdrop.

We are based in Western Canada and over the years we've been rewarded for maintaining our consistent strategic focus and staying close to our clients through all cycles. Going forward, we will continue to carefully monitor and manage the risks associated with oil price movements and most importantly, assess the impact on our clients as we work with them to support their businesses.

Entering 2015, our pipeline for new loan fundings remains encouraging and supports our target for another year of double-digit loan growth in the range of 10 percent to 12 percent, with this growth generated across our entire geography from British Columbia to the Maritimes.

Looking forward, we expect relatively stronger growth in our higher-yielding lending sectors and the maintenance of prudent balances of cash and securities will mitigate continued pressure on the net interest margin from the low interest rate environment and competitive factors in some areas. Meaningful improvement in this key metric from the level achieved in the fourth quarter is not expected in the absence of increases in the prime lending rate and/or sustained steepening of the interest rate curve.

Our target range for adjusted EPS growth of 5 percent to 8 percent reflects current expectations and will benefit from double-digit loan growth and strong performance across the businesses, lower preferred share dividends than 2014 and normal insurance claims, all with relatively stable net interest margins compared to the fourth quarter of 2014.

However, the target range also considers a return to normal provisions for credit losses, lower gains on securities and no gain on property sales, all of which benefited 2014 earnings per share.

In consideration of the strategic investment necessary to support CWB's long-term growth and constrained revenues owing to net interest margin pressure,

the 2015 efficiency ratio target is 47 percent or less. While this target represents an increase from prior years, we remain committed to building on our history of disciplined management of discretionary expenses.

The most notable incremental expense contributing to the higher efficiency ratio target next year reflects an increase in non-executive compensation that better aligns the level and structure of CWB's employee offering with industry benchmarks.

These changes facilitate a better alignment of short-term incentive compensation with individual performance and CWB Group's strategic objectives. The target range for the provision for credit losses is slightly lower than last year's at 17 to 22 basis points of average loans, reflecting expectations that overall credit quality will remain sound.

Turning to slide 9, credit quality was very strong in 2014, and our annual provision for credit loss exceeded net new specific allowances and increased the collective allowance for credit losses. The dollar level of gross impaired loans declined compared to last year, owing to successful loan realization and workout programs as well as stable economic conditions.

The collective allowance continues to meet our test of adequacy. While overall credit quality is expected to remain stable, gross impaired loans are expected to fluctuate above the very low current level. Our disciplined lending practices and high quality secured loan book have us very well positioned going forward.

The next slide highlights the four pillars of our strategic direction and the related key strategic objectives. The intent of our strategic direction for FY15 and beyond is to grow and improve across all core facets of our business.

Our focus will remain centered on opportunities where we believe we can add the most value for our clients while continuing to build on our competitive advantages. Growing our presence in general commercial banking is a top priority, as this relationship-based business provides the best opportunity to enhance our deposit base and increase non-interest income.

We continue to build promising pipelines of new commercial loans and with our focus on customized training programs for commercial relationship managers, we expect to deliver accelerated growth in this portfolio over time.

We will maintain our focus to achieve stronger relative growth rates in our highest yielding lending portfolios, such as equipment financing and leasing and alternative mortgages, both of which provide a strong return on capital and support net interest margin.

We are pleased to provide common shareholders with an increased dividend this quarter. Management's recommendation to the Board for dividend increases in the future will be based on overall financial performance and market conditions as we progress through the year. We expect to remain near the top end of our target payout ratio of 25 percent to 30 percent of net income available to common shareholders.

While we fully expect challenges as we work to execute our strategic direction and achieve our 2015 performance targets, we believe they are attainable. We're confident that our vision to be seen as crucial to our clients' futures is the right one to move us forward and our dedicated team is fully committed to making this a reality.

The economy in Western Canada has demonstrated impressive resilience in the face of commodity price volatility in the past. We maintain our positive outlook for ongoing growth opportunities within Western Canada, as well as our complementary business in other parts of Canada. I will now turn things back to Carolyn.

Carolyn Graham: Thank you, Chris. This concludes our formal presentation for today's call and I'll ask Michelle to begin the question-and-answer period.

Operator: OK. As a reminder, again please press star one on your telephone keypad if you would like to ask a question.

Your first question comes from Sumit Malhotra from Scotiabank.

Sumit Malhotra: First question is probably for Carolyn in regards to the quarter.

The decision to reduce the level of the provision in Q4, I certainly hear you on the fact that charge-offs were quite low and for that matter net impairments were quite low, but it seems to run counter to the way the Bank has managed the provision line in the past. Can you help me understand your thinking in that regard?

Carolyn Graham: Absolutely, Sumit. As you can tell from the other metrics, we've had very strong credit quality. Gross impaired loans are at extremely low levels, specific allowances are also at probably historic low rates.

So as we look at the provision in the income statement and how much that would push towards the collective, we have to make sure that the collective allowance meets our expectations for an incurred loss accounting model and that we can support the balance that's recorded.

So as we looked at the credit quality over the year, and particularly in the fourth quarter, and looked at the growth in the collective allowance, it made sense to reduce the provision.

The loan book grew 12 percent during the year. The collective allowance grew 18 percent at the same time.

So we did increase what's available for future losses during the year, while also recognizing that the accounting regulations require us to use an incurred loss, so losses that we know are included in the portfolio today rather than an expected loss and thinking about things that may be coming at us in the future. So not a change in approach but just a recognition of the position as it is at the end of the year.

Sumit Malhotra: Just on that last point, I don't think it's an exaggeration. If you look at the history of this Bank over the last decade plus, I don't know if the ratio has ever been that low.

So there clearly have been periods in which your credit quality has been very favorable but you've always been able to maintain the provision within your range and add to reserves, which I always thought was a very conservative

way to do things. Has the accounting changed that or is there some discretion on the Bank's part?

Carolyn Graham: I would say the other thing that has also changed is that when we converted to IFRS in 2010, 2011, the accounting rules did change and they became tighter and the requirement to have a methodology and estimation process to support the balance that's in the collective did tighten up.

Sumit Malhotra: All right. My second question is likely going to be for Chris. Chris, you certainly touched a lot on the backdrop and what we've seen in the market over the last couple months. Just to put a couple things to you on that front. A couple of times in the documents you referred to the fact that sustained period of material lower energy prices could have an adverse impact on expectations.

When we look at the average in FY14, at least using WTI, it was about just under CAD100 a barrel. When you talk about materially lower energy prices, does that mean staying in the CAD70 to CAD80 range for the balance of FY15? Is that the magnitude of what we're talking about? What exactly would it take to get that adverse impact you're talking about?

Chris Fowler: Well, I think there's a few ways to think about this. The economy in Western Canada, particularly in Alberta with respect to oil, has changed from where it was, say, in the 1980s and the 1990s and the big change is being the oil sands. They've come into the equation as a very large production engine. In the early years the oil sands, of course, there was a lot of growth CapEx. Where we sit today, there's a lot of maintenance CapEx.

The question is, at what level would oil fall to that would then put in peril the continued production of existing production and I would say that in CAD50 to CAD80 range, it's probably not in peril at all to continue. The question is what happens for growth CapEx.

If there's a scaleback of a new projects coming onstream, that's absolutely a potential with a longer lower oil price. But there's been many years of volatility that we've seen in the cycles over the years. So oil goes up, it goes

down, natural gas, it goes up, it goes down. That's occurred through many times.

I've been with the Bank for 23 years and since 1995 I've either was in credit risk management in the Bank or it reported to me. We looked at this portfolio backwards and forwards through many cycles. We have a 10-year average net charge-off rate of 10 basis points.

We have a very strong credit policy and approach to how we lend. So as we look at our market, we have a lot of very strong clients that were also around the last 25 years and have gone through all the different cycles too.

The question is, how low and for how long and we don't know that answer, so it is a wait and see on where it goes. But I would say that we have a core amount of production that will continue to occur in Alberta and that core amount of production does require a lot of support, a lot of services, a lot of people, and we anticipate there being still a strong level of economic activity.

Sumit Malhotra: Thank you for that. I'm going to leave it here, but you were pretty clear they saying that the formulation of these 2015 targets, a lot of it occurred before the most recent downturn in prices.

If you were to think about an environment in which, let's just pick a WTI number of CAD75 as the average for FY15, is it fair to say you would be more worried based on those comments about the achievement of the loan growth objective than you would be about credit quality?

Chris Fowler: Well, what's occurred historically is what we found in these cycles where there is a downturn in price, we found a lot of our competitors choose not to participate and they pull back and we have been able to capture more market share in a downturn, with the right clients.

So I think a CAD75 oil price, we would anticipate the – we would still be looking to have a double-digit growth rate, because we would be continuing to focus on our clients. We're based in Western Canada. We will understand the different drivers and make sure that we're in a position to support our clients where it makes sense.

Sumit Malhotra: Thanks for your time.

Operator: The next question comes from Scott Chan from Canaccord Genuity. Your line is open.

Scott Chan: Thanks, guys. Chris, just a follow-up question on your last comment. If oils was – if WTI was under CAD70, and stayed at this level through 2015, would that impact your double-digit loan growth target for next year?

Chris Fowler: We're going to monitor where activity is. Again, we're out talking to all our different clients and seeing what they have in their growth plans for FY15, what the budgets are that are coming from the large oil companies.

CAD70, I don't know what dollar it would hit that would cause everything to stop. I mean, it certainly hit CAD35, CAD36 in 2008. It didn't stay that level for long, but it took some time to get up to that CAD90 to CAD100 range.

There is volatility in a commodity price and decisions will be made based on continuing production. So I don't know what the dollar number is, but historically what we have found is that our goal is to understand our clients, to focus on what those opportunities are and make the right decision.

Scott Chan: That's helpful. And just on energy, you report oil and gas production loans, which is less than 2 percent. Do you have a sense of, with all the other support and services, how much energy exposure is in your loan portfolio?

Chris Fowler: Well, we look at – so we did a – we looked at companies that would have, say, a direct cash flow impact for that. It would probably be under 5 percent, if you're thinking direct cash flow. We keep in mind, and we always say this, that the big GDP creator in Alberta, which is 40 percent of our loan portfolio, is oil and gas. It is the biggest piece of the pie for GDP creator. We do have 60 percent of our portfolio outside of Alberta, too. There's that side of the equation.

Scott Chan: Right. OK. That's it from me, now. Thanks.

Chris Fowler: Thank you.

Operator: Your next question comes from Manny Graumann from Cormark Securities. Your line is open.

Manny Graumann: Good afternoon. Just looking at where the PCL ratio ended up this past quarter and then looking at your guidance for 2015, I'm wondering why do you think it's unlikely that we would see ratios just keep going at the current level? Why do you – is it just conservatism that you're looking at an uptick here?

Carolyn Graham: It is conservative. We expect that – we believe that the gross impaired loan balance at this point in time is very low, so just in normal operating, fully acceptable credit conditions we expect that the gross impaired number might go up, so we've just returned it to what we would consider a more normal expectation going forward.

Manny Graumann: And I'm wondering, on the balance sheet, the securities line dipping, I'm wondering what's driving that? What's the sort of the thinking or the reasoning behind that?

Carolyn Graham: So it would be a combination of a couple of things. We are working to enhance our management of the cash and securities portfolio and our liquidity management processes. Obviously, the more cash and securities we hold, that compresses net interest margins, so we're making sure that we comply with both the new liquidity guidelines as well as our internal assets, liability management practices, but not look to carry excess liquidity.

Again, it's just effective management and then that balance ebbs and flows over time depending on particular long fundings. It's quite difficult sometimes to predict whether clients will fund their authorized loans at the end of the month or the first week after. So that can fluctuate depending on our expectations and the actual cash flows.

Manny Graumann: Thank you.

Operator: The next question comes from Robert Sedran from CIBC. Your line is open.

Robert Sedran: Just want to come back to that collective allowance for a second. Under what conditions can that be used? Is it kind of like one of those one-way doors, the money goes in but it never comes out, or are there conditions in which you can actually use this thing if credit conditions were to deteriorate?

Carolyn Graham: There are. Certainly if credit conditions deteriorate, you would expect to be able to utilize the credit – or the collective allowance to cover a short-term increase in losses, although you would then have to continually assess whether the collective balance remains adequate over time for the losses you think are in your portfolio that you don't know yet.

There are no regulatory prescriptions over what balance needs to be in your collective or whether or not you can draw it down, although there are requirements that a 5 percent change, reduction in your collective allowance, OSFI would likely request an expectation of why you believe that ending balance is now appropriate given your portfolio and current credit conditions.

Robert Sedran: And just when I look at the securities gain this quarter, and I apologize if it came up somewhere else, I didn't catch it, does it feel a little on the low side or does it feel about right? What do you think about the securities gain balance this quarter?

Carolyn Graham: We would say it's – sorry, it's a little bit below what we would think would be a traditional quarterly run rate. With the market conditions towards the end of the quarter, we did have some impairments on some of our preferred share portfolios and we chose to reset those, so we offset them with gains in other parts of our portfolio but the combination of those two muted the net gain number.

Robert Sedran: That's helpful. Thank you.

Operator: Again, if you would like to ask a question, please press star one on your telephone keypad.

Your next question comes from Sohrab Movahedi BMO Capital Markets. Your line is open.

Sohrab Movahedi: Thank you. A lot of my questions have been asked. I wanted to go back to the performance targets for 2015. It was a little bit curious to me that you tightened the range around the return on assets. What gives you the increased confidence?

Carolyn Graham: I think increased – to tighten the range, we look at our operations and we are not generally hugely volatile.

The shift in EPS growth, it takes a significant change in our business to get significantly large at that range, so we felt comfortable at a 5 percent to 8 percent range, impacted of course by a number of positive factors in 2014 that we don't anticipate will return, as well as an increase in the expected efficiency ratio representing strategic investments in positioning us to move forward to the future. It wasn't that we felt more comfortable with our estimation.

It's just as we look at our performance projections going forward, that's a range that we believe is an appropriate target for us moving forward.

Sohrab Movahedi: OK. And was there any – what was the rational behind dropping the revenue target, the revenue growth target?

Carolyn Graham: Essentially in a time of uncertainty that, that particularly impact the revenue line for us, we will continue as we move through the year to proactively manage our key success factors, which are loan growth, credit quality and efficient operations, with an intent always to focus on value to our shareholders with the measure of adjusted cash EPS.

We felt it more important to focus on those four core, ending with the value to our shareholders with EPS and so took out the total revenue target.

Sohrab Movahedi: OK. Thank you very much.

Operator: At this time I have no further questions in queue. I turn the call back over to the presenters for closing remarks.

Carolyn Graham: Thank you, Michelle, and thank you to everyone on the call for your continued interest in the Canadian Western Bank Group. We look forward to reporting our 2015 first-quarter results on March fifth and in the meantime, if you have any follow-up questions or comments, please call us or contact us by e-mail. Thank you, and all the best for the holiday season.

Operator: Thank you everyone. This concludes today's conference call. You may now disconnect.

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