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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CWB Financial Group's First Quarter 2018 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Head of Investor Relations, Matt Evans.

Mr. Evans, you may begin.

Matthew Evans

Thanks, Daniel. Good afternoon, everyone. This is Matt Evans. Presenting to you today on the call is Chris Fowler, CWB's President and Chief Executive Officer; and Carolyn Graham, our Executive Vice President and Chief Financial Officer. Also with us today are the other members of CWB's Executive committee: Kelly Blackett, Glen Eastwood, Darrell Jones, Stephen Murphy and Bogie Ozdemir.

Before we begin, please note that the conference call graphs, quarterly results news release and supplemental financial report are available on our Investor Relations website at cwb.com. Our forward-looking statements advisory is found on Slide 12.

I'll now turn the call over to Chris.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Thanks a lot, Matt. The agenda for today's call is on the second slide. I'll begin with our first quarter fiscal 2018 performance highlights and comment on the continued execution of our strategy. Carolyn will follow with the detail on our financial results before we move to the question-and-answer period.

Moving to Slide 3. I'm pleased to report we're off to a great start this year as we continue to execute our balanced growth strategy. At the heart of the strategy, we have maintained our clear focus on business owners while delivering growth across a broader geographic footprint with increased industry diversification.

Alongside continued strategic execution, this morning, we reported strong operating performance, including record pretax, pre-provision income, record common shareholders' net income and 23% growth of adjusted cash earnings per share from the first quarter last year.

We also delivered positive operating leverage, strong credit quality and net interest margin, up 6 basis points from the same quarter last year. Net interest margin was lower compared to the prior quarter as we held extra liquidity in advance of our asset purchase at quarter end.

Turning to Slide 4. Total loans were up 11% from the first quarter last year with 8% organic growth and 3% from the $850 million of assets we acquired on January 31. As I said before, the acquired assets are right on strategy, and we expect the transaction to be immediately accretive.

Most importantly, thanks to the dedication and teamwork of our people in bringing this transaction over the line, we now have 3,000 new business owners to introduce to CWB Financial Group.

With more than 75% of this portfolio originated in Central and Eastern Canada, this transaction also moves us further towards our strategic goal to grow CWB's Ontario loans to 30% of our total and supports development of more full-service client relationships across the country. Slide 4 illustrates our significant progress against this goal over the past 10 years. While our relative exposure to BC has remained stable, around 34%, Ontario and other markets in Central and Eastern Canada have increased from almost nothing to more than 1/4 of our book. Alberta remains an important market for us at about 1/3 of our total. That said, we are significantly less reliant on growth in our head office province compared to 2007 when it represented more than half of our book.

Along with ongoing organic growth from our branch-raised teams in Western Canada, CWB Optimum Mortgage, National Leasing, CWB Maxium and CWB Franchise Finance, the asset purchase this quarter represents another step in our strategy to increase future growth opportunities across the country.

While our teams are already working hard to deliver exceptional experiences to the new prospects we just acquired, I'll remind you that we do expect a certain amount of portfolio runoff over the next couple of years, with the balance at the end of this year likely to be in the $600 million to $700 million range.

Stepping back from the acquisition, we expect another year of strong overall loan growth in fiscal 2018. Similar to last year, we're off to a relatively slow start for the organic growth compared to the previous quarter. That said, growth in the first quarter this year was $400 million higher than a year ago. Our pipeline of new lending opportunities is strong, and we expect the remainder of this year to resemble fiscal 2017 where loan growth picked up after the first quarter.

Slide 5 also demonstrates success against our balanced growth strategy to diversify our funding sources. Total deposits increased 10% from last year. Branch-raised deposits were up 4% on an annual basis, including very strong 14% growth of branch-raised term deposits. Lower-cost, branch-raised demand and notice balances were relatively stable. We doubled the balance of outstanding securitization funding compared to 1 year ago and increased the proportion of total funding from capital markets to 12% from 9%. The increased securitization primarily reflects our success in funding the January 31 asset purchase, mainly through our existing securitization channels.

Of note, there was no increase in broker-sourced deposits as a proportion of total funding associated with a significant transaction. I'm confident this result would not have been possible 5 years ago. It reflects the focused strategic effort we put into broadening and deepening CWB's funding capabilities as a key element of our balanced growth strategy.

Alongside strong execution against balanced growth objectives for loans and funding, we're working hard to deliver enhanced client experiences through a number of targeted initiatives. This quarter, we're excited to launch the pilot phase of our virtual branch, which promises to be a differentiated banking experience for business owners looking to bank on the go. Our virtual branch offers access to high-touch, personal client experience from experienced commercial banking relationship managers and cash management specialists.

This unique approach to remote service delivery is complemented by our next-generation online banking tools for businesses, which allow clients to house their business and personal banking on a common platform as well as our recently deployed remote deposit capture technology. Launch of the virtual branch, with its in the blend of high tech and high touch, is a key step to set CWB apart from competitors and supports our capability to develop broader client relationships across the country.

With that, I'll turn the call over to Carolyn.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Thanks, Chris, and good afternoon, everyone. As Chris mentioned, CWB Financial Group delivered a very strong first quarter. We produced record common shareholders net income and record pretax, pre-provision income up 25% and 14%, respectively, compared to the first quarter last year, while total revenue was up 10%. Net interest income increased 10%, reflecting the combined benefits of 8% organic loan growth and a 6 basis point increase in net interest margin to 2.52%.

Noninterest income was up 13% from last year. Of note, first quarter noninterest income includes pretax gains of approximately $3 million or about $0.03 of earnings per common share related to the process to appoint successor trustees for clients holding certain securities within CWT self-directed accounts. This process contributed $6 million of gains or about $0.06 of EPS last quarter. Wealth Management revenue increased 17% from the first quarter last year with strong 11% growth in assets under management. Credit-related fees and trust services revenue were lower compared to last year. Noninterest expenses were up 6% from last year, primarily due to a 7% increase in salaries and benefits. Higher people-related expenses mainly reflected hiring activities to support overall business growth and annual salary increments. Premises and equipment expenses increased 4% with ongoing investment in technology infrastructure to position CWB for future growth.

Diluted and adjusted cash earnings per common share of $0.69 and $0.75 were both up 23% from last year. As I mentioned, the CWT-related gains contributed approximately $0.03 of adjusted cash earnings per common share this quarter. Further transfers and gains related to the CWT process may occur, but we don't expect them to be material.

Turning to Slide 7. Net interest margin of 2.52% was 6 basis points higher than the same quarter last year and 11 basis points lower than last quarter. Compared to last year, the increase in net interest margin primarily reflects higher asset yields, mainly due to an increase in average prime of more than 50 basis points, which more than offset higher funding costs. Net interest margin declined from last quarter as the benefit of higher asset yields was more than offset by changes in asset and funding mix. Of note, we held elevated average balances of cash and securities compared to the prior quarter, reflecting conservative funding and liquidity management leaning up to the -- leading up to the asset purchase on January 31.

Our expectations are unchanged in respect to an anticipated 5 to 10 basis points of net interest margin improvement for fiscal 2018 compared to 2017.

We expect the higher levels of cash and securities held in the first quarter to trend down over the next quarter or 2 with absorption through loan fundings and deposit maturities.

On Slide 8, higher total revenue and effective expense management supported positive operating leverage of 3.9% this quarter and an improvement in our efficiency ratio to 44.6% from 46.2% last year. While we expect CWB's efficiency ratio to fluctuate at levels moderately higher than the first quarter due to the necessary investment to facilitate future growth, we are committed to disciplined control of all discretionary expenses. We expect to deliver positive operating leverage over the medium term, albeit at a considerably more moderate level compared to this quarter.

Turning to Slide 9. Overall credit quality remains consistent with our expectation and reflects our secured lending business model, disciplined underwriting practices and proactive loan management. The provision for credit losses represented 18 basis points of average loans this quarter compared to 27 basis points in the first quarter last year and 20 basis points last quarter. The level of the provision in each of the last 3 quarters is consistent with CWB's traditional range of 18 to 23 basis points.

On Slide 10, the dollar level of gross impaired loans totaled $137 million this quarter, representing 57 basis points of total loans compared to $124 million, also 57 basis points last year, and a $168 million or 72 basis points last quarter.

Gross impaired loans within Alberta totaled $80 million and accounted for 58% of total impairment compared to 41% in the same period last year and 63% last quarter. The relative concentration of impaired loans in Alberta continues to reflect the lagging impact of the 2015-2016 regional recession and is consistent with our expectations.

Gross impairments outside of Alberta represented 36 basis points of total non-Alberta loans, down from 52 basis points last year and 40 basis points last quarter.

As we've mentioned before, the level of gross impaired loans fluctuate as new impairments are identified and existing impaired loans are rather resolved or written off and does not directly reflect the dollar value of expected write-off given tangible security held in support of lending exposures.

Our business model remains focused on secured mid-market commercial lending, and we have no material exposure to unsecured personal borrowings, including credit cards.

Looking forward, we continue to proactively assess all accounts for signs of weakness. This includes carefully monitoring developments within the residential housing sector. We primarily participate in housing market activities through personal mortgages and residential project financing.

Personal mortgages are originated both within our branches, primarily through relationships with individuals connected to our business banking clients as well as through CWB Optimum Mortgage. Both channels continue to perform well.

CWB Optimum Mortgage continues to deliver strong growth with an attractive risk profile. CWB Optimum's business model targets affordably priced houses with an average loan-to-value at initial funding of 68% this quarter on an average origination of $340,000. The average size of each outstanding mortgage is $290,000. We assess markets by postal code and continue to actively adjust our maximum loan-to-value criteria based on local conditions.

In recognition of risks within markets like Vancouver and Toronto, we have selectively adjusted available loan-to-value ratios, and in general, we require larger down payments on more expensive homes to manage our exposure.

We also continue to assess the potential impact of further macro-prudential measures introduced to the BC government's recently released budget and plan for housing affordability. In consideration of the full scope of regulatory changes affecting residential mortgages, we continue to expect the growth rate for CWB Optimum to more closely resemble overall growth across the rest of the loan portfolio going forward.

This includes the expected moderating impact of changes to Guideline B20 and the new measures in BC announced with the budget 2 weeks ago as well as our overall risk appetite for Alt-A mortgages as a percentage of total loans. Compared to the level of quarterly originations in fiscal 2017, the first quarter 3% sequential growth rate for CWB Optimum is consistent with these expectations.

Taking a closer look at our real estate project loans. Our portfolio across all provinces is strong and well structured. While we do not expect changes to guideline B20 to have a material impact on growth opportunities within the real estate project lending portfolio, we continue to assess the potential impact of the new measures in BC on further construction-related opportunities in that province.

In general, our loan funding structure requires strong presales supported by nonrefundable deposits. These factors reduce our loss potential in the event of presale recisions. All in-progress projects are proceeding as expected.

As we've discussed before, net growth within this segment has slowed over the past several quarters. We continue to actively support our strong client base in this strategically important segment with well-structured credit facilities. However, of late, continued growth in BC has been more than offset by the impact of successful project completions and payouts in Alberta and Ontario.

Lagging impacts of the 2015-2016 regional recession have resulted in fewer new real estate project lending opportunities in Edmonton and Calgary. We are comfortable with our overall exposure to the housing market, the protections inherent in our secured lending business model and our proactive approach to loan management. We're very close to our clients, and we continue to monitor risks related to changing levels of activity very carefully.

Slide 11 shows our very strong capital ratios at January 31. Using a standardized approach for calculating risk-weighted assets, our common equity Tier 1 ratio was 9.4%, Tier 1 ratio at 10.6% and our total ratio was 12.3%. And at 8%, our Basel III leverage ratio remains very conservative.

The portfolio acquisition at quarter end reduced our CET1 ratio by approximately 25 basis points, consistent with our expectations when we announced the asset purchase. This change was partially offset by contributions to retained earnings from strong growth of common shareholders' net income.

Yesterday, our board declared a quarterly cash dividend of $0.25 per common share, up $0.02 or 9% from the dividend declared a year ago and $0.01 or 4% from the dividend declared last quarter.

With that, I'll turn things back over to Matt.

Matthew Evans

Thanks, Carolyn. And now we'll open the line for Q&A. Daniel, if you could open the line for us.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Doug Young with Desjardins Capital Markets.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

First question, Carolyn, on Page 10 of your MD&A shows your interest rate sensitivity, and it looks like it's declined quite a bit sequentially. Just hoping to get a little bit of color on that.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So it would be just the composition of the asset and liability mix at the end of January. That is a point-in-time assumption. It does assume that everything moves by 100 basis points and that everything is just renewed. So it doesn't actually look at specific maturities of the portfolio or a funding plan in particular. So I wouldn't say there's anything in particular to glean from the difference. There hasn't been a change in our philosophy that would drive that change.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

So if liquidity comes down, this should revert back towards where it's been historically, is that...

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Well, it depends on the composition and how loans and deposits grow between fixed and floating and how we match those with our swap portfolio as well.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. But there hasn't been a concerted effort to hedge anything out or -- on that side? I can take this offline. Maybe -- I wouldn't mind getting a little more details on it.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes, absolutely, we can do that, Doug.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Second is the NIM on the ECN portfolio that you've acquired, what -- I don't know if you said -- if you kind of indicated what that would be. But if -- can you give us a sense of what that would be on that -- and I know the portfolio is going down in size, but the $850 million that you brought on board?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I don't know that we've said it is a higher-earning portfolio than the average of our portfolio, so it's probably in the 6-ish percent.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

6% NIM?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

No. 6% yield.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Yield, okay. And then just a few other ones. Just on your NIX ratio, and I know 44.6% was good in the quarter. It sounds like you expect it to go up and bounce around 46%. But why shouldn't this bounce more around the 45% range? Is there some additional expenses that are coming down the pipe? And I know -- maybe you can kind of elaborate a bit on the cost maybe associated with IFRS 9. Is that driving expenses up once -- before your adopting at the end of this year? Just a little color on that.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes. So I'll start with general and I -- first, you'll recall that in Q4, we had some true-up and year-end adjustments. So Q4 NIEs were a little bit higher than normal. Q1 is often a little bit lower but there's always -- usually, we have things like advertising and business development and community investments that will be a little bit lower in Q1 and then kick in as we move through the year. So we do expect that there will just be -- this is seasonally a little bit lower quarter for NIEs for us. On IFRS 9, the majority of our IFRS 9 costs are being capitalized so they won't be affecting the NIEs until fiscal 2019 when we go live there. So they wouldn't be a factor in the run rate for 2018.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And have you -- yes, I'll leave that one alone. And then just lastly, maybe, Chris, it looks like you've increased the single exposure limit to $75 million from $50 million and, I guess, on bigger corporate loans. Is this a signal that you're going upmarket here?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

No, it's actually more reflective of our concentration management as we think about AIRB and putting our policies in place to allow us to extract our exposures and create our -- populate our scorecards. And it's really more focused on how we are defining our concentrations, managing our credit. And we -- this will be no change in the way we operate our business.

Operator

And our next question comes from Nick Stogdill with Crédit Suisse.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Just first, a numbers one on the margin. If you could give us an update. I guess, last quarter, we were expecting it to be in the 2.6 to 2.65 range for 2018. Is that still sort of a reasonable target range for the year?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So we were in the 2.56, 2.57 last year. For the full year, we're still thinking a 5 to 10 basis point increase 2017 over full year -- 2018 over 2017 is realistic. Clearly, we have a lower NIM in the first quarter, but we believe that the Bank of Canada increase in January, that came early than we were anticipating in our budget projections. So that is beneficial to us and will offset in full year some of the lower NIM in Q1. I think, generally, economists still consider that there is 1 or 2 more rate hikes to come this year, so that would also be beneficial for us. So that's why we're still comfortable at a 5 to 10 basis point increase.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

So I guess, what's going to -- I mean, is liquidity going to come down in the next couple of quarters as well that will help you get back to above the Q4 level? Or is that a big factor on the liquidity side?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

That is a big factor. The 11 basis point decrease in NIM between -- sequentially between Q4 and Q1, about 9 of it is directly related to holding higher levels of cash and securities. So that will trend down over the next quarter or 2. So that will -- we expect that to come back to us in NIM. But I'd just talk a little bit about what happened in the quarter. So we were working towards the closing of the portfolio acquisition on January 31. We raised a senior deposit note to support the portion of that funding that didn't come from the securitization channel, and we raised that $350 million deposit in about -- on about December 20. So we carry that for about 6 weeks of the quarter. And then the securitization increase for us, we didn't actually finalized all of the due diligence in bits and pieces of that until about the middle of January. So in order to make sure that we were prepared to close the transaction, we raised some additional broker deposits just in case. And we're now looking to deploy that funding through ongoing loan growth and deposit maturities. So it will just take a little bit of time to take back down.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. My second question, just on the credit fee line. I think in the release, you thought it might bounce around a bit more this year. So just in terms of absolute dollars, are you expecting that to be flat to down? And should we really be modeling this in as a percentage of the real estate project loan balances as opposed to overall loans?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

That's a tough one to model. I think there are other sources of fee income other than the real estate portfolio, but the real estate portfolio is the portfolio that comes with the largest fees on it. So we expect the credit fee line to trend on a generally consistent basis with overall loan growth. But the stronger the general commercial loan growth is, that won't be 1:1 -- the growth won't be equal on a 1:1 basis.

Operator

And our next question comes from Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Just I guess, the margins and loan growth, we're going to be talking about that today. You talked about the deposit cost -- deposit spread incrementally, I guess, going down as a factor that's going to maybe water down your NIM outlook. Is that new? Or how much of the bank account or rate hikes are you seeing pass on to the deposit rates?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So what we're seeing on deposit cost is we do expect that they'll continue to tick up. So we talked at the end of the fourth quarter that we expected that the spread for broker deposits over the government in Canada curve would likely come back to more normal levels we have seen. We have seen some of that happening in the first quarter. We have also seen a shift in depositor preference in the broker space towards 2-and 3-year terms over the last year or 2 with rates very low. Most of those investors were only interested in 12 months terms. So increasing to 2 or 3 years is positive for us for our duration and our management of those maturities but does come at a little bit higher cost. On the issue of -- we'd also talked at the end of Q4 about at what point did we expect that increases in the Bank of Canada rates would be shared with depositors. We thought that would happen with the third Bank of Canada increase. And we did increase a number of our administered rate accounts in the quarter. So we are starting to see that come to pass.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

All right. The overview was great. How about the volatility issue? You say that you might adjust your liquidity levels depending on market volatility, just a conservative positioning, I suppose. We've seen a spike in the current quarter. Is this some -- the kind of environment where you might want to hold more liquidity, not take it down as fast as you might otherwise?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

No, I don't think so. The actions we took in quarter 1 related almost entirely to the closing of the purchase at the end of the quarter. When we talk about market volatility, that would be more a reference to what we saw sort of in the summer last year.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay, great. And then on the loans and loan growth outlook, quick one on ECN or the assets that you acquired there, you expect the balances to hit $600 million to $700 million by fiscal year-end. What's the 2019 outlook? Like is that $600 million to $700 million where you think it bottoms out? Or could it go lower?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Yes. We -- so we talked about this after we announced the acquisition, we talked about it after Q4 as well. And expectation there, there is a runoff in the portfolio. We do have the opportunity to meet with these clients and find ways to generate more business with them. So we're being conservative as we look at what we believe are renewal amounts and sort of retention of the clients. So that's kind of taking an amortization of the portfolios that runs of during fiscal '18 to get to the $600 million and $700 million level. And then into '19, the runoff would continue. And if we continue to also take up some of the clients as well, we're looking in the $500 million range at the end of fiscal '19. And these are estimates, Gabe. We're just -- we're looking to get to know the clients and understand requirements. And we believe it's a good opportunity, this 3,000 new clients for us. There's a competitor that's being eliminated in the market here. So we certainly have 3 areas of our bank focused at these clients. We've got financial equipment bank. We've got our National Leasing group out of Winnipeg focused on it who have done a lot of work to get this across the line and our Maxium financial group in Ontario that are very focused on health care portion of the portfolio. So we will be very focused on how we can lever these clients.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

All right, great. The real estate construction loan growth outlook, was that -- I don't recall seeing that in there before. Maybe I'm wrong. But in any case, you've got the -- let's put it this way, if it was only B20 that was representing a headwind to mortgage growth and then indirectly residential real estate construction activity, do you think you could grow that portfolio? And since we're also dealing with the BC changes that have taken place recently, do you think there's, therefore, downward pressure on those balances?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well -- so I mean, there's definitely a lot of -- a lot going on in the real estate market with all the macro-prudential changes that have occurred from the Fair Housing Act in Ontario to the foreign buyers changes in BC to B20, all these different issues. But -- and all of these are focused on demand side of the equation. And the challenges -- there's still supply issues, right? There's certainly a level of product that's coming into the market certainly in Toronto and Vancouver. So it takes quite a long time for building permits to get approved. We have clients that are very, very well capitalized, very focused and able to move forward that it's -- the market is just a bit slower to get those projects over the line. So as we think about the market, we've got a very strong history and very strong underwriting background in it. We would continue to be very focused on it, and we will manage that exposure appropriately. But it's not a market that we're pulling back in. But the market is clearly adjusting given the macro-prudential, and we need more supply to come into it as well.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

But do you expect the portfolio to grow? You have visibility on paydowns, right?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well, we have visibility on paydowns we anticipate in Ontario that it's probably relatively flat. Lower Mainland, I think, incrementally, there's opportunities for growth. Edmonton and Calgary, it is definitely slower just given the fact that we've been in a slower economy here. So our goal in that portfolio is to grow it and obviously in a very prudent way.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Last question, you may have mentioned this before. What is the geographic mix of that portfolio?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Our largest exposure is in the Lower Mainland. Second would be Edmonton. Third is Calgary. Fourth is Toronto.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Like 50% BC are Lower Mainland? Or what -- how big is that?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

It would be -- about 40% would be BC. It's not really greatly out of proportion to our portfolio stats. So BC is 35% of our book, so slightly higher on the interim construction.

Operator

And our next question comes from Sumit Malhotra from Scotia Capital.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

I just wanted to make sure I'm thinking about the numbers right here when it comes to the net interest margin trend for the balance of the year. So first off, on the liquidity, is it fair to say you ended the quarter at a lower level than you carried for most of Q1? And I'm thinking here that you probably had some outflow when the acquisition closed right at the end. So was the balance at the end of the quarter lower than you would have been carrying for most of it?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

It actually wasn't. We did a floating rate note -- $250 million floating rate note near the end of January. That was an opportunistic raise for us given the market receptivity. So it was probably about near the same at the end of January as we've carried too much of it.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. And I guess, what I'm getting at here and probably some of the others as well is it certainly looks like the last 2 quarters, I'm sure it was mostly deal related, you are carrying liquidity that's more in line with average levels. So it doesn't look, based on where you've managed over a number of years, that this liquidity level is heavy. So maybe the better question to ask is, in Q2, Q3, when you were meaningfully lower, did that speak to some changes that you had made or some enhancements you had made in your liquidity process that was allowing you to carry what looked more unusual compared to your historical pattern?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes. That's a fair conclusion, Sumit. So in Q2, Q3, Q4, we were in and around 9% or 10% average of total assets. We're back to 12% in Q1, which you're right, prior to that was our average level. What we saw through 2017 was positive growth in our branch-raised, relationship-based deposits, which are more liquidity friendly, have a higher liquidity value. And so that permits us to manage our liquidity a little bit differently than we were before that. So yes, I would say Q1 is an anomaly compared to those prior 3 quarters, which is more like what we would expect being a normal go-forward percentage.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. So you have made some improvements there in answer to that regard. And I guess, that gets to the nut of it here. I mean, I think Nick asked you about the range going forward. Even to be at the low end of the level you're talking about, 5 to 10 basis points higher than last year, you would need a pretty meaningful increase in margin for the balance of the year. If I've done my math right, it's something like 12 basis points higher on average than you had in Q1. So fair to say you're expecting a pretty immediate step-up in NIM starting in Q2. Is that the correct math here?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

We are expecting a step-up in Q2. It's not going to be all the way back to the difference that we saw between Q4 and Q1, but it will be coming back. Yes.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. Well, the math is what it is, Carolyn. So I thought I would just check on the [pace] of it. Let's move on. On the mortgages, and you touched on some of the regulatory changes that we've been hearing about in a lot of different fashions. Looking at the numbers for you folks in mortgages, it doesn't really look like there was any material slowdown if I -- looking at the Optimum piece, it looks like it's about 4% growth quarter-over-quarter. I wanted -- and I think CWB has been maybe more forthcoming than some of the others in saying we do expect a -- these B20 changes to impact our business. Is this just something that we didn't have enough time yet and -- post the changes for -- in effect? Or have you so far not been as impacted as you previously suggested?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well we have about 3% growth in Optimum. And the overall impact that we've seen so far from B20 and the others sort of macro-prudential changes, this is all going to take a bit of time, of course, to work its way through. But we did have an increase in activity as we led up to January 1. And since January 1, we have seen an increase in renewals. So those would be part of it, Sumit. It will take, I think, another quarter or 2 to really see what B20 has done and then, of course, the impact of the macro-prudential changes as well.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

So perhaps this quarter isn't the best...

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

I think it's early.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

It's just too early? It's early?

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Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Yes. I think it's early. Yes. Yes.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think we're also -- sorry, Sumit, I was just going to say, 3% growth from Optimum, sequentially, we are seeing growth in mortgages coming -- personal mortgages coming to the branch network. That is one of the initiatives that we're working on as we strive to be the best bank for business owners covering all of their requirements, including both retail and wealth. So yes, I think there's a little bit more growth coming on the branch side than we have maybe seen in the past.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

So that's balancing up whatever might be impacting Optimum?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Last one. I'll go back to you, Chris, on credit -- or credit quality. Certainly looked much more normal than we've seen in a few years. And you mentioned some of the residual impact when it comes to the effects in Alberta. But even there, your gross impaired loan's down pretty sharply. I noticed I don't think you're breaking out the energy piece anymore, so that's probably a good indication in and of itself. 18 basis points of provisions, gross impaired loans down to a more reasonable GIL run rate, do you feel you're back in a position where CWB was pre the energy downturn, that the portfolio quality is now maybe at the lower end of the target range for the balance of this year? Or are there still a few problem files that you think might keep that aggregate provision higher?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well, we've always been very disciplined in our approach to credit. And as we think about the NIX, we still got 58% of the gross impaireds are in Alberta. So we are looking at that very carefully. We've got line of sight on what we think the sort of challenging credits are as we've monitored or managed our way through the impact from the down -- the recession that we had here. Looking forward, our business model of being very disciplined in underwriting, having primarily secured lending with -- in areas that we bring to the table very strong lending expertise, so I believe we don't -- we're not seeing unexpected or systemic issues that would cause a broad issue in the credit portfolio. So we feel comfortable that the quality that we see today is -- sort of reflects what we would see going forward. And so has our -- was Q3 our peak in gross impaired loans? It may well be. I mean, we feel very comfortable in how we're looking at our book today. So it's definitely a positive coming out of this quarter. And as we look into this year and focus on us continuing our transformation, I think it's the credit is a strong story -- strong part of our story.

Operator

And our next question comes from Steve Theriault with Eight Capital.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

If I could just go back getting into the -- starting with a numbers question. On the credit fees, I think it was Nick's question, Carolyn, credit fees were down 10% year-on-year from what I can see. And your when you talked about outlook, you talked about the growth in that getting back to --

looking more like the total loan book. So is that meant to suggest that year-on-year growth gets back to sort of high single digits? Or is there really -- has there been a bit of a rebasing here in the $1.5 million drop, I think, sequentially and we should think of a build on those fees more quarter-on-quarter looking ahead?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think quarter-on-quarter is probably fair. There isn't anything in particular in quarter 1 that jumps out at me. The composition of the loan growth between real estate versus general commercial will be a component as we move forward. And then there are just factors that are -- it depends on client behavior. So standby fees go into that line, so it depends on what kind of outstanding we have -- lines of credit we have available and how much the clients are using them.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

And really nothing from ECN going into that line item?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I don't think it's material. We can circle back with you on that, Steve. But I don't think so.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

Okay. And then for Chris, early repayments have been a theme for Alberta. But I noted Alberta loans were flat year-on-year, I think, for the first time in a while. Nice improvement there. Can you refresh us on your outlook for that -- for the province of Alberta lending book? Are you getting comfortable now that -- to say that you can start to see some positive growth? Or is flat feeling like what you might see for '18?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well, as we talk to our branches, they definitely are much more positive than they were, say, 2 years ago. They were more positive last year than they were to the prior year, and I would say they're still very positive as we look into fiscal '18. We have absolutely had repayments in Alberta as people have really sort of scaled their businesses to match the economy. GDP growth was positive. There's still -- I think we've got a good, healthy group of clients that allows us to really work with them. We've had great fundings in Alberta, so that's positive. But overall, we still have worries about the economy here with the lack of pipelines going forward and just sort of the capital expenditure slowdown that's occurred in Alberta. But our portfolio here has performed -- it's improved in its performance and certainly improved in its fundings. So we will -- I'd say, we would take it as being much more positive than it has been, say, even 12 months ago.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

Okay. And then last one for me. Chris, on capital allocation, so what needs to happen? What do we need to see for you to start thinking about using the buyback you've got in place? I know you've talked about the right market conditions, but can you flesh that out a little bit for us?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well, as we think about our capital position, which is very strong at 9.3%, we have got -- the buyback we have in place is -- we would probably not look to trigger that until we issue shares at $24.50. And we're trading significantly above that. So we wouldn't see buying back shares at this point. We're in the process of our AIRB project that as we work our way through that towards our -- an expected 2020 go live, we have time to think about how we would manage that capital base. I mean, our #1 goal is to utilize capital for loan growth, acquisitions, really looking for how we grow our revenue and increase the size of our business. And that's really our #1 focus. How we ultimately end up with the balance sheet mix once we have a different way to look at it with more tools from AIRB, that will be a conversation at that point. But in the interim, our goal will be to deploy capital in really business growth.

Operator

And our next question comes from Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

Carolyn, just maybe coming at some of the discussion around funding and liquidity a little bit differently. Is there a loan-to-deposit-type ratio that you're trying to kind of keep in mind as you see the loan growth come through and you think through the deposit? And I know you've talked about limiting the broker deposits in the past. But I'm just trying to kind of get a feel for how much of the loan growth can get funded through the capital markets?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I'll come at it a couple of different ways, Sohrab, and feel free to ask me a follow-up. Our #1 funding priority is to continue to grow our branch-raised relationship deposits. So as much of the growth as we can fund through that branch network is better for us, it's better for our franchise value, it's better for NIM in the short term. There's just multiple reasons of why that's the top priority for us. As we think about the other sources of funding and how we have expanded our funding sources over the last, say, 5 years, capital markets are now at about 12%. We'd be fine if that was -- would be fine if 15%. Securitization we're at about 6, I think the number is. We'd be comfortable at 10 to 12. So we do look to continue to expand those channels, continue to track out our capital markets maturity profile. And the broker deposits will make up the balance. We're at about $8 billion outstanding. We're comfortable at the maturities and new fundings that we need to maintain that at about $8 billion. So that is our strategy going forward that as the rest of the book grows, that portfolio remains in and around about the same amount of outstandings, so that the proportion continues to tick down.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

Okay. I mean, over the last, I don't know, a handful of quarters, it doesn't look like branch deposits have been growing any faster than, let's say, about $100 million a quarter. So it's fair to say that the bulk of the growth -- loan growth is going to be funded through some of the capital markets and securitization vehicles you're talking about, right?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

It could be yes until we see a material shift in branch-raised deposits. The initiative that we launched in pilot this quarter that we have great expectations for is the virtual branch and how that will benefit clients, benefit clients that today are lending-only clients. So this, we believe, gives us a potential to franchise those clients.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Yes. And I would step in here, too, Sohrab. And the issue is we are investing in our capabilities. So we brought in the new banking system in May of 2016. We're rolling out features and functionality that we have never had before that gives us the ability to take on clients that we just didn't have the capabilities to do before. And that's both clients that are an hour from Edmonton or are in Ontario. It just gives us -- we've got a much more robust technology base. We have more products. We are very focused on having products that are 100% competitive in the market. And we can do that with our new technology and our ability to deliver that. So that's where that branch deposit growth traction is going to come from, it's by adding the capabilities. And our message is just more to come.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

All right. I mean, not -- that's very helpful, Chris. But just to go back to the -- I'll call it the capital markets deposit, as you refer to, I think, Carolyn. I mean, do you have visibility into the cost of that if it's going to be the source of funding for that growth at least for the foreseeable future?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Well, I think we view it as just one part of the whole as opposed to the entire part of the funding equation.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

No, I understand. But I mean, like -- and I'm not trying to be difficult about it. But the branch-based deposits hopefully will pick up, will hit an inflection point. But if the last 3 or 4 quarters are an indication of, let's say, the next 3 or 4 quarters, it certainly feels like capital markets and securitizations and nonbranch-based deposits, even if you keep a lid on the broker deposits, are going to have to be how you're going to fund the anticipated loan growth. Do you have visibility into the cost of that?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I guess, we know where our spreads are trending. We know where the projections are for those costs. So that is included in the forecast that we have looking out to 2018 and beyond.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

So that's factored into your 5 to 10 basis point NIM-type outlook?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes. Yes.

Operator

And our next question comes from Meny Grauman with Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

There's a lot of talk about trade and worries about trade. I'm wondering how you see that uncertainty -- that trade uncertainty impacting your commercial clients. And what are they telling you? And are you baking that into your loan growth assumptions? Is there anything there that you're assuming in terms of the impact?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well, if you look at sort of the mix of business we have and the geographies we're in, I mean, the country is certainly, potentially, impacted by whatever trade issues may occur with NAFTA and then, I guess, potentially steel and aluminum tariffs. I would say that we don't really have an exposure to steel or aluminum unless we were on the transportation side of that equation. We've looked at those sort of macroeconomic risks of trade pauses. We've got obviously exposure in BC with lumber and wood products that variably go to the U.S. and go to Asia. We've met with clients there that are selling more to Asia. So I think it's absolutely an area that would have an impact on the economies across the country. And we would have participation in different industries that would have impact. And transportation is certainly one of them where there would be -- there's no sales transport of goods and products that allow -- that could be impacted by trade changes. I mean, the extent to which this occurs, I guess, it's something we will follow and work our way through. And there's no easy way to say that it's a major issue for our book. We're not really in -- we're not in trade finance. We've got -- the book -- potentially, for the Canadian economy, there'll be impacts, and that would be potentially a GDP issue in the country. But I don't think we have any specific book of business that would be hit from a systemic way by a change in the trade policy.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

So just as a follow-up, like you're not seeing any change in behavior in your clients or decisions about the kind of investments that they're making? Just wanted to see if there's anything that they're telling you that you're seeing in your day-to-day dealings with your clients.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Well, Meny, I think the risk is for Canadian manufacturers to open in the U.S. I mean, that would be a risk. So there'd be CapEx that would move from Canada to the U.S., that would absolutely be a risk. And I think that's a challenge that we as a country would have to face.

Operator

And our next question comes from Richard Roth with TD Securities.

Richard Roth - *TD Securities Equity Research - Associate*

A question on the ECN purchase. So when I look at $500 million for 2019 as an estimate, that seems to imply that you're retention is probably going to be higher than the 20% -- the 10% to 25% you had sort of previously estimated. Is that a correct read to the situation?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think at this point, it's still just an estimate. So we're still getting to know these clients, figuring out what our strategy is and our plan is. So I wouldn't say there's a conscious change in message there with an estimate of about $500 million by the end of 2019.

Richard Roth - *TD Securities Equity Research - Associate*

Okay. Because when I think about the loan book having like an average duration of 2 years, and 2019 isn't quite 2 years out because of a the different fiscal year-end, but sort of that does imply materially above 25% retention, right? Or not and that I'm misreading it?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think we'll just update -- we'll commit to give an update next quarter as we have a better idea of the portfolio and our plans moving forward.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

Yes. We just -- we booked the acquisition January 31, and it's March 8. And we're reaching out to these clients and getting to know them. We certainly looked at the credit, but we didn't have the face-to-face meetings with clients to see what their credit demands are, who they bank with and what those opportunities are. So we definitely -- as I mentioned earlier, we've got 3 groups of our bank that are focused on this portfolio with our equipment finance group, National Leasing and Maxium. And I can tell you that they're very interested in finding ways to broaden their relationships with these 3,000 clients. So we have been conservative in what we are looking at from a runoff, and we anticipate that we'll sort of set a couple of numbers out there, what we think the ending balance would be for this fiscal year and for fiscal '19. And we'll just update it as it goes along.

Richard Roth - *TD Securities Equity Research - Associate*

Okay, fair enough. And then I gather from that statement that you're not going to, therefore, provide an update on the $0.10 accretion number that you had put out previously, correct?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes, we're completely comfortable with that for 2018.

Richard Roth - *TD Securities Equity Research - Associate*

Okay. and 2019 as well? Or not?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

At this point, yes, so we'll update that as well as we move forward.

Operator

And our next question comes from Scott Chan with Canaccord Genuity.

Scott Chan - *Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst*

Yes, just a follow-up on ECN. So on that portfolio transaction, there's no originations going on right now, are there? Is it just in a runoff mode?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

No, it's not. Yes, it's not in runoff mode. We are approaching each client. We're engaging with the clients both when their facilities are up for renewal, but also just as a way of creating a relationship and starting to build our relationship with our salespeople and those clients and customers.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Director*

And I think out of the gate, we've already had a couple of new loans. So it's not -- no, it's not just runoff. Yes.

Scott Chan - *Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst*

Okay. And so if you expect $500 million, how do you maintain the same accretion for fiscal '19 of at least $0.10.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think -- sorry, Scott, the simplest answer would be there's 3 quarters. It will be included for 3 of our quarters in '18 and 4 in '19.

Scott Chan - *Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst*

Okay. And just on the other income, Carolyn, the Wealth Management revenue is up 17% and assets were up 11%. What's the incremental variance that drives higher sales over and above asset growth?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So it would be the composition of where that AUM growth is coming from. We've had really good growth in our CWB Onyx fund, so our own internal mutual fund, as opposed to selling another family of mutual funds.

Operator

And that concludes our question-and-answer session for today's call. I would now like to turn the call back over to Matt Evans for any further remarks.

Matthew Evans

Thanks, Daniel, and thank you all very much for your continued interest in CWB Financial Group. Please note that our Annual Meeting will be held on April 5 at 1 p.m. Mountain Time here in Edmonton, and a link to the webcast will be found on our Investor Relations website at cwb.com. We invite you to listen in. We also look forward to reporting financial results for the second quarter of fiscal 2018 on June 7.

And with that, we wish you all a good afternoon.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.

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