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PRESENTATION

Operator

Good afternoon. My name is Chris and I will be your conference operator today. At this time I would like to welcome everyone to the CWB Third Quarter 2016 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 then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key. Thank you.

Carolyn Graham, Executive Vice President and Chief Financial Officer, you may begin your conference.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thank you, Chris. Good afternoon and thank you for joining us for our 2016 third quarter results conference call. 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. Our forward-looking statements advisory is on slide 13.

The agenda for today's call is on the second slide. In a moment Chris Fowler, our President and CEO, will comment on our current performance and strategic direction as well as recent changes to our executive team. I will follow with detail on our third quarter and year-to-date financial results, including credit quality and stress testing. And Chris will conclude before we move to the question and answer session. In addition to Chris, joining me today are the other members of CWB's Executive Committee: Kelly Blackett, Glen Eastwood, Darrell Jones, Stephen Murphy, and Bogie Ozdemir.

I'll now turn the call over to Chris.

Chris Fowler, President & Chief Executive Officer

Thank you, Carolyn.

Before I briefly touch on our third quarter performance and strategic direction I'd like to acknowledge Greg Sprung and Randy Garvey, both of whom retired from our Executive Team today. Greg and Randy have each made significant contributions during their time with CWB and we would not be what we are without them. On behalf of the Board and the entire CWB Group, I would like to sincerely thank them for their years of service and wish them long and healthy retirements.

Our current Executive Committee is included on slide three and I would like to formally welcome Glen Eastwood and Darrell Jones to this group. Glen has been with CWB for more than 15 years and was most recently Senior Vice President and CWB's Regional General Manager for the Prairies. Darrell joined us more than ten years ago and was previously Senior Vice President and Chief Information Officer. Both Glen and Darrell have taken on newly-created roles which tie to our continued evolution and support our strategic direction.

We have stated before that CWB's future will include deeper client relationships across a more diversified geographic footprint, including improved funding and enhance capital management. To achieve these balance

growth objectives, each facet of the group must grow and develop. This includes processes, products, people, and structure. In support of this development, Glen has been appointed Executive Vice President for Business Transformation. Glen's background is branch-based banking and he will represent the voice of the branch network within our executive team. In addition to business transformation, Glen has also assumed executive oversight for wealth management and trust services.

It's clear that technology has transformed banking and targeted technology investment is a key aspect of our strategic direction. We are determined to use our investment in technology to improve how we build client relationships and manage our business. During his time as Chief Information Officer, Darrell has fundamentally reshaped our technology strategy, positioning us well for future growth. Elevating Darrell's role to the Executive Committee demonstrates our commitment to effect management of our technology investment.

Moving to the next couple of slides, our strategy is to deliver strong, balanced growth of both loans and funding sources. We will also progress towards a more balanced geographic footprint and broader diversification within targeted sectors of Canada's commercial banking industry. we believe success against these objectives will deliver performance consistent with our medium-term target ranges and result in strong shareholder returns.

Slide five demonstrates our track record of very strong loan growth over the past five years. Loans grew 14 percent over the past 12 months, 2 percent this quarter, and 12 percent year to date. This contributed to 6 percent year-over-year growth of pre-tax, pre-provision earnings, as well as the achievement of positive operating leverage. While continued pressure on net interest margin has constrained further earnings growth, we have undertaken a number of strategic initiatives in support of margin. These include efforts to optimize our funding mix and a focus on higher-yielding commercial loans with attractive risk profiles.

On the funding side, branch-raised deposits grew 10 percent from last year and a very strong 4 percent from the prior quarter. Targeting these deposits is a key objective of our strategy. They are lower cost and strengthen relationships by providing clients with relevant tools to manage their finances. With the launch of our new core banking system on May the 2nd, we are now positioned to support delivery of this strategy with appropriate technology. We are moving from stabilization to sustainment for the new system thanks to a tremendous team effort across our branches, corporate office, and the project team. The new system also supports our AIRB transition project, which is fully underway. We have now developed AIRB models for two of our portfolios and deployed them for use in the business. We look forward to reporting further progress towards this important strategic objective in the quarters to come.

Turning back to the loan book, by the end of the third quarter we have already achieved double digit loan growth compared to last year. This marks the 26th time in 27 years that we have attained this significant level of performance. That said, growth within Alberta has slowed notably with the contraction of outstanding balances from last quarter. Our overall quarter-over-quarter growth rate was slower compared to the first half of the year. This reflects both our disciplined approach to the market and our selective risk appetite. Our strategy is not to pursue growth for growth's sake but to deliver profitable growth through well-priced loans with an attractive risk profile. Our ability to achieve strong growth outside of Alberta is the direct result of our strategy. We expect the trend of higher relative contributions from non-oil producing provinces to continue.

On slide six you can see that Alberta now represents 38 percent of our total loan exposures, down from 42 percent one year ago and 50 percent in 2009. This is largely the result of consistent growth from our businesses with a nationwide presence, including National Leasing and Optimum Mortgage, and now complemented by CWB Maxium and CWB Franchise Finance. From a business sector perspective, our portfolio of real estate project loans posted the highest growth in the past year but a slower growth rate in the third quarter. This was followed closely by general commercial loans, including the portfolio acquisition of CWB Franchise Finance on July the 1st and originations within CWB Maxium. Strong performance from our personal loans and mortgages also continues.

We are carefully monitoring developments within the residential housing sector. We are particularly focused on markets where a combination of rapid price increases and regulatory change, including the potential impact of the new BC foreign buyer tax, could impact pricing and the level of future activity. In recognition of risks within markets like Vancouver and Toronto, Optimum Mortgage has selectively adjusted available loan-to-value ratios for residential mortgages. In general, we require large down payments on more expensive homes to manage our exposure. Carolyn will speak to stress tests related to Optimum in a few minutes. Our portfolio of real estate project loans in all provinces is strong and well structured. Our loan funding structure requires strong

presales supported by non-refundable deposits. These factors reduce our loss potential in the event of presale rescissions. Current high-rise construction projects in the Vancouver and Toronto area are more than 90 percent presold. Ongoing monitoring of all in-progress projects confirms there's been no material evidence of account deterioration. Overall, we are comfortable with our exposure to the housing market, the protections inherent in our secured lending business model, and our proactive approach to loan management. We are very close to our clients in this business and we continue to monitor risks related to changing levels of activity very closely.

Looking forward, we continue to maintain a realistic outlook. We are carefully managing near-term risks related to Alberta exposures due to the direct and indirect impacts of persistent low energy prices and the economic consequence of the Fort McMurray wildfires. Our business presence within Fort McMurray is limited but it is clear the impact of the wildfires has deepened Alberta's current recession. Every business cycle presents its challenges and we will continue to manage through those we face today. We are confident in our business model. We believe our overall financial performance over the medium term will benefit from an expanding geographic footprint with increased business diversification, a continued emphasis on secured lending, disciplined underwriting and proactive loan management, and ongoing success from strategic initiatives to build core funding sources through enhanced client offerings and effective investment in technology. As I said, I believe our well-defined strategic direction will translate into solid earnings growth and strong shareholder returns.

With that, I'll turn things over to Carolyn.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thanks, Chris.

Turning now to slide seven and eight, I'll begin with the reminder that references to performance highlights refer to the results of continuing operations.

As Chris mentioned, third quarter pre-tax, pre-provision earnings of $82 million were up 6 percent from last year while common shareholders net income of $46 million was down 11 percent over the same period. The positive impacts of very strong 14 percent year-over-year loan growth and significantly higher non-interest income was more than offset by the combined influence of several factors. These factors included increased energy-related provisions compared to last year, a decline of 17 basis points in net interest margin, 5 percent growth in non-interest expenses, the new fair value charge related to the CWB Maxium acquisition, higher preferred share dividends, and the 20 percent increase to the Alberta corporate income tax rate. Of note, quarterly contingent consideration fair value changes of the current magnitude over the three-year settlement period would approximate the maximum earn-out for CWB Maxium.

Diluted earnings per common share of $0.55 and adjusted cash earnings per common share of $0.60 were down 14 percent and 8 percent respectively. Compared to the prior quarter, common shareholders net income was up 42 percent, diluted earnings per common share was 38 percent higher, and adjusted cash earnings per common share increased 465 percent as energy-related credit provisions were significantly lower. Pre-tax, pre-provision earnings declined 3 percent. Positive factors included 2 percent loan growth, two additional interest earning days, consistent non-interest income, along with stable non-interest expenses. These were more than offset by a 7 basis point decrease in net interest margin, the contingent consideration charge, and higher preferred share dividends. On a year-to-date basis pre-tax, pre-provision earnings of $248 million increased 6 percent while common shareholders net income of $130 million was 16 percent lower, the benefits of very strong 12 percent loan growth and 7 percent higher non-interest income were more than offset by increased energy-related provisions for credit losses and a 13 basis point decrease in net interest margin. Diluted and adjusted cash earnings per common share declined 18 percent and 15 percent respectively.

Slide eight also shows our very strong capital ratios at July 31st. Using the standardized approach for calculating risk-weighted assets, our common equity tier-one ratio was 9.0 percent, the tier-one ratio was 10.8 percent, and our total ratio was 12.9 percent. With the 150 million issuance of common shares this quarter our capital position is very strong. We are well positioned to continue to execute against our balanced growth strategy while ensuring balance sheet resilience and flexibility. At 8.4 percent, our Basel III leverage ratio remains very conservative. Yesterday our Board declared a quarterly cash dividend of $0.23 per common share, consistent with last quarter and 5 percent higher than the quarterly dividend declared one year ago. Common share dividend increases are evaluated each quarter against the dividend payout ratio target of approximately 30 percent.

Net interest margin on a taxable equivalent basis of 2.40 percent was 17 basis points lower than a year ago. Of note, the decrease includes a one-time three basis point

impact related to a third quarter change in methodology for the recognition of certain loan fees. Compared to last year, the Bank of Canada's July interest rate cut had a negative impact on loan and security yields while competitive factors continue to affect loan pricing. Corresponding reductions in funding cost and favourable changes in deposit mix, partly resulting from strong growth in branch-raised demand and notice deposits, did not fully offset the impact of these negative factors. Continued pressure on net interest margin is expected from the combined impact of the current low interest rate environment, the relatively flat yield curve, and competitive factors.

Turning now to slide 10. Excluding our portfolio of oil and gas production loans, credit quality remained stable. We continue to expect full year credit losses to fall between 35 and 45 basis points of average loans. Including the 78 basis point provision for credit losses last quarter and a sequentially improved third quarter provision of 32 basis points, the year-to-date provision was 43 basis points. Of the 32 basis point provision this quarter, 12 basis points related to direct oil and gas exposures, 11 basis points to non-energy related exposures, and 9 basis points was added to the collective allowance. Significantly higher provisioning within the oil and gas portfolio has resulted from the influence of regulatory factors on the liquidity of assets securing these exposures as well as the impact of persistently low and volatile energy commodity prices on producer cash flows.

Slide 11 shows the level of gross impaired loans. Total gross impaired loans of $107 million compared to $92 million in the third quarter last year and $145 million last quarter. Total gross impaired within Alberta of $43 million at July 31st increased from $34 million one year ago and were down from $80 million at April 30th. Gross impaired loans within the oil and gas production lending portfolio totalled $17 million at July 31st compared to $14 million one year ago and $54 million last quarter. Over the past several months we have aggressively managed our exposures within this portfolio through both exiting accounts and write-offs and we will continue to be cautious and prudent in our approach. Our total outstanding balance of oil and gas production loans has decreased from 36 accounts with $343 million outstanding at April 30th to 25 accounts with $273 million outstanding at July 31st. And there were no new oil and gas impairments this quarter.

Total third quarter gross impaired loans within CWB's equipment finance and leasing portfolio, the category which captures most of our exposure to oil and gas servicing, were $36 million, relatively unchanged from the prior quarter with approximately half of the balance represented by Alberta exposures. Impairments in this category one year ago were $23 million with approximately 30 percent represented by Alberta exposures. Partially due to the extended period of economic weakness within Alberta, we expect periodic increases in the balance of impaired loans going forward and, as Chris mentioned, we continue to carefully monitor the entire loan portfolio for signs of weakness, and this includes monitoring emerging risks related to the housing markets in Vancouver and Toronto.

I will reiterate that we continue to anticipate loss rates on impaired loans outside of the oil and gas portfolio to reflect the combined positive impact of our disciplined underwriting, secured lending practices, and proactive account management. As such, we expect loss rates on non-energy loans to be consistent with our prior experience where actual losses have been low as a percentage of impairments. It's important to note that our loans to companies providing services to the oil and gas industry are primarily comprised of term-reducing advances against standard industrial equipment as opposed to operating lines of credit for loans secured against receivables or inventory. The total outstanding balance of equipment loans in Alberta has continued to contract as borrowers have been proactive in rationalizing their fleets. The secondary market for standard industrial equipment remains liquid and global. Current pricing for non-specialized equipment has remained adequate in view of the rapid amortization of our typical equipment loans and the nature of our collateral.

Our business model remains focused on secured mid-market commercial lending. The balance of loans classified as past due but not impaired at July 31st increased to $276 million from a $186 million last quarter with the largest portion of the increase related to personal lending; however, we have no material exposure to unsecured personal borrowing, credit cards, auto loans and, in general, to non-real estate personal borrowings. This focus reduces our exposure to the direct credit impact of elevated levels of unemployment compared to what would be expected from other lenders with the more pronounced focus on unsecured personal lending. Three quarters of the current balance of past due loans has been in arrears for less than 30 days and nearly 95 percent for less than 60 days. As we've said, our expectations for credit quality include periodic increases in the balance of gross impaired loans and we expect the degree of ongoing migration from soft arrears to the impaired category; however, all past due loans do not to come impaired and throughout our history we have also shown that impaired loan balances do not reflect the dollar value of expected write-offs. The Alberta recession

has led to an increase in soft arrears to date while BC, Ontario, and Atlantic Canada have been stable.

Before I turn to stress testing in general, I'll note that preliminary stress testing of Optimum's portfolio is underway to simulate the impact of 50 percent home price correction in Vancouver, 40 percent price correction in Toronto and a 30 percent price correction elsewhere across the country. Along with related macroeconomic assumptions, these stress conditions produce a one-year loss rate of approximately 50 basis points as a percentage of Optimum's outstanding loans.

Turning now to slide 12, we continue to stress our strong balance sheet as a whole, our income statement and capital, to confirm our confidence in the resiliency inherent in our secured lending business model and to assess the potential impacts of various scenarios. These include the potential for significant and prolonged economic weakness within the oil-exposed provinces, as well as the potential for housing price corrections of various magnitudes. Recent stress tests incorporated the loss rate related to oil and gas production loans experienced this year and a number of related assumptions to increase the severity of those tests. We include the assumption that stress conditions persist over a three-year timeframe with significant compression of net interest margin to 2.0 percent in each year. The assumed consolidated annual provision for credit losses in each year of the stress test is approximately 65 basis points.

Results of these tests support our confidence in CWB's proven business model and the resilience of our strong capital position. While the combined impact of severe stress scenarios over a multi-year time period constrains earning growth, we remain profitable and financially stable, even through what we believe are severe tail risk scenarios. The durability of CWB's capital position under the severe conditions assumed within these stress tests reflects both our commercial lending focus and our use of the standardized approach for calculating risk-weighted assets. Under this approach we carry more capital compared to banks that use the model-based methodology.

And I'll now turn the call back over to Chris

Chris Fowler, President & Chief Executive Officer

Thank you, Carolyn.

Before we ask the operator to begin the question and answer period, I'd like to underline a few key points related to CWB's current performance and our outlook. Our solid third quarter results reflect the continued successful execution of our strategy. We achieved strong growth on both loans and funding sources and progressed towards a more balance geographic footprint and broader diversification within targeted sectors of the commercial banking industry. We also delivered positive operating leverage and strengthened our capital position. We enter the final quarter of 2016 with a very strong balance sheet and are well positioned to continue to deliver balanced growth over the medium term with an attractive risk profile.

We are now happy to take your questions and I'll turn the call back to the operator.

QUESTION AND ANSWER SESSION

Operator

Thank you. At this time I'll just remind everyone if you would like to ask a question please press star then one on your telephone keypad. Your first question comes from the line of Sohrab Movahedi with BMO Capital Markets. Your line is open.

Sohrab Movahedi, BMO Capital Markets

Thanks. Carolyn, that was excellent. I really enjoyed the colour you provided on that past due but not impaired. I guess the obvious question that comes to mind is it's been pretty good volume growth; can you just confirm that it's not coming at the expense of increased risk appetite?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I can absolutely confirm that.

Sohrab Movahedi, BMO Capital Markets

Okay. So the NIM compression here is obviously faster than, ah, it seems to be persistent and much more prevalent I'd say than I would have thought. You're obviously offsetting that with volume growth. But when you say this NIM compression is going to continue to persist, are you thinking in the 5 basis points a quarter range?

Carolyn Graham, Executive Vice President & Chief Financial Officer

We're not thinking in the 5 basis points, we're thinking more about, I'd say in the 1 or 2 basis points per quarter where there are small headwind factors in some quarters offset by some positive factors. In this quarter we didn't see the positive factors, we just saw an accumulation of small headwinds.

Sohrab Movahedi, BMO Capital Markets

Okay. And I guess, Chris, every time in banking we see pretty aggressive growth, notwithstanding your good history, you have to get your tentacles up. Some of this growth that is coming on line is through the acquisitions you've made, the inorganic growth so to speak. How comfortable are you that these loans that are being originated through Maxium or the transportation or, sorry, the Franchise Finance business are congruent with the underwriting standards and risk appetite that CWB has historically had? Or is it just a question of time will tell?

Chris Fowler, President & Chief Executive Officer

Well, we certainly, before we entered into this whole process of looking at the opportunity, these two acquisitions, we did a very deep dive into what their history was, what business they conducted, the structure of the transactions, what their historical loss rate was, and both of these companies had a very strong credit track record and a very disciplined approach to their market. So what we really have signed up for are two very targeted and strategic companies that have defined specialties in certain areas, and with that specialty they've had a great both growth and credit quality track record. So we have, you know, we feel very comfortable in the manner under which they underwrite and of course we do oversee it as well. So there's not anything that is not within our control, but we are comfortable with the risk appetite we've taken on and we have selected these as acquisitions in the face of other acquisitions that had been available in the market and we believe we picked the two best players.

Carolyn Graham, Executive Vice President & Chief Financial Officer

I think the only other thing I'd add, Sohrab, is that consistent with lending across the rest of the Group, every business line is allocated and delegated lending limits and anything over the lending limit delegated comes into our central credit risk management group and that's the same case of Maxium and Franchise Finance.

Sohrab Movahedi, BMO Capital Markets

Okay, perfect. And maybe, ah, I don't know if you could share this with us, you said you are testing the AIRB models for two of your portfolios, can you, from a business decision making perspective I think is what you said, can you tell me if I heard it correctly and which two portfolios are you using it for?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So you did hear that correctly. The models have been implemented into the business for Optimum and National Leasing, which are the two portfolios that are most homogenous from a data perspective so were the first two models that we started with.

Sohrab Movahedi, BMO Capital Markets

Okay. And so the delinquency, early stage delinquency trends out of Optimum, is it possible that, like is it influenced by the models here do you think or it's independent of this AIRB models being implemented?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I would say it's unrelated.

Sohrab Movahedi, BMO Capital Markets

Okay. Thank you very much.

Operator

The next question is from Gabriel Dechaine with Canaccord Genuity. Your line is open.

Gabriel Dechaine, Canaccord Genuity

Good afternoon. Just wanted to ask you about the stress test on Optimum and then your broader stress test there. I appreciate the disclosure but on the Optimum

specifically what kind of delinquency rate are you contemplating in that type of 50 basis point loss rate? Like how many or what's the, on the $2.2 billion portfolio what would be the delinquency rate or impaired rate?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So with the change in the macroeconomic assumptions we are calculating a probability of default about 5 percent in the stressed environment.

Gabriel Dechaine, Canaccord Genuity

Okay. So it would be a 500 basis point GILs rate in layman's terms I guess. Is that right?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yes, 5 percent. Well, no, 5 percent of the portfolio would default, not necessarily become impaired but would show a sign of default, miss a payment or... Yeah.

Gabriel Dechaine, Canaccord Genuity

Okay. Let's put it this way: Under the standardized model if it's a current loan is of 35 percent risk weight for those mortgages. If it goes past due, over 90 days I guess, it goes 100 percent. Is that, like that 5 percent, that 5 percent goes to 100 percent risk weighting, is that how it would work?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Under the standardized approach it's not only whether it goes impaired but also whether there is a specific provision provided against it equal to 20 percent.

Gabriel Dechaine, Canaccord Genuity

Maybe I'll have to go off—

Carolyn Graham, Executive Vice President & Chief Financial Officer

We can take that offline and (inaudible), Gabe.

Gabriel Dechaine, Canaccord Genuity

Yeah. I think it's just we focus a lot on the earnings issues but a lot of times, ah, I notice for the big six these capital impacts have been actually fairly substantial in the oil and gas portfolios, but this is similar.

Then your core banking system, and I'll tie that into the AIRB issue, is there a little bit of a race against the clock to get the AIRB transition done in a few years because if the, you know, the new standardized comes into play before you transition and you're forced adopt that then there could be some pretty big risk weight inflation on, I don't know, a big chunk of your lending portfolio. Is that not right?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So you're right, if the new standardized approach, as it has been currently proposed by the Basel Committee, were to come into play as presented, it would have a significant impact on our portfolio. It was always our intent that once we had the core banking system finalized and implemented and giving us access to the data that we needed for AIRB models that we would launch those, that project in a larger way, and that has absolutely started. So certainly we're aware of what's going on outside us but continue the plan that we had in place. So we are moving AIRB forward in a significant way. So recognizing that a change in the standardized approach and in the AIRB models, you know, the floors and those kinds of things, could both impact what the potential impact is at the end of the AIRB journey.

Gabriel Dechaine, Canaccord Genuity

AIRB journey sounds more fun than it actually is, but is that, that's probably a five-year process? I'm going by what other banks have told me on their U.S. loans and stuff like that, something you're going to do for five years. Are we in year one now or…?

Carolyn Graham, Executive Vice President & Chief Financial Officer

We've talked about three years post banking system go-live is what we've talked about in the past.

Gabriel Dechaine, Canaccord Genuity

And then you need it approved by OSFI before you can actually use the...?

Carolyn Graham, Executive Vice President & Chief Financial Officer

That's 100 percent correct.

Gabriel Dechaine, Canaccord Genuity

Okay.

Carolyn Graham, Executive Vice President & Chief Financial Officer

And we're absolutely engaged, actively engaged with OSFI today as we work our way through that process.

Gabriel Dechaine, Canaccord Genuity

Okay. And the past due loans, are these, do they become more capital consumptive as they become past due? Because the personal loans amount was a pretty big spike this quarter. And you say they don't necessarily go impaired but I mean it's definitely not a good trend. Do we start to see impaired loans go back up next quarter after coming down this quarter? It's nice to see but I'm just wondering if we revert back a little bit.

Carolyn Graham, Executive Vice President & Chief Financial Officer

So, two questions. So, on the, ah, loans move to a higher risk weight potentially once they are impaired. So, moving through the past due, it's not until we identify them as impaired that they attract a higher capital ratio. And then, you know, the tick down in impaired loans is very positive, but we believe we'll still continue to see that number bounce around. So we think we could very well see further increases coming in other parts of the portfolio as Alberta is still in recession and we know there will be ongoing challenges in that portfolio.

Gabriel Dechaine, Canaccord Genuity

Okay. And then my last one, and this may be a little weird one, if you had this call at ten in the morning I wouldn't have as many questions, but... The Maxium acquisition, just, ah, I'm trying to get a sense for how profitable it can be in the future and one way of looking at it is you've got this $120 million of total consideration maximum in three years' time. If I take the multiples approach, is that kind of implying that this could be $10ish million earnings contributor three, four years from now? Is that possible?

Chris Fowler, President & Chief Executive Officer

We anticipate it to be much higher than that.

Gabriel Dechaine, Canaccord Genuity

Much higher?

Chris Fowler, President & Chief Executive Officer

More like 10 percent of our total earnings. So we see this as a tremendous growth opportunity in terms of percentage of our total earnings. So it is, ah, over the next five years it would get up to about 10 percent of total earnings. And the challenge of course is that we didn't take on their book when we acquired them…

Gabriel Dechaine, Canaccord Genuity

Right.

Chris Fowler, President & Chief Executive Officer

So we need to build the book back up. And that's a process we're under right now.

Gabriel Dechaine, Canaccord Genuity

Okay, thank you. Have a good rest of the week and long weekend.

Chris Fowler, President & Chief Executive Officer

Thank you.

Operator

The next question is from Sumit Malhotra with Scotia Capital. Your line is open.

Sumit Malhotra, Scotia Capital

Thanks. Good afternoon. I want to start with Chris and it's around capital. If we go back a year ago when you had divested of the two businesses, your CET1 ratio was up at 8.55 percent and you described the bank as being significantly overcapitalized at that time, and obviously since then you've undertaken these acquisitions. The thought process behind the equity raise you conducted in June, obviously if you were overcapitalized of 8.55 on that same logic it would be considerably more or so 40 basis points higher. Just want to know on your thinking what was the shift, whether it had to do with your bank on its own from a balance sheet risk perspective or is there macro considerations and more so regulatory considerations that prompted you to take that move?

Chris Fowler, President & Chief Executive Officer

So, as we think about our balance sheet and our strategic direction and the growth we've been able to put in place and we're, you know, obviously the sale of CDI and our share transfer business added capital back to our balance sheet and that was very positive. It gave us the opportunity to make these two acquisitions that, you know, we did a portion with Maxium and then the opportunity then came forward with the GE Franchise Finance acquisition. So, as we look forward, we're really looking at supporting our ability to continue to grow, and to provide that support we've made a significant investment in our core technology, you know, and we've now acquired these two companies that are really 80 percent of their businesses in Ontario. So we are just giving ourselves more room to grow, and that's the focus we have, and we are taking forward a much stronger balance sheet at 9 percent CET1.

Sumit Malhotra, Scotia Capital

I think you'll agree though it's a good amount of dilution in shares outstanding and the short-term EPS that shareholders are experiencing as a result of that, so my question to you would be here, ah, it sounds like what you're saying is that the growth from these businesses will be fast enough that they're going to consume a good amount of RWA and thus capital under the standardized approach. Maybe the bigger takeaway here becomes what do you view as the level that CWB is going to manage that CET1 ratio at as you run the business? What would be the level that we should see that number trend at?

Chris Fowler, President & Chief Executive Officer

So, yes, we do see growth contributions, absolutely, from these acquisitions, and that's really purpose of them, and plus the opportunity for that geographic diversification. So we would see 9 percent probably the high end of that.

Our goal would be to grow and manage that CET1 ratio in sort of balance with the overall growth in the portfolio. So we would likely not see it going a lot higher than that, but 9 percent is a very healthy number. Yes, it is dilutive, but we see that dilution, we believe we can capture that back with the strong performance that we anticipate from these investments.

Sumit Malhotra, Scotia Capital

And, just to be clear, 9 percent is the high. Is there a low in terms of the band that you're now comfortable with from a run rate perspective?

Chris Fowler, President & Chief Executive Officer

I think we'll monitor that as we go forward. I mean, it'll depend on what we see as the opportunities for growth. And certainly our capital ratios are in line with, you know, we are standardized versus the large banks that are AIRB and I think we are in line with them in terms of where our capital levels are at and we will manage them.

As you know, we've historically been a very conservative organization, how we look to grow and look to put, we like to get capital before we grow, we like to have our ducks in a row before we take a step, and we believe we're continuing to do that. So coming into this next step with, again, a very strong balance sheet and what we believe are strong opportunities with our sort of balanced growth strategy and the broader diversification that we're looking to achieve.

Sumit Malhotra, Scotia Capital

And I'll just stay with you for one moment on this. The AIRB commentary that Carolyn provided, it feels like we've been talking about this transition to AIRB for quite some time now and the timelines have changed. From what Carolyn provided there, so the development and go-live of the core banking system, I think she said after that you need three more years. So as we sit here right now are you thinking it's the beginning of 2020 approximately that CWB would now be reporting to us under the AIRB approach? Do I have the timeline right there?

Chris Fowler, President & Chief Executive Officer

Our goal would be that we'd be finished in 2019 and really our timelines haven't changed. The anchor for our timelines has always been three years after our go-live of our new banking system. And our go-live was May the 2nd. Now we did move that out by six months. We before had planned that to be November of 2015. But it always has been three years go forward from the banking system and that is unchanged. So where we sit today, we're happy with our go-live. We've got great internal work making sure that we move from sustainment to our, ah, or from stabilization to sustainment, and it is the source of data to allow us to make this AIRB transition. So we're very confident in all the steps that we've made, so we're happy where we sit. It is the process that takes time and energy and we have the team in place to build it and we are focused with the regulator to get to the application and have the approval as we move forward. So, again, we're targeting a three-year process.

Sumit Malhotra, Scotia Capital

All right. Thank you for that. Just a couple of quicker number ones, and these are probably for Carolyn. I think it was mentioned early in the call that someone called a loan growth aggressive but when I look at loan balances, and I believe you told us that the franchise finance contributed $350 million to balances this quarter. If I take that out and look at more of an apples-to-apples it looks like your sequential loan growth was only about 0.5 percent, and obviously we saw a decent sized decline in Alberta. I'm sure you'll tell me if my numbers are wrong but rather than being aggressive it actually looks like you saw a decent sized deceleration in your loan balances. Is that the right way to look at it and is this just one quarter or should we expect further declines in the Alberta portfolio going forward?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I think there's two factors. I think one is, you know, Alberta has decelerated absolutely and those portfolios have, growth has absolutely slowed, primarily in equipment finance but in the other portfolios as well. And the other thing is, is that in the first two quarters of this year we had very strong growth from the real estate project portfolio, and that portfolio tends to be quite lumpy where we have large draws as projects move through and then have payouts that can occur very, very quickly where the loan pays down to zero almost overnight as transactions close. So I think it's a combination of those two things, one being real estate and how it moves over time, but Alberta has absolutely slowed and we think that'll continue certainly through the fourth quarter.

Sumit Malhotra, Scotia Capital

And to be clear, I'm not, you know, we could be saying like slower loan growth isn't a bad thing necessarily given where we're on the cycle, but just from a numbers perspective it's 350 that came in from Franchise Finance and so organically the loan growth would have been slower in Q3.

Carolyn Graham, Executive Vice President & Chief Financial Officer

That's correct.

Sumit Malhotra, Scotia Capital

Okay, that's good. Thank you for that. And my last question, just on your commentary on NIM, the change in methodology for loan fees. If you could give me, firstly, just a quick idea what exactly happened here, what you changed, and then, maybe more importantly, when you call it a one-time item, you're not suggesting that all else equal NIM would be up 3 basis points next quarter are you, because that's not the way I read it.

Carolyn Graham, Executive Vice President & Chief Financial Officer

So the change in the methodology for one small component of loan fees relates to functionality within the new banking system. So in the old system we used to recognize these fees immediately when we received them. Under the new system we amortize them over 30,

60 or 90 days.So we had about $3 million of fees that we collected in the third quarter. Under the old way they would have been recognized in net interest income in the third quarter, under the new system they'll be recognized in Q4, and beginning with Q4 and for every quarter thereafter there will be 90 odd days of that kind of income included in interest income each quarter. So, all else being equal, yes, we would expect 3 basis points higher compared to the third quarter.

Sumit Malhotra, Scotia Capital

Over time or just in Q4?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Just once. This is just a one-time catch up change, yeah. Just between sort of 3 basis points lower in Q3 compared to Q2 and then back 3 basis points in Q4.

Sumit Malhotra, Scotia Capital

All right. I might follow-up with you to make sure I understand that okay but thanks for your time.

Chris Fowler, President & Chief Executive Officer

Thanks, Sumit.

Operator

The next question is from Peter Routledge with National Bank Financial. Your line is open.

Peter Routledge, National Bank Financial

Hi. Thanks. A quick question actually on your real estate project loans. I think they total about $4.3 billion. Can you give us the numbers for BC, Alberta, and Ontario?

Chris Fowler, President & Chief Executive Officer

Well that's essentially... (Inaudible) BC, Alberta—

Peter Routledge, National Bank Financial

Just a geographic breakout.

Chris Fowler, President & Chief Executive Officer

That's the lion's share of it. There's not a lot of exposure in Saskatchewan and Manitoba.

Peter Routledge, National Bank Financial

What about Ontario?

Chris Fowler, President & Chief Executive Officer

Do we have that?

Peter Routledge, National Bank Financial

If you don't, you can come back to me. I don't want to put you—

Chris Fowler, President & Chief Executive Officer

Yeah, we can certainly—

Carolyn Graham, Executive Vice President & Chief Financial Officer

We've got it. We'll come back to you, Peter.

Peter Routledge, National Bank Financial

Cool. Cool. And I appreciate your comments about you are getting deposits and that helps to mitigate the probability of default or lower it. I've had some investors call me say, yeah, but the deposits are really low relative to the value of the apartments or condominiums purchased, and they're not payable 100 percent upfront, you only have to pay a couple of grand over two years each quarter or each month and so therefore they can walk quite easily, and how would you respond to that?

Chris Fowler, President & Chief Executive Officer

I would say that that's a not entirely accurate. These deposits can be up, we have projects where they're as high as 25 percent and it was 5 percent, depending on the price of the unit. The lower price units have a lower deposit amount; higher price units have higher deposit. And yes, they are often staged, but the amount that it would be at signing would be somewhere in the 5 percent to 10 percent range depending on the total deposit. So I would say that history would tell us that they are meaningful and they have really been a strong supporter of the loan structure and it does impact that decision whether a purchaser, if there is a rescission on the presale or not. I mean the issue is that it is a strong factor of the loan structure that—

Peter Routledge, National Bank Financial

(Inaudible) behaviour. Right.

Chris Fowler, President & Chief Executive Officer

It absolutely does.

Carolyn Graham, Executive Vice President & Chief Financial Officer

I think another factor is that, um, you also have to think about the timing of when the deposits were received. So real estate project loans on average probably take somewhere between 18 and 36 months to build, close, complete. So presales and contracts that were entered into three years ago, there has been significant price appreciation since the borrower or since the purchaser put that deposit down, so that purchaser is very unlikely to rescind on his purchase. It also depends on the ageing of the project.

Peter Routledge, National Bank Financial

And I imagine that's especially the case in, say, Vancouver, where...

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yeah, where there has been rapid price appreciation in the recent past.

Peter Routledge, National Bank Financial

Right. Are you putting the brakes on in Vancouver?

Chris Fowler, President & Chief Executive Officer

Well, we have really focused on the tier-one borrowers in the Lower Mainland and we've got a very strong group of borrowers in that area. And we evaluate projects as they make sense. And I think we've got a group of borrowers that are astute and they're not looking take on risk that they don't think is satisfactory—

Peter Routledge, National Bank Financial

They are putting on the brakes for you?

Chris Fowler, President & Chief Executive Officer

I think it's much of that. You know, there is that view that the market can sustain this and if it makes great sense, they move forward. If they think it's just too expensive, they're not going to be doing it. And Vancouver, again, is a market with many different price points. Certainly you've got the west side, west end, west Vancouver that is very expensive, but as you move further away from that center, it does get cheaper, and you get out to Surrey and South Surrey, a townhouse project there would be in the $350 a square foot range whereas that same product in the west side or west end of Vancouver would be over $700 a square foot. So there's many different price points throughout the Lower Mainland and what we do is sort of look at the different markets and decide where we are looking to participate.

Peter Routledge, National Bank Financial

Right. On the consumer delinquencies, you had great colour there, I just, and if I missed this, I apologize, but there was a spike in 1 to 29 day delinquencies and I know the weekend was a part of that but would also just the Fort Mack situation caused an unusual spike as well?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So we factor in our under 30 days, we take 6 to 30. So under 6 days we don't include in that table because of things like a weekend, so that shouldn't impact our

factors. Fort McMurray could, but we don't have a significant amount of exposure in Fort McMurray, including in the Optimum portfolio. It's quite limited.

Peter Routledge, National Bank Financial

Okay. And then, last one, recoveries on the equipment loans, the few equipment loans that have defaulted, how have the recoveries on those defaulted loans been?

Chris Fowler, President & Chief Executive Officer

We continue to see low loss given default in that book. It is a fully amortizing book so we've sort of typically three to five-year loan terms that all amortize to zero. So, again, if a company defaults early and that you've got the potential for higher loss. But our loss experience has been very, very conservative and it continues to perform.

Peter Routledge, National Bank Financial

So it's not like it's 50 percent, it's like it's low double digits?

Chris Fowler, President & Chief Executive Officer

No. No, we haven't seen that in the equipment finance book at all.

Peter Routledge, National Bank Financial

Great. Thank you very much.

Chris Fowler, President & Chief Executive Officer

Thanks, Peter.

Operator

The next question is from Meny Grauman with Cormark Securities. Your line is open.

Meny Grauman, Cormark Securities

Hi. Good afternoon. I wanted to ask a question on the expenses. Flat quarter-over-quarter expense growth seems surprising to me given your commentary last quarter and I just wanted to know if you agree with that assessment. Did your expense performance this quarter come in better than you had expected? Is there any change in terms of how you view your ability to manage expenses even in a period where you're kind of signalling that there are some upward pressures in some areas?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Great question on our expenses. So we did see an increase in expenses this quarter as the new banking system came live. We started to amortize the capital costs and we also started to expense the cost of the staff required to support and maintain that system. So that added about $1.2 million to our expenses this quarter. We expect the go-forward rate for that to be about $2 million a quarter. So we weren't quite, call it, at full capacity or full expensing in this quarter. And that increase this quarter was largely offset as we revised our estimate around executive short-term incentives and our performance stock units. So, again, I think that yes, we added the expenses that we had talked about earlier, but we had a change an estimate this quarter that offset it. So the idea about the regular run rate of expenses on a quarterly basis being higher compared to the second quarter would still stand.

Meny Grauman, Cormark Securities

Okay. Thanks for that. And then if I could just ask more a timing question on credit, so you talk about credit quality outside the oil and gas portfolio being stable but then expecting the situation in Alberta to have an impact and I'm just wondering when you look ahead what timeframe do you expect that to play out? I guess it really hasn't played out yet but when do you expect to see something more significant from the deterioration in the Alberta economy?

Chris Fowler, President & Chief Executive Officer

I would say, Meny, I'd say we're just, we're monitoring it. I mean we're just not wanting to believe that the only portfolio that will be impacted would be the E&P book. We do believe that, you know, clearly there's weakness that has occurred with any downturn and we just are very attune to risk changes and credit changes and we'll continue to follow the portfolio closely. So we just want to maintain a conservative outlook.

Meny Grauman, Cormark Securities

Thanks for that.

Operator

And, as a reminder, you can press star one to ask a question. And the next question is from Doug Young with Desjardins Capital Markets. Your line is open.

Doug Young, Desjardins Capital Markets

Hi. Good afternoon. I guess I've got a few credit ones maybe for Carolyn. I guess first off, you know, the collective increased in the quarter. Can you talk a little bit more around what that was related to?

Carolyn Graham, Executive Vice President & Chief Financial Officer

That was just a general increase in the collective. It has been our traditional practice to have the collective increase roughly in line with portfolio growth. So collective had been flat for most of the past year. So as we ran our estimation models it was appropriate to make a small add to the collective allowance. It wasn't related to any specific portfolio but just to provide for our best estimate of incurred but not, you know, losses that are incurred but not yet identified to a particular portfolio.

Doug Young, Desjardins Capital Markets

Okay. So there was nothing specific that you identified that you felt you needed to increase, this was more of a general portfolio—

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yes. It's not tied to a particular sector or any of that.

Doug Young, Desjardins Capital Markets

And then can you talk a little bit about, you've talked about 2016 credit outlook, and I know it's tough looking out to 2017 but reading your commentary, you know, it sounds like you suggest you expect stable credit losses in your other non-energy book, albeit you may see a little bit of an increase in Alberta. You had 12 basis points related to oil and gas that it doesn't feel like you think is going to continue to be that high and then you had a 9 basis point increase in collective. So starting with the 11 basis points plus maybe further erosion are we going back next year, in your view as you look out, back to your more historical normal range or is there still, you still think you're going to run closer to the 30 basis point range? Just hoping to get some colour.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Great question. The 11 basis point on, call it, net new specifics on the portfolio other than oil and gas, that is pretty much our historic run rate. Our average over the last five or ten years is around 12 basis points. So 12 basis points for net new specifics and some amount to continue to add to the collective as the portfolio grows, I would say that would be normal conditions. I think as we look out through 2017, which is not very far away now, I think I would say that we would expect it to be slightly, credit quality to be slightly weaker than our normal, you know, over the past 10 years or so. So I think it would probably be a little bit higher from the 17, 18 basis points that we've had in the last couple of years before this oil and gas. I don't think it'll, you know, from what we know today, I don't think it'll be as high as what we've seen in 2016.

Doug Young, Desjardins Capital Markets

Okay. And can you, this is a more number question but your specific allowances right now against your $17 million of impaired oil and gas production loans, what do those stand at?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So $17 million of gross impaired energy loans and $14 million of specifics against them. So the residual un-provided through specifics on our impaired energy loans at the end of July is $3 million.

Doug Young, Desjardins Capital Markets

Okay, perfect. Great. Thank you very much.

Operator

We have no further questions at this time. I'll turn the call back to the presenters.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thank you, Chris. Thanks very much for your continued interest in the CWB Group. We look forward to reporting our fourth quarter and annual results on the First of December. In the meantime, if you have any follow-up questions or comments, please call us or contact us by email. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.