CWB Financial Group Annual Meeting of Shareholders

Fiscal 2018

Prepared remarks of the Chief Financial Officer

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CWB
FINANCIAL
GROUP

Welcome

Thank you, Bob and good afternoon everyone to everyone in Edmonton and on the webcast.

CWB Financial Group operates with a clear focus to meet the unique financial needs of business owners. Clients recognize us for our in-depth knowledge of targeted segments within Canada's commercial banking industry, our uncommon brand of personal service and our full suite of relevant financial solutions. Shareholders value our strong track record of high-quality balance sheet and dividend growth, conservative approach to risk management and consistent profitability.

I am pleased to provide an overview of our 2018 fiscal year that ended on October 31st, including the financial results. I'll also discuss our medium-term performance targets as we look to the future.

Before I begin, I would like to remind everyone that statements about future events made in our presentations and responses today are forward-looking in nature and are based on assumptions and analysis made by management. Actual results could differ materially from expectations due to various material risks and uncertainties associated with our business. Please refer to our forward looking statement advisory provided on this slide in teeny, tiny font and included, in full, in the Annual Report.

Highlights of 2018

So let's get to the results. Fiscal 2018 was an excellent year for CWB Financial Group, both in terms of strategic execution and financial performance. We expanded our geographic footprint, delivered increased industry and funding diversification with a continued focus on business owners, and made significant progress toward the upcoming transition to the Advanced Internal Ratings Based, or AIRB for short, Approach for risk and capital management. We are on track to submit our final application in fiscal 2019.

Financial Performance

Highlights of financial performance compared to 2017 included 12% growth of pre-tax, pre-provision income, 11% growth of total revenue, higher net interest margin, positive operating leverage, strong credit quality, and for the 26th consecutive year an increase to CWB's annual common share dividend.

Common shareholders' net income was up 16%, and diluted and adjusted cash earnings per common share were up 15 and 14%, respectively. Our strategic and highly accretive acquisition of $850 million of business lending assets on January 31, 2018 contributed approximately $0.10 to 2018 adjusted cash earnings per common share.

- Double-digit revenue growth reflects 13% growth in net interest income, or what we earn from the spread between our lending and deposit gathering businesses, and 7% lower non-interest income. The growth in net interest income was driven by very strong 13% loan growth and a four basis point increase in net interest margin to 2.60%.
- Increased net interest margin resulted from the combined positive impact of successful execution of our Balanced Growth strategy and the higher interest rate environment.
- Non-interest income was down 7%, as growth in wealth management income was more than offset by lower gains on sale related to the CWT strategic transactions in 2018 compared to 2017, and smaller decreases in other categories.
    - Excluding gains on sale and revenues associated with transferred accounts from the CWT strategic transactions, non-interest income in fiscal 2018 would have been relatively stable compared to the prior year.
- The provision for credit losses as a percentage of average loans improved to 20 basis points consistent with our expectations coming into the year.

- Non-interest expenses increased 8%, including 8% higher salaries and benefits, a 14% increase in general expenses, and a 4% increase in premises and equipment. The acquisition-related fair value changes reflecting continued strong performance within CWB Maxium Financial was 10% higher.

Strategic Execution

As Chris will discuss further, our strategic objectives are clear. They include:

- Full service client growth with a focus on business owners, including further geographic and industry diversification;
- Growth and diversification of funding sources; and
- Optimized capital and risk management through our transition to the *Advanced* internal rating based approach for regulatory capital and risk management – AIRB.

Asset Diversification

To review our progress in fiscal 2018, I will start with execution against our strategic objective for **asset diversification**.

- Our very strong 13% loan growth included 10% organic growth and 3% from the acquisition I mentioned earlier.
- Approximately three quarters of the acquired portfolio was based in Central and Eastern Canada, which drove 28% growth in Ontario this year and steady progress against our geographic diversification objective.
- We also expanded in every other province across our footprint, including strong 9% growth in both of our largest markets, British Columbia and Alberta.
- Geographic diversification was further supported by strong performance from our established businesses with a national footprint, including CWB Maxium Financial, CWB Franchise Finance, CWB Optimum Mortgage, and CWB National Leasing.
- At year end, the portfolio was comprised 34% in British Columbia, 32% in Alberta, 26% in Central and Eastern Canada, 5% in Saskatchewan and 3% in Manitoba.
- In contrast, ten years ago, 53% of our loans were in Alberta, a similar 36% were in BC, 4% in Saskatchewan, 2% in Manitoba, and only 5% in Central and Eastern Canada.
- We achieved further industry diversification in the loan portfolio this year, with growth of 18% in general commercial and 23% in equipment financing and leasing categories. Growth in these strategically targeted industries included ongoing contributions from CWB's established lines of business and further support from the acquisition of business lending assets.
- The strategically targeted general commercial loans, and equipment financing and leasing categories now represent 28% and 18%, respectively.
- We've clearly delivered solid strategic execution against our loan portfolio diversification objectives.
- It's important to note that this diversification creates value by enhancing our ability to weather regional economic fluctuations, and it also provides a strong platform for significant future growth.

Credit Quality

A well-known hallmark of CWB's long term success is our strong and consistent credit quality and this important slide shows our credit experience over the past 8 years. The consistent gold line at the bottom is CWB's provision for credit losses – or what is charged against earnings to cover loan losses. The light blue line provides the average of the large Canadian banks while the vertical bars represent CWB's collective allowance for credit losses.

The collective allowance is set aside through earnings for future losses that have not yet been connected to a specific loan.

Credit performance was once again strong in fiscal 2018, with the provision for credit losses of 20 basis points consistent with our expectations and 3 basis points lower than 2017.

We have adopted a new accounting methodology to estimate loan losses beginning in fiscal 2019 and while this change is anticipated to add some volatility to our provisions, we continue to expect to deliver strong credit quality, reflecting our disciplined underwriting, secured lending business model and proactive loan management.

The next slide shows another important contributor to our long term success. You can see from the teal bars, that through the Global Financial Crisis in 2009 and 2010, gross impaired loans as a % of the total portfolio, or those loans that show signs of weakness increased significantly. However, the very small gold bar at the bottom is even more important. That is the measure of CWB's credit losses or the actual amounts that were written off.

At October 31st, total gross impaired loans represented 53 basis points of total loans outstanding, or about ½ of one percent, compared to 72 bp at the end of 2017, with gross impaired loans in Alberta accounting for 56% of total impairments at year end, compared to 63% last year. The overall lower balance of impaired loans as a percentage of total loans with a higher relative concentration in Alberta continues to reflect the lagging impacts of the 2015 – 2016 regional recession.

As I've mentioned in the past, the level of gross impaired loans fluctuates as loans become impaired and are subsequently resolved, and does not directly reflect the dollar value of expected write-offs given tangible security held in support of lending exposures. Our actual credit losses or write-offs for 2018 were consistent with our normal historical experience, where loss rates have been low as a percentage of impairments.

Funding Diversification

The **funding side** of the banking equation is equally important to our success, and we delivered strong execution against our Balanced Growth strategy for funding diversification in fiscal 2018.

- Total funding of $25.7 billion was up 10%, including a new record for annual issuance or re-openings of senior deposit notes in capital markets, with $1.1 billion raised across five successful transactions.
- As a result, the proportion of deposits raised through debt capital markets increased to 13% of total deposits at year end, compared to 10% in the prior year.
- We also increased the use of securitization to fund originations of equipment leases and residential mortgages.
- Relationship-based branch-raised funding increased 4% from last year, primarily driven by strong, 13% growth of branch-raised term deposits. The balance of lower-cost demand and notice deposits was relatively stable.

Enhance and optimize our capital and risk management

- Our teams continue to execute on our third strategic objective to optimize capital and risk management processes through transition to the AIRB approach. We are on track to submit our final application in fiscal 2019**.**
- As a federally regulated bank, we maintain capital levels in accordance with standards established by the Office of the Superintendent of Financial Institutions. The maintenance of strong capital levels is fundamental to CWB's objectives to effectively manage risks and support strong growth.
- We continue to maintain strong regulatory capital ratios under the *Standardized*, rather than Advanced/AIRB, approach for calculating risk-weighted assets, with a 9.2% common equity Tier 1 ratio, 10.3% Tier 1 ratio and 11.9% Total capital ratio at October 31, 2018, all well over the regulator's minimum for Canadian banks such as CWB.
- Our common equity Tier 1 capital ratio decreased 30 basis points from last year, mainly reflecting the acquisition of business lending assets.

- I'll also remind you that we maintain much lower balance sheet leverage compared to our peers. CWB's leverage ratio, calculated using the regulator's definition where a higher ratio means less leverage, remains very conservative at 8.0%, compared to the regulatory minimum of 3.0%.

Medium term performance targets

This slide summarizes our performance against our medium-term performance target ranges. These targets reflect key areas that drive shareholder value, the objectives embedded within our balanced growth strategy and a time horizon consistent with the longer-term interests of CWB shareholders.

Our medium-term targets are based on expectations for performance under the more conservative *Standardized* approach for risk and capital management, moderate economic growth and a relatively stable interest rate environment in Canada over the three- to five-year forecast horizon.

For fiscal 2018, we delivered:

- 14% growth in adjusted cash earnings per share – which exceeded our target of 7 – 12%;
- Return on equity of 11.9%, which was 90 basis points higher than 2017 and just below the lower end of our target of 12 – 15%.
- Positive operating leverage of 1.9%. Operating leverage is a measure of efficiency and compares the percentage growth in total revenue to the percentage growth in adjusted non-interest expenses. Positive operating leverage means that revenue is growing faster than expenses, with our 2018 result reflecting 11% growth of revenues and 9% growth of expenses.
- As I mentioned, we maintained a very strong common equity Tier 1 capital ratio at 9.2% and delivered a 36% dividend payout ratio with the 26th consecutive annual increase in common dividends paid.

In our first quarter shareholders' report we noted that we now expect to deliver growth of net interest income in the high single-digit range in fiscal 2019, driven primarily by strong loan growth. We expect limited growth of full-year net interest margin compared to 2018 reflecting a relatively flat prime interest rate outlook for the balance of fiscal 2019. Further improvement of net interest margin is possible this year if competitive factors currently affecting both deposit costs and asset yields within certain portfolios begin to subside, or if there is a Bank of Canada rate increase.

We remain committed to continue to deliver double-digit annual loan growth whenever prudent and expect to maintain strong credit quality. We also remain committed to effective expense management in consideration of revenue growth opportunities and prudent capital management.

While our planned transition to the AIRB methodology for capital and risk management is expected to receive regulatory approval and be effective within the medium-term timeframe, we have not incorporated benefits to financial performance from this capital management transition within the medium-term targets presented. That said, we do expect financial performance to benefit from the AIRB transition, along with the related benefits of our expanding geographic footprint and increased business diversification.

We will continue to execute on our strategic initiatives to further enhance client offerings, build core funding sources and optimize CWB's funding mix, as well as efforts to leverage current and future investment in technology. This focus will support performance consistent with our targets over the medium-term.

    - We remain single-mindedly focused to support our team members to provide an exemplary client experience and build rewarding careers, while driving value for our shareholders. Looking at the components of shareholder's return, we increased the common share dividends paid for the 26th consecutive year to $1.00 in fiscal 2018, an increase of 8%. In the first quarter of 2019 your board of directors were pleased to approve another increase in the quarterly dividend to $0.27 per share, up two cents, or 8%, from the dividend declared one earlier and one cent, or 4%, from the dividend declared the prior quarter.
- Strong financial performance resulted in a 5% increase in book value per share in 2018 to $26.09. However, volatility in our share price continued through fiscal 2018, and we ended the year at $30.62 down from $36.34 at the end of the prior fiscal year.
- Pressure on our stock price continued into the first quarter and we seized the opportunity to fully utilize our Normal Course Issuer Bid to purchase and cancel 2% of our outstanding common shares.
- We chose to invest approximately 20 basis points of our capital as recent market prices did not reflect the underlying value of CWB's business, and our average buyback price was less than the book value at January 31, 2019.
- After effecting the share repurchase, our capital ratios remain strong.

I will conclude my remarks by reiterating that 2018 was an excellent year for your bank, with strong financial results and strategic execution, and I'm pleased to report we are off to a great start for fiscal 2019.

Thank you, I will now turn the podium over to Chris Fowler, President and Chief Executive Officer of the CWB Financial Group.