CORPORATE PARTICIPANTS

Carolyn Graham
Executive Vice President & Chief Financial Officer

Chris Fowler
President & Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Sumit Malhotra
Scotia Capital

Rob Sedran
CIBC World Markets

Meny Grauman
Cormark Securities

Doug Young
Desjardins Capital Markets

Gabriel Dechaine
Canaccord Genuity

Sohrab Movahedi
BMO Capital Markets

Darko Mihelic
RBC Capital Markets

Jaeme Gloyn
National Bank Financial

PRESENTATION

Operator

Good morning. My name is Kelly and I'll be your conference operator today. At this time, I would like to welcome everyone to the CWB's Fourth Quarter 2015 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, Kelly. Good morning and good afternoon, everyone, and welcome to the 2015 fourth quarter and annual results conference call for Canadian Western Bank.

Before we begin, please note that the conference call graph, quarterly results news release, and supplemental financial information are available on the bank's website at CWB.com in the Investor Relations section. Our 2015 annual report and audited financial statements will be filed on SEDAR and available on our website next week. Our forward-looking statement advisory is on slide 13. The agenda for today's call is on the second slide.

Joining me is our President and Chief Executive Officer, Chris Fowler, as well as the other members of the CWB Group executive committee: Kelly Blackett, Executive Vice President, Human Resources; Randy Garvey, Executive Vice President, Corporate Services; Greg Sprung, Executive Vice President, Banking; and Bogie Ozdemir, Executive Vice President and Chief Risk Officer.

For today's call I will begin with an overview of our fourth quarter and fiscal 2015 results, including our recent credit performance and an update on our commentary related to stress testing. Chris will then review our progress on loan and deposit growth and provide a look forward at the economic activity that we see within our operating footprint. He will then introduce our 2016 outlook and medium-term performance objectives.

Turning to slide three, this morning we reported strong fourth quarter results and another year of double-digit loan growth, contributing to record annual financial performance from continuing operations. Highlights for 2015 include the strategic transactions involving Canadian Direct Insurance and the stock transfer business of Valiant Trust, which contributed $1.33 to earnings per share from combined operations, along with the strong operating performance from our banking, trust, and wealth management lines of business. Nearly one quarter of our 2015 loan growth came from areas outside of Western Canada, reinforcing the growing strength of CWB's franchise outside of our traditional geographic footprint. Core deposit growth was also very strong, with branch-raised notice and demand deposits up 17 percent.

Moving on to the next two slides, I'll begin with the reminder that as a result of the strategic transaction we define the contributions of both CDI and Valiant's stock transfer business as well as the related gains on sale as discontinued operations, all remaining operations as continuing operations, and the total of continuing and discontinued operations as combined operations. For the remainder of this call, unless otherwise noted, references to our performance highlights refer to the results from continuing operations.

Overall, CWB's core banking, trust, and wealth management operations continued to perform well. Fourth quarter common shareholders net income of $53 million compares to $56.9 million a year ago. Diluted earnings per common share of $0.66 and adjusted cash earnings per common share of $0.67 each declined 6 percent as an 8 percent increase in net interest income was more than offset by the combined impact of higher non-interest expenses, an increase in the provision for credit losses, and lower non-interest income. Higher net interest income resulted from the benefit of strong 11 percent loan growth partially offset by a 6 basis point decrease in net interest margin to 2.49 percent.

Increased non-interest expenses primarily relate to higher salaries and benefits, mainly resulting from hiring activity, annual salary increments, and the implementation this year of a short-term incentive plan for non-executive employees. Contrary to a recent item reported in the media, adjusted for divestures our staff complement for continuing operations is 8 percent higher than a year ago, as we continue to invest in quality people who can help us grow. Growth in almost all categories of non-interest income was more than offset by a decrease in other non-interest income as well as lower net gains on securities. Of note, other non-interest income in the fourth quarter last year included a one-time gain on the sale of our former Edmonton main branch premises. Lower net gains on securities reflect management of the securities portfolio through less favourable market conditions with no realized gains or losses this quarter. The provision for credit losses was unusually low in the fourth quarter last year, reflecting very low levels of specific allowances.

For the full year, record common shareholders net income of $208.1 million increased 1 percent while diluted and adjusted cash earnings per common share were both up 2 percent to $2.59 and $2.63 respectively. Earnings growth primarily resulted from higher net interest income and lower preferred share dividends, partially offset by lower non-interest income, increased non-interest expenses, and a marginally higher provision for credit losses. Gross net-interest income was driven by strong loan growth, partially offset by the impact of a 3 basis point reduction in net interest margin to 2.56 percent. Increases in most categories of non-interest income were more than offset by net losses on securities compared to gains last year as well as lower non-interest income. Net losses on securities of $4.3 million this year primarily reflect active risk management in view of macro economic conditions. The increase in non-interest expenses primarily resulted from higher salaries and benefits, reflecting the factors I've just discussed, as well as increased premises and other expenses to facilitate business growth.

Slide five shows our capital ratios at October 31st. Using the standardized approach for calculating risk-weighted assets, our common equity tier one ratio was very strong at 8.5 percent. Our tier one ratio was 9.7 percent and the total ratio was 12.7 percent. Our Basel III leverage ratio remained very conservative at 7.9 percent. Subsequent to year end on November 30th we redeemed all 300 million outstanding 4.389 percent subordinated debenture. This redemption resulted in the first quarter $80 million reduction to CWB's total capital; however, our total capital ratio remains strong.

Net interest margin of 2.49 percent this quarter was 6 basis points lower than a year ago and 8 basis points lower than last quarter. Compared to a year ago, margin compression reflects the impact of two Bank of Canada benchmark rate cuts this year as well as ongoing competitive pressures in our markets. Compared to last quarter, higher levels of cash and securities held in advance of the November sub-debt redemption and lower pre-payment penalties contributed to the reduction. Full year net interest margin of 2.56 percent was 3 basis points lower than last year. In the absence of interest rate increases or a sustained steepening of the yield curve, further pressure on this key metric is expected in 2016.

Turning now to slide seven, CWB's strong financial results continue to be supported by stable credit quality, reflecting both our disciplined underwriting and CWB's secured lending business model. The annual provision for credit losses of 17 basis points came in at the low end of our target range of 17 to 22 basis points. The increase from 15 basis points last year reflects normalization from an unusually low fourth quarter provision in 2014, which reflected very low levels of specific allowances. With the exception of that quarter, our quarterly provision for credit losses has ranged from 16 to 20 basis points over the past four years with our annual provision averaging 18 basis points over both the past five- and ten-year periods. The 11 percent collective allowance increase this year was consistent with overall loan growth.

Chris will provide detail related to gross impaired loans in a few minutes but I'll emphasize the significant percentage changes from last year in the dollar level of both gross impaired loans and the provision for credit losses primarily reflects the very low base from which each of those respective changes is measured. In contrast, our total annual write-off of $16 million this year represents a 7 percent decrease compared to 2014. Net new specific provisions, which are the portion of the provision for credit losses used to establish specific allowances, totalled 12 basis points this year compared to 7 basis points last year. Our five- and ten-year averages for this measure are 13 and 11 basis points respectively. Our expectations for ongoing stable credit quality allow for further increases in both gross impaired loans as a percentage of total loans and a provision for credit losses as a percentage of average loans. For 2016 we expect the provision as a percentage of average loans to fall between 18 and 23 basis points.

Notwithstanding our confidence in the resiliency inherent in our secured lending business model, we continue to stress our balance sheet, earnings, and capital to assess the potential impacts of various scenarios, including significant and prolonged economic weakness within the oil exporting provinces. Recent stress tests assumed that 150 percent of CWB's historic peak loss rates for each loan type were experienced across all lending segments simultaneously for our Alberta and Saskatchewan exposures and 100 percent of those peak loss rates experienced simultaneously in all other regions. We assume the severe conditions persist over a three-year time from in conjunction with the protracted period of low oil prices. Related assumptions include a persistent low interest rate environment and significantly slower loan growth to reflect lower levels of economic activity. We also assume significant compression of net interest margin within these tests, attributed to the combination of an overall increase in deposit cost and much higher balances of gross impaired loans.

Results of these tests further support our confidence in CWB's proven business model and the resilience of our strong capital position under the standardized approach for calculating risk-weighted assets. While the combined impact of severe stress scenarios over a multi-year time period can strain earnings growth, CWB remains 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 reflect both our commercial lending focus and our use of the standardized approach for calculating risk-weighted assets, under which CWB is required to assign a 100 percent risk weighting to the majority of our loans.

I'll now turn things over to Chris for further discussion of loan growth and credit performance as well as our outlook and targets going forward.

Chris Fowler, President & Chief Executive Officer

Thank you, Carolyn.

Slide nine demonstrates our track record of very strong loan growth over the past five years. Loans grew 11 percent over the past 12 months with increases in each lending segment and 2 percent this quarter. Notwithstanding current challenges, we will continue to pursue opportunities to service high-quality clients operating within our targeted industry segments, consistent with our strategy through prior cycles.

Over the past year we posted the highest growth by province in Alberta, the highest sector growth in personal loans and mortgages primarily driven by the ongoing success of Optimum Mortgage, as well as strong performance from both real estate project loans and equipment financing leasing. Both national leasing, which grew 23 percent for the year, and Optimum Mortgage, which grew 31 percent, contributed to our expanding geographic footprint outside of Western Canada. Of note, CWB's geographic exposure to Ontario is now larger than our exposure to Saskatchewan and Manitoba combined.

Our direct exposure to the energy industry through oil and gas production loans remained relatively flat with a moderate $59 million increase compared to the fourth quarter last year and up only $3 million from last quarter. Fluctuations in this portfolio primarily reflect draws net of repayments on existing credit facilities. Our overall direct exposure to oil and gas activity remains unchanged at approximately 5 to 6 percent of total loans outstanding. This includes loans to energy producers at 2 percent of total loans and loans to service companies at 3 to 4 percent of total loans. We remain diligent in the management of these portfolios during this low and volatile oil price environment. We assess our exposures on an ongoing basis to ensure facility limits reflect current reserve estimates and oil price assumptions that are conservative in view of prevailing market prices. We review our sensitivity prices at least semi-annually or when market prices or foreign exchange rates fluctuate materially, such as they have this year.

Turning to the residential mortgage market, affordability in most geographic areas, outside of certain neighbourhoods in Toronto and Vancouver, remains within historical ranges, largely due to very low interest rates. We are seeing reduced housing activity in Alberta and Saskatchewan related to the economic headwinds caused by low energy prices. We primarily participate in the housing market activity through residential project financing and personal mortgages. Ongoing monitoring of real estate projects in progress confirms that our

Edmonton and Calgary exposures include pre-sales of nearly 90 percent of all units under construction. Importantly, our loan funding structure also requires these pre-sales to be supported by non-refundable deposits. To date there's been no evidence of pre-sale rescissions or account deterioration. Optimum Mortgage continues to deliver strong growth with an attractive risk profile offering valuable geographic diversification with over half of new originations based outside of Western Canada. Our business model in Optimum focuses on affordably priced homes with an average mortgage loan of $260,000 and an average loan to value at origination of 70 percent. We assess markets by postal code and actively adjust our maximum loan to value criteria based on local conditions.

Turning back to credit performance, we continue to work proactively with our clients to assess the first and second order impacts on their businesses from reduced economic activity in the oil-producing provinces. Just as we've done in prior cycles, we continue to support our clients with responsive service; disciplined, secured credit underwriting; and proactive loan management. We recently assigned experienced senior managers to provide added support to help our branches and credit teams proactively manage higher-risk loans. This step will better enable us to identify potential problems early, secure our interest, and limit further exposure by working collaboratively with affected clients.

Slide ten shows the level of gross impaired loans in this quarter. Total gross impaired loans of $95 million represents 49 basis points of total loans outstanding, unchanged from Q3 and compared to 35 basis points last year. Gross impaired loans in Alberta increased $24 million in the past year, primarily reflecting impairments related to oil and gas production loans. Taken together, the increase in gross impaired loans within Alberta and Saskatchewan accounted for 93 percent of the overall annual increase in impairments. Compared to the prior quarter, gross impaired loans in Alberta increased $7.9 million, primarily due to one oil and gas production loan offset by other resolutions. Although the balance of our ten largest accounts increased from last year, the total number of accounts classified as impaired was actually lower, as our credit risk management branch-based lending teams continue to successfully work through challenging loan positions with proactive account management.

As we've noted in the past, the level of gross impaired loans fluctuates as existing impairments are either resolved or written off and new impairments identified. As our business model is focused on secured, mid-market commercial lending, we have no material exposure to unsecured personal borrowing, credit cards, auto loans and, in general, to non-real estate personal borrowing. This focus reduces our exposure to direct credit impact of elevated levels of unemployment compared to what would be expected from other Canadian banks with more pronounced focus on unsecured personal lending. The year-over-year increase in gross impaired loans is consistent with expectations we established last year as loan impairments were at unsustainably low levels. I will also emphasize that the level of gross impaired loans does not reflect the dollar value of expected write-offs given tangible security held in support of lending exposures.

As Carolyn mentioned earlier, 2015 write-offs of $16 million were lower than the $17 million we wrote off last year. The foundational principles of our lending policies have stood through a number of economic and commodity price cycles. Our disciplined through the cycle under-writing process incorporates a rigorous examination of our borrowers' cash flows, working capital, and balance sheet leverage. We target our lending to specific sectors where we understand the market and the security we take to support our exposures and this strategy is reflected in our long-term loss experience.

Looking forward, we have a positive outlook for 2016. Certainly there is increased caution related to the portions of our business that are affected by materially lower energy and other commodity prices. At the same time, we fully expect CWB's financial performance to continue to benefit from an expanding geographic foot-print with increased business diversification as well as ongoing success from key strategic initiatives to build core funding sources, enhance client offerings, and leverage our technology investments. We've seen strong success in these initiatives through 2015 and we expect that momentum to continue.

We will continue to focus on prudent growth of secured loans that offer an appropriate return and acceptable risk profile. The achievement of 2016 loan growth in Alberta and Saskatchewan equivalent to recent annual levels is expected to be challenging in view of the economic impact of lower oil prices. However, we expect to deliver solid overall loan growth at levels approximately consistent with recent performance, primarily based on our high relative contributions from non oil producing provinces across our growing geographic footprint. As Carolyn mentioned, we expect the level of gross impaired loans will increase as clients continue to manage through increased economic challenges in certain markets. We also expect provisions for credit losses to increase but to remain within a range of 18 to 20 basis points, 23 basis points. This is up from levels in the previous two years of 17 and 15 basis points but consistent with our history and levels we consider to be acceptable.

A key goal for 2016 is to deliver the capabilities of our new core banking system. We expect the system to enhance the way we manage our business, including how we provide targeted solutions to enhance client relationships. It will enable us to continue to build on the expanded range of business and personal financial services we offer, including cash management for businesses and wealth management for individuals, both of which have significant potential to support our funding diversification objective. Very strong 70 percent growth in branch-raised demand and notice deposits this year is evidence of an ongoing commitment to our strategic funding objectives with lower cost funding recognized as a key driver to support current and future profitable growth.

Turning now to slide 12, beginning this year we have issued medium-term performance target ranges based on key measures of shareholder value. These measures of financial performance reflect the objectives embedded within CWB's strategic direction and a time horizon consistent with the longer-term interests of CWB shareholders. Medium-term results will be driven by our commitment to continue to deliver ongoing strong loan growth at levels relatively consistent with CWB's recent performance, further optimization of CWB's funding mix, stable credit quality, effective expense management in consideration of revenue growth opportunities, and prudent capital management.

With our strong capital position under the more conservative standardized approach for calculating risk-weighted assets and a targeted dividend payout ratio of approximately 30 percent, CWB remains well positioned to support continued long-term shareholder value through growth in both earnings and common share dividends. Our initiative to transition to risk-sensitive AIRB method to calculated risk-weighted assets will continue over the next several years. The AIRB approach will put us on a more equal footing with our competition by adding risk sensitivity to CWB's framework for capital management and increasing our risk quantification processes.

Ongoing support and development of CWB's core businesses will remain a key priority while potential strategic acquisitions continue to be evaluated with a preference for financing, for opportunities in equipment financing and leasing and wealth management. We expect CWB's 2016 efficiency ratio to fluctuate at levels moderately higher than the past few in view of ongoing pressures in net interest margin and investments necessary to facilitate implementation of our strategic direction. We are committed to disciplined control of discretionary expenses and we expect CWB to deliver positive operating leverage over the medium term.

Yesterday our board declared a quarterly cash dividend of $0.23 per common share, representing a 5 percent increase from last quarter and 9 percent higher than the quarterly dividend declared one year ago. The board also declared the quarterly cash dividend on our Series 5 preferred share. Future common share dividend increases will be evaluated against the dividend payout ratio target and influenced by capital requirements to support expected asset growth under the standardized approach for calculating risk-weighted assets.

Record financial results from continuing operations during the past year demonstrate the benefits of our growth-oriented secured lending business model and increased geographic diversification, particularly in view of the increasing economic challenges in some of our core markets. We are also very pleased with the successful closing of the strategic transactions involving CDI and Valiant Trust.

I am proud of the efforts of every CWB Group team member as we continue to manage through current challenges with a focus on both our clients and our shareholders all while advancing our long-term strategic initiatives. In that way, 2015 was much like many of the years which came before. Also unchanged was our commitment to CWB's core values and the behaviours which set us apart from our competitors, including personal service, responsiveness, caring and a common sense approach to doing business. With this in mind as we look to the future, I believe we're well positioned to open a new chapter in CWB's growth story.

Thank you. This concludes our formal presentation for today's call and I'll ask the operator to begin the question and answer period.

QUESTION AND ANSWER SESSION

Operator

Thank you. At this time, if you would like to ask an audio question, please press star then the number one from your telephone keypad.

Your first question comes from the line of Sumit Malhotra of Scotia Capital. Your line is open.

Sumit Malhotra, Scotia Capital

Thanks and good afternoon. I just wanted to talk about the unrealized gains and available-for-sale portfolio, how that may affect OCI, how it might affect the income statement. On page four of your supplement we see that the unrealized loss has widened to $76 million this quarter and I think we know what's been going on in the pref share market. I believe you had indicated last quarter that there would no longer be or you weren't expecting a material impact on the income statement, and that was the case, but it did seem like there was a larger hit that went through OCI and limited the book value growth. Can you just walk me through how we should expect this to progress going forward, both in terms of the income statement and the book value trend?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Absolutely, Sumit. It's Carolyn. So we continue to monitor our preferred share holdings. That portfolio is declining over time based on our original purchase price. We assess each holding in that portfolio for impairment but barring a significant impairment in the credit quality of the individual issuers we wouldn't anticipate an impairment charge coming through earnings on those portfolios. Looking forward in OCI, we continue to manage the portfolio, um, to monitor and watch the preferred share market in Canada as it develops and manage this portfolio moving forward.

Sumit Malhotra, Scotia Capital

So in OCI, if I've got this right, I think the change in the quarter that was impacted there was about $20 million and that's why your book value didn't grow as much as would normally be the case with just the earnings less the dividend, so when you talk specifically about preferred shares, on this page four we see an unrealized loss of $54 million, have you, ah, and sorry, there's a lot of stuff going on today, is there somewhere that it's disclosed what the total size of your pref share holdings is?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Absolutely. Just give me one minute.

The total amount of our pref holdings at the end of October on a market value basis are $144 million, and that compares to $164 million at the end of July and $321 million at the end of last October.

Sumit Malhotra, Scotia Capital

All right. So I'll go through this offline but from what you're saying here the income statement impact has more to do with actual, as you said, deterioration or credit deterioration in the book as opposed to just market changes.

Carolyn Graham, Executive Vice President & Chief Financial Officer

That's correct.

Sumit Malhotra, Scotia Capital

Okay. Let's move on to something else. I might follow up with you offline.

Chris, just on your comments on loan growth and specifically the removal of the target, it doesn't sound like you're expecting the overall pace of growth to be that different than the double-digit forecast that you've had in the past, it's just that the composition of where it comes from and what portfolios or geographies are driving it is the part that's going to change. Is that an accurate way to describe your view?

Chris Fowler, President & Chief Executive Officer

Yes, that's a good way to think about it. Certainly we anticipate a slower growth in Alberta and we did see that decelerate during 2015. So looking forward we found certainly growth opportunities in British Columbia still is very strong and particularly in Ontario through our Optimum Mortgage and National Leasing in particular.

Sumit Malhotra, Scotia Capital

And one last one, just a numbers one and I'll leave it there, for Carolyn again. I know there was, ah, I think the tax rate change in Alberta on the corporate side got implemented over the summer. The increase that we see on a TB basis to around 27 percent, is that a reasonable run rate in the tax rate for the bank going forward?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yeah, the increase in the Q4—the change came into effect on July 31st, so minimal impact in the first three quarters. We have seen the impact in the fourth quarter. And it's an increase in the Alberta tax rate from 10 to 12 percent. Approximately half of our earnings are taxed in Alberta so we'd expect about a 100 basis point increase on a go-forward basis.

Sumit Malhotra, Scotia Capital

What I mean is the Q4 rate. Is that a reasonable rate to look at as the run rate or does it increase further from here? I thought it would have been in for Q4.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Shouldn't be increased further. Q4 might be a little bit higher with some year-end adjustments.

Sumit Malhotra, Scotia Capital

Thanks for your time.

Carolyn Graham, Executive Vice President & Chief Financial Officer

But, yeah, roughly Q4 would be a good metric.

Operator

And your next question comes from the line of Rob Sedran of CIBC. Your line is open.

Rob Sedran, CIBC World Markets

Hi. Good afternoon. I'm sorry if I missed it but I'm just trying to understand a little better the margin evolution sequentially in particular and whether it's an asset issue or, you know, which side of the balance sheet, I guess, is seeing the pressure? And then perhaps, and I know in Chris' comments you mentioned ongoing margin headwinds, is that a business mix issue to your point on loan growth or is that also, you know, the same factors that took it down this quarter?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Rob, it's Carolyn. So we're seeing competitive pressures on both sides of the balance sheet. We've not seen any of our competitors exit from Alberta to date, so competition on both sides of the balance sheet. In the fourth quarter they largely offset. So other than the pre-payment penalties that I talk about that were higher in the third quarter, reduction in loan yield was almost exactly offset by lower deposit costs. So they kept pace with each other. On a year-over-year basis quarter four over quarter four or for the full fiscal year loan competition was more intense, so reductions in the deposit cost of funds didn't quite keep up with reductions in loan yields.

Rob Sedran, CIBC World Markets

And is that sort of the expectation going forward then, Carolyn? Like the—

Carolyn Graham, Executive Vice President & Chief Financial Officer

I would say yes. We certainly haven't seen a change in the competitive influence in our markets.

Rob Sedran, CIBC World Markets

Okay. And, just to follow up, I know that the dividend payout ratio is a medium-term target but Chris, and I apologize for asking you a question, because you don't seem like you have much voice left, but is there, um, was there any thought to perhaps passing on the dividend increase considering you're drifting off that target range with every other quarter that we've been increasing the dividend lately.

Chris Fowler, President & Chief Executive Officer

Well, so we've historically had a 25 to 30 percent payout target. We're sitting right around that 30 percent range. So as we look forward we put in that mid-term target approximately 30 percent, so we anticipate evaluating it within that range of around 30 percent. So that's where we're sitting at today and we'll take it as each quarter progresses.

Rob Sedran, CIBC World Markets

So but—and just to think of it from a cyclical perspective, if, for whatever reason, growth happened to slow a little bit, you'd be comfortable sending it to 35 while you waited for growth to pick up again? Or is it if the growth isn't there the dividend growth won't be either?

Chris Fowler, President & Chief Executive Officer

Well, we've always evaluated the payout based on what we look at the opportunities are in front of us and we've discussed this in terms of our focus has been to grow and to find ways to deploy capital and we've of course, with the strategic sales we had out of CDI and the share transfer business we have an opportunity to deploy that capital. So as we think about the dividend payout ratio we think of it in terms of growth of our organic business but also deployment of capital. So we'll look at that dividend payout based on kind of that full perspective view.

Rob Sedran, CIBC World Markets

Okay. Thank you. Hope you feel better.

Chris Fowler, President & Chief Executive Officer

Thanks, Rob.

Operator

Your next question comes from the line of Meny Grauman of Cormark Securities. Your line is open.

Meny Grauman, Cormark Securities

Hi. Good afternoon. Just curious to understand the evolution of your target for the PCL ratio. The outlook is 18 to 23 basis points, up very small from 17 to 22 previously, so I'm wondering, the range is largely the same but what's the thinking behind increasing it the way you did?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I think it's simply an indication that, you know, 2014 was certainly at the low end, below what we had anticipated. This year we came in just at the bottom end of the range. Certainly looking forward as gross impaired have increase our specific allowances have increased and we think that that, we think that both of those characteristics will probably continue through 2016. It's a reasonable expectation that our PCLs will lift off a 17 or 18 basis point floor, but we still believe that, you know, at the upside a 5 basis point increase over the year, that still fits within the band that we believe is reasonable as we think about our business model, as we think about our portfolios.

Meny Grauman, Cormark Securities

Okay, thanks for that. And just a question on loan growth, I mean you talked about short of the change in composition but sort of zooming in specifically to the outlook for Alberta and Saskatchewan where do you see the likely path of loan growth going in those two provinces in particular?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So a little bit of—if we drill into the 2015 numbers where we have seen Alberta starting to slow in the last two quarters of this year, overall as a group we delivered 11 percent loan growth in 2015. If Alberta had been flat with no growth we would have realized 7 percent growth on the whole portfolio, so... Just to give a sense of the difference in contribution between Alberta and the rest of our portfolio. If we look only at the last two quarters, Alberta grew 3 percent only between April 30th and the end of October, which means that the rest of the portfolio grew at a pace just over 6 percent. So, you know, we are seeing stronger growth coming from those parts of our business outside the oil-producing provinces. So we think that'll continue. We certainly still have a pipeline for loans in Alberta. We still have opportunities and are looking at clients who have strong balance sheets and see opportunities in the current economic climate but, again, continued slowdown in Alberta is not unrealistic.

Meny Grauman, Cormark Securities

Are you surprised by the pace of slowdown in Alberta? Meaning is the 11 percent surprising to you? Would you have expected it to be lower? Or does it make sense to you basically?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I'll start it and maybe Chris can come in. I think where we're seeing the slowdown happening first in Alberta is exactly what we expect, it's primarily in the equipment finance group, and that, through the global financial crisis, was the portfolio that slowed first and then recovered first. So I would say it's in the area that we expect.

Chris Fowler, President & Chief Executive Officer

Absolutely, yeah. And I would say that what we've typically seen when there is a slowdown in Alberta would be the opportunity to be very focused as a local lender here to take advantage of those opportunities if some of the other banks do start to pull back, and we historically have seen that.

And, as Carolyn mentioned in her remarks that we haven't seen that yet but, you know, that is also another opportunity for the ability to capture a bit more market share in the province. So we will be very proactive in managing our existing accounts, prudent in the exposures we would look to take on, and still very focused on that secured model.

Meny Grauman, Cormark Securities

Thank you.

Operator

Your next question comes from the line of Doug Young from Desjardins Capital Markets. Your line is open.

Doug Young, Desjardins Capital Markets

Good afternoon. Just first question: On back (inaudible), back on the press book, I'm just curious, you know, you said your unrealized loss position was $76 million, what would cause you to have to impair that? And where I'm going with it, is this a function of because it is interest rate driven not credit driven you don't have to impair it? Or if it's under water for a specific period of time do you have to impair it?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Great question, Doug. Just to clarify, the total unrealized loss on the entire available-for-sale security portfolio is $76 million, preferred shares comprising $54 million of that, so just to clarify the number. And for preferred shares we assess for impairment based on credit quality or impairment of the credit of the issuer. So for the preferred shares there isn't a bright line length of time under water or magnitude under water. So we continually assess those issuers, similar to what we might do if we were assessing a lending opportunity. And what would be a trigger that might result in an impairment charge through earnings? The simplest one would likely be a credit downgrade which took that instrument into a non-investment grade rating.

Doug Young, Desjardins Capital Markets

Okay. Perfect. And then just back on the margin question as well, obviously it—big impact was because you pre-funded a debt redemption. If you hadn't been holding that amount of cash on your balance sheet I mean what—I guess another way to ask it, what was the impact on your NIMS from holding that amount of cash on your balance sheet?

Carolyn Graham, Executive Vice President & Chief Financial Officer

It would have been, for the quarter compared to the, so fourth quarter compared to the third quarter it would have been in the range of 3 or 4 basis points.

Doug Young, Desjardins Capital Markets

And so if we back that out looking into next year what I hear from the discussion is we should be anticipating a little bit more in terms of pressure because of the competitive environment. Is that essentially...? Did I get that right?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yeah, so the full year NIM was 256, so we are expecting perhaps a little bit more downward pressure on that 256.

Doug Young, Desjardins Capital Markets

Okay. And then lastly, Chris, again, I apologize for making you talk here, but the, you know, I know that you’ve been thinking acquisitions and deploying capital and obviously we’re kind of one, you know, a few quarters into after you kind of thought about that and obviously the environment hasn’t really improved. Do you still feel that you have the cash flexibility to do an acquisition and, you know, how much capital do you feel that you have on your balance sheet that you could use for an acquisition? Thank you.

Chris Fowler, President & Chief Executive Officer

Thanks, Doug. Yes, we do believe we have a very strong capital position under the standardized approach and I mean, again, any time you structure an acquisition you want it to be very strategic in terms of your business and accretive but also a good cultural fit.

As we think about the fit from a strategy and accretion perspective, you know, the way we would position on the capital side, it would just depend on the ultimate structure, but we would ensure that we would not be in a position after an acquisition that would put our capital position in any way sort of less strong than we are today. So we would want to keep a very strong capital position going forward. We believe that’s the best way to rate the bank and we will continue to focus on that.

Doug Young, Desjardins Capital Markets

And would that be an 8 percent CET1? Is that the test? Is it 8.2? Like when do you think, just so I can have a number, like what would you think would be the bottom line you’d take that to?

Carolyn Graham, Executive Vice President & Chief Financial Officer

If I was going to peg a number on a mid-term CET1 target, we’ve always been comfortable in and around 8 percent.

Chris Fowler, President & Chief Executive Officer

Around 8 percent, yeah.

Doug Young, Desjardins Capital Markets

Okay, great. Thank you.

Operator

Your next question comes from the line of Gabriel Dechaine of Canaccord Genuity. Your line is open.

Gabriel Dechaine, Canaccord Genuity

Hi. Good afternoon. Just a couple of numbers questions here. Firstly, I haven’t seen the MD&A yet but in that document you usually show the early, the balance of early-stage delinquencies or past-due loans. Do you have that number handy?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Just give me one minute to...

Gabriel Dechaine, Canaccord Genuity

Okay. And then on the impaired loans, the $36 million of formations this quarter, can you give me a breakdown of...? I think you said that was one account? Or...?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So the net increase in Alberta was just under $8 mill—just, yeah, $7.9 million. That was primarily one—

Chris Fowler, President & Chief Executive Officer

One oil and gas producing company. So in terms of the nature of the impairments that have come through the books, the predominant area where impairments have increased has been on the equipment finance energy book. So those are the ones that clearly we’re focused on. And we’ve also, if you look at the quarter, we had a big, we had $26 million of, sorry, $36 million of new formations, and we also had $26 million of resolutions. So we have a very active loan management process and very strong high-risk group that is very, you know, we’re extremely focused on this, as we always have been, and that's really what's driven our very low historic loan losses.

Gabriel Dechaine, Canaccord Genuity

Right. But the $36 million in new formations, what was that? Like I'm just trying to get a... Was it one or five or ten new accounts? Was it all Alberta? Because that $8 million you're quoting is a net number.

Chris Fowler, President & Chief Executive Officer

Yeah, that's a net number. We do have that number I just don't have it right in my hand at the moment.

Gabriel Dechaine, Canaccord Genuity

Okay.

Chris Fowler, President & Chief Executive Officer

We can follow up with you, Gabe, on that.

Carolyn Graham, Executive Vice President & Chief Financial Officer

And, Gabe, to come back on the gross impaired, sorry, the past due but not impaired balances, so at the end of October of 2015 that total is $140 million. At the end of the third quarter it was $131 million.

Gabriel Dechaine, Canaccord Genuity

Yep.

Carolyn Graham, Executive Vice President & Chief Financial Officer

And a year ago $96 million.

Gabriel Dechaine, Canaccord Genuity

Okay.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Those increases, as we look at the individual accounts underlying them, most of those are comprised of, um, as we have in the past, I would say Optimum Mortgage, National Leasing accounts. There are a few bank accounts in there. Nothing that I would call systemic or of particular issue.

Gabriel Dechaine, Canaccord Genuity

Just kind of a reflection on your mix I guess? Your origination mix?

Carolyn Graham, Executive Vice President & Chief Financial Officer

That's correct.

Gabriel Dechaine, Canaccord Genuity

Okay. And then just on your origination mix or, sorry, before I move onto that the impairments and the resolving of problem loans, I guess. I guess in the past, especially on the equipment finance, one of the things that you benefited from was the utility of some of the security, I guess. So if there was a big truck that was hauling oil sands material, that could be used in a mine in Chile or something like that. Do you still see that type of dynamic in the current market for the equipment that you're having to seize? Or whatever the PC word is?

Chris Fowler, President & Chief Executive Officer

Sure. We absolutely do. We find that the best clearinghouse for equipment typically has been the Ritchie's auction, and the Ritchie's auction attracts not just local and national buyers but many, many international buyers. And when we think about the equipment book that we particularly focus on, we do look for that standard industrial equipment, where the view is that as much as it could be an oil field service company and they, say, build lease pads for drilling, they're going to have backhoes, excavators, scrapers, which are just as usable in municipal services that could be used in Florida. So we absolutely focus on that type of equipment that does have cross-industry uses.

Gabriel Dechaine, Canaccord Genuity

All right. Um

Carolyn Graham, Executive Vice President & Chief Financial Officer

The—

Gabriel Dechaine, Canaccord Genuity

Sorry, go ahead.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Sorry. So on the $36 million of new impaired for the quarter, we've talked about one loan. The other most significant loan is a real estate loan based in our Ontario.

Gabriel Dechaine, Canaccord Genuity

Okay. And just to wrap things up here, so you've given your range for PCL and you give your expectation for your origination mix to be more tilted towards National Leasing and then Optimum. Where do you see your PCL ratio, you know, based on what you're seeing now, including the more challenging climate in Alberta and your origination mix, do think that the PCL will be moving to the higher end of that range? I mean you keep bumping below the bottom, but could we see the reverse quite sharply next year?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I think we'll see it tick up. I wouldn't say we see it at this point that it will hit the very top, but...

Chris Fowler, President & Chief Executive Officer

Yeah, we—so if you look back in history for us, so if you look at, say the global financial crisis, we went from virtually no impaired loans and we hit a peak in the second quarter of 2010 at 29 basis points. And at that point we had, ah, over 4 percent of our portfolio would be in the unsatisfactory category. So, as we think about where we are at today, I mean there's a significant, that would be a significant increase in impairments. So our focus then is to look at, you know, the provision doesn't necessarily, because we'd have increased impairments it doesn't necessarily mean loan losses. So we do really focus on, again, coming back to the type of loans we built the bank on, the secured nature of it, the lack of sort of consumer exposure with the higher loss portfolios. So we'd be very, you know, continue to be very focused on how we manage it and clearly we will be very proactive.

Gabriel Dechaine, Canaccord Genuity

Okay. I appreciate all the detail. Thank you

Chris Fowler, President & Chief Executive Officer

Thank you.

Operator

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

Sohrab Movahedi, BMO Capital Markets

Okay, thank you. I think a lot of the questions have been asked and answered. I may have missed some of this stuff. I just wanted to how much of the loan growth is from existing borrowers as opposed to new borrowers?

Chris Fowler, President & Chief Executive Officer

That's a good question that we don't actually have at our fingertips, Sohrab, so we can look at that. A very good question. I mean our goal is, of course, to increase our number of clients, so that's our message as we speak to our branches, but it would include obviously a mix of both.

Sohrab Movahedi, BMO Capital Markets

Yes, I'm just, I guess just trying to kind of get a feel for what is happening with the—

Chris Fowler, President & Chief Executive Officer

(Inaudible)

Sohrab Movahedi, BMO Capital Markets

The second question, I mean I know, Chris, you've talked about the emphasis on trying to grow the higher-yielding type assets, so it's, you know, I guess even in those areas you're finding quite a bit of intense competition. Is that a fair way of characterizing it?

Chris Fowler, President & Chief Executive Officer

Well, our top yielding portfolio is our equipment finance portfolio and certainly our success in National Leasing was very strong in 2015, so we would see them continue to be strong, given their geographic footprint is all of Canada, so we do see them continuing to be very, you know, having lots of opportunities for growth there. Optimum Mortgage also has a very high yielding book too, so that is a continued opportunity growth. And then our inter-construction book, which we've got exposures in Vancouver, Calgary and Edmonton, and Toronto, those are our major markets, that is actually our second highest yielding book. So our better yielding books do continue to perform very well for us and we will continue to focus on them.

Sohrab Movahedi, BMO Capital Markets

But from a margin, from a NIM, net interest margin perspective, I mean you've had pretty good growth in personal loans and mortgages, reasonable growth in equipment leasing, even real estate projects, but your margins have gone down.

Chris Fowler, President & Chief Executive Officer

Yeah. And I think the, um, when we break it into the margin, the challenge on loan pricing is, you know, it's less so in those portfolios—

Sohrab Movahedi, BMO Capital Markets

I see.

Chris Fowler, President & Chief Executive Officer

—still have good opportunities for pricing. The more challenging portfolios are commercial banking and commercial mortgage books. That's where it's a very difficult pricing environment from competitive position.

Sohrab Movahedi, BMO Capital Markets

Okay. So it must be very difficult there, because the growth there is lower and still dragged down the margins.

Chris Fowler, President & Chief Executive Officer

Right.

Sohrab Movahedi, BMO Capital Markets

Okay. And then just to go back to the question around the collateral, and you were talking about the Ritchie Bros. auction and so on and so forth. Typically from the time, I guess from the time you impair an—I'm just trying get a sense of how quickly you can realize on that collateral. You know, from—I suppose when you impair something you don't necessarily foreclose on the asset, so just because you've impaired doesn't necessarily give you a lead time on realizing on the collateral, does it?

Chris Fowler, President & Chief Executive Officer

No, definitely not. I mean we've have got different portfolios in that equation. If you think about equipment finance, I mean our goal is to be very proactive in that loan management. And I mentioned we've added these senior officers that have sort of come in between our branch and our credit risk management group to assist in how we look at higher-risk loans. So we do look to find ways to resolve positions. Clearly, if we've got an impairment and there's really no other options, we would then look for liquidation of that asset. So once you've made that decision and look to go to market, it does actually go fairly quickly, but I mean the process of from first default to liquidation really depends on individual circumstances.

Sohrab Movahedi, BMO Capital Markets

Okay. I mean presumably the sooner you move, the higher the realization on the collateral? Or is it not a good rule of thumb?

Chris Fowler, President & Chief Executive Officer

It's probably not a rule of thumb. It could be the case in some, for sure, but not always, because you can get people—we actually have impaired loans that come back to performing as well. So it's not a death sentence to become an impaired loan. It quite often can rehabilitate.

Sohrab Movahedi, BMO Capital Markets

Right. Okay. Okay. And you may have touched on this and I may have missed it but any updates on the acquisition file?

Chris Fowler, President & Chief Executive Officer

Well, we continue to be very interested in deploying the capital that we generated from the sales. We are very active in looking at the opportunities that are out there. There has been, certainly some opportunities have come to market, as I'm sure you're aware. And we're very interested but again, we want to make the right deal for us that matches our strategic direction, the accretion makes sense, and they're a good cultural fit. So we will continue to focus on that and it's our goal to obviously redeploy the capital.

Sohrab Movahedi, BMO Capital Markets

And Chris, not, you know, just maybe I'll be a bit nosy when I ask this but is what's holding you at bay now, let's say on some of the files that you've looked at, more the accretion or more the qualitative cultural fit?

Chris Fowler, President & Chief Executive Officer

Well, it's always a challenge. I think we want to be, you know... Let's just put it this way: we're very interested in redeploying the capital in a way that makes sense for our strategic direction. We want it to be within our known lending verticals, we want it—obviously it would be great to expand our geography. So there's different areas that we're very interested in looking at. So we continue to be very active and looking

---

Sohrab Movahedi, BMO Capital Markets

Thank you.

Chris Fowler, President & Chief Executive Officer

Thank you very much.

Operator

Your next question comes from the line of Darko Mihelic of RBC Capital Markets. Your line is open.

Darko Mihelic, RBC Capital Markets

Hi, thank you. Good afternoon. Chris, in your opening remarks you mentioned something about putting some people out into the branches to help with some proactive management of files. Can you provide a little more colour on that? What exactly would they be doing and which files in particular are you thinking that you have to be more proactive with?

Chris Fowler, President & Chief Executive Officer

Because we're commercially focused, you know, you're not looking at really homogenous risk loans. So you've got all individually underwritten. It could be commercial mortgage, it could be equipment finance, it could be an inter-construction loan, you know, within the realm of the areas that we focus on. So what we have looked at is we've a regional structure in our bank where we've got regional managers and deputy managers, and the view there is we've got a lot of credit skills and talent there where we can come in and add that extra level of conversation with a client, where they are running into headwinds, that would look for how they might look to rationalize their business, maybe scale back their fleets, look at different ways to raise working capital, different capital management structures for those clients.

So it's just to add that level of, at the branch, at the client level, expertise to help us as we look at look what could be a challenging situation for our client. And then ultimately if there is no real resolution there, then our high risk group, which has been a very strong track record of management of loans in terms of resolving situations, it would then revert to them. But our goal is to, and we did this again in 2009 and 2010, whereas we had an increase in our impairments, you know, it didn't really turn into losses either. And that's where the focus has been, to find ways to have good resolutions to what are challenging situations.

Darko Mihelic, RBC Capital Markets

Okay. I guess I was a little confused, because I think you mentioned that your watch list is actually stable and the number of large files in there is down, so I would've thought that... Is there maybe a level above that that maybe you are seeing some stress in Alberta?

Chris Fowler, President & Chief Executive Officer

Well, I think—we don't actually publish our watch list, because it's a number that can, accounts can be there for many different reasons, but our focus there as we think about just the credit management side of the business, you know, you're going to have companies that have specific challenges. It could be a sales challenge, it could be an inventory challenge, it could be over, they have too much, ah, too large a fleet to justify the, you know, based on the revenues they have. So it's really all of those. So they're just companies that are running into some form of business headwind that it just helps to have additional conversation and that other level of expertise right at the branch and client level.

Darko Mihelic, RBC Capital Markets

Okay. That's good colour. Thank you.

Operator

And your next question comes from the line of Jaeme Gloyn of National Bank Financial. Your line is open.

Jaeme Gloyn, National Bank Financial

Yeah, hi. Good afternoon. Just a quick question on the gross impaired loan in the equipment finance and leasing portfolio, the decline; was that primarily from reductions or write-offs? What was the breakdown there?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Hi, Jaeme. It wasn't anything in particular. It was just ongoing resolution of accounts that come on and off. Nothing, no material accounts.

Jaeme Gloyn, National Bank Financial

Okay. And then just on the securities portfolio, were there any gains realized or impairments or that $26 million that you reported, is that, I mean what's the breakdown there?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So in the quarter there were no material gains or losses. There's, you know, every quarter there's a little bit of activity but it was essentially flat for the quarter.

Jaeme Gloyn, National Bank Financial

Okay. So no real activity. And then lastly, just on the other income drivers within some of your other businesses, there was a sequential decline. Are you able to provide any additional colour on what you were seeing in those businesses?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Just bear with me a moment... So quarter over quarter or...?

Jaeme Gloyn, National Bank Financial

Yes.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Or year over year?

Jaeme Gloyn, National Bank Financial

Quarter over quarter.

Carolyn Graham, Executive Vice President & Chief Financial Officer

So, you know, 2 percent decrease in credit fees, 2 percent in wealth, 6 percent in trust. Nothing particular there. Some of those businesses are a bit cyclical where, you know, different quarters have different levels of activity. So nothing that would be systemic or material.

Jaeme Gloyn, National Bank Financial

Okay. Great. Thank you.

Operator

And there are no further questions at this time. I turn the call back over to the presenters.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thank you very much, Kelly. Just one follow up on Sumit's question from the beginning about effective tax rate looking forward. So our full year effective tax rate on a tax equivalent basis for 2015 was 26.3 percent and we're forecasting approximately 27.5 percent for 2016.

So thank you very much your continued interest in the Canadian Western Bank Group. We look forward to reporting our 2016 first quarter results on March the 3rd. And, in the meantime, if you follow up questions or comments, please call us or contact us by email. Thank you and all the best for the holiday season.

Operator

This concludes today's conference call. You may now disconnect.
