FINAL TRANSCRIPT

# Canadian Western Bank

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## PRESENTATION

**Operator**

Good morning. My name is Joanna, and I will be your conference Operator today. At this time, I would like to welcome everyone to CWB's Q1 earnings conference call and webcast. 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 *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, followed by 2. Thank you.

Mr. Matt Evans, you may begin your conference.

**Matt Evans** — AVP, Strategy & Investor Relations, Canadian Western Bank

Thank you, Joanna. Good afternoon, and welcome to the CWB Financial Group 2019 First Quarter Financial Results Conference Call. My name is Matt Evans. I lead the Investor Relations team for CWB.

Presenting to you today is Chris Fowler, CWB's President and Chief Executive Officer, and Carolyn Graham, our Executive Vice President and Chief Financial Officer.

Before we begin, please note that the conference call graphs, quarterly results news release, and supplemental financial report are available on our Investor Relations website at cwb.com.

I would like to remind listeners and webcast participants that statements about future events made on this call are forward-looking in nature and are based on certain assumptions and analysis made by management. Actual results could differ materially from expectations due to various material risks and uncertainties associated with CWB's business. Please refer to our forward-looking statement advisory on Slide 15.

The agenda for today's call is on the second slide. Chris will begin with our first quarter fiscal 2019 performance highlights and comments on the continued execution of our strategy. Carolyn will follow with detail on our financial results, before we move to the question-and-answer session.

I will now turn the call over to Chris.

**Chris Fowler** — President and Chief Executive Officer, Canadian Western Bank

Thanks, Matt. Moving to Slide 3, I'm pleased to report we're off to a great start this year. This morning, we reported strong results, with performance meeting our most significant medium-term targets. We delivered strong, 7 percent growth of common shareholders income, 10 percent growth of pretax, pre-provision income, positive operating leverage, and strong credit quality. Growth in cash EPS would have been even higher excluding pretax gains from CWT's strategic transactions in the first quarter last year.

We continue to execute successfully against our balanced growth strategy. We are broadening our relationships with business owners across the country and steadily delivering a more diversified bank by geography and industry. Diversification creates value for our stakeholders in two ways; it increases our addressable market and enhances our risk management profile. Today, we have more channels for growth than ever before, operating from a more resilient base than at any point in our history.

We are also taking steps to grow our funding sources through specific initiatives to realign client-facing operations within our branches. Complemented by a current technology platform that supports ongoing development of new product and service capabilities, we expect our strategy to continue to deliver an improved client experience every quarter and support deposit growth.

Our steady execution on all fronts also includes progress towards a planned transition to the advanced approach for managing regulatory capital. This transition will enable us to accelerate profitable growth across our expanded geographic footprint and create value for our shareholders by improving our ability to compete for growth opportunities that generate the most attractive risk-adjusted returns. Our dedicated people have been working hard toward this transformation for a number of years, and we are pleased to be nearing submission of our final application this fiscal year.

In all of our activities, we remain focused to increase value for our client and shareholders. This quarter, we fully utilized our normal course issuer bid to purchase and cancel 2 percent of our outstanding common shares. This was an appropriate investment of capital, as recent market prices did not reflect the underlying value of CWB's business, and our average buyback price was less than current book value. Yesterday, we declared a $0.27 per share dividend, up $0.02 or 8 percent from the dividend we declared one year ago, and $0.01 higher than last quarter.

As we consider the full scope of the opportunities that lay ahead of us, I am confident that fiscal 2019 will be a great year for CWB.

Turning to Slide 4. Overall organic loan growth is off to our best start in three years, with total loans up 10 percent over the past 12 months. While the Canadian economy slowed in the latter part of 2018, we continue to expect moderate, positive GDP growth this year at a level sufficient to support our loan growth expectations. We see a mix of economic factors at play across our footprint, and the benefits of our balanced growth strategy are clearly apparent. Today, British Columbia represents the largest proportion of our book at 33 percent. Alberta represents another third at 32 percent, down significantly from 52 percent 10 years ago, and more than 40 percent when we entered the commodity price downturn in fiscal 2015. Ontario and Eastern Canada now account for nearly another third at 27 percent of the loan book. These significant markets comprised less than 6 percent of our book 10 years ago.

In terms of momentum, our Ontario business lines delivered 16 percent growth over the past year, with Alberta and BC also delivering strong growth at 10 percent and 9 percent, respectively. With Ontario leading the way, each of these three provinces delivered just under a third of our growth over the past year, a close proxy for our strategic objective to divide our business presence equally across the three regions.

Slide 4 also demonstrates successful execution against our strategy to target growth in general commercial loans. This is our largest lending category at 29 percent of the portfolio and represents our growing presence across the broadest segments of Canada's economy. Relationships in this space provided excellent opportunities for CWB to deliver full-range products and services to business owners, and we delivered very strong growth of 15 percent over the past year.

Personal loans and mortgages increased 10 percent this year and now represent 20 percent of overall loans. Within this category, we have minimal unsecured personal loan exposures. CWB Optimum Mortgage grew 7 percent, with alternative mortgages now representing 54 percent of our personal loans and mortgages.

We continue to expect our residential mortgage originations to include an increased proportion of "A" mortgages through the remainder of the year. The overall growth rate of residential mortgages is anticipated to be in line with growth across the rest of our loan portfolio over the next three quarters of 2019.

Real estate project loans have contracted slightly, with net growth in Ontario more than offset by successful project completions and payouts in Alberta and BC. This category now represents 15 percent of the loan book, consistent with last year.

As we move forward, we expect to continue to identify opportunities to finance well-capitalized developers on the basis of sound loan structures and acceptable presale and pre-lease levels. We closely monitor housing market conditions and remain committed to support our experienced clients in prudently structured, construction-related opportunities within targeted markets.

Slide 5 demonstrates our performance against a strategic objective to diversify our funding sources. Total deposits increased 5 percent from last year. Branch-raised deposits were up 3 percent, including very strong 13 percent growth of branch-raised term deposits and a 2 percent reduction of demand and notice deposit balances. The shift in the composition of our branch-raised deposits reflects both depositor preference for longer-term deposits in today's higher rate environment and intensive competitive factors. Term deposits raised through the broker network increased 9 percent, and now represent 37 percent of total funding, relatively consistent with last year.

As I mentioned earlier, we began to realign client-facing operations in our branches last year, and our efforts will continue throughout the remainder of 2019. These changes are focused to improve our clients' experience and empower our teams to deliver on our reputation for standout personalized service in a highly scalable manner. With an ongoing strategic focus on process improvement, new products and service capabilities, and a commitment to strategic pricing initiatives, we remain focused to strengthen our competitive position for funding.

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

**Carolyn Graham** — Executive Vice President and Chief Financial Officer, Canadian Western Bank

Thank you, and good morning, everyone. As Chris mentioned, CWB Financial Group delivered a strong first quarter, driven by quarterly net interest income that was up 13 percent year-over-year, common shareholders net income, and pretax pre-provision income were up 7 and 10 percent, respectively.

As Chris noted, growth would have been even higher excluding $3 million of pretax gains from the CWT strategic transactions in the first quarter last year. Noninterest income was down 13 percent, as growth in credit-related fees was more than offset by the impact of last year's gains, which I've noted.

Noninterest expenses were up 9 percent, primarily due to a 7 percent increase in salaries and benefits, and 14 percent increase in premises and equipment expenses. Higher salaries and benefits mainly reflects hiring activities to support overall business growth, and annual salary increments. Higher premises and equipment expense primarily reflects ongoing investment in technology infrastructure to position us for future growth.

Diluted and adjusted cash earnings per common share of $0.75 and $0.80 were up 9 and 7 percent respectively.

Turning to Slide 7. Compared to last year, net interest income increased 13 percent, reflecting the combined benefits of 13 percent growth in average loans and 9 basis points higher net interest margin to 2.61 percent. The increase in net interest margin primarily reflects higher asset yields and favourable changes in asset mix, which more than offset higher funding costs.

The increase in asset yields mainly reflects the higher interest rate environment. Changes in asset mix include both lower average balances of cash and securities, and stronger relative growth of higher yielding loan portfolios. The increase in funding costs also reflects the higher interest rate environment, as well as client preference for longer term deposits.

Sequentially, net interest margin was stable, as the positive impacts of a higher interest rate environment on asset yields were offset by increased funding costs, including the impact of continued client preference for longer term deposits.

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.

Higher total revenue and effective expense management supported positive operating leverage of 0.4 percent this quarter. Our efficiency ratio of 44.4 percent is unchanged from last year and compared favourably with our average annual efficiency ratio over the last three years of approximately 46 percent. We expect to deliver slightly positive operating leverage on a full year basis in 2019, although quarterly volatility of operating leverage may occur, based on the timing of expenditures.

Turning to Slide 9. Overall strong credit quality continues to reflect our secured lending business model, disciplined underwriting practices, and proactive loan management. We continue to carefully monitor the entire loan portfolio for signs of weakness and have not identified any current or emerging systemic issues.

The provision for credit losses was calculated under IFRS 9 for the first time this quarter, with the provision in prior periods calculated under IAS 39. Under IFRS 9, the first quarter provision for credit losses as a percentage of average loans of 24 basis points, consisted of 22 basis points related to impaired loans, and 2 basis points related to performing, or Stage 1 and 2 loans.

Under IAS 39, provisions for credit losses represented 18 basis points in the first quarter of last year, with 16 basis points for impaired loans, and 2 basis points for performing loans. The 19 basis point provision for credit losses last quarter was entirely related to impaired loans.

The increase in the provision related to impaired loans, compared to both prior periods, primarily reflected provisions recognized on two general commercial loans this quarter.

Turning to Slide 10. Gross impaired loans represented 51 basis points in gross loans compared to 56 basis points last year, and 52 basis last quarter. As we've noted before, 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. The overall loan portfolio is reviewed regularly, with credit decisions undertaken on a case-by-case basis to provide early identification of possible adverse trends. Our business model remains focused on secured mid-market commercial lending, and we have no material exposure to unsecured personal borrowing, including credit cards.

Gross impaired loans within Alberta accounted for 43 percent of total impairment, compared to 58 percent last year, and 56 percent last quarter. We expect that the relative concentration of impaired loans in Alberta to continue to normalize in the absence of material commodity price weakness, compared to recent levels. Gross impaired loans within CWB Optimum Mortgage may increase in the event of a material correction of residential home prices.

We primarily participate in housing market activities through personal mortgages and residential project financing. Personal mortgages are originated within both our branches and through CWB Optimum Mortgage, and both channels continue to perform well. CWB Optimum Mortgage continues to deliver strong growth with an attractive risk profile. Our business model targets affordably priced homes with an average loan to value at initial funding of 69 percent this quarter, on an average origination of $323,000. The average size of each outstanding mortgage is just under $300,000.

On Slide 11, we provide the November 1, 2018 IFRS 9 transition impact relating to our allowance for credit losses and capital positions. Actual transition impacts were consistent with the estimate we shared in our 2018 annual report. Upon adoption of the IFRS 9 impairment requirements, allowances for credit losses on performing loans, or Stages 1 and 2, decreased $31 million from the prior accounting method, collective allowance, as at October 31st of 2018.

Stage 3 allowances on impaired loans were unchanged under IFRS 9. We recorded a corresponding after-tax increase to shareholders equity of $23 million upon transition. This resulted in an increase to the CET1 and Tier 1 capital ratios of approximately 10 basis points, with a nominal impact to the total ratio.

Slide 12 shows our strong capital ratios at January 31st. Using a standardized approach for calculating risk-weighted assets, our common equity Tier 1 ratio was 9.1 percent, Tier 1 ratio was 10.7 percent, and our total ratio was 12.0 percent. And at 8.5 percent, our Basel III leverage ratio remains very strong.

As Chris noted, we fully utilized our normal course issuer bid during the quarter, resulting in a decrease to CWB's capital ratios of approximately 20 basis points. We also issued $125 million of preferred shares just before quarter-end, which resulted in an increase in the Tier 1 and total capital ratios of approximately 55 basis points. Dividends related to the new preferred shares will be approximately $5.7 million in fiscal 2019.

And with that, I'll turn the call back over to Matt.

**Matt Evans**

Thanks, Carolyn. That concludes our formal presentation for today's call. I'll ask Joanna to begin the question-and-answer period.

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## Q&A

**Operator**

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press *, followed by 1. One moment, please, for your first question.

Your first question comes from Sumit Malhotra from Scotiabank. Please go ahead.

**Sumit Malhotra** — Scotiabank

Thanks. Good morning. First just to start with Chris on the normal course issuer bid. So you put that in place last quarter-end, and as you mentioned, acted on it very quickly. What happens now? Your capital position, obviously, still in pretty healthy shape under the standardized approach. Do you anticipate putting capital to work again via share repurchases? Or was that more a reflection of where the stock was during the later few months of the year?

**Chris Fowler**

It was certainly a reflection of where the stock was at the time. Certainly, significantly undervalued, based on how we look at our models. So we will continue to evaluate how we look forward on the NCIB.

**Sumit Malhotra**

So what does that say for how you look at valuation today?

**Chris Fowler**

Well, I would say that we still believe that we've got lots of room to grow in terms of our business model and adding more value for shareholders. We expect the increase in the value of our stock to reflect the very strong performance we gave in 2018 and in Q1 of '19. So we continue to perform very well and we expect the market to see that strong performance, and certainly an uptick on the stock.

Our goal is, as you know, to focus on ensuring that we have strong capital ratios to grow. And if we have a very egregious stock price then - as we did in December and we exercised our NCIB - we will consider all those opportunities as the market evolves. But we are very confident in our business and want to support it with strong capital.

**Sumit Malhotra**

I was half kidding with that one, Chris. But I know I'm guessing the book value-per-share metric is maybe one we can think about if you were to need to press it. Okay. That's fair. Okay. Maybe something a little bit more tangible to the business, your commentary in the report to shareholders on net interest income growth—obviously, a key part of the revenue line for the company. So I think the double-digit objective was there last quarter. It's a little bit lower this time around at kind of high single digits. It seems like, for either Carolyn or Chris, this is almost fully a reflection of net interest margin. So if you could just update us on how your thought process has changed here? Is this part and parcel with what's happening with the Bank of Canada commentary? Or are you seeing more pressure on the funding side that you think is going to have a dampening impact on NIM as 2019 progresses?

**Carolyn Graham**

Yeah. Sumit, I'll start. When we put out our annual report in early December, we talked about expecting a NIM outlook that had an increase of about the same magnitude as 2018, so that's in the 4 basis points, approximately. That did include an assumption for one Bank of Canada rate increase earlier in the year. The expectations for that have certainly changed since December, so the difference of that to our projections is in the range of 1 to 2 basis points. And then we continue to see intense competition on both sides of the balance sheet, but in particular around deposits. So the combination of those two is why we dampened the outlook related to margin.

**Sumit Malhotra**

Okay. Thanks, guys. I'll re-queue.

**Carolyn Graham**

Thanks.

**Chris Fowler**

Thank you.

**Operator**

Thank you. Your next question is from Steve Theriault from Eight Capital. Please go ahead.

**Stephen Theriault** — Eight Capital

Thanks very much. First one on credit. There were some moving parts in the impaired loan categories. I did want to ask about the increase in real estate project loan impaireds. It looked liked there was a $10 million increase but maybe no material PCL. Is that right? Carolyn, can we get some details around that?

**Chris Fowler**

We had no material change in PCLs on the real estate project category. We have loans that go in and out. That remains a very strong part of our book. So the credit conditions, I would say, is business as usual this quarter.

**Stephen Theriault**

So, there was an impairment, but no P&L impact?

**Chris Fowler**

Yeah.

**Stephen Theriault**

Okay. On the expense line, just thinking about regulatory costs for a moment. They've been pretty stable the last three quarters. Should we think of them as having peaked? Are we at a run rate? Or is there potential for this to normalize lower as you get through your application process on advanced AIRB and so on? Any sense for that would be helpful.

**Carolyn Graham**

Yeah. The regulatory cost line doesn't include any costs related to AIRB, so it would be standard recurring regulatory costs, including CDIC deposit premiums. So the run rate for the last three quarters is probably a reasonable expectation going forward.

**Stephen Theriault**

Okay. And then last thing for me, if I could, just going back to credit. You mentioned the two commercial loans. Any detail around which business they were from? Or what sector, I guess?

**Chris Fowler**

They were in our general commercial category. They were in different cities. They were just specific impairments that occurred with businesses that failed. There was nothing really unusual, no systemic issue, doesn't speak to any industry weakness. Just loans that ran into challenges in the current economy.

**Stephen Theriault**

Okay. Thanks very much.

**Chris Fowler**

Thanks, Steve.

**Operator**

Thank you. Your next question comes from Darko Mihelic from RBC Capital Markets. Please go ahead.

**Darko Mihelic** — RBC Capital Markets

Hi. Thank you. I just have a couple of questions as well. With respect to the Optimum Mortgage portfolio, we do notice that there is a bit of an increase in the gross impaired loans, and your language around your appetite for them seems to have changed. Can you speak to why that might be, Chris?

**Chris Fowler**

So this was our first portfolio we put on AIRB. So that modelling is certainly helping us as we think about our underwriting. And as we came into fiscal ’18, and with the changes that were occurring in the regulatory environment with B20, the underwriting process we had through the AIRB model really helped us making sure that we were underwriting at a stronger credit quality.

So that has continued as we’ve come into fiscal ’19. So ’18, we ended up with 10 percent growth in that book. This year, year over year, we’re at 7. We expect the volume of that to sort of mirror the rest of the bank as we look at fiscal ’19. But certainly, our goal is to ensure that we maintain a conservatively underwritten book in that Alt-A category, as we have historically, but we’ve certainly got better tools for us to manage that with, and we continue to focus on that.

**Darko Mihelic**

So it has nothing to do with the quarter-over-quarter increase in impaired loans in personal loans and mortgages?

**Chris Fowler**

No. nothing to do with that. It's just our—we have a very consistent underwriting process that we follow there.

**Darko Mihelic**

Okay. Understood. And maybe a question for Carolyn. The Stage 1 and Stage 2 provisions for credit loss is 2 basis points. Is it fair to say that, that was entirely due to the growth of the loan book? Or were there actually changes to any of your estimates assumptions? Or was there any sort of migration from Stage 1 to Stage 2?

**Carolyn Graham**

Yeah. Quick answer is all of the above, but from a magnitude perspective the most significant impact is the growth in the portfolio, followed by some small weakening in some of the economic forecast indicators.

**Darko Mihelic**

But not much migration from Stage 1 to Stage 2?

**Carolyn Graham**

Not from a client-specific perspective that would move a specific client into Stage 2, but the impact of the economic forecasts can move some clients into Stage 2 just by virtue of the conditional probability of default.

**Darko Mihelic**

Okay. All right.

**Carolyn Graham**

So nothing significant there. Yeah.

**Darko Mihelic**

Yeah. Okay. Thanks very much.

**Carolyn Graham**

Thanks.

**Chris Fowler**

Thanks, Darko.

**Operator**

Your next question comes from Richard Roth from TD Securities. Please go ahead.

**Richard Roth** — TD Securities

Good morning. Just back on the real estate project loans in gross impaired loans. Is BC a driver of that increase, sequentially? Like, what would be the geographic breakdown, just like ballpark?

**Carolyn Graham**

Sorry, I'm just looking at my schedule. Both BC and Alberta are factored in there, and the increase in BC was from a number of small exposures and not any one particular large exposure.

**Richard Roth**

Okay. And subsequent to the quarter, I guess we've seen continued sort of weakness in the BC real estate market, especially as it relates to projects. Are you guys seeing any credit deterioration? I understand that these are secured loans, and the chances for major losses are low. But just from an impairment perspective, are you seeing an uptick there that's continued subsequent to the quarter?

**Chris Fowler**

We have not seen any change in credit quality in that portfolio. We've got a real focus on what we call Tier 1 borrowers—very strong credit structures, high levels of presales. We like to deal with the developers with a proven track record, so you take out the construction risk out of it, and you manage market risk through presales. So we continue to have very strong credit performance in the project-lending category.

**Richard Roth**

Okay. Great. And then with respect to expenses, your NIX was quite a bit better than your 46 percent benchmark. Given that you left your 46 percent reference point unchanged, is it safe to assume that expenses move up throughout the rest of the year?

**Carolyn Graham**

So Q1 is usually a seasonally low quarter for us, so I would say it's not an indicative run rate. But we continue to manage to slightly positive operating leverage and managing expenses with constant consideration of what the revenue forecast looks like.

**Richard Roth**

Okay. Yeah. I see Q1's are normally lower. I just wanted to make sure that was the case. Okay. And then finally, with respect to the lowering of your NII guidance—but keeping your loan growth guidance more or less intact, and on Sumit's point, it seems that NIMs are implicated in all this. But is it safe to say that you could actually see sequential NIM contraction, potentially, through the rest of '19, as opposed to just even flat?

**Carolyn Graham**

Well, with what we're seeing today that flows into the way that we've revised the forecast. We were seeing lots of competition on both sides of the balance sheet, in particular on deposits. So again there, in some respects, it depends on what we see in the competitive landscape.

**Richard Roth**

Okay.

**Chris Fowler**

And that would be mix too, right.

**Richard Roth**

Yeah. Yeah.

**Chris Fowler**

So we would have to look at the mix of the portfolio.

**Richard Roth**

It would be safe to assume therefore, though, that NIM contraction is sort of on the table, potentially, if sort of competitive pressures, especially on the deposit front, doesn't subside?

**Carolyn Graham**

We continue to focus on, what can we control? So that's the initiatives that Chris talked about to improve the client experience, building out full-service relationships, and we believe that will support our funding profile.

**Richard Roth**

Okay. Thanks, guys.

**Chris Fowler**

Thanks, Richard.

**Operator**

Thank you. Your next question is from Marco Giurleo from CIBC. Please go ahead.

**Marco Giurleo** — CIBC Capital Markets

Hi. Good morning.

**Carolyn Graham**

Good morning.

**Marco Giurleo**

My first question, I just wanted to turn back to capital and just discuss the AIRB implementation timeline. So you mentioned that there's going to be a submission to the regulator in 2019. Is it safe to assume that you'll be fully running on AIRB in the first half of 2020?

**Carolyn Graham**

Well, we are optimistic, but approval is subject to the regulator's approval, so that's not in our control.

**Marco Giurleo**

Okay. And then just when I look at your corporate presentation, you have a slide there that outlines your pro forma CET1 relative to the Big Six. And in there you assume a 20 percent reduction in your RWA. Is that based on what your models are spitting out right now for AIRB? Or is that just a conservative number? Because when I compare your—call it—your risk weighting on commercial at 100 percent, to the Big Six at around 50, I would have just expected, maybe, a greater decline than that 20 percent, so.

**Carolyn Graham**

Yeah. So the 20 percent that we include in the forecast is a hypothetical expectation that we've included in there for purposes of just calculating what it might look like for us. The actual result will be a combination of two things. The first will be the Pillar 1 requirement, which is the very quantitative risk-weighted asset calculation. So as you note, our business portfolios today, we are risk-weighted at about 100 percent compared to the large banks at about 50. And then the second thing is Pillar 2, economic capital, where we think about our portfolio and what are the appropriate levels for us. And then the third constraint would be under the new Basel framework, the output floor, which is 72.5 percent of the standardized approach. So there are a couple of different factors at play that will work together to determine what the end aiming impact is when we have approval.

**Marco Giurleo**

Okay. So that 11.5 percent should largely be ballpark, maybe a little conservative if you go down to that 72.5 percent floor? Fair?

**Carolyn Graham**

Yeah. Fair estimate. Yeah.

**Marco Giurleo**

Okay. And so then at 11.5 percent relative to the D-SIBs at 11.5 percent, would you guys consider yourselves overcapitalized at that point? And if so, how would you deploy capital?

**Chris Fowler**

So capital allocation is the key opportunity from AIRB. That's how we've always viewed it, as giving us the ability to—number one—grow. It gives us better ammunition to really fuel our ability to grow. So that's our number-one focus. And ultimately, we want to deploy capital effectively to ensure that shareholders are adequately recompensed, and we can then look at share buybacks or dividend changes, so. But our number-one focus would be growth.

**Marco Giurleo**

Okay. And I'll just leave it there and save the rest for offline. Thanks for that.

**Carolyn Graham**

Thanks, Marco.

**Chris Fowler**

Thank you.

**Operator**

Thank you. Your next question is from Doug Young from Desjardin Capital Markets. Please go ahead.

**Doug Young** — Desjardins Capital Markets

Hi. Good morning. Just back, maybe, on the credit side. The two commercial loans that you singled out, were they already impaired and this was a top-up to the provision? Or to the allowance?

**Chris Fowler**

These are actually loans that became impaired. There was no resolution. We wrote them off. And so, they're in our formations, they're in our PCL, but they're not in our opening or closing balances for gross impaired. So they were loans that just went right through within one quarter.

**Doug Young**

Yeah. Okay. That's where I was going. And so I guess where I'm going with it, if you look in the notes— I'm sure you've seen the notes of the financial statements—Page 38, and if I look at your Stage 1, 2, 3, in Stage 3, there's a net remeasurement of $14.4 million. Was that just degradation of loans that were already impaired? Or was that actually the economic variable changes? Just trying to get a sense of what drove that $14.4 million. And if it's easier to go offline, I'm fine with that.

**Carolyn Graham**

So that would be the actual balance. So that would be net new formations for the quarter, primarily, would be the closest description compared to the way we've traditionally reported it.

**Doug Young**

Okay. So that's new-new formations. That's the PCL-related—the stuff that went from Stage 2 to Stage 3, essentially?

**Carolyn Graham**

Yeah. New formations of impaireds. Whether or not it has a specific on it would be the second conversation. But it would be new formations to impaireds.

**Doug Young**

Okay. And then, if I then look at the other schedule in your notes, and I look at the increase in loans past due 61 to 90 days—and this might relate to the IFRS 9, and if so, you can kind of walk me through if that's the case. But if there was a decent increase, and there was a decent increase in the personal category from $691,000 to $15.4 million, and so that just caught my eye. Can you walk through what drove that?

**Carolyn Graham**

So the IFRS 9 impact of this past-due note, which is on Page 36, Note 6, of the report—would really only factor into the fact that we now have no loans that are past due more than 90 days and are not impaired. So IFRS 9 brought in a hard stop, so anything over 90 days is in the impaired bucket. Other than that, it's relatively consistent with the way that they were calculated before.

**Doug Young**

Okay.

**Carolyn Graham**

So the increase in personal is just, primarily, what we're seeing across the market. So there are some additions in impairments on the personal mortgage side, sort of across the entire portfolio of where that portfolio resides, and appropriate specifics have been put on a number of them.

**Doug Young**

And so, this is just—yeah. And this is more on the mortgage—I guess this would be mostly on the mortgage book? Is it more the Alt-A mortgage book where that is starting to build?

**Carolyn Graham**

Probably. I think yeah.

**Chris Fowler**

Yeah.

**Doug Young**

Okay. And then, maybe just lastly for me, I mean, I was surprised that you had pretty good loan growth in Alberta, which is great to see. I just wanted to maybe get an idea if you can flesh out what drove that? In what segments? Because it was noticeable, I think, from 10 percent year over year—and just maybe kind of additional colour? And I know a smaller part of your overall loan book is Alberta, but it's one that we often get a lot of discussion about, so just kind of the feel for the environment right now?

**Carolyn Graham**

So I can sort of talk to the numbers, and then Chris can maybe talk to the environment. So 10 percent growth in our Alberta exposures year over year, more than half of it is in the general commercial category, which is the area that we've been focusing on; about a quarter in personal loans and mortgages; a little bit in equipment finance; a little bit in commercial mortgage. So it's fairly well spread across the books.

On the 17 percent sequential increase, it's about three-quarters, in general, commercial, and the rest is sort of split across the different categories, not really material in any one of them.

**Chris Fowler**

Yeah. So, Doug, that's really our focus. That's the core client we're looking to find ways to win, and we've absolutely increased our horsepower with that, with all the investment we've made in our infrastructure ability to take on more cash management. So we're very active, out to recruit, particularly that general commercial client. That's a key focus for us and we've seen good success.

**Doug Young**

And where you've seen—just because it doesn't feel like you're getting that deposit traction yet—like, where do you feel like you are on that evolution of asking for that deposit business from these accounts?

**Chris Fowler**

It continues to grow. I mean, we've had very positive impact of that. We absolutely had switching from demand-and-notice into terms. Term branch-raised deposits, overall, continue to grow quarter over quarter. It's how they're held that's changed. We've had 13 percent growth in term deposits in Q1 and 2 percent— a slight decline— in demand-and-notice, but we expect to see that continue to grow because we've just increased our capabilities. It was just 12 months ago we put out all the new online tools for online banking for our big market commercial clients. It was just last May we brought out the remote deposit capture. So we continue to have rolled out more ways to win more business in that category from our very strong technology platform. So that will continue to work, and so we see great traction there, and it's a key focus for our teams.

**Doug Young**

Good. Thank you.

**Chris Fowler**

Thanks, Doug.

**Carolyn Graham**

Thanks, Doug.

**Operator**

Your next question is from Scott Chan from Canaccord Genuity. Please go ahead.

**Scott Chan** — Canaccord Genuity

Good morning, everyone.

**Carolyn Graham**

Good morning.

**Scott Chan**

My first question is for Carolyn, on credit. Last year, you talked about including IFRS 9, that your PCL range or guidance for 2019 could fall in that 18 to 23 bip range. Does that still hold true?

**Carolyn Graham**

With what we know now, we continue to believe in that range. The two commercial accounts that we've talked about this morning increased the provision in the first quarter. But again, it is based on current thoughts around economic forecasts, and so if the credit cycle turns, then there is a potential that the Stage 1 and 2 could go higher, but at this point, yeah.

**Scott Chan**

Okay. That's fair. And then, just on the loan growth side, maybe for Chris, the equipment financing loans were—If I look at this quarter, it dropped sequentially after robust growth in 2018. Perhaps you could talk about that portfolio? And the outlook for 2019? And even 2020?

**Chris Fowler**

Sure. Yeah. Again, this is a key portfolio for us, and we've got, really, three big areas that we focus on for it is our EFT group in the bank, our National Leasing group, and then within National Leasing, we've got our broker buyers centre. What we've seen is good originations. We've also seen a lot of paybacks as well. So it's kind of a mix of that, and we've had some geographic wins. National Leasing across the board has had good volumes, but we've certainly seen lots of paybacks as well.

We continue to focus on that book. We believe it's an area that we can continue to grow. And for the last 25, 30 years, been a key strength for us, and I think we've got strong teams in front of it.

**Scott Chan**

Okay. Great. Thank you very much.

**Chris Fowler**

Thanks, Scott.

**Carolyn Graham**

Thanks, Scott.

**Operator**

Thank you. Your next question is from Meny Grauman from Cormark Securities. Please go ahead.

**Meny Grauman** — Cormark Securities

Hi. Good afternoon. Just a question on another aspect of geography in your loan book. A relatively smaller part of the book is Quebec but, maybe even because of that, I'm a little surprised at the year-over-year loan growth there. So I'm just wondering if there's anything notable there, maybe even in terms of paybacks? What's driving that? It just seems quite a bit slower than I would have expected, especially relative to some other provinces. And if you could just remind us on the nature of your business in Quebec, as well?

**Chris Fowler**

Yes. We don't have extensive business in Quebec. The area that we have a team on the ground is in national leasing. So we have equipment finance lending in Quebec. We don't do branch lending there. On occasion, we've done some corporate lending in Quebec, but the focus has been equipment financing and national leasing.

**Meny Grauman**

So the 2 percent year-over-year growth, what's driving that? It seems unusually low.

**Chris Fowler**

Well, we also would include in that book—12 months ago, when we acquired the ECN portfolio, that had some Quebec exposure as well. That book, overall, has performed well, but it does have pay-downs as well. So when you look at kind of the net growth, that could be an impact on that portion of the portfolio for Quebec exposures that were acquired through the ECN acquisition, offsetting growth that would be seen in the National Leasing Quebec book.

**Meny Grauman**

Okay. And then just following up on Darko's question, just curious about what your expectation would be for the PCL ratio on performing loans, just due to the kind of loan growth that you're looking for alone, isolating everything else?

**Carolyn Graham**

All else being equal on economic factors and the staging and where clients end up, in dollar terms, we would expect the Stage 1 and 2 provision to increase approximately on pace with the growth in the loan book. So I can't quite move that to basis points in my head.

**Meny Grauman**

Okay. I'll take that. Thank you.

**Carolyn Graham**

Thanks, Meny.

**Chris Fowler**

Thanks, Meny.

**Operator**

Your next question is from Nigel D'Souza from Veritas Investment Research. Please go ahead.

**Nigel D'Souza** — Veritas Investment Research

Thank you. Good morning.

**Carolyn Graham**

Morning.

**Nigel D’Souza**

I just wanted to follow up—I have two quick questions. The first is just a follow-up on Marco’s comments around the AIRB versus the standardized risk weighting that you provided on Page 18 of your corporate presentation. And I notice you also provided your PCL ratio against the Big Six peer average. And could you just—like my takeaway really from this slide is that, that various things you’ve highlighted between the standardized and the AIRB risk weighting—would it be fair to say that given your lower credit loss experience, you’re fairly confident that you can bridge that gap if and when you transition to AIRB?

**Carolyn Graham**

Well, the AIRB risk weights are based on our own credit losses, so we would be able to realize some of that benefit, just constrained by the various regulatory factors. So we don’t expect a 50 percent reduction in our business related—yeah. We don’t expect that to be the level of capital relief that comes with AIRB, but certainly given our outstanding credit loss history—the experience of the bank, we do expect to be able to realize that differential as constrained by the regulations.

**Nigel D’Souza**

Got it. So the lower credit loss modeling would be a net benefit to AIRB risk weighting, is a good takeaway there?

**Carolyn Graham**

Absolutely.

**Nigel D’Souza**

Right. Okay. Sure.

**Carolyn Graham**

And the overall risk weighting becomes risk-sensitive, in a way that it is not under the standardized approach.

**Nigel D'Souza**

Perfect. Got it. And the second quick question I have, I just wanted to follow up on Page 13 of your supplement pack where you outlined details on your residential mortgage portfolio. And I just had a question on the LTVs that you have in the British Columbia bucket. So it's relatively flat, down sequentially, and we've seen in some tiers, effective LTVs move up sequentially. So could you just speak to maybe the dynamic there? What's contributing or supporting the stability in your LTV for British Columbia, because we have seen some price softness in that market recently?

**Chris Fowler**

Well, I would just say that we're a conservative underwriter on the residential mortgage side, and that the focus of our credit has been on that average house. So as Carolyn mentioned in her comments, $323,000 is the average size at origination, under $300,000 is in the book size. We've always specifically targeted that portion of the market because it has less price volatility. So we don't have any residential mortgages in the book that's over $1 million. We want to be in the affordable category, and the one that has less price volatility.

So that's been our structure of how we've approached this market since we started in 2003, and it's worked out very well for us. So I think that would probably help to explain more stability in the loan-to-value as we look sort of across the years.

**Nigel D'Souza**

Got it. So you're playing in the pricing bucket, which is I guess, less sensitive to downward pressures, and you're being pretty prudent in your underwriting in terms of LTVs.

**Chris Fowler**

That's our focus. Yes.

**Nigel D'Souza**

Okay. Great. Thank you. That's all I had. Appreciate it.

**Chris Fowler**

Thank you.

**Operator**

Thank you. Your next question is from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

**Sohrab Movahedi** — BMO Capital Markets

Thanks. I just wanted to get a couple of clarifications here. The commercial loans that you noted, they were in Western Canada?

**Carolyn Graham**

Yes, but two different provinces.

**Sohrab Movahedi**

And were they syndicated credits?

**Carolyn Graham**

No.

**Chris Fowler**

No. They were just—they were in that sort of mid-market commercial category.

**Sohrab Movahedi**

Okay. And, Carolyn, when you've given us some of the NIM commentary, you've also talked that this quarter there was a bit of a "mix" shift. You kind of maybe ran with a little bit less cash and securities balance and a bit more higher yielding. Is there some more opportunity there? When you're thinking about balance of year, are you still thinking of some remixing opportunity?

**Carolyn Graham**

The most significant factor on that difference in average levels of cash and security was that in quarter one of last year, we carried more liquidity as a conservative strategy, knowing that we needed to close on the ECN acquisition on January 31st last year. So it was an acquisition-related, unusual item.

As I look at the dollar value of average cash and securities for the last four quarters, in about $2.5 billion, I think is the number. We'll see some small changes in the quarter-end balance, depending if we have a senior deposit note coming up for redemption in the next quarter. But overall, that is not a bad run rate.

We'll see a little bit of variability, but probably more current with what—we manage to within our own liquidity metrics and guidelines, and so it'll fluctuate as necessary as opposed to strictly trying to, you know, it ends up being more an outcome on the NIM impact, rather than something that we're proactively driving.

**Sohrab Movahedi**

Okay. Gotcha. Got it.

**Carolyn Graham**

Our liquidity—policy drives how much liquidity we hold.

**Sohrab Movahedi**

Okay. I understand that. And then in the past few years where there was exceptional weakness in the oil and gas space, you talked a little bit about your own stress-testing. You've now adopted the IFRS 9. Obviously, things are a little bit different. I'm just curious if you could kind of give us some updated thoughts as to what are the some of the key variables that you are stressing the portfolio against nowadays? And how do those results compare to when you were looking at the stress scenario as you were looking back in 2016, for example?

**Carolyn Graham**

Yeah. I think maybe I'll start, and then I'll let Chris talk a little bit about how our oil and gas portfolio; what it looks like today and the composition of it, because that's quite different from 2016.

The stress test that we're running today are stress on the factors that impact our IFRS 9 macroeconomic forecast, so things like GDP growth, house prices, unemployment. Oil prices are a factor in there, but they're a small factor in there. So the stress tests we've done lately are around interest rate, the price of oil, and seeing what impact that has on our clients.

And I would say, overall, the results that we're seeing, particularly compared to 2016, is that we are more resilient and more diverse. So we're seeing the benefit in those stress tests coming from the way that the portfolio is now more diversified than it was in 2016.

**Chris Fowler**

And less dependent on oil-based underwriting. So we have a very significant contraction in that book, and the exposures we have today in that E&P side they're primarily in the syndicated category, all of which have very strong credit metrics. They're actually focused more on natural gas liquids than they are on the oil side. So we've completely changed our underwriting appetite, structure, and exposures.

**Sohrab Movahedi**

So just, Carolyn, I think you would have maybe—if I recall correctly—you would have kind of quantified for us what stress loan losses may have looked like back in 2016. Is there a comparable set of numbers that you could share with us right now as to what stress losses may look like, given the resiliency of the book today?

**Carolyn Graham**

Not that I have my finger on.

**Sohrab Movahedi**

Okay.

**Carolyn Graham**

Yeah.

**Sohrab Movahedi**

Okay. Well, anyway—and, Chris, I think it was good to see the agility of the management team to actually act on the buyback when the stock was misbehaving the way it was, relative to book value.

**Chris Fowler**

Yes, it was misbehaving. Yeah.

**Carolyn Graham**

Thank you.

**Sohrab Movahedi**

Thank you.

**Chris Fowler**

Thank you very much.

**Carolyn Graham**

Thanks, Sohrab.

**Operator**

We have no further questions. You may proceed.

**Matt Evans**

Thank you, Joanna. Thank you all very much for your continued interest in CWB Financial Group, and please note that our annual meeting will be held on April 4th at 1:00 p.m. Mountain Time here in Edmonton. A link to the webcast can be found on our Investor Relations website at cwb.com, and we invite you to listen in. We also look forward to reporting financial results for the second quarter of fiscal 2019 on May 29th.

With that, we wish you all a good morning, good day.

**Operator**

Ladies and gentlemen, this concludes today's conference call. We thank you for participating and ask that you please disconnect your lines.