MARKETWIRED

Moderator: Chris Fowler
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Operator: Good morning. My name is (Shannon), and I'll be your conference operator today. At this time, I would like to welcome everyone to the CWB announcement 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: Thank you.

Good morning and welcome to today's conference call. With me today are Chris Fowler, President and Chief Executive Officer, and Brian Young, Executive Vice President of Canadian Western Bank and President and CEO of Canadian Direct Insurance.

I'd like to remind you this call is being recorded and is on the record. We will keep this presentation at a high level and relatively brief, as the details presently available were included in last night's news release. A copy of the news release and the slides for this call are available on our website at www.CWB.com. Following the call, we will have a question and answer period for pre-qualified participants.

I must point out that we are in a quiet period as it relates to Canadian Western Bank's first-quarter 2015 financial results. Therefore, we will only respond to questions directly related to the strategic transaction.

I also remind everyone that this presentation may contain forward-looking statements and our actual results could differ materially. These statements are intended to assist your understanding of our strategy and may not be appropriate for other purposes. Certain material factors and assumptions were applied in making these statements. For additional information, please refer to slide 2 of this presentation or see the annual and quarterly reports available on our website.

I'll now turn things over to Chris.

Chris Fowler: Thank you, Carolyn.

I'll begin with a brief summary of our announcement and then discuss our strategic focus and the rationale for this transaction. Carolyn will then briefly discuss high-level financial information.

As shown on slide 3, yesterday we announced that we have entered into definitive agreement to sell our property and casualty insurance subsidiary, Canadian Direct Insurance, to Intact Financial Corporation for CAD179 million in cash. The transaction is subject to customary closing conditions, including revelatory approvals, with a closing date expected in mid-2015. Before we get into any further details, I'd like to make clear that we continue to implement our strategic direction with a focus on growing the CWB franchise with a group of companies that provide targeted, complementary financial services to our core business banking clients.

More than a year ago, we commenced a purposeful strategic evaluation of how CDI fit into the future growth of the CWB group. Our decision to commence a sales process was the product of this evaluation, well before the changes in economic environment that had occurred. It was clearly apparent through a strategic review that CDI was a non-core asset in relation to our overall strategy. CDI has provided to tremendous returns for CWB shareholders.

Based on our 2004 investment in this company of approximately CAD26 million, and inclusive of CDI's net earnings since the acquisition and after-tax gain on this sale, the compound return on our investment for CWB shareholders is in excess of 17 percent per year.

However, as we look forward and consider the capital investment requirements and the scale necessary to continue to grow this business line with our minimum growth thresholds, it became clear to us that monetizing this asset for deployment in our core business lines will generate superior growth and long-term returns for CWB shareholders.

We also considered ongoing regulatory restrictions that continue to prohibit us from promoting or selling CDI services through our banking operations. As we stated, our strategic direction is to increase the depth and breadth of our client relationships through our focus on growing our core business banking platform with complementary services in personal banking, equipment finance and leasing, alternative mortgages, trust services, and wealth management.

Our assessment clarified that these core areas provide the best strategic opportunities to focus our energy and resources to drive meaningful future growth and build long-term value for CWB shareholders. The combination of capital and organizational capacity that we expect to unlock from this sale will allow us to leverage our strengths and focus on those parts of our business that will best serve our clients and drive the long-term growth we are seeking. We are confident this decision positions us for future success.

Moving to slides five and six. As we evaluate our strategic opportunities, we have significant headroom for growth through CWBs business banking niche in Western Canada. We continue to proactively invest to deliver on this potential with large technology initiatives, including new core systems, as well as recent enhancements to non-executive compensation structures and extensive training and development programs.

These investments also support our initiatives to grow our complementary offerings in personal banking, which we expect to translate into meaningful growth at branch (risk) deposits to further augment our competitive position and support net interest margins. Business and personal banking are also well-aligned with our desire to increase wealth management services along with complementary sources of transactional non-interest incomes.

CWB's equipment finance and leasing businesses are core to our strategic direction, as we see significant opportunities for growth both organically and through acquisitions or strategic partnerships. Our focus in this area includes our branch-based equipment finance group, national leasing, and our broker buying center platform. Our current footprint in equipment finance and leasing spans across Canada, but it's much more to us than geographic and industry diversification. It provides a very strong return on capital, and is an area we have had long-term success in building strong relationships and differentiating ourselves from our competitors.

Our focus source residential mortgage business, Optimum Mortgage, is another CWB business that has across Canada presence and continues to be a very meaningful contributor to our overall growth and success. Trust services, primarily offered through Canadian Western Trust, serves clients across both Western and Central Canada and continues to be a core strategic business line for CWB group.

The fiduciary business in the Trust Company of CWT provides a valuable source of cost-effective funding and is a stable source of non-interest income that is still complementary but not directly correlated to banking operations. We expect to grow these trust offerings over time, as they are another excellent strategic fit to support our clients of our wealth management companies, our joint investment management, and McLean and Partners Wealth Management.

In addition to our ongoing initiatives to organically grow wealth management to provide more meaningful contributions to our consolidated offerings, our medium-term goal is to augment this business line to targeted acquisitions in geographic markets outside of our current base in Calgary and Edmonton.

While there is currently an increased level of macroeconomic uncertainty across Canada, we remain confident in our pipeline of high-quality, long-term growth opportunities within all our core business lines and key geographic markets.

Credit quality remains a key focus and continues to be supported by our long history of disciplined underwriting, proactive loan management, low balance sheet leverage, and our strong capital position under the standardized approach for calculating risk-weighted assets. We are also proactively engaging with our clients to ensure we remain on top of any material changes in their confirmed work programs or financial circumstances.

I will now turn things back to Carolyn for a high-level review of the financial impact of the CDI transaction.

Carolyn Graham: Thanks, Chris.

To assist with consideration of how this transaction will impact our ongoing operations, a summary of Canadian Direct Insurance's fiscal 2014 contribution to the CWB group's financial performance is provided on slide eight.

CDI contributed CAD28 million, net of claim loss expense, towards the group's 2014 total revenues on a taxable equivalent basis of CAD627 million. CDI's non-interest expenses were CAD14 million, resulting in a 2014 net income contribution of CAD10 million.

I will note that net insurance revenues in the last two fiscal years were materially impacted by claims expense resulting from severe Alberta weather events, the 2013 catastrophic floods, and 2014 hailstorms. CDI's total assets at October of 2014 were CAD260 million. The total sales proceeds of CAD197 million represents 2.5 times the October 2014 book value. On closing, we anticipate the capital generated from this transaction will increase CWB's common equity Tier 1 ratio by approximately 60 basis points.

The expected gain will also have a material positive impact on our 2015 overall financial results, including adjusted cash earnings per share growth, ROE, and ROA.

As Chris mentioned, it is our intention to redeploy this capital towards strategic and accretive opportunities in due course. The capital resulting from this transaction augments our already-strong capital base and positions us to move quickly on investment opportunities as they materialize.

Beginning with our first-quarter report to shareholders, we will disclose results from continuing operations excluding from all periods the operating contribution and gain on sales from Canadian Direct Insurance. Until capital from this sale is redeployed, CWB's return on equity from continuing operations is expected to be constrained. While we anticipate that this constraint will be temporary, it is an appropriate trade-off, supporting our mandate to maximize the benefit of capital deployment in a manner consistent with our growth targets and our conservative risk appetite.

Depending on the closing date, we anticipate 2015 earnings per share growth from continuing operations will be generally consistent with the industry average. We will provide further updates on expectations related to CWB's continuing operations on March 5, 2015, with the release of our 2015 first-quarter results.

Before we turn things back over to (Shannon) for the question period, I'd like to remind everyone that we will only respond to questions directly related to the topic of this call.

Further details will be provided with the release of CWB's first-quarter results and upon the closing date of this transaction.

And now we will go back to the question period.

Operator: At this time, if there are any questions, you may press star and number one on your telephone keypad. Again, if you would like to ask a question, you may press star and the number one on your telephone keypad.

Your first question comes from the line of Sumit Malhotra of Scotia Bank. Your line is now opened.

Sumit Malhotra: Thanks. Good morning. First question is on the CT one position of the bank. For the bulk of the last two years you've been hovering around the 8 percent mark, and we know that that's obviously lower on the standardized basis. When you think about that ratio on a pro forma basis now being up to close to 8.6 percent, can you talk to us about what level you think is appropriate for CWB to manage to -- and again taking into account the differences in RWA calculation?

Carolyn Graham: Absolutely. Our -- you're right. Using the standardized approach for credit risk, a set one ratio in and around 8 percent is where we are comfortable.

Sumit Malhotra: So, the 8 percent mark that you've been at, you don't feel that needs any padding. So, whatever is going to come in the door as a result of this benefit, in your view, you would be happy deploying all of it and getting right down to 8 percent if the right opportunity came up?

Carolyn Graham: Absolutely.

Sumit Malhotra: All right. That's clear. So, let's talk about that potential deployment. Chris, I think in the bulk of the last few months we've talked a lot about the potential challenges the bank may face as a result of what has been happening in the macro environment, specifically Western Canada.

Now that you have a heavier wallet, so to speak, from a capital position, can you talk about maybe the other side of the equation here, the potential opportunities that you might be seeing from an acquisition and deployment perspective?

Chris Fowler: Sure. Well, if you look at our history in the last two years we made a small tuck-in to national leasing last July with a purchase in (Fredericton) to beef up their distribution across Canada and then two years ago we acquired McLean and Partners on the wealth management side based in Calgary. So, we're very focused on growing both the equipment finance group and the wealth management structure. So, we find those two areas in particular of interest to us. We believe that they are core operations.

We believe they are ones that can provide good growth opportunities and excellent returns. So, as we look out to future, they are -- wealth management in particular is very well matched to our core commercial client that we focus on within the branch network. So we see some great opportunities in that and we're very focused on ensuring that we take advantage of the opportunities that come in front of us.

Sumit Malhotra: I will wrap it up here, but just to press you a bit on the one. Specifically with what's happening with crude and the economic impact that it may have on some entities, have you seen an uptick in potential opportunities? That would be Part A. And then Part B, when you did the -- when you started the relationship with McLean and Partners, you purchased 55 percent. I don't think we've ever talked about this publicly. Is there anything in that relationship that gives the bank the opportunity to add to that stake over time?

Chris Fowler: Starting the beginning, a few different questions there. We have up front in terms of the economic prospects that we see in the west, we do see still some opportunities. We don't -- we're not at this point seeing the economy causing companies to be in a distressed position that would put themselves up for sale. So, number one, we haven't -- we've really seen more headline news about the economic downturns than we have seen actual impact at this point. So, that's where we sit on the economy.

In terms of the ownership structure of McLean and Partners at 55 percent, we like that structure. We have the opportunity, if we choose, to increase it but that's not our focus. We like the fact that they are in the business themselves and they are equity participants in the growth of that company.

We believe it is a very positive structure for us in that it gives them the incentive clearly to increase their business and look to the bank for additional clients but also to the bank to have the opportunity to leverage their products and their expertise in selling wealth management services to our bank clients. So, we like that joint ownership structure, so we're very happy with that.

Again, we find that growth in wealth management as one that is very positive for us to the future, and we are looking at particularly outside of the Edmonton and Calgary areas for growth.

Sumit Malhotra: Thanks for your time and congrats. You don't see an A-bagger every day.

Operator: Your next question comes from the line of Robert Sedran of CIBC. Your line is now opened

Robert Sedran: Good morning. I'm just wondering how easy of a carve out CDI is from Canadian Western Bank as a whole? Were there any corporate center expenses that were supporting CDI? And actually, Carolyn, on Slide 8, the CAD14 million in non-interest expenses, is that some allocated corporate center in there as well or is it completely just the CDI standalone?

Carolyn Graham: Sure, Rob. Canadian Direct Insurance operates largely as a standalone organization. As an example, they have their own senior management group, they have their own finance team, they have their own HR resources, their own information services. There are a few, a small number of services that are provided by Canadian Western Bank's corporate office, but that's all been charged through so the CAD14 million would be an all-in expense.

Robert Sedran: OK. And so any employees that are with CDI are now moving to Intact?

Carolyn Graham: We've sold the entire company.

Robert Sedran: OK. And just based on -- Chris, on your comments and when I look at Slide 5 which has a pretty comprehensive list of all of the businesses that you guys are in, I guess the strategic review is therefore now -- or strategic refinement now done and everything you have you're happy to have or still some businesses that you may be considering for exit as well?

Chris Fowler: Well, we're -- as we look to the future -- so, we're very focused on the banking side where we've had great returns and our goal, as we've mentioned in the past, is to really improve how we relate with our clients by investing in core systems to give us the opportunity to be more than a lender to many of our banking clients, also be the full bank. We have started providing much more robust cash management services that will come from a new core system.

Finance is a lending operation but does allow us to touch into other services. Wealth management I spoke to on Sumit's call about where we see that as a great link again back to our core banking systems. Internal services are also key to us as we see that as a good link back into wealth management as well.

So, that and a source of deposit generation for our ultimate mortgage group through Optimum Lending. So, banking, trust, and wealth we believe are the correct areas for us to focus on and we will make sure that we focus on all of the different product lines within there to determine which ones we can grow and which ones are possibly ones that we wouldn't focus on as much.

Robert Sedran: OK. Thank you.

Operator: Your next question comes from the line of Sohrab Movahedi of BMO Capital Markets. Your line is now opened

Sohrab Movahedi: Thanks. Actually, Sumit and Ross did a very good job of asking all the questions. I guess the only question I would have is around the timing. Was there something peculiar around announcing this now as opposed to a month from now when you release the results?

Carolyn Graham: This for us is a material transaction and so the deal was completed, the Board has approved the decision, so we are required to announce.

Sohrab Movahedi: Right. And did you have a say in when it closes or did Intact have more of a say in that?

Carolyn Graham: Well, it was a mutual -- we've been working on this project for almost a year, so it worked through the process and came to a conclusion at this time.

Sohrab Movahedi: OK. OK. Thank you very much.

Operator: Your next question comes from the line of Doug Young of Desjardins. Your line is now opened

Doug Young: Good morning. You talked about just the services that kind of work within your banking client and I'm just trying to get a sense. Is there anything that you don't offer that you think you need to offer to that banking client? Is there anything outside of what you're currently offering which you would consider doing acquisitions in?

Chris Fowler: Well, I guess who we have spoken to is we have built this organization really based on lending, so the bank side of our equation, we have very strong lending relationships with our clients and so what we've identified is a really key win for us we look to the future is that conversion of many clients we lend to, to become full banking. And that's where we're making this investment in our core banking system to give us much more functionality and capability along that line and we see that as a big win.

It broadens our client relationship base, it expands our ability to provide more products for clients. So, we see that existing client we have that win for us is again adding more products to it. So, our ability to define those appropriate products that really makes sense to our core client is what we're focused on.

Doug Young: And I guess where I'm going -- obviously there are certain products that you don't offer that maybe your clients would use around hedging and whatnot, and I'm just trying to get a sense of is there kind of an additional direction that you would go with acquisitions aside from where you're currently at or it's really just going to be leasing, banking. Those are going to be the verticals and you're not going to go into anything else?

Chris Fowler: Right now, we typically -- we like to walk before we run and we like to make sure that the business we're in we operate well. We understand them and we can deliver at a very high level and that's what we've been able to do historically. Our focus has never been to be all things to all people. Our focus is to be targeted. Work on those areas we know we can make a difference and really be competitive in the market. So that's what we've done.

We don't look to really having a lightly touched group of products. We want to be in core businesses that can meaningfully make a difference for us and a difference for our clients.

Doug Young: OK. Second question. Chris, how long would you be comfortable sitting on this amount of excess capital or is there just no real timeframe you're comfortable with? At the year's time we're sitting here chatting nothing comes up, you'd be comfortable sitting on this amount of excess capital or would you consider other items or other avenues for deploying the capital like buybacks or something like that?

Chris Fowler: Well, we look at opportunities all the time. Our focus is to redeploy the capital into our core businesses for us to grow and certainly provide great returns to CWB shareholders.

The issue of having too much capital is one that clearly -- if you're in any situation, a well-capitalized company is a well-capitalized company. It does give you dry powder to react quickly.

So, our focus is to look for redeployment. It is not our primary intention to look for share buybacks, but absolutely our focus is to find those opportunities where we can accretively and strategically grow our group of companies.

Doug Young: So you wouldn't put a timeframe on deployment?

Chris Fowler: No. We won't put a timeframe on that.

Doug Young: OK. Thank you.

Operator: Your next question comes from the line of Darko Mihelic of RBC Capital Markets.. Your line is now opened

Darko Mihelic: Great. Thank you. I have two questions, clarification ones. First, you mentioned that your earnings on a continuing basis, excluding the gain, the growth rate would be close to industry average. I'm curious, what is your interpretation of industry average?

Carolyn Graham: So, from what we've seen, we would estimate in the 3 percent to 5 percent range.

Darko Mihelic: OK.

Carolyn Graham: As industry average.

Darko Mihelic: OK. So that -- 3 percent to 5 percent as the sort of industry average growth in 2015. So the way I think of this then if I take out the earnings from CDI, that would be about, let's say, CAD0.12 per share. So that would be CAD0.12 per share sort of headwind I suppose to growth.

But let me just think of it a different way actually. If I take CAD2.76 earnings per share and I deduct the CAD0.12, and then I say, OK, let's say the mid point of your average growth rate is at 4 percent. That works out to, let me just do that quick. I had a different number in my head. That works out to about CAD2.75 a share for 2015. Is my math right?

Carolyn Graham: I think so. I haven't -- yes.

Darko Mihelic: The reason why I asked that is because previous guidance was 12 percent to 16 percent. So on the CAD2.76 previous, I would have expected the low end of the range to be around CAD3.09. So I just wanted to clarify that.

Carolyn Graham: Yes, Darko, 12 percent to 16 percent was our 2014 performance target rather than our 2015 performance target.

Darko Mihelic: Right.

Carolyn Graham: Included the benefit of the change in our preferred share structure.

Darko Mihelic: Right.

Carolyn Graham: Plus expectations for a higher net interest margin in 2014.

Darko Mihelic: Right. OK. So, that was my next leading question was in margin as well, but I suppose we'll talk on that in the quarterly call.

Carolyn Graham: Happy to talk on that in the quarterly call, absolutely.

Darko Mihelic: OK. And then one other clarification question. The way you made it sound, and I'm just unsure of the taxation here, so could you actually just tell us what the gain is dollar wise per share because I can't quite reconcile to your 60 basis points? If I take out half of the amount that's deducted and I take in the gain I kind of get a different number. So, can you help us with giving the direct gain and the per share amount?

Carolyn Graham: Well I don't have -- we haven't solidified the exact gain yet. There are a number of pieces of the puzzle as we work through to closing. We're not quite sure whether we'll take out all of the proceeds in cash or in dividends in advance of the close which could affect our tax position. We have a small amount of tax loss carry forwards available to offset a portion of this gain as well. So it's a bit of a mixed bag.

Darko Mihelic: OK. So then is it fair to say that your 60 basis points is a conservative measure on the impacting capital?

Carolyn Graham: Yes, that would be correct.

Darko Mihelic: OK. Alright. Thanks very much.

Operator: Your next question comes from the line of Meny Grauman of Cormark. Your line is now opened

Meny Grauman: Hello.

Carolyn Graham: Hi. Go ahead, Meny.

Meny Grauman: Technical problems. So, good morning. I understand that the process started before the steep drop in crude prices, but I'm wondering whether recent economic developments changed the thinking on this deal, the strategic imperative and I wonder if you could talk to that in anyway?

Chris Fowler: The -- there is no -- our decision process on thinking strategically about our group of companies started well in advance of any change in the price of oil. No impact at all whatsoever on how we've approached us looking at what we believe our future potentials are. So, this is fully and absolutely mutually exclusive to the economic -- the potential for an economic change.

Meny Grauman: OK. Great. Thank you.

Operator: Your next question comes from the line of Scott Chan of Canaccord Genuity. Your line is now opened

Scott Chan: Thanks. Chris, when you talk about wealth management expansion, I think in the past you've talked about Vancouver. Are there any other regions and does that just hold to potential strategic acquisitions out west or are you looking out east as well to?

Chris Fowler: We are looking within the footprint of our branch network at this point. That's where we believe we have the greatest potential to have the cross partnering amongst our group of companies. So, we're looking for these broader relationships with our core commercial clients so, yes, Vancouver is key.

We have six branches in mainland and we have the opportunities to grow our wealth management group there. So that is what we believe is the most likely location that we would focus on an acquisition.

Scott Chan: OK. And, Chris, can you remind me of the Adroit structure. Is it similar to McLean where you have an over 50 percent ownership?

Chris Fowler: Yes. Yes. Management owns 18 percent of Adroit and we own 82 percent.

Scott Chan: OK. Thanks a lot, guys.

Chris Fowler: Thank you.

Operator: OK. And I would remind participants, if they have a question they may press star and the number one on their telephone keypad. Again if there are any further questions you may press star and the number one on your telephone keypad.

There are no further questions on the phone lines at this time. I will turn the call back to the presenters.

Carolyn Graham: Thank you, (Shannon), and thank you very much, everyone, for your continued interest in Canadian Western Bank group. We look forward to reporting our first quarter financial results on March 5. If you have any follow-up questions or comments, please call us or contact us by email. Thank you and good morning.

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

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