MARKETWIRED

Moderator: Tracey Ball
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Operator: Good afternoon. My name is Michelle, and I will be your conference operator today. At this time, I would like to welcome everyone to the Canadian Western Bank third-quarter 2014 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 would like to withdraw your question, please press the pound key.

Thank you. I would now like to turn the call over to Tracey Ball, Executive Vice President and Chief Financial Officer. You may begin your conference.

Tracey Ball: OK, thank you Michelle, and good afternoon, everybody. Welcome to our 2014 Third-Quarter Results Conference Call for Canadian Western Bank Group.

Before we begin, please note that the conference call graphs, quarterly results news release, and supplemental financial information are available on our Web site at CWB.com in the Investor Relations section. I'd also like to draw your attention to our forward-looking advisory statement on Slide 10.

The agenda for today's call is on Slide 2. Joining me today is our President and Chief Executive Officer Chris Fowler. Also in attendance are Executive Vice Presidents Randy Garvey, Brian Young, and Greg Sprung, as well as our

Senior Vice President, Finance, and incoming Chief Financial Officer Carolyn Graham.

Recognizing the number of other banks reporting today we will keep our formal commentary brief, and leave as much time as necessary for Q&A at the end of the call. I will begin by providing a brief summary of our third quarter financial highlights and performance against our 2014 target ranges. I'll then turn things over to Chris for an overview of our longer-term outlook and strategy.

Moving to Slide 3, CWB reported record third-quarter earnings and solid financial performance, highlighted by strong loan growth of 3 percent in the quarter, 10 percent year to date, and 12 percent over the past 12 months. Growth reflected good performance across almost all lending sectors, with the strongest year-over-year increases coming from real estate project loans, equipment financing and leasing, and personal loans, and mortgages.

Net interest margin was relatively stable compared to the prior quarter. It was down 12 basis points from last year, and 4 basis points lower on a year-to-date basis. Based on the standardized approach for calculating risk-weighted assets, CWB's all-in Basel III ratios were 8 percent common equity Tier 1, 9.3 percent Tier 1, and 12.9 percent total capital, all well above applicable regulatory minimums and within our internal threshold.

Moving to the next slide, record quarterly net income available to common shareholders of CAD56.6 million was up 19 percent over the same quarter last year, while diluted earnings per common share increased 17 percent to reach CAD0.70.

Adjusted cash earnings per share, which excludes the amortization of intangible assets and the non-tax deductible change in fair value of contingent consideration, was up 16 percent at CAD0.71. Quarterly total revenue was CAD160 million on a taxable equivalent basis – represented an 11 percent increase from the third quarter last year, as strong growth in loans and higher non-interest income more than offset a 12-basis-point decrease in net interest margin to 2.58 percent.

Non-interest income of CAD28 million was up CAD5 million or 22 percent compared to the same quarter last year, mainly reflecting increases in net insurance and wealth management revenues. The increase in net insurance revenues primarily reflects the significant impact on the third quarter in 2013 from the claims expense related to the catastrophic flooding in southern Alberta in June of that year.

Net gains on securities were CAD10.8 million lower compared to last year, but at CAD4.2 million, were higher than expectations earlier in the year, as equity markets continue to perform well. While we can't predict future securities gains with certainty, based on the current market environment and composition of our securities portfolio, quarterly net gains on securities are expected to be lower through the final quarter.

Compared to the previous quarter, net income available to common shareholders was up 11 percent, and adjusted cash earnings per share was 9 percent higher, as the benefit of three additional revenue earnings days and strong loan growth, combined with lower preferred-share dividends, offset higher non-interest expenses and lower non-interest income.

Overall, credit quality remains strong, and the provision for credit losses represented 16 basis points of average loans, consistent with the previous quarter, and down 4 basis points from last year.

Yesterday our Board declared a quarterly cash dividend of CAD0.20 per common share, 11 percent higher than the quarterly dividend declared one year ago, and unchanged from the prior quarter. The Board also declared the quarterly dividend on the Series 5 preferred shares.

Slide 5 shows year-to-date results compared to our fiscal 2014 target ranges. Performance through the first nine months of 2014 has us positioned to achieve favorable full-year results compared to all of our 2014 target ranges. We have already achieved our double-digit loan growth target, and the volume in the loan pipeline remains substantial.

Based on our positive view of credit quality, we expect the annual provision for credit losses to remain below the target range of 18-23 basis points of average loans.

Performance compared to our target ranges for profitability measures is on track despite the moderating impact of margin pressure. However, the achievement of our revenue growth target for the year will be challenging, but we believe still attainable, in view of the expected decline in fourth quarter net insurance revenues this year resulting from claims expense related to severe Alberta hailstorms in August.

In consideration of projected revenues and expenditures, including those revenue challenges I've just described, we believe our efficiency ratio target of 46 percent or better is also challenging but still attainable.

The next slide shows the historical trend of net interest margin, spread on loans, and the prime lending interest rate. Third quarter net interest margin of 2.58 percent represented a decrease of 12 basis points from the same period last year, with the change primarily reflecting lower asset yields.

Net interest margin was relatively stable compared to the previous quarter, while year-to-date net interest margin of 2.6 percent was 4 basis points lower compared to the same period last year. Continued pressure on this key metric is expected, in the absence of interest rate increases and/or a sustained steepening of the yield curve.

That said, we will maintain our long-term strategic focus to mitigate the earnings impact of ongoing margin pressure through efforts to identify quality lending opportunities that offer suitable return for risks; improving the funding mix to lower the overall cost of funds; prudently managing the balance of cash and securities; and expecting ongoing contributions from non-interest income sources.

I'll now turn things over to Chris.

Chris Fowler: Thank you, Tracey. As Tracey mentioned, I'm going to spend a few minutes on our current business outlook in view of our strategic priorities and economic conditions within our key markets. Slide 7 shows our quarterly loan growth over the past five years.

Strong net loan growth continues with 3 percent this quarter, 10 percent year to date, and 12 percent over the past 12 months. In view of the overall level of activity in our markets and our pipeline for new loans across all segments, we're confident in our ability to continue to deliver strong growth going forward.

Our recent growth in earnings has been very strong, as the positive revenue contributions from loan growth have helped to offset pressure on net interest margin. However, the main influence is driving margin lower, including persistently low interest rates, our relatively flat yield curve and competitive factors, remain quite challenging.

As Tracey discussed a moment ago, our long-term strategy for mitigating the impact of these factors includes targeting stronger relative growth in our higher-yielding loan portfolios.

Growth in equipment financing and leasing, our highest-yielding loan portfolio, explicitly supports this objective. Strong results in this area reflect the ongoing success of our broker buying center, national leasing, and our branch-based equipment lenders.

In addition to being a key driver of profitable growth in western Canada, national leasing continues to extend its reach across Canada. In July, we completed the acquisition of Fredrickson-based UMA Finance, a specialist in the forestry, transportation, and construction industries in Atlantic Canada.

Growth in real estate project loans, our second-highest-yielding portfolio, has also remained very strong, continuing to lead all categories. Opportunities to finance well-capitalized developers on the basis of sound loan structures and acceptable pre-sale and lease levels remain abundant within our core geographical footprint, as we continue to benefit from strong relationships with many of western Canada's top developers.

Ongoing contributions from CWB's alternative mortgage business, Optimum Mortgage, also support net interest margin while expanding CWB Group's geographic reach. Optimum has recently reviewed several hundred credit applications in Atlantic Canada, following the addition of sales staff to the region in May. Over half of Optimum's new business this quarter was also originated in Ontario.

We will continue to target growth in these higher-yielding portfolios, as well as our core commercial lending area to support our overall objectives for financial performance. Along with ongoing diversification of funding sources and prudent management of cash and securities, our success in achieving higher relative growth in these areas will help to offset pressure on net interest margins to some degree, although the overall margin environment is likely to remain challenging over the short to medium term.

Turning to Slide 8, the dollar level of gross impaired loans was up from the prior quarter and down from one year ago. Total gross impaired loans of CAD58 million represents 34 basis points of total loans outstanding, compared to just 30 basis points last quarter, and 48 basis points last year.

Experience over the course of several credit cycles supports our view that gross impaired loans will likely fluctuate above the current very low level, but overall credit quality is expected to remain stable. This view is reinforced by our secured lending practices and disciplined underwriting, as well as the positive overall economic outlook for our key markets.

In spite of persistent uncertainty around long-term transportation solutions for energy exports, the western provinces continue to generate impressive growth on the basis of strong domestic and foreign demand for raw materials and manufactured goods.

Alberta in particular continues to deliver exceptional growth, as a very strong job market continues to attract people to the province. Since the depths of the recession in mid-2009, Alberta has accounted for nearly one-quarter of all new jobs created in Canada, but is less than 12 percent of the 0ation's population.

Inter-provincial migration reached record levels in 2013, and Alberta's population grew by 0.5 percent in the first three months of 2014, which is three times the national average. Alberta real GDP growth in 2014 is expected to match the 2013 rate of nearly 4 percent, and the most recent measurement of business confidence in the province exceeds even the highest reading from last year.

Although these factors primarily reflect a favorable long-term outlook for commodities, the composition of economic growth in the province continues to broaden. Compared to the first quarter last year, manufacturer, wholesale, and retail sales were all up substantially, and the housing market continues to be very strong. Although Alberta's economic strength stands out even amongst the other western provinces, the outlook in each of our key markets is positive, and we remain confident in our ability to deliver continued profitable growth going forward.

Slide 9 – our strategic priorities remain unchanged. We expect to deliver consistent growth, stability, and value for shareholders through client-focused strategies, underpinned by our vision to be seen as crucial to our clients' futures. I look forward to reporting back on our progress in the coming quarters.

Before I turn things back over, I'd like to acknowledge that this will be Tracey's final conference call as Chief Financial Officer of CWB Group. As you likely know, Tracey will retire this coming September after 27 years with us.

I'd like to thank Tracey for her invaluable contributions as a founding member of the CWB Group leadership team. As I state when we made this announcement earlier this year, Tracey's leadership, integrity, knowledge, and business acumen have been an enormous impact on CWB Group's development and success.

Under her guidance, we have now posted 105 consecutive profitable quarters, and increased total assets from CAD250 million to more than CAD20 billion.

She has also been a valued mentor for myself personally and many others in our organization, and exemplifies the definition of a true leader.

The Board of Directors has appointed Carolyn Graham, CWB's Senior Vice President of Finance, as the incoming Executive Vice President and CFO, effective October 1. We anticipate a smooth transition. Thank you all very much for your time, and I will now turn things back over to Tracey.

Tracey Ball: Well, thank you very much, Chris. That does conclude our formal presentation for today's call. Before starting the Q&A period, I'd also like to take a moment to thank everyone on the call, my colleagues around this table, and every CWB Group employee and client for contributing to my unbelievable career with this tremendous organization.

My commitment before leaving CWB was to ensure appropriate succession. I couldn't be more confident in the capabilities and commitment of the current Executive and Senior Management teams to carry forward our ongoing growth story. I plan to stay active, and look forward to connecting with many of you in my future travels. Thank you all again. Now I'll ask Michelle to begin the question-and-answer period.

Operator: Thank you.

At this time, if anybody would like to ask a question, please press star one on your telephone keypad.

Your first question comes from Sumit Malhotra from Scotia Capital.

Sumit Malhotra: Thanks, good afternoon. I wanted to start with the insurance operations. I know you had given us some heads up that is a result of the hail storm there could be some charges against the bank in Q4. Just wondering if you could give us a little bit more of a fullsome explanation on what you're expecting in that regard?

Brian Young: Sure, Sumit. It's Brian. As you're probably aware, our deductible for large-loss events is CAD5 million, and we are expecting based on the current run rate of what those claims are coming in at, that we will use up that CAD5 million, and we will go into our Cat protection cover.

That's sort of the expectation at this point in time. The event was actually quite severe from a velocity and a size of hail and the direction, so there's lots of damage to roofs, siding. The average run rate we normally experience for hail events is – this is much higher than what we have anticipated. We expect it to get above CAD5 million.

Sumit Malhotra: Just a couple of things. If I understand it, there is a differentiation between whether the storm is classified as one event or two events, and how that affects the loss that the Company may take. First off, I don't know if I'm explaining it that well, but am I correct in that interpretation, and how does that change the potential numbers?

I'm thinking about magnitude here. A year ago in Q3 you ended up reporting a net insurance revenue loss. Is that in your view possible in Q4 as well, or is this not as big? I wasn't thinking it was as big as what we saw last summer.

Brian Young: It's possible, Sumit. It's possible. But really, it's pretty early now. We still have two months left to go, but certainly it is possible that there will be a low or no contribution from the insurance side in Q4.

Saying that, we still expect to generate an underwriting contribution for the year as a whole, and to come in at a combined ratio under 100. This would expect to add about four points to our yearly combined ratio. That would be the overall impact.

Sumit Malhotra: That's helpful, thanks for that. Secondly, it's probably for Chris. Just wanted to get a little bit more color on that commentary regarding expenses, and the review that you're undertaking in regards to compensation. I think we've heard for a number of years it's a very competitive environment for talent in Alberta. I'm assuming that's what's driving this review.

But the fact that you're telling us about it probably means that expenses are going to move higher. If you could give us an idea of what your thinking is in this regard, and what kind of magnitude we should be expecting on the compensation line, that would be helpful?

Chris Fowler: Yes, what we've done is undertaken – we initially started with a survey of staff, looking at how they viewed compensation. Get a perspective on – get a good feedback, because it is a competitive environment, particularly in Alberta first half. We then engaged an external consultant to look at level setting, deciding where we were compared to market. Then we looked at design of compensation.

Part of the impact is we are looking at higher expenses in terms of the –both the quantum of remuneration, but also the timing of some. In our remuneration design, we're going to move some long term to short term, which would then actually over four years would be neutral in terms of cost, but in year one is higher. We would be looking at an overall increase in expense somewhere in the CAD5-million range, as we've got budgeted today.

Sumit Malhotra: In the compensation line specifically?

Chris Fowler: Yes.

Sumit Malhotra: Just to wrap up on that, I think for a number of years now you've been talking about a target efficiency ratio of 46 percent or less. I think that's been the case for a few years now.

I know you'll be communicating this to us officially in three months time, but as you obviously have a plan going for that, would you envision that 46 percent or less target would now seem ambitious under this new compensation structure?

Chris Fowler: We are – as we look out over time, compensation is one aspect of it. As I say that's a year-one impact, and it's a timing impact in how we look at compensation. Our net number actually reduces over time.

When we look at the efficiency ratio, we are always going to be very cost focused. We would potentially see us – we're looking at those projections for

2015, and budgeting that at a slightly higher number than 46 percent; but our long-term perspective would be to come back to 46 percent as a baseline.

We do have some changes we're putting in place. We're doing the core banking system. We're looking at remuneration. We're really building a platform to allow us to really extend our growth, broaden our product lines, become – our internal slogan is to be more crucial to our clients, and that is to provide better services.

In doing that, we do anticipate some increased costs up front, but with the view that it does support our ability to grow. We are still looking at that long-term efficiency ratio in that at 46 percent or less.

Sumit Malhotra: That's very helpful. Sorry.

Tracey Ball: Can I just caution you on the CAD5 million, because we can't take into account the positive impact that the remuneration change would have on our ability to retain people.

It's one of the things we found out in our review process was that had become one of the number one reasons why people were leaving at a certain level, was to do with the way the compensation was – the shift between LTIP and STIP.

Also, at the lower levels, just the remuneration package that was available in our market had changed substantially. We do anticipate savings from – and you can't really put a number on it – but savings from greater retention.

Sumit Malhotra: I hear you. Thank you for that detail, and Tracey, best of luck in the future.

Tracey Ball: Thanks, Sumit.

Operator: Your next question comes from Scott Chan from Canaccord Genuity.

Scott Chan: Thanks a lot. Good afternoon, guys. My first question is just on the margin. I know it gets asked every quarter, but Chris you mentioned that you're focusing on higher-yielding portfolios, particularly with national leasing, the Alt A and real estate project loans.

Maybe over the next one or two quarters, how much of a mitigating factor is the funding side? Maybe you can comment just on competition. Has competition intensified at all over the last quarter?

Chris Fowler: Well, we are focusing on those higher-yielding portfolios. As we think about the funding side, that is part of the issue on compressing. As far as in competition is on both the loan pricing side, but also the deposit pricing side. As we look at funding, we continue to focus on how we can achieve greater diversification of sources.

We've had great success in capital markets funding. We continue to work on our branch-based funding. The agent market is in there, as well. We've had some securitization that we pursue on equipment finance side through national leasing. The funding mix is very important, and we continue to really look at that.

There's a lot of competition there that's really increased with the advent of Basel III coming into place in February 1 on the liquidity adequacy requirement. On the lending side, competition – it's always competitive. There's parts of those markets that are tough, but commercial mortgage market is always tough.

The rates are very tight there, plus we're seeing some longer terms being offered by other market players out to 10 years, 15 years in some cases that are a challenge. As we look at it, we still find well-structured, well-sponsored project loans that provide good yield. As I mentioned, and you brought forward is the equipment financing area. We continue to look for more opportunities to grow.

Scott Chan: OK. Lastly, Chris last quarter you talked about the wealth management segment a lot in terms of cross-selling opportunities. If I look at the AUM sequential growth this quarter up 1 percent, and then the market was up 5 percent, 6 percent, was there significant net redemptions on any of those platforms during the quarter?

Randy Garvey: No, we didn't have any significant redemptions. We had basically some netting of impacts. But no, there were no significant redemptions in this quarter.

Chris Fowler: Wealth management is an area that – where, as we talked before, is a key focus for us as we look forward. We have a new fellow coming on in September that will be a big part of how we think about our growth in this area. We spent this last portion of the year serving our clients, getting a good view on how they would look to interact with us.

We're – as we look to the future as an area of growth, we believe wealth is part of that equation. We are adding expertise into our Management group to really put focus on how we're going to execute on that growth.

Scott Chan: OK. Thanks a lot guys.

Operator: The next question comes from Robert Sedran from CIBC.

Robert Sedran: Hi. Good – I guess morning for you guys. Tracey, first off, congratulations, good luck, and thank you for your help over the years.

Tracey Ball: Thanks.

Robert Sedran: Chris, I want to ask you about capital deployment, and whether with one of your especially in the leasing businesses, and one of your major competitors, or one of the players probably a little preoccupied with other things right now, whether things have gotten a little bit looser, and whether the acquisition environment may have opened up a little bit, that might encourage you to deploy a little bit more capital into that space in the next little while?

Chris Fowler: Well, this area is one that we are very interested in, as we've always said. Our goal and focus would be to see where we can have some opportunistic acquisitions.

In this last quarter of course we had National Leasing buying a good broker partner of theirs out in New Brunswick that is being very accretive, and we see good opportunity there. But we certainly aren't stopping there. We are focused on that as an area that we would be very receptive to acquisitions.

Robert Sedran: Does it feel, though – and I know the timing on these things is very hard to answer, but you're always looking at properties, you're always having conversations. Does it feel like things are heating up, or more or less unchanged from where they might have been three or six months ago?

Chris Fowler: I wouldn't say it's heating up, but we're certainly looking at the different opportunities that are there. Other than the fact that we're certainly engaging in conversations that make sense, and we maintain our focus on this, and we are very interested in finding opportunities.

Robert Sedran: OK, thank you.

Operator: The next question comes from Shubha Khan from National Bank Financial.

Shubha Khan: Hi, thanks. Good afternoon. Just a follow-up on Scott's question regarding the net interest margin. I think this is the first time in quite a while where spread compression was really driven by higher deposit costs. The increase was somewhat pronounced at 10 basis points sequentially.

I believe you talked about competitive pressures on deposit pricing. I'm just wondering whether there was anything unusual in that quarter that drove that, or was it entirely driven by competitive pressures?

Tracey Ball: Just to comment on we are seeing a lot of competition for one-year deposits in the broker market. Those costs have gone up quite a bit. We're looking at several different ways to mitigate that risk. We are increasing our capital markets issues, because it's actually less expensive than one-year broker deposits. We're looking at swapping because that makes sense for us.

We do see this ramp-up to the Basel III liquidity coverage ratio is starting to come into all retail deposits. Plus you've got the competition from Tangerine and others, which drove up the rate on the high-interest savings accounts. Now this has come off a little bit now.

We're going to be ramping up some marketing for that in the fourth quarter, because we have always paid a very high rate, a very good rate. But those are still very cost- effective deposits for us. It is going to be very interesting for the whole industry over this next quarter, or the next two quarters, to see how that deposit cost competition and pressure is going to affect it.

Shubha Khan: In the past I suppose you talked about the roll-out of your BDN program, and helping to ease up on the funding costs. I think the target was to make it a CAD500-million program. Just wondering where you are with that, and whether you're planning an expansion of that program.

Chris Fowler: Well, our present focus is to continue to grow that. We're at about CAD350 million right now. We're rolling it out, as we mentioned before, in a very organized fashion. We have a maturity ladder that's very manageable, but it's definitely an area where we continue to focus on.

Tracey Ball: We also just extended term on some of our BDNs, and it was very successful. That will help us with funding cost, as well.

Shubha Khan: OK, and a follow-up on loan growth. Particularly as it relates to general commercial, it's been fairly muted over the past year. I suppose you talked about unexpected payouts and un-drawn facilities in the MD&A.

Is there anything in particular that impeded draw-downs in the past 12 months, or anything in particular that you can point to that will drive higher utilization of these facilities going forward? I guess what I'm asking is are you confident these facilities will be drawn down sooner rather than later?

Chris Fowler: Well, it's an area of focus for us. We are really – when we kind of look at the accounts that are within that general commercial category, it would include whole banking relationships.

There's always a longer sales cycle in the general commercial than there is necessarily in project loans and in equipment finance and in the alternative mortgage group, as well. We are still in a growing market here.

We still believe that we've got a very great offer to our clients. We've got the products suite that we continue to build. We've just finished all the portions of the cash management account to help us on those full banking opportunity. It has been a bit of a build.

As we look at the market and focus on that growth, there's really nothing we see as a great impediment, but it's all about us effectively delivering on what our expectations are. Our goal is to continue to focus on this area.

Shubha Khan: Great, thanks. Tracey, best of luck for your retirement.

Tracey Ball: Thank you.

Operator: Again, if anybody would like to ask a question, please press star one on your telephone keypad.

Your next question comes from Manny Groman from Gormac Securities. Your line is open.

Manny Groman: Hi, good afternoon. I just had a question on the expense side in terms of the core banking system. You note in the disclosures finalizing 2015 implementation in the final budget.

I'm wondering if you can give more color on this. Specifically, I'm wondering about besides the cost of implementing such a system, do you foresee any impact to your business, as the implementation actually gets – as the implementation happens?

Randy Garvey: We are in the process of doing a reset of both schedule and budget. We had initially planned to roll the system out in the first half of 2015. Based on a worst-case scenario lookout, we are expecting to be in the second half of 2015; but again, that date hasn't been set.

One of the huge benefits to the organization from the new core banking system is today our banking system gives us information by product. The new core banking system allows us to manage client relationships. That will have a huge impact on our ability to understand the profitability, and manage our relationship with our clients. That's one of the quick wins that we should have with respect to the new system.

Manny Groman: Do you expect – as implementation is happening, do you expect any disruption to business, even temporarily, in terms of your ability to go out and aggressively sell? Do you expect any slow-down in your planning?

Randy Garvey: There's always a little bit of a distraction, but I would not expect anything noticeable from our ability to continue to focus on client service and growing the bank.

Manny Groman: Thanks.

Operator: At this time, I have no further questions in queue. I turn the call back over to the presenters for closing remarks.

Tracey Ball: Thanks, Michelle. Thank you very much everyone for your continued interest in Canadian Western Bank. We, especially Carolyn Graham, look forward to reporting our fourth quarter and full-year results, along with performance target ranges for 2015 on December 4. If you have any follow-up questions or comments please call us or contact us by e-mail. Thank you and good day.

Operator: Thank you, everyone. This concludes today's conference call. You may now disconnect.

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