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PRESENTATION

Operator

Good morning. My name is Amy and I will be your conference operator today. At this time I would like to welcome everyone to the Canadian Western Bank Group Q2 2016 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key. Thank you.

Carolyn Graham, Executive Vice President and Chief Financial Officer, you may begin your conference.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thank you, Amy. Good morning or good afternoon and thank you for joining us for our 2016 second quarter results conference call. Before we begin, please note that the conference call graphs, quarterly results news release, and supplemental financial information are all available on our website at cwb.com in the Investor Relations section and our forward-looking statements advisory is included on slide 14.

The agenda for today's call is on the second slide. Joining me is our President and Chief Executive Officer, Chris Fowler, as well as the other members of the CWB Group Executive Committee: Kelly Blackett, Randy Garvey, Greg Sprung, and Bogie Ozdemir. I'd also like to welcome Stephen Murphy to the Executive Committee. Stephen joined us in March as Executive Vice President, Banking, having spent the past 20 years in diverse and progressive business and corporate leadership roles at one of Canada's large banks. Stephen assumed his new leadership position as part of Greg Sprung's planned transition into the role of Executive Director, Business Development.

For today's call I will begin with an overview of our second quarter financial results, including our recent credit performance. Chris will provide further comments on the outlook for credit quality, discuss our two important new commercial banking acquisitions, review our progress on loan and deposit growth, and provide perspective on the ongoing implementation of our strategic plan.

Turning now to slide three, I'll begin with the reminder that for the remainder of this call references to performance highlights refer to the results of continuing operations. This morning we reported second quarter results which included very strong 14 percent year-over-year loan growth, 9 percent growth in branch-raised deposits, and an 8 percent increase in pre-tax, pre-provision earnings. Total revenues increased 9 percent against consolidated expense growth of 10 percent. We delivered positive operating leverage once adjusted for the second quarter impact of CWB Maxium Financial. We closed the acquisition of CWB Maxium on March the first and our acquisition of the Canadian Franchise Finance platform of GE Capital, which we will refer to as CWB Franchise Finance, is scheduled to close in the third quarter. Chris will expand on these transactions in a few moments. For my part I'll emphasize that these two important acquisitions support CWB's established commercial banking strategy and will contribute to an expanded presence outside of Western Canada. We expect the combination of CWB Maxium and CWB Franchise Finance to be slightly accretive to adjusted net income this year with accelerating contributions thereafter. By 2017 we expect to have fully replaced the adjusted cash earnings contributions of the companies we divested last year through capital redeployment into businesses that are fully aligned with our commercial banking focus and geographic diversification objectives, as well as strong organic loan growth. I'm also pleased to share the recent successful launch of our new core banking system, which positions us to support our ongoing expansion with industry-leading technology. Implementation of this important new system represents a significant step in the continued execution of our relationship focused strategic direction.

Moving now to the next slide, second quarter financial performance included strong growth in pre-tax, pre-provision earnings along with a significant negative impact of persistent low oil prices on the credit performance of the oil and gas production loans. Reported common shareholders' net income from continuing operations of $32.2 million was down 37 percent compared to the same quarter in 2015, primarily due to total pre-tax provisions for credit losses of $39.7 million. This was up from $7.4 million of provisions last year. Diluted earnings per common share of $0.40 and adjusted cash earnings per common share of $0.41 were down 38 percent and 37 percent respectively. The 20 percent increase in Alberta's corporate income tax rate effective July first of 2015 was also an incremental drag on earnings growth. Pre-tax, pre-provision earnings of $84.5 million were up 8 percent from last year, mainly due to the combined positive impact of very strong 14 percent year-over-year loan growth and 7 percent higher non-interest income. This was partially offset by a 10 basis point decrease in net interest margin and 10 percent increase in non-interest expenses. Higher non-interest income reflected growth in most categories while the increase in non-interest expenses primarily relates to higher salaries and benefits supporting growth across all businesses. CWB Maxium, with the contribution from the first of March, contributed $1.5 million or 21 percent of the overall increase in non-interest expenses.

Compared to the prior quarter, common shareholders' net income from continuing operations, diluted earnings per common share, and adjusted cash earnings per common share were each down 38 percent, primarily due to the impact of higher provisions for credit losses. Pre-tax, pre-provision earnings were 4 percent higher, reflecting the combined benefits of very strong 4 percent loan growth, a 32 percent increase in non-interest income, and relatively stable net interest margins, partially offset by higher non-interest expenses. Higher non-interest income reflects no net gains or losses on securities this quarter compared to net losses of $2.9 million last quarter as well as an increase in other non-interest income. The increase in non-interest expenses mainly related to incrementally higher salaries and benefits and general expenses with CWB Maxium accounting for more than half of the sequential change.

On a year-to-date basis, reported common shareholders' net income from continuing operations was 19 percent lower as the total year-to-date pre-tax provision for credit losses increased to $48.6 million from $14.4 million last year. Diluted and adjusted cash earnings per common share declined 19 percent and 18 percent respectively. Year-to-date pre-tax, pre-provision earnings of $165.9 million increased 6 percent as the positive impact of very strong 9 percent loan growth was partially offset by an 11 basis point decrease in net interest margin, an 8 percent increase in non-interest expenses, and 6 percent lower non-interest income. Gains in most categories of non-interest income were more than offset by lower net gains and losses on securities. Net losses on securities of $2.9 million compare to gains of $0.7 million last year and primarily reflect the impact of volatile financial market conditions on our holdings of common equities. We have now liquidated our common equity holdings and have no plans to re-establish this portfolio. The year-to-date increase in non-interest expenses primarily relates to higher salaries and benefits to support business growth. Through two full months of operations CWB Maxium accounted for approximately 14 percent of the year-to-date increase in non-interest expenses.

Moving now to slide five, shows our capital ratios at April 30th. Using the standardized approach for calculating risk-weighted assets, our common equity tier one ratio was 8.2 percent, our tier one ratio was 10.1 percent, and or total ratio was 12.2 percent. The common equity tier one ratio is down from 8.6 percent last quarter, mainly due to the impact of closing the CWB Maxium acquisition. Higher tier one and total capital ratios primarily reflect the issuance on March 31st of 2016 of $140 million of non-cumulative five-year rate reset first preferred share series seven, which qualify as non viability contingent capital. At 8.0 percent the Basel III leverage ratio remains very conservative. Yesterday our Board declared a quarterly cash dividend of $0.23 per common share, consistent with last quarter and 5 percent higher than the quarterly dividend declared one year ago. The timing of future dividend increases will be influenced by capital requirements to support expected asset growth as well as the impacts on earnings growth from the change to our credit outlook, challenges related to persistent net interest margin pressure, incremental increases in our expense base, and ongoing macroeconomic uncertainty.

Net interest margin on a taxable equivalent basis of 2.47 percent has remained relatively consistent over the past three quarters, although the second quarter level was 10 basis points lower than a year ago. Compared to last year, the Bank of Canada's January and July 2015 interest rate cuts and the corresponding consecutive 15 basis point decreases in CWB's prime lending rate have had a negative impact on loan yields. Corresponding reductions in the cost of various deposits did not fully offset the impact of this change on net interest margin. Further incremental pressure on net interest margin could result from the combined impact of the current low interest rate environment, competitive factors, and the persistently flat yield curve, as well as the potential for CWB to carry moderately higher average balances of cash and securities.

Turning to slide seven, credit quality outside of our portfolio of oil and gas production loans remains consistent with prior expectations. In a few minutes Chris will speak to our outlook for credit quality. For my part, I'll provide an overview of where we stand and what we see today. On May 3rd we announced a change to our credit outlook and revised guidance for the full-year provision for credit losses. Significantly higher provisions for credit losses within the oil and gas portfolio this quarter primarily resulted from further weakening of energy commodity prices to very low levels early in the calendar year. In view of the impact of this development on producer cash flows as well as spring borrowing base redeterminations reflecting current information, we recorded $32.5 million of second quarter provisions for credit losses on oil and gas production loans and a total second quarter provision of $39.7 million. This contributed to a year-to-date provision for credit losses as a percentage of average loans of 48 basis points. We now expect the annual provision to fall between 35 and 45 basis points. This compares to our prior expectations for the provision to be at the high end of a range between 18 and 23 basis points.

Slide eight shows the level of gross impaired loans this quarter. Total gross impaired loans of $145 million compare to $93 million in the second quarter last year and $112 million last quarter. The sequential increase was mainly due to a $32 million increase in gross impaired oil and gas production loans to $54 million. Recent loss rates on these loans have exceeded those experienced during prior economic cycles. Although we expect further increases in the balance of impaired loans across the portfolio, we anticipate loss rates on non-oil and gas production loans to be more consistent with our prior experience, reflecting the combined positive impact of our disciplined underwriting, secured lending practices, and proactive account management.

Turning to slide nine, we continue to stress our balance sheet, earnings, and capital to confirm our confidence in the resiliency inherent in our secured lending business model and assess the potential impacts of various scenarios, including a low for long oil price with significant and prolonged economic weakness within the oil exporting provinces. We believe our stress tests are rigorous, comprehensive, and conservative due to the fact that they incorporate multiple dimensions of artificially intensified severity. Recent stress tests included the loss rate related to oil and gas production loans experienced this quarter and a number of related assumptions to further amplify the severity of these tests. We include the assumptions that stress conditions persist over a three-year timeframe with significant compression of net interest margin to 2.0 percent in each year.

The assumed consolidated annual provision for credit losses in each year of the stress test is approximately 65 basis points. Results of these tests support our confidence in CWB's proven business model and the resilience of our strong capital position. While the combined impact of severe stress scenarios over a multi-year time period constrains earnings growth, CWB remains profitable and financially stable, even through what we believe are severe tail risk scenarios. The durability of CWB's capital position under the severe conditions assumed within these stress tests reflects both our commercial lending focus and our use of the standardized approach for calculated risk-weighted assets, under which CWB is required to assign 100 percent risk weighting to the majority of our business loans.

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

Chris Fowler, President & Chief Executive Officer

Thank you, Carolyn.

Slide 10 demonstrates our track record of very strong loan growth over the past five years. Loans grew 14 percent over the past 12 months, 4 percent this quarter and 9 percent year to date. Ongoing strong growth demonstrates our success in achieving higher relative contributions from non-oil-producing provinces across our growing geographic footprint. Our ability to achieve strong growth outside of Alberta is the direct result of our well defined strategic direction. We've enjoyed rapid growth within our business lines that have nation-wide presence, including National Leasing and Optimum Mortgage. With 80 percent of their current business outside of Western Canada, CWB Maxium and CWB Franchise Finance will also support further geographic diversification. On a consolidated basis, our portfolio of real estate project loans posted the highest growth in the past year, followed by strong performance of our personal loans mortgages portfolio, both reflecting supportive dynamics within Canada's housing markets. Although we see reduced housing activity in Alberta and Saskatchewan, the BC market remains very active. In recognition of risks inherent in markets where recent price appreciation has been unusually rapid, Optimum Mortgage has adjusted available loan to value at initiation for residential mortgages within certain neighbourhoods, particularly in BC's lower mainland. Our portfolio of real estate project loans in all provinces is strong and well structured. Our loan funding structure requires pre-sales supported by non-refundable deposits and ongoing monitoring of all real estate projects in progress confirms there's been no material evidence of account deterioration. We will continue to pursue opportunities to service high-quality clients operating within our targeted industry segments across the country. In consideration of very strong loan growth through the first half of the year and our current pipeline of new lending opportunities, we are confident CWB will achieve another year of double-digit growth in 2016, marking the 26th time in 27 years we have achieved this level of performance. We expect the trend of high relative contributions from non-oil-producing provinces to continue.

Turning back to credit performance and the outlook for credit quality, as Carolyn mentioned, credit quality outside of the 2 percent of our portfolio comprised of loans to energy producers is consistent with prior expectations. Loans to companies providing services to the oil and gas industry continued to perform consistently with our prior expectations for credit quality. These exposures are primarily comprised of term-reducing advances against standard industrial equipment as opposed to operating lines of credit or loans secured against receivables and/or inventory. The total outstanding balance of equipment loans in Alberta has continued to contract as borrowers in this province have been proactive in rationalizing their fleets. The secondary market for standard industrial equipment is liquid and global. As demonstrated through recent auction results, current pricing for non-specialized equipment is adequate in view of the rapid amortization of our typical equipment loans and the nature of our collateral. We continue to be diligent in the management of all our exposures during this low and volatile oil price environment. We anticipate loss rates on impaired loans outside of the oil and gas production lending to be more consistent with our prior experience, reflecting the combined positive impact of our disciplined underwriting, secured lending practices, and proactive account management. Our business model is focused on secured mid-market commercial lending and we have no material exposure to unsecured personal borrowing, credit cards, auto loans, and in general to non-real estate personal borrowing. This focus reduces our exposure to the direct credit impact of elevated levels of unemployment compared to what would be expected from other Canadian banks with a more pronounced focus on unsecured personal lending. Notwithstanding the unique challenges this cycle has presented, we fully expect that solid credit quality will continue to be a hallmark of our business model.

Looking forward, we maintain a realistic outlook. There are notable risks related to lending activity in Alberta due to the direct and indirect impacts of persistent low energy prices and further economic uncertainty from the Fort McMurray fires. That said, we believe our overall financial performance will continue to benefit from an expanding geographic footprint with increased business diversification as well as ongoing success from key initiatives to build core funding sources, enhance client offerings, and leverage our technology investments. The acquisitions of CWB Maxium and CWB Franchise Finance will be very positive for us moving forward. Both businesses support our established commercial banking strategy and offer specialized financing origination with attractive returns. They also bring experienced, motivated, and highly respected management teams with demonstrated histories of delivering strong financial performance and solid credit quality. Both businesses will also present opportunities for cross selling across the CWB Group, which is a crucial dimension of our strategy to broaden and deepen our client relationships. Together with very strong ongoing loan growth, these acquisitions represent our capital deployment initiatives following the divestitures of Canadian Direct Insurance and the stock transfer business of Valiant Trust last year. Both businesses are fully aligned with our commercial banking focus and geographic diversification objectives and they position us to reach more clients with an expanded service offering across the country. Again, we expect these businesses to fully replace the adjusted cash earnings contributions of the divested operations by 2017.

With the successful launch of our core banking system on May the 2nd, we are now well positioned to support our geographic expansion with industry-leading technology.

Replacing a system this critical is a significant undertaking and we are pleased to report that the project was completed within the $71 million budget. Our successful launch reflects several years of focused effort on the part of our dedicated project team as well as ongoing diligence from our branch teams during and after the launch. Ultimately this project required tremendous effort across the organization and represents a significant milestone for CWB. Historically we've met our clients' needs in very targeted ways through responsive service and specialization in selected areas of the market. Our next level of growth will include added focus on the development of more multi-product client relationships through proactive client outreach and efforts to introduce our brand to a broader market. Our new system enables us to leverage a client-centric view of our branch-based relationship for the first time rather than a product-centric view. Ultimately this will enable us to offer a more comprehensive and customized suite of financial products and facilitates a step-change toward the achievement of our vision to be seen as crucial to our clients' futures. As we go forward we remain focused on upholding our strong tradition of growth on both sides of the balance sheet with an increasing focus on commercial banking across the country. I believe this will continue to translate into solid earnings growth and strong shareholder returns. I am confident we will look back on the past year as a period of exceptional value creation for CWB and our shareholders, notwithstanding certain near-term challenges.

Before I turn it back to Carolyn I would like to say that our thoughts remain with those affected by the destruction in Fort McMurray. In the immediate aftermath our top priority was to take care of the members of our CW team with friends and family experiencing hardship. Our business presence within Fort McMurray is limited; however, over the past month it has become clear that the impact of the wildfires can be felt across the province. With much work left to do, we are pleased to see people returning to this important community and we trust it will be restored over time.

With that, I'll turn it back over to Carolyn.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thanks, Chris.

This concludes the formal presentation for today's call and I'll ask Amy to begin the question and answer period now.

QUESTION AND ANSWER SESSION

Operator

At this time, if you would like to ask a question, press star then the number one on your telephone keypad. Your first question today comes from the line of Sumit Malhotra of Scotia Capital. Your line is open.

Sumit Malhotra, Scotia Capital

Thanks. Good afternoon. First question I'll address to Chris and to go back to the increase or to start with the increase in provisions this quarter. You've talked a lot in the last 18 months as we've been living through this energy downturn about the secured nature of CWB's lending process and how that was the primary factor that had prevented the bank from experiencing larger levels of provisions in past cycles. So when we see the numbers for Q2 and maybe for the balance of the year in the range that you've provided, is there something that's different about the loans that have been a problem for you this time around or is there a part of the lending process that didn't hold nearly as well as it has in the past. It's an open-ended question but obviously would be interested in your comments on that.

Chris Fowler, President & Chief Executive Officer

Yeah, thank you, Sumit. The challenge that certainly was experienced in the E&P book really came from the very low prices that occurred earlier in the year. I mean clearly the prices have been declining, which has certainly affected the financial position of many of the companies, they've had weakened working capital, and then with the very low prices that did transpire in January and February when the cash flow started to come in in March and April they really had no wherewithal to cover payroll and cover just general overhead. So as we looked at these different companies, and we have them all under the microscope, the challenge really is looking at ways to liquidate assets, and in the distressed market of the E&P book we have taken higher specific provisions just given the very weak market that's there. So what has changed? I think it's just a very weak market in the specific portfolio and these are accounts that we have very much under the microscope.

Sumit Malhotra, Scotia Capital

So a couple things here. So don't think you've given us, in the past, sector by sector breakouts on provisions. Obviously you've given us the number for energy this quarter. And if I'm looking at it correctly you've now taken, I don't know how much you've taken in the past but it would appear the provision you've taken against your energy portfolio is about 10 percent. Is that in the ballpark?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Somewhere between probably 11 to 13, yes.

Sumit Malhotra, Scotia Capital

11 to 13. So as you're thinking about E&P producers specifically, is this no longer an issue for CWB as far as you're concerned or is there the possibility that you'd have an even higher loss rate against this book?

Chris Fowler, President & Chief Executive Officer

Well, as we look at each of these accounts and, as I say, we are monitoring them very closely, we believe we've been very conservative in our specific allowances. Certainly these companies are, essentially they have resolved, but as we look at them, I mean our challenge is to work through each individual credit, ensure that what opportunities are there to extract value with the security, we will be focused on all of those actions and opportunities. The challenge we have is that there is no great crystal ball in where the price of oil is going to be. It is a big variable. It certainly seems to have a little bit more legs underneath it than it had earlier in the year but, you know, we maintain a very cautious view and we will be very diligent in how we manage these accounts.

Sumit Malhotra, Scotia Capital

One more related and then I'll let the other guys take a shot. You know, oil and gas is a relatively small part of your book, just looking at the numbers here, $327 million is a small portion, but I think CWB has always been candid about the fact that while you don't have a lot directly to producers, a lot of the business in Alberta has had a linked effect, so what's happening in terms of project activity. So given the experience you had with this portfolio, how confident are you that those secured loans or the collateral that you have backing some of the loans in related sectors is still money good, for lack of a better term, in the environment that the producers themselves are facing?

Chris Fowler, President & Chief Executive Officer

Well, those are completely different types of collateral of course. E&P are very specific. You're talking secure at the well head. When we look at equipment financing or commercial mortgages or just general commercial, we're looking primarily on the equipment side it's standard industrial equipment. We've done our best to not be very focused on highly specialized equipment. So what we've seen on the standard industrial equipment is certainly a decline in values as you look at the Ritchies auction results but not as significant as the highly specialized. So it really comes into the collateral valuations as you look at the different books of business. On the commercial mortgage book, you know, we certainly look at the tenants that are in the buildings that we finance, we look at the borrower strength on the project lending book, we look at the nature of the underwriting up front with the deposits and the presales. So we are very mindful of what first and second order effects can occur with this low oil price so, you know, we're being very proactive as we look across the book of business in Alberta.

Sumit Malhotra, Scotia Capital

Thanks for your time.

Chris Fowler, President & Chief Executive Officer

Thanks, Sumit.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thanks, Sumit.

Operator

Your next question comes from the line of Peter Routledge of National Bank Financial. Your line is open.

Peter Routledge, National Bank Financial

Hi. Thanks. Thanks very much. I noticed real estate project loans very strong growth quarter over quarter and year over year. I'm interested to know where those loans were originated geographically and then the types of projects, residential, industrial, office. Where are you getting that kind of super charged growth?

Chris Fowler, President & Chief Executive Officer

So we have, ah, there's a mixture. It's primarily loans in the lower mainland area, and the target there has been very much focused on residential, and that would be projects where we've got, we tend to look to deal with the tier one borrowers so we have people that have a pool of assets, a reasonable balance sheet, and access to capital. So we've had very strong geographic growth there in targeted ways again on well structured underwriting.

Peter Routledge, National Bank Financial

A couple of your peers were out in the media saying, or at least one anyway were out in the media saying they were pulling back or easing back from Vancouver residential real estate, and I understand this is a real estate project loan and they might be talking about house prices but the broader question is it's pretty hot real estate market out there. Are you guys giving some thought to stepping back? And if not, why not?

Chris Fowler, President & Chief Executive Officer

Yeah, as I stated in our opening remarks, certainly on the Optimum Mortgage side for that sort of end residential mortgage we absolutely have decreased our loan to value in looking at that book. And it hasn't been a big area of growth for us on that residential mortgage side. Project lending, you know, certainly we go into with, as I say, the structured loans with presales, deposits and, again, to borrowers that we look to also having a good balance sheet in behind that loan.

Peter Routledge, National Bank Financial

Okay. Okay. And then just a follow-up I think on Sumit's question, which is, I'll try and just put it plainly, you talk candidly about the higher loss rates in your oil and gas portfolio, i.e. last given default, and I appreciate that candour. The question that I think maybe folks are thinking about over the next 18 months is why won't we see that same pattern emerge in other portfolios. So why wouldn't we see that happen in Alberta real estate project finance or why wouldn't we see that happen in equipment finance? What sort of words of wisdom do you have to ease those concerns?

Chris Fowler, President & Chief Executive Officer

Well, equipment finance of course is mobile equipment that can be sold in any jurisdiction, so there is certainly that ability for, you know, certainly movability. Obviously you don't have the same issue with real estate, because it is where it is. Again, we look to the structures that we've done. We believe we have conservatively under-written. We focus on how rent rolls are comprised on commercial mortgages. We certain expect knock-on effects. We've always been a very disciplined underwriter and we will be focused on maintaining and managing each individual credit as we move forward.

Peter Routledge, National Bank Financial

And looking at that another way, you gave the 65 basis point as a stress PCL ratio for a couple years and you operate through that quite handily. I mean I hope that doesn't happen but you do operate through that quite handily. Does that implicitly assume you've got higher loss rates than historic norms in certain asset classes?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Peter, what we build into the stress test is our peak losses in every portfolio assuming they all occurred at the same time and certainly in our past experience it has been that different portfolios credit weakened at different times and strengthened at different times, so the actual peak loss in a particular portfolio, they didn't all occur simultaneously. So the thing that we do in the stress test, we assume all the peaks occur simultaneously and then we add on to the peak losses as well.

Peter Routledge, National Bank Financial

And that peak loss implicitly assumes not only higher default rates but higher losses given default.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yes. And along with higher provisions for credit losses it also implies more impaired loans, which implies more risk-weighted assets.

Peter Routledge, National Bank Financial

Right. That's great, thanks. That's it for me.

Chris Fowler, President & Chief Executive Officer

Thanks, Peter.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thanks.

Operator

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

Sohrab Movahedi, BMO Capital Markets

Thank you. A couple of questions. Chris, the allowance to gross impaireds is now around 100 percent. You know, obviously for good reason. If I look over time I think the last time gross impaireds went up the allowance even dipped down to around 50 percent. Do you think you will have to add to the allowance any further from here or is it possible that that will just drift down and it will kind of fix itself just through impaireds coming back down?

Carolyn Graham, Executive Vice President & Chief Financial Officer

You know, we're carefully watching it every quarter, assessing both specifics and collectives and considering it as a whole. At this point we're completely comfortable with the levels of the total allowance and the split between specifics and collective. So we're just continuing to watch and monitor and, you know, carefully watch the credit quality as we move forward.

Sohrab Movahedi, BMO Capital Markets

So just, Carolyn, not to be difficult about it, but when you say that, ah, have you factored in some of the headwinds from the unfortunate events in Fort Mac for example? Or is that more of a Q3 event?

Carolyn Graham, Executive Vice President & Chief Financial Officer

It would be a Q3 event but we're comfortable when we think about the revised expectations for credit losses through the full year of 2016 at 35 to 45 basis points. Certainly there is room in that range for additional losses.

Sohrab Movahedi, BMO Capital Markets

Gotcha. Perfect.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Yeah. Fort McMurray, that situation is still very, very fluid. We've just started to have families return to the community so certainly it will be over the next several quarters before we understand the impact on the community, the challenges faced as families and businesses re-launch their operations and what that means for us and for our clients.

Sohrab Movahedi, BMO Capital Markets

Okay, perfect. Just maybe a couple more questions. One, ah, so congratulations on getting the core banking system launched. That $71 million or so, Chris, or Carolyn, that it came in within budget, can you remind me, this project has been ongoing for how long now?

Carolyn Graham, Executive Vice President & Chief Financial Officer

We'll let Randy Garvey answer that question.

Randy Garvey, Executive Vice President, Corporate Services

Yeah, the project's been going on for four years.

Sohrab Movahedi, BMO Capital Markets

Okay, so that spending has been over the last four years. And has anything been capitalized?

Carolyn Graham, Executive Vice President & Chief Financial Officer

It's almost entirely been capitalized.

Sohrab Movahedi, BMO Capital Markets

Everything has been capitalized. Okay. And then how do you see the loss, what is your estimate of the lost earnings from the divested businesses over the last 12 to 18 months that you expect to now replace with the Maxium and the GE acquisition?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thinking about it from their average operating earnings sort of annualized over the last three years that we held them would be in the range of $0.12 to $0.15 a year.

Sohrab Movahedi, BMO Capital Markets

Okay, perfect. And just one last question, just to come back to Peter's question around the construction loan and the real estate projects and what have you. I mean can you just provide a little bit of colour as to the state of competition then? I mean obviously these are meeting your credit standards, your underwriting standards, so I'm assuming you're not having to compete on structure, but can you talk a little bit around pricing and is that growth a source of the margin compression as well?

Chris Fowler, President & Chief Executive Officer

No, that portfolio would not typically be one that is really as highly price competitive as, say, something like commercial mortgages. Structure wise I would say all the banks are pretty much on the same page of having a very disciplined underwriting structure. And we share many loans with other banks as well in terms of just managing exposures.

So I would say that that book has, number one, strong structures, and on the pricing side all the loans have been competitive. We are dealing with that tier-one developer that really does have access to many other lending institutions and it's clearly under competition.

Sohrab Movahedi, BMO Capital Markets

So, Chris, I guess what you're saying is, look, I'm growing, we are growing the loans generally speaking, healthy double digit let's say, it's good quality loans vis-à-vis the credit quality of the borrower, but that is just about where everyone else is competing and so you're going to have to, you know, you're going to have to just absorb lower, lower margins I suppose, or lower spreads anyway on that growth.

Chris Fowler, President & Chief Executive Officer

Well generally speaking. I mean these are floating rate loans, so clearly the impact on NIM was due to the drop in the prime rate last year too, so that portion of the impact. But typically real estate project loans are one of our better yielding loans. They're actually behind equipment leasing. They're our number two in terms of total yield. So it is a strong portfolio from a yield perspective. it's, as I say, well structured and with strong borrowers.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thinking about the net interest margin over the past year, so sort of the comparison and the margin compression over the past year, it would be more, the decline in the margin, it would be more about the fact that deposit costs haven't ticked down at the same pace as loan yields. So there's been a bit of an imbalance between the two.

Sohrab Movahedi, BMO Capital Markets

But, Carolyn, the system, the accounting system now being up, the banking system, sorry, being up and running, now you should be able to take some, you should do more cash management business. Is that fair to say?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Absolutely.

Sohrab Movahedi, BMO Capital Markets

Okay. Okay, thank you very much.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thank you.

Chris Fowler, President & Chief Executive Officer

Thanks, Sohrab.

Operator

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

Meny Grauman, Cormark Securities

Good afternoon. You've been very successful in shifting loan growth away from Alberta and I'm wondering if that is partly an acknowledgement that in the past you were too concentrated in Alberta. Would you say that was a lesson you are learning from the current downturn? And then as a follow-up to that, is this more of a tactical shift, meaning when conditions hopefully go back to what they were in Alberta or if they would would you consider taking the shift back and moving your business back to where it was in Alberta? So how does that pendulum swing for you?

Chris Fowler, President & Chief Executive Officer

Well, it's a great question, because you're really speaking about how we're driving our strategy, and our strategy is to increase our geographic diversification. You know, I would say when we look at the growth we've had in Ontario that's really through National Leasing and Optimum Mortgage and our Equipment Finance group. So that is the strategy of growth. The addition of CWB Maxium and the addition of CWB Franchise Finance will then add to our ability to grow in Ontario. So strategically we are looking to broaden our geography. Clearly in Alberta, if we're speaking to credit growth in Alberta, there is lower credit demand. I mean it is a slower economy here, there's less things happening, so there is reduced credit appetite, and that's just occurring in Alberta given the current economic conditions that we're facing. But from a strategic perspective as we look at the book of business and the footprint that we're expanding, we are looking to broaden our geography.

Meny Grauman, Cormark Securities

I guess what I'm getting at is sort of is that just, that shift, is that a no-brainer or does it come with a cost? (Inaudible) if we look before oil prices fell, I mean the fact that CWB had such a focus in Alberta was seen as a big positive and maybe an arguable reason for some of the premiums. So do you feel, like as you shift the strategy is that going to have, is there any cost to that? When you sit around the table do you identify any sort of trade-off for that decision?

Chris Fowler, President & Chief Executive Officer

No, we still would expect to continually grow in Alberta. We've got, ah, so 41 percent in Alberta, 35 percent in BC. I mean we've always run very neck and neck between BC and Alberta. Our goal is to, again, broaden our geography and pull our footprint further east. So we believe Alberta remains a very key geography for us and an area that we will continue to be very focused on. But, again, strategically broadening that footprint.

Meny Grauman, Cormark Securities

And if I could just ask a follow-up question just on credit, just in terms of the collective allowance, kind of surprising that we didn't see a build in the collective. I'm wondering how much of that decision is formulaic and how much is discretionary and if you could just provide some insight into how that works.

Carolyn Graham, Executive Vice President & Chief Financial Officer

So, Meny, it's always our preference, it's always our history and our practice and our culture to be conservative and to conservatively provide and we have, we thought very carefully. We consider that the specific provisions that we recorded on the energy portfolio are conservative and appropriately in combination with the collective allowance that we have in place already to represent the risk in that portfolio and the rest of the book on losses that are incurred at quarter end but not yet identified to a specific loan. We have a methodology to estimate the adequacy of the collective allowance that is a combination of quantitative with a qualitative overlay on top to indentify weaknesses in our model. So it is a combination that we look at every quarter. I think our portfolio in some respects, without the credit card portfolios, unsecured personal lendings, I think those portfolios often tend to be perhaps provided through the collective before they make it to the specifics, so that might be a difference in our practice between those of the large banks. But it is something that we look carefully at every quarter and we're perfectly comfortable with where we're at from a total allowance perspective and the split between the two.

Meny Grauman, Cormark Securities

Thank you very much.

Operator

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

Gabriel Dechaine, Canaccord Genuity

Good afternoon. I just want to talk about expenses first of all. You used or you mentioned expense growth as one of the items impacting your growth outlook in the coming year and also as one of the factors you consider when, you know, think about raising the dividend. That wasn't there before. Just wondering what should our outlook be for expense growth over the next year? The new core banking system is being implemented, you've been running at around, you know, high single digits, pushing 10 percent (NIX) growth. Should we see that take a step up over the next year and a half?

Carolyn Graham, Executive Vice President & Chief Financial Officer

So if we think about the, um, call it our organic operations or the things that were in place at the end of the second quarter that will continue to move forward, generally our expense growth has traditionally been fairly close to the growth in the loan portfolio and total revenues. So with the new banking system in effect on the first day of the third quarter we will see about $2 million of additional NIEs per quarter moving forward related to both amortization and the operating costs attached to that new service system. So that is an incremental build that begins in the third quarter.

The important thing on top of that is once the system is... We're now live. We're moving through the stabilization period. As soon as we have that completed it is our intent to launch a significant business transformation initiative to look at realizing the efficiencies that the new system will give us.

Gabriel Dechaine, Canaccord Genuity

Okay. So when does that take place?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Well, we'll start working on it and thinking about it once the new system is stable, so I would say before the end of this fiscal year we'll be thinking about our plans in that respect.

Gabriel Dechaine, Canaccord Genuity

Okay. So all else equal we should see expense growth like the normal that we've been accustom to seeing plus this incremental bit over the next year and a half.

Carolyn Graham, Executive Vice President & Chief Financial Officer

And the other factor I would add would be that starting the first of March we had expenses related to CWB Maxium Financial. It's about $1.5 million in the two months in the second quarter. So that will continue as well as the cost of the team for the Franchise Finance business as well.

Gabriel Dechaine, Canaccord Genuity

But with Maxium there's no... We've seen the expenses but not the revenues. That's coming soon I guess, right?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Right. Well, it's starting to build. Their portfolio at the end of, the outstanding loans in our loan growth coming from Maxium at the end of April are about $100 million.

Gabriel Dechaine, Canaccord Genuity

Right. And then tying the expense commentary to your dividend outlook, what's the messaging, I guess more broadly what's the messaging on dividends? What we've seen in the past every two quarters, shouldn't necessarily count on that? You might be more conservative on increases going forward?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Well certainly the messaging, the primary messaging would be that our medium-term target for a dividend payout ratio is in the range of 30 percent and with these credit losses this year we're quite a bit higher than that. So recognizing that in the near term we will also have higher expenses as we have these additional expenses coming on. So that was the messaging there. You know, we continue to evaluate every quarter considering with the primary consideration being the dividend payout ratio.

Gabriel Dechaine, Canaccord Genuity

Okay. Then, Carolyn or Chris, let me just play devil's advocate on your loan growth strategy. Forgetting which category it's coming from for a moment but double digit loan growth is something that CWB's delivered for a long time, but you're double, you're twice the size of what you were pre-crisis. Why is double digit loan growth that important to the bank in an era where it's consuming capital and capital is more important than it has been? And if we get into the categories a bit, you know, you're out of your historical focus a little bit. Maybe risk profile is a little bit higher in the alternative mortgages and the leasing but margins aren't expanding, so risk-adjusted margins aren't expanding. Why the emphasis still on double digit loan growth?

Chris Fowler, President & Chief Executive Officer

Well, as we look at the opportunities for growth, I mean it's certainly an outcome of our focus. We are looking with certainly the investment we've made in this core banking system to have the opportunity to more broadly serve our clients through cash management, certainly to help us on the funding side, we've done an expansion investment in our wealth management as well to provide those other non-interest income opportunities. So as we think about growth we have typically found loan growth as being a good entry into a client relationship and as we've invested in our infrastructure to provide more services we would then look to broaden it, which would then help us with overall revenues, cost of funding, and margin. So strategically we still find, so loan growth is that entry. The opportunity also with loan growth is that growth in other markets, such as Ontario. That's where CWB Maxium and Franchise Financing operation will add to, again, those opportunities, which then we can support with the cross-selling into other products as we build that out. So as we think of it, it is really an expansion of our client base, and that's the core focus of loan growth and that's how we've dealt with it.

Carolyn Graham, Executive Vice President & Chief Financial Officer

At the same time I would just also point out that with the introduction of medium-term targets in the fourth quarter last year we no longer have a performance target specifically related to loan growth. We're focusing there on EPS growth at ROE. So it's still, as Chris mentioned, the way that we tend to get the introduction to our clients, but recognizing that it's not the sole metric or the metric that we lead with.

Gabriel Dechaine, Canaccord Genuity

That's a fair point. I forgot that. Now just to wrap up on credit, so the GIL ratio is around 70 basis points, just under that, and you've acknowledged that that could go higher, which is fair. If I look at past due loans, past due loans have been rising for several consecutive quarters but the pace of growth is slowing. Should I kind of plot those two together? So past-due loans are an indication of loans that could go impaired but as the acceleration of past due loans is still growing but the acceleration is not as steep as it was, are we seeing light at the end of the tunnel here on the impairment levels?

Carolyn Graham, Executive Vice President & Chief Financial Officer

On the past due loans, you know, we looked into what's in there. Many of the loans that are on the past due list end up being brought current again. So sometimes they tend to be, they tend to be timing issues. Certainly the overall trend up over the last six quarters I think someone noted is something we're carefully watching and we are seeing some of those loans certainly move through watch and impaired but not all of them. So I would say that's just one more factor to consider. Certainly as we look forward at the gross impaired loan balances we still believe that even if, you know, we've reached a new sort of settled in floor for the price of oil, we still believe that there will be more impaired loan formations coming over the next several quarters. Certainly there will be ongoing challenges in the Alberta economy. But beyond the E&P portfolio we're comfortable with our ability to manage those gross impaireds without provisions that are significantly higher than our (inaudible).

Gabriel Dechaine, Canaccord Genuity

Okay. Thank you. Have a good afternoon.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thanks.

Chris Fowler, President & Chief Executive Officer

Thanks, Gabriel.

Operator

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

Doug Young, Desjardins Capital Markets

Hi. Good afternoon. Just a first question on credit, Carolyn. I guess, and maybe I'm missing something, but I guess when I back out the $32.5 million specific provision the PCL rate is 14 basis points and I guess, you know, to get to your 35 to 45 for the full year PCL rate the back half PCLs have to be 30 to 35 basis points. That's my math. Maybe I'm off. You can correct me if I am. But I'm just trying to figure out what is anticipated to deteriorate in the back half that causes that delta between the 14 and the 30 to 35 given it sounds like you've done a lot in terms of your direct oil and gas energy book and the rest of your loan book is performing rather well. So I'm just trying to get some colour on that. Thank you.

Carolyn Graham, Executive Vice President & Chief Financial Officer

So, absolutely, we're at 48 basis points for the first half of the year, so if we ended the full year at the top of that range at 45 that means the last half of the year looks about the same in a total perspective as the first half does. To come in at 35 basis points for the full year would mean that the average for the last two quarters is in the 25 range, again at the top end of what we used to talk about as a range. Really it's the view that we think there are still challenges to come with the Alberta economy primarily but that it may still ripple through the rest of our client portfolio. We're being conservative on that estimate. Certainly that is our history and we'd certainly like to beat that range. But we wanted to be conservative so we thought about, you know, the 45 as a continuation in the second half of the year, 35 is really a return to more normal in the back half of the year.

Doug Young, Desjardins Capital Markets

So the way to think of it is there's conservatism in there, you know, there concerns are really around the Alberta book, which is 40 percent of your total book, and obviously the range is quite wide, but basically there's lots of conservatism padded in there. Is that...?

Carolyn Graham, Executive Vice President & Chief Financial Officer

That would be correct. And I think it's very appropriate, I mean we released that sort of May 2nd, May 3rd with that new range and the wildfires in Fort McMurray started shortly thereafter, so absolutely there is uncertainty around what the economic impact of that will be as we move through the next several quarters.

Doug Young, Desjardins Capital Markets

Okay. And then just on the collective provision side, and I'm not sure, but have you ever drawn down collectives? Obviously you have quite a significant collective balance. There is a qualitative and a quantitative aspect of the collective, as you mentioned. Is there some capacity to draw that down if need be?

Carolyn Graham, Executive Vice President & Chief Financial Officer

We drew down the collective once in, I think, the second quarter of 2010 by about $5 million, if memory serves me correctly. So it certainly hasn't been our practice to draw down the collective. Looking forward certainly every quarter you assess what's the right range, what is your conservative and judgemental feel around whether that level is appropriate for the losses in the portfolio. We've done it once but not often.

Doug Young, Desjardins Capital Markets

Okay. And then just lastly, I'm curious, in the sensitivities you gave you said you're still financially stable. What would be the CET1 ratio in that stress scenario that you depicted? And then I guess I was intrigued by just the fact that you assumed a NIM of 2 percent within that. I mean why 2 percent NIM? And what would it take to go from the 2.47 down to 2 percent NIM? Like what were your assumptions in that?

Carolyn Graham, Executive Vice President & Chief Financial Officer

I'm going to answer the NIM question first. In the depth of the financial crisis we ended up, I believe, at about 1.9. So 2 percent is not unheard of for us.

What happened in that situation, it was primarily that we chose to raise additional liquidity. We felt that it was prudent and conservative to raise additional liquidity through that time period so we went out to the broker market and we raised those deposits and the cost had gone up quite significantly but we were prepared to pay that cost, take it on the chin with net interest margin in order to ensure that we had fully adequate levels of liquidity. So it really ends up being on the funding side of the house for us.

On the capital ratios in the stress scenario, we end up around 8 percent over time. We remain at or around 8 percent through the range. Our portfolio has a relatively short life, so the first thing we would do in a time of significant stress is that we would take our foot off the gas with loan growth. And the portfolio, with about a three-year life, rolls off relatively quickly, so risk-weighted assets fall quite quickly.

Doug Young, Desjardins Capital Markets

Ah, okay. Okay, thank you very much.

Operator

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

Darko Mihelic, RBC Capital Markets

Hi. Thank you. I was hoping to ask a couple of specific questions on credit before I get to my real question. So specifically on the oil and gas book it's $327 million. How much of that is currently in the watch list? And perhaps better asked, what do you anticipate would make it to the watch list over the course of the next quarter given where oil prices are today?

Chris Fowler, President & Chief Executive Officer

Darko, I would say we're watching every loan. You know, to be clear, this whole industry is challenged right now. Not every loan financially is in the watch list but we're looking at every loan. Like it's been a lot of volatility and it's just, it's not the right time not to look at everything very closely.

Darko Mihelic, RBC Capital Markets

Chris, is that to suggest that of the 327 it could all go impaired?

Chris Fowler, President & Chief Executive Officer

No. Not at all. It's just I just would say that the issue is in this, as we have changes in the price of oil, you know, we look at re-determining the loan amounts consistently. We do not see that from an overall credit but we believe this industry is one that is worth watching. I'm using that as sort of the generic watch. We're overlooking this industry closely.

Darko Mihelic, RBC Capital Markets

And it sounds like you're really more concerned about the non-syndicated credits, which would be about 25 percent of that book. Would that be a fair statement?

Chris Fowler, President & Chief Executive Officer

That's a fair statement, yes.

Darko Mihelic, RBC Capital Markets

And the oilfield services book, is there anything there on the watch list?

Chris Fowler, President & Chief Executive Officer

Well, that again is a book that we have, as I said before, we focused on the standard industrial equipment. So we've not seen, you know, we've typically talked about equipment finances being our canary in the coal mine, the one that has the really immediate credit impact when there's a downturn, and what we've seen in this book is actually a very significant decrease in outstanding, so we've got a 10 percent drop in our equipment finance book in Alberta. So very proactive action by our clients. So we have an increased impairment in this book but it's not significant and as we look at the collateral we have behind these loans we feel very, you know, we feel very confident how we can manage our exposures.

Darko Mihelic, RBC Capital Markets

Okay. And is it fair to say that, when I look at the balances there in the oil and gas book it's $327 million, not substantially different from last quarter yet you've had a lot of impairment. Are you actually growing the underlying book?

Chris Fowler, President & Chief Executive Officer

Well there is, again, there's companies in here that are performing just fine and they would be drawing on their lines of credit and repaying them. So we would have a mixture of both. There are clearly loans that we would be writing off and there would be loans that would be having some draw downs in their credit.

Darko Mihelic, RBC Capital Markets

But there's no new significant names being added.

Chris Fowler, President & Chief Executive Officer

No new names added to this list, no.

Darko Mihelic, RBC Capital Markets

Okay. And then just with respect to the discussion on the, let's call it accretion from the new acquisitions that are coming on board, $0.12 to $0.15, ah, just if I can bug you a little bit for some of that geography, is that all going to be net interest income with a small amount of associated expense? Is that fair to say, Carolyn? Or how should I think of...?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Okay, let me just... It's primarily all, it's primarily interest income. So they are both lending businesses so their split between interest income and other income would be consistent with the bank as a whole. And expenses and the appropriate credit losses, yep.

Darko Mihelic, RBC Capital Markets

Okay. So that sounds like a fairly large ramp up of balances. I'm assuming it's wide spread. Can you give us an indication of the kind of spreads that you're making on these loans? And the reason why I ask is I'm trying to just, I'm just trying to fine-tune the model to understand the risk-weighted asset growth that's about to come on with the existing amount of loan growth that you have. I'm just trying to get a good sense for the kind of RWA growth I should be assuming in the model.

Carolyn Graham, Executive Vice President & Chief Financial Officer

So the total, so when we acquire the Franchise Finance business that will be about $350 million of loans on the books. We expect the annual funding volumes for the two businesses combined to be about $500 million a year. And both of these businesses would be primarily 100 percent risk-weighted in the commercial loan category.

Darko Mihelic, RBC Capital Markets

Okay, so that's not... Okay. That's not overly meaningful then. Okay. Okay, thanks very much.

Operator

And we have one more question from the line of Sumit Malhotra of Scotia Capital. Your line is open.

Sumit Malhotra, Scotia Capital

Thanks for getting me back. I'll try and keep it quick here. My questions are both related to NIM and maybe picking up similar to the last one. When the bank bought National Leasing a few years ago, when that portfolio came aboard we saw a significant increase in the total bank NIM. Just kind of, as I said, picking up from where Darko was going, as these two acquisitions are fully into the numbers, I'll say by Q4, are you expecting the benefit to be material to the all bank NIM? That would be part one.

And then part two, ah, at least the way I calculate it or look at it, it looks like your liquidity, which, Carolyn, you mentioned is something that you ramped up during the crisis, it does look like the liquidity has been dropping as a percentage of total assets on the CWB balance sheet for a number of quarters and perhaps that's helped limit the NIM decline. You'll tell me if I'm wrong, if that's the case, but are you kind of, are you to a point now where further reductions in liquidity are difficult to come by?

Carolyn Graham, Executive Vice President & Chief Financial Officer

Okay, so I'm going to take both. On the net interest margin side, when the businesses are fully in in the fourth quarter, I don't think we'll see a significant lift in NIM. I think we still see ongoing pressures on the deposit and funding cost side of the house. So I think it'll be mitigated and sort of spread across, so we're not really expecting to see a significant lift in NIM. You know, a few basis points here, a few basis points there.

On the liquidity side, I think one of the other differences between the financial crisis and today is that we're now operating under the new liquidity, the new Basel liquidity standards, so I think what we'll see with our portfolio is some volatility in management of liquidity just as we move through regular sort of status quo operations. So three months prior to a senior deposit note redemption, we have to hold liquidity for that, so those kind of things end up being a little bit lumpy. We'll be holding liquidity in advance of the closing of the franchise finance portfolio so there'll probably be a little bit more liquidity in the third quarter. And then overall as we think about the current economic situation that we sit in we always then have the option of just holding levels in and above sort of what would be or minimum liquidity horizon on a day-to-day ongoing basis. So I don't—I think to come back and answer your question directly, I don't see a significant amount of room for liquidity to continue to tick down. I think we're probably, you know, if you think about it from sort of a trailing four quarter average we're probably not far off where we'll settle in on a status quo go-forward basis.

Sumit Malhotra, Scotia Capital

I appreciate that. Thanks for your time.

Operator

And there are no further questions right now. I turn the call back over to the presenters.

Carolyn Graham, Executive Vice President & Chief Financial Officer

Thank you, Amy, and thank you, everyone, very much for your continued interest in Canadian Western Bank Group. We look forward to reporting our 2016 third quarter results on September the first. In the meantime, if you have any follow-up questions or comments, please call us or contact us by email. Have a great summer.

Operator

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