NASDAQ CORPORATE SOLUTIONS CANADA ULC

Moderator: Carolyn Graham
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Operator: This is Conference # 19731451.

Operator: Good morning. My name is (Sharon) and I'll be your conference operator today. At this time, I would like to welcome everyone to the CWB's fourth-quarter and FY16 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 that time, simply press star and the number one on your telephone keypad. If you would like to withdraw your question press the pound key. Thank you.

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

Carolyn Graham: Thank you, Sharon. Good afternoon. Welcome to the 2016 fourth quarter and annual results conference call for Canadian Western Bank.

Before we begin, please note that the conference call graphs, quarterly results news release, and supplemental financial information are all available on our Web site at CWB.com in the Investor Relations section. Our 2016 annual report and audited financial statements will be filed on SEDAR and available on our Web site next week. Our forward-looking statements advisory is found on Slide 13. The agenda for today's call is on the second slide.

In a moment, Chris Fowler, our President and CEO, will discuss our current performance highlights and comment on our strategic direction. I'll follow with detail on our fourth quarter and FY16 financial highlights, and Chris will conclude with comments on CWB's 2017 and medium term outlook before we move to the question and answer session.

In addition to Chris, joining me today are the other members of CWB's Executive Committee; Kelly Blackett; Glen Eastwood; Darrell Jones; Stephen Murphy; and Bogie Ozdemir.

I'll now turn the call over to Chris.

Chris Fowler: Thank you, Carolyn.

FY16 was certainly a remarkable year. Our successes included the implementation of our new core banking systems and two key commercial lending acquisitions. Challenges included continued net interest margin pressure, and the negative impact of both low oil prices and regulatory factors on our small portfolio of oil and gas loans.

We took a proactive and conservative approach to resolve positions within this portfolio, which resulted in higher than expected provisions for credit losses. While this was a difficult experience, it demonstrated that our unique mid market commercial banking business model is highly resilient. I'm extremely proud of the way our teams stepped up this year. Thanks to their outstanding effort, we successfully moved our well defined growth strategy forward.

We have stated before that CWB's future will include deeper client relationships across a more diversified geographic footprint, improved funding, and enhanced capital management. Our related strategic objectives include strong, balanced growth of both loans and funding sources, and broad diversification within targeted sectors of Canada's commercial banking industry.

Implementation of our new core banking system will directly support the strategy over the medium term. Replacement of our legacy system demonstrates our commitment to invest in the technology and business process improvements that will empower our teams to deliver the highest level of client service, accelerate growth of multi-product client relationships, and optimize our capital and risk management processes.

The additions of CWB Maxium and CWB Franchise Finance are also fully aligned with our balanced growth strategy. Both of these newly acquired businesses are performing very well. Together, they supported another year of very strong double digit asset growth, underpinned by strong growth of branch-raised deposits and our very strong capital position.

Moving to the next couple of slides. We expect our strategy to deliver performance consistent with our medium term target ranges and results in strong shareholder returns. Slide 4 demonstrates our track record of very strong loan growth over the past five years. Loans grew 13 percent in the past 12 months. This contributed to 8 percent year-over-year growth of pre-tax, pre-provision income, as well as the achievement of positive operating leverage.

We believe the worst of the oil related credit impact is behind us, and we have undertaken a number of strategic initiatives that will support margin over the medium term. These include ongoing optimization of our funding mix, and a focus on higher yielding commercial loans with attractive risk profiles.

On the funding side, as shown on Slide 5, branch-raised deposits grew 12 percent from last year, including 15 percent growth of notice and demand deposits. These deposits include business savings, cash management, and bare trustee accounts, key sources of funding which are lower cost and represent tools which help clients conveniently manage their business and personal finances. Growth within this category demonstrates success in the strengthening key multi-product client relationships.

Completing the stabilization phase of our banking system implementation will equip us to support this strategy with appropriate technology. The new system is also a key requirement to support our application for transition to the AIRB methodology for managing credit risk and calculating risk-weighted assets. A project plan for transition has now been finalized, including an anticipated three year time frame.

The AIRB approach will put CWB on a more equal footing with our competitors. It will add risk sensitivity to our framework for capital management, increase risk quantification processes, and improve risk-based pricing capabilities and economic capital estimates.

Together, these enhanced risk management capabilities will equip us to target business segments that generate the most attractive risk adjusted returns and allocate resources accordingly. When in place, we expect these enhancements to benefit shareholders by driving higher returns on common shareholders equity.

Turning back to the loan book. This year marked the 26th time in 27 years we have attained double digit annual loan growth in percentage terms. We are very proud of this significant achievement. From a business sector perspective, our portfolio of real estate project loans posted the highest growth in the past year, but as we anticipated grew at a slower rate in the second half of the year.

This was followed closely by general commercial loans, including the portfolio acquisition of CWB Franchise Finance and originations within CWB Maxium. Strong performance from our personal loans and mortgages portfolio also continues.

On Slide 6, you can see that Alberta now represents 36 percent of our total loan exposures, down from 41 percent one year ago, and about 50 percent in 2009. This is largely the result of consistent strong growth from our businesses with a nationwide presence, including National Leasing and Optimum Mortgage, now complemented by CWB Maxium and CWB

Franchise Finance. Slower growth within Alberta, including a slight net contraction of outstanding balances from last year, was not unexpected in view of the current recession, and includes the impact of significant payouts offsetting ongoing new fundings. Early payouts have been particularly apparent within equipment finance, which Carolyn will speak to in a moment.

Overall growth in the second half of the year was more moderate compared to the first. This reflects the influence of early payouts as well as our disciplined approach to the market and selective risk appetite. Our strategy is not to pursue growth for growth's sake, but to deliver profitable growth through well priced loans with an acceptable risk profile.

I'll speak to our near term outlook for loan growth in a few minutes. With that, I'll turn things back to Carolyn.

Carolyn Graham: Thanks, Chris.

Turning now to Slide 7 & 8. I'll begin with the reminder that all references to performance highlights refer to the results of continuing operations. Core operating performance in the fourth quarter was strong, with pre-tax, pre-provision income of CAD89 million, up 6 percent from last year.

Common shareholders net income of CAD48 million was down 10 percent over the same period, as the positive impact of very strong 13 percent loan growth and higher non-interest income was more than offset by the combined influence of several factors. These headwinds included a 13 basis point decline in net interest margin; moderate growth of non-interest expenses; higher provisions for credit losses; the fair value charge related to the CWB Maxium acquisition; higher preferred share dividends; and the 20 percent increase in the Alberta corporate income tax rate.

Diluted earnings per common share of CAD0.54 and adjusted cash EPS of CAD0.59 were down 18 percent and 12 percent respectively. Core operating performance was also strong on a full year basis with pre-tax, pre-provision income of CAD354 million, up 8 percent.

Common shareholders net income of CAD178 million was 15 percent lower, as the benefits of very strong loan growth and 7 percent higher non-interest income were more than offset by increased oil and gas related provisions for credit losses; 13 basis point decrease in net interest margin; acquisition related fair value charges; and higher preferred share dividends due to the March issuance. The increase in Alberta's corporate tax rate also constrained annual earnings growth. Diluted and adjusted cash earnings per common share declined 18 percent and 14 percent respectively.

Slide 8 shows our very strong year-end capital ratios. Using the standardized approach for calculating risk-weighted assets, our common equity Tier 1 ratio was 9.2 percent. Tier 1 ratio was 11 percent and our total ratio was 13.1 percent. Supported by the common shares issued earlier this year, our capital position is very strong. We are well positioned to execute against our balanced growth strategy, strengthen shareholder returns, and maintain strong regulatory capital ratios.

At 8.6 percent, our Basel III leverage ratio remains very conservative. Yesterday, our Board declared a quarterly cash dividend of CAD0.23 per common share. This represents a common share dividend payout ratio of approximately 43 percent, with common share dividend increases evaluated every quarter, against our dividend payout ratio target of approximately 30 percent.

Fourth quarter net interest margin of 2.36 percent declined 13 basis points compared to last year, and 4 basis points from the third quarter. This was primarily due to lower asset yields and slightly increased marginal funding costs, partially offset by favorable changes in deposit mix.

Loan yields remained under pressure, due to both the low interest rate environment, including the impact of older vintage, higher rate loans being replaced by new loans in the lower rate environment, as well as ongoing intense competitive factors. Annual net interest margin of 2.43 percent was also down 13 basis points. The change from last year reflects the factors I've

just mentioned, with the addition of a negative impact on loan yields from the Bank of Canada's 2015 rate cuts, which were only partially offset by the positive impact of some of these cuts on deposit costs.

Assuming a relatively consistent interest rate environment, and the expectation that competitive factors will continue to pressure both loan yields and deposit costs, we do not expect significant improvement in net interest margin in 2017. As Chris mentioned earlier, we continue to focus on those factors which are within our control to support net interest margin over the medium term, including strategic initiatives to optimize both sides of our balance sheet.

Turning now to Slide 10. Outside of our small portfolio of oil and gas loans, credit quality, as measured by the provision for credit losses, remained stable this year, including the 78 basis point provision in the second quarter, the annual provision as a percentage of average loans was 38 basis points, consistent with our revised estimate expectations of 35 to 45 basis points. This compares to 17 basis points last year, with the increase entirely attributed to losses related to oil and gas loans.

Significantly higher provisioning within the oil and gas portfolio in the second and third quarters this year, resulted from the influence of regulatory factors on the liquidity of assets, securing these exposures, as well as the impact of persistently low and volatile commodity prices on producer cash flows. The fourth quarter provision for credit losses represented 24 basis points of average loans, compared to 18 basis points last year, and 32 basis points in the third quarter. Within the provision this quarter, 13 basis points relate to non-oil and gas loans, and 11 basis points comprise an increase in the collective allowance.

Provisions for oil and gas exposures were not material this quarter. We have aggressively managed our exposures within this portfolio over the course of the year, through both existing accounts and write-offs, through both exiting accounts and write-offs, and we continue to be cautious and prudent in our approach to this market.

Our total outstanding balance of oil and gas production loans has decreased from 36 accounts with CAD343 million outstanding at April 30, to 25 accounts with CAD221 million outstanding at October 31. We believe our proactive approach to resolving positions in this portfolio has put the worst of our oil and gas losses behind us.

Slide 11 to 13 provide detail on the level of gross impaired loans, by both portfolio and geography. Changes in the balance of loans classified as past due but not impaired are included on Slide 12. Gross impaired loans within Alberta have increased in most portfolios compared to last year. The indirect impacts of low oil prices have resulted in recessionary conditions in the oil producing provinces, and a challenging operating environment.

We continue to work with effective clients and continue to monitor the entire loan portfolio for signs of weakness resulting from the first and second order impacts of lower oil prices. We also continue to closely observe developments within the residential housing sector, with a particular focus on markets where a combination of rapid price escalations and regulatory change could impact pricing, as well as the level of future activity.

Total gross impaired loans of CAD127 million, compared to CAD95 million in the fourth quarter last year, and CAD107 million last quarter. The increase from last quarter was mainly concentrated in Alberta, and driven by one new oil and gas impairment that has no specific allowance provided, as well as two commercial loans. Total gross impaired loans within Alberta of CAD59 million at October 31, 2016, increased from CAD31 million a year ago, and CAD43 million at July 31.

Gross impaired loans within the oil and gas portfolio totaled CAD17 million. We're unchanged from last quarter, and down from CAD23 million last year. Total fourth quarter gross impaired loans from CWB's equipment finance and leasing exposures were CAD40 million, compared to CAD20 million last year, and CAD36 million last quarter. Approximately 52 percent of the

impaired balance in this category is comprised of Alberta exposures, compared to 24 percent last year and 50 percent last quarter.

As we've noted before, our loans to companies providing services to the oil and gas industry are primarily comprised of term reducing advances against standard industrial equipment, as opposed to operating lines of credit or loans secured against receivables or inventory. The total outstanding balance of equipment loans in Alberta has continued to contract, as borrowers have been proactive in rationalizing their fleet.

The secondary market for standard industrial equipment remains liquid and global. Current pricing for non-specialized equipment has remained adequate, in view of the rapid amortization of our typical equipment loans and the nature of our collateral. Partially due to the extended period of economic weakness within Alberta and Saskatchewan, we expect periodic increases in the number and balance of impaired loans going forward.

I'll reiterate that we continue to anticipate loss rates on impaired loans outside of the oil and gas portfolio to reflect the combined positive impact of our disciplined underwriting, secured lending practices, and proactive account management. As such, we expect loss rates on non-oil and gas loans to be consistent with our prior experience, where actual losses have been low as a percentage of impairments.

The balance of loans classified as past due but not impaired increased 63 percent from last year, with the majority of the increase occurring in the third quarter. This balance declined 17 percent during the fourth quarter to CAD229 million, including a 23 percent decrease within the personal category to CAD95 million. It's important to note that past due loans do not all transition to impaired, and throughout our history we've also shown that the level of impaired loans does not correlate directly with write-offs.

Our business model remains focused on secured mid market commercial lending. As such, we have no material exposure to unsecured personal borrowing and credit cards, and in general to non-real estate personal

borrowing. We also have limited exposure to consumer lending and auto loans. This focus reduces our exposure to the direct credit impact of elevated levels of unemployment, compared to what would be expected from other lenders with a more pronounced focus on unsecured personal lending.

As I mentioned, we continue to carefully monitor developments within the residential housing sector. In recognition of risks within markets like Vancouver and Toronto, Optimum Mortgage has selectively adjusted available loan to value ratios for residential mortgages. In general, we require larger down payments on more expensive homes to manage our exposure.

It is apparent that recent changes announced by the Minister of Finance could be effective in slowing housing market activity. However, the changes target the securitized portion of the insured residential mortgage space.

Most of CWB's lending in the residential mortgage segment is uninsured, and we do not fund through mortgage securitization. On balance, we do not expect the changes announced to date to have a negative impact on the outlook for loan originations within Optimum Mortgage. Taking a closer look at our real estate project loans, it's important to note that our portfolio in all provinces is strong and well structured.

Our loan funding structure requires strong presales supported by non-refundable deposits, and these factors reduce our loss potential in the event of presale rescission. For example, our current projects were under written with an average loan to value ratio of approximately 65 percent. Assuming an 80 percent presale requirement and 15 percent non-refundable presale deposits, our exposure represents approximately 55 percent loan to value when construction begins. If half of the presale buyers were to rescind, we estimate these projects could withstand a market correction of approximately 45 percent before we would be exposed to a loss.

Current high rise construction projects in the Vancouver and Toronto areas are more than 90 percent presold. Ongoing monitoring of all in-progress projects confirms there has been no material evidence of account deterioration.

Overall, we are comfortable with our exposure to the housing market, the protections inherent in our secured lending business model, and our proactive approach to loan management.

We are very close to our clients in this business, and we continue to carefully monitor risks related to changing levels of activity. And I'll now turn the call back over to Chris.

Chris Fowler: Thank you, Carolyn.

Before we ask the operator to begin the question and answer period, I'd like to underline a few key points related to CWB's current performance and our outlook. This year, we achieved strong growth of both loans and funding sources, and progressed towards a more balanced geographic footprint and broader diversification within targeted sectors of the commercial banking industry. We also delivered positive operating leverage and further strengthened our capital position. The achievement of positive operating leverage is particularly notable, given the impact of net interest margin pressure on total revenues, as well as the expense impact of our core banking system and acquisitions.

Our ongoing commitment is to disciplined expense control is evident in our results. On balance, our core operating performance was solid, reflecting the continued successful execution of our balanced growth strategy. We enter FY17 with a very strong balance sheet, and we are well positioned to continue to deliver balanced growth with an attractive risk profile. We expect loan growth in 2017 to be relatively consistent with the recent past, supported by moderate growth in the Canadian economy, and regional strength in BC and Ontario.

Taken together, these two provinces now account for greater than half of CWB's geographic exposure, and the current overall outlook for generating new business opportunities continues to be positive. Loan growth across all portfolio segments within Alberta and Saskatchewan is expected to remain challenging in view of the current recession in those provinces.

Overall, we continue to target higher net growth in areas such as general commercial loans, personal loans and mortgages, and equipment financing and leasing, compared to commercial mortgages and real estate project loans. Growth within general commercial loans is expected to benefit from the contributions of CWB Maxium and CWB Franchise Finance. Optimum Mortgage is expected to drive growth within the personal loans and mortgages, and National Leasing should lead the way within the equipment financing and leasing category.

Expectations for growth in real estate project loans reflect the combined impact of this portfolio's relatively short duration and forecasted moderation in Canadian residential real estate activity, partly as a result of the recent regulatory changes intended to constrain growth of the housing sector. Commercial mortgages are often subject to a higher level of pricing competition compared to other portfolios, and we remain focused on maintaining this portfolio based on client relationships and adequate returns.

We expect credit quality to reflect CWB's secured lending business model and our disciplined underwriting processes. As Carolyn mentioned, the 2017 provision for credit losses as a percentage of average loans should improve compared to 2016, and fall within a range between 25 and 35 basis points.

I am very pleased with our strong growth of branch-raised deposits this year. We expect to sustain positive momentum to our beneficial changes in deposit mix through strong growth in the preferred types of branch-raised deposits and ongoing development of new funding channels. However, with respect to net interest margin in the near term, we expect these efforts to only partially offset the impact of ongoing very low interest rates, competitive influences, and a flat interest rate curve.

In summary, we are confident in our business model. We remain comfortable with our medium term performance targets, including strong growth in earnings per common share, and progressive increases in return on common shareholders equity from current levels.

I strongly believe we have established the appropriate foundation for sustainable and profitable growth for CWB shareholders. We look forward to building on this foundation and driving CWB to many more years of strong financial performance.

We are now happy to take your questions and I'll turn the call back to the operator.

Operator: Ladies and gentlemen, if you a have a question at this time, please press the star then the number one key on your touchtone-phone. If your question has been answered, or your wish to remove yourself from the queue, please press the pound key.

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

Sumit Malhotra: Thanks. Good afternoon. First question is regarding your capital position and potential deployment going forward. So I think to look back a long way to see a quarter in which the RWA for this bank actually declined, I know the loan growth was somewhat slower in Q4, but when I look at your balance sheet, looks like there was a decline in the investment portfolio.

I guess I'll ask you directly. Are you taking some action to manage the level of balance sheet growth to look at things from a capital perspective? Because it certainly seems like your capital is in a position that you wouldn't have to do that.

Carolyn Graham: So, Sumit, the risk-weighted assets, the fact that it was flat in the fourth quarter was due to the fact that loan growth slowed. So we had 1 percent loan growth, and that growth in the fourth quarter came from lower average risk-weighted assets, as opposed to the prior three quarters. So we have capital levels at the end of October that are very strong.

Our medium-term targets are to maintain strong capital ratios, so we're looking, actively looking forward out to 2017 and beyond at how we efficiently deploy the capital through ongoing growth initiatives.

Sumit Malhotra: And somewhat related to that -- and this one's probably more for Chris -- you've had a consistent pattern of dividend increases on an every other quarter basis. I wasn't really surprised that you didn't do it this quarter given that the payout ratio is certainly higher than has been in the past. Do you look at your dividend policy more in line with where EPS is? Is it relative to the payout?

Or given where the capital position is at higher levels than we've ever seen, would that lead you to believe that you could maybe manage with a higher payout ratio from a dividend perspective during this period, where earnings are maybe depressed relative to the past?

Chris Fowler: I would say that we have our perspective on both of that. We certainly set our targets, against our payout ratio, against our EPS and percentage of the earnings. We obviously take all into account, and right now where we sit, we've got a much higher payout than what we're targeting to be at, and our goal is just to continue to manage it. We'll continue to look at it every quarter.

Sumit Malhotra: I'll ask one more then I'll re-queue, and this has to do more with credit quality. So you had given us a range earlier in the year when you took the extra provisions in Q2. You came in within that range and you're talking about 25 to 35 for 2017. Chris, it's still higher than this bank has run with in the past, and if I was hearing Carolyn correctly, it sounds like you feel you've got your arms around most of the energy issue.

So just maybe more specifically from a portfolio perspective and not necessarily region as much as product type, are there certain areas of the book that you're looking at, that you believe there is a potential for some more lumpiness for provisions in 2017, relative to what we had seen in prior years, outside of oil and gas?

Chris Fowler: So outside of oil and gas, and what we'd be speaking to is very good management, I think, by both our branches and by our clients on the equipment finance side, where we've seen net reductions in that. So we've got an increase in gross impairments but not a big change in actual credit losses that has actually transpired in there.

But as we're cautious looking into the year, the book of business that we are being very focused on would be our commercial mortgage book, as we look at, really, the occupancies, particularly in Alberta, so we're managing that very closely. We haven't had any credit events occur, but we're just being careful and cautious as we look at all parts of our book, particularly in the Alberta (and) Saskatchewan markets.

Sumit Malhotra: Thanks. I'll re-queue.

Operator: Your next question comes from the line of Gabriel Dechaine with Canaccord.

Gabriel Dechaine: Good afternoon. The margin commentary, you talk about some incremental increases in funding costs. If you can explain that one a little bit more? But also an indirect impact of the recent mortgage regulation changes on your margin, so I get it, you don't rely on securitization. The monolines do, so you're advantaged in that sense. But the monolines might want to get more aggressive on sourcing deposits. So are you starting to see pressure in the broker channel for deposit pricing? Or do you anticipate to see that? How is that affecting your margin outlook?

Carolyn Graham: Thanks, Gabe. So in looking backwards, the increase in funding costs, there are a couple of factors there. I think in this very low interest rate environment, we are on some deposits reaching a hypothetical floor where you have to pay your depositors a certain amount regardless of what the yield curve looks like. So I think there is some factor of that.

We did raise additional deposits in the first half of this year to fund very strong loan growth, and the broker market has been more resistant and in some cases the prices have picked up there, the costs have picked up as we

compared the fourth quarter to quarters earlier in the year. So those are what we talk about when we think about funding costs increasing. The other factor, it had a couple of basis points impact in the fourth quarter, is our capital market financing. So we did an issue in September, and we had an issue mature in September as well, and the cost of the new was more than the cost of the one that matured.

In looking at the funding, and absolutely agree with your comment about the monolines looking for other sources of funding, and that that could come to the broker space, I don't believe we've seen anything material there yet that I can attribute to shifts from the monolines. What we're doing there as we look to mitigate potential risks going forward in 2017, we continue to work on a number of initiatives to encourage branch raised deposit growth, which are both relationship based and keep us out of the broker market to the same extent.

And we're also looking at activating additional funding channels, so looking at expanding our securitization coverage of our equipment finance portfolios, and a couple of other things, as well.

Gabriel Dechaine: OK. So you haven't seen anything yet, but it might become an issue, competition from the monolines, that's what you're telling me?

Carolyn Graham: Well certainly the policy changes have impacted their funding plans, and so absolutely the potential is there.

Gabriel Dechaine: OK, shifting gears to the construction loan book. A lot of that growth in the past has come from BC. You commented a little bit on the activity levels not being affected just yet, but we see the prices going down, we see some of this start showing a bit of weakness. Where are you active and where are you not? Meaning the stuff that was frothy because of foreign buyers, you weren't there, but housing developments in the lower mainland or wherever are still pretty active, so you don't see a big downside risk to your construction loan volumes? Is that what you're seeing now?

Chris Fowler: Well, we would see that the lower mainland is still very active, and particularly on key transportation routes there's still a significant amount of volume, and people actually taking the opportunity to build some landholds and be ready for -- that market is not that very high end market that's being most impacted by the foreign investor…

Gabriel Dechaine: Right.

Chris Fowler: …tax that occurred. And what we've found in the, really that multi-family market that it really has still maintained a very significant amount of volume and demand, so we're continuing to follow it of course. But again, that lower mainland market in the multi-family, you still have some very good strength in it.

Gabriel Dechaine: And then can you, Carolyn, you were talking about the average LTV of that book, and your buffer against pricing declines? I missed most of that, actually. Could you run me through that again, please?

Carolyn Graham: Absolutely. Just bear with me while I find it. So our average, the underwriting model that we use is that our current projects are written with an average loan to value ratio of 65 percent. An 80 percent presale requirement, that requires a 15 percent non-refundable presale deposit.

So our exposure there represents approximately 55 percent loan to value at the time construction begins, when the presales are enhanced. So then if half of the presale buyer were to rescind, our calculations are that those projects could withstand a market correction in the sales price of the units of about 45 percent before we would have risk of loss.

Gabriel Dechaine: OK, all right, a lot of numbers, no wonder I missed it. [Laughter] Thanks and happy holidays in the next few weeks.

Carolyn Graham: Thank you, Gabe.

Operator: Your next question comes from the line of Peter Routledge with National Bank Financial.

Peter Routledge: Thanks. A technical question. If gross formations go from CAD14 million to CAD15 million, sort of sequentially, and your PCLs drop from 17 to 13, so why does that happen? Why do your formations go up but your PCLs go down?

Carolyn Graham: So we are conservative in the way that we risk rate the loan portfolio. We believe that it's important to identify exposures that are starting to display signs of weakness. We move them to watch, and then we move them if required to impaired, I would say quite conservatively, because higher levels of scrutiny and oversight kick in as loans move through our risk rating criteria.

But just because we've got them on the impaired list doesn't necessarily mean that we believe that there's a risk of loss of principal. So we would…

Peter Routledge: …your (LTVs) are very low?

Carolyn Graham: That's right, so it would be just a factor of the components of the loans that have moved into the impaired bucket, and whether we believe they need a specific provision against them or not.

Chris Fowler: And then just add to that, that we actually, for each loan that is on our impaired list, we calculate the specifics so we don't bucket our specifics by portfolio.

Peter Routledge: And then, and this relates to your very helpful comments just on the protection you have in your real estate project book, but from your comments it occurred to me it's very unlikely you'd lose money on those loans. But in the past you must have had a couple of real estate project loans that went bad, you lost some money on it. So what happens when you lose money on a real estate project? Like what assumption is off, or what drives that?

Chris Fowler: The biggest risk of loss on a real estate project loan really comes from the building not being completed. That's your number one risk. So that the end of the day, the developer gets to a point in the project where they just can't complete it and the bank has to take it over. And then you tend to then, your cost escalation is significant, and then you run into challenges. So mostly that's what's caused in the past challenges with this portfolio.

Peter Routledge: And then the deposits go back to the…

Chris Fowler: No, the deposits are non-refundable, so they get applied against the loan amount. But even if it's not completed, it's still non-refundable deposits.

Peter Routledge: So the depositor, they just have to wait for their, someone else to take the building over and finish it?

Carolyn Graham: Yes.

Peter Routledge: Well, OK. You've got in your loan portfolio pretty rapid growth year-over-year in commercial loans, real estate project loans, and personal loans and mortgages. It just seems to me if you're growing those portfolios at 22 percent, 23 percent, there may be a build up of risk that you don't see, or that's not apparent as you're going through and benefiting from loan growth rates that fast. So do you think I'm just worried too much about that, or how would you respond to that criticism?

Chris Fowler: We've been able to grow that portfolio also by broadening our geography. We have centralized underwriting. We've put in first, second, third line of defense in how we manage the underwriting, the loan management, and the oversight of the whole credit cycle. So clearly in any high growth portfolio you want to be very careful on how your loan selection occurs. But our growth really has come from adding geography to our book, particularly in that personal loans and mortgages category.

Peter Routledge: Fair enough. That's good. Thank you.

Chris Fowler: Thank you, Peter.

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

Darko Mihelic: Hello, thank you. Just a couple questions here on expenses. I'm not sure how best to ask this so I'm just going to ask in a very simple way. If we have NIMs flat for next year, given your expectations for growth, what kind of operating leverage would you be expecting? Or perhaps said differently, what kind of operating leverage would you be happy with?

Carolyn Graham: That's a great question. I think we're not anticipating much movement in NIM at all, so our projections do consider relatively flat NIM. We are working, I would say that we would continue to work very hard to target towards a flat, neutral operating leverage. That would be our target and we would think carefully about what levers we needed to pull or how we needed to shift as the year went on, depending on how results were progressing.

Darko Mihelic: OK. And maybe perhaps I can ask a question that maybe thinks of this longer term. When I go back and I look at your growth of expenses, even all the way back, I don't want to go too far back [when we're] in CGAAP, but if I look at it in last four or five years, it's oscillated, it's basically somewhere around 7 percent per year, give or take.

And I thought the new core system would allow you to find more efficiencies as you build scale. So I guess longer term the question is, outside of inflation, what would be driving the expense? Should we expect expense growth rates to be lower than, say, the last five years on average?

Carolyn Graham: I think that overall we're going to continue to be a growth organization. We're going to continue to drive both revenue growth through prudent investment in people, technology, and resources. So we do expect that with the new core banking system that it does drive efficiency, it allows us to scale the business so that expense growth doesn't have to be at the same pace as the revenue

growth. But I think that will be incrementally realized over the next year or two or three as we move forward.

Darko Mihelic: OK. And if I may, just a question on a numbers question here, so in your supplemental pack, your other expenses, a bit of a balance there, it does bounce around quite a bit. I'm just curious what the fourth quarter bounce was related to. It's in the other line.

Carolyn Graham: Yes, I see where it is. I'm just going to have to dig up my details, Darko. Can we come back to you on that?

Darko Mihelic: Sure, not a problem at all. Just one last question on credit quality. Well not necessarily credit quality. I am very interested your proactive approach to some of these loans. What is the normal -- if we have a company that stops paying you, what I've noticed in a couple of the filings is you might push them into receivership about three or four months after the fact. I'm just asking, is that considered aggressive or normal or slow? Because I've noticed that in the last couple filings that I've looked at, that one, it wasn't just recently that I've looked at, was a company that stopped paying you in August and I think you pushed it into receivership in November, and that just seems relatively quick. But am I right in that thinking?

Chris Fowler: Every loan situation we're in would have a different strategy. So we've got a separate group that we call our high risk group and -- surprisingly -- and they are very focused on how it is we look to resolve situations. So if we're in a particular account that would have reasons to refinance, restructure, that we see a real road map to better cash flow, we would look to support that. If we look at it and don't see the ability to resolve the situation quickly, we'll move quickly.

So again it's really idiosyncratic, based on the individual situation of the borrower. But the fact that we all are very focused on is early warning and making sure that we deal with accounts that are challenged at the first opportunity, because that is your best way to resolve situations.

Darko Mihelic: OK. And so just speaking to this, I don't want to name names, we don't have to name the company, but if the company had stopped paying you in August, presumably it would have been on your watch list prior to that, and I'm just trying to understand, am I going to see this impairment, because it was pushed into receivership in November, will I see that impairment in Q1?

Or would it already have actually occurred back in Q3? Because that's the ultimate test for me is when we mention proactivity in a file like this, for me, if it's proactive, I know when you pushed it into receivership, I know when it stopped paying you. I'm very curious as to when it actually showed up in your gross impaired loans.

Chris Fowler: So we would put a loan into impaired the moment we believed it wasn't viable. That would be how we would do that. But you could have a loan that had, for example, some payment arrears that ultimately you can't go past 90 days, and be non-performing at 90 days. But we can have loans that we believe don't have the, they don't meet the viability test that we would, they might have made their payment, might only be one month, that we just don't believe they can continue. So it is idiosyncratic, it just depends on the facts of the individual file.

Darko Mihelic: OK, and I'm sorry to degenerate into some of this, but I just wanted to make sure. Thanks very much.

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

Sohrab Movahedi: Thanks. Carolyn, I think you talked a little bit about this in answer to one of the earlier questions, but the personal loan growth sequentially was a bit higher than it has been historically. I assume that loan growth is also lower RWA, is it?

Carolyn Graham: So in the first quarter this year and the fourth quarter, we purchased insured residential mortgages that we converted into NHA MBS securities, so about CAD200 million in each quarter, so that's a factor, and they would be zero

risk-weighted from an RWA perspective. So that's part of why RWA were flat in the fourth quarter.

Sohrab Movahedi: OK. So the fact that you were, personal loans, it looks like it went up from around 3.7 in Q3 to around 4.1. That would not have necessarily attracted, that would not have been loan growth that would have had lower than, call it average RWA associated with it?

Carolyn Graham: Half of it would be lower. The Optimum portfolio is roughly at 35 percent risk-weighted assets. That's the CAD200 million that's NHA MBS would be at zero.

Sohrab Movahedi: OK, thank you. The second question, I know when you brought, Chris, when you brought Maxium on, one of the things we talked about is that it already has a securitization program in place that you would be essentially taking over new originations and bringing it on balance sheet. Just given some of the conversation around funding and alternative means of trying to manage the NIM here, is it possible that you will continue with the Maxium securitization program, or something in parallel to it and not bring those loans on balance sheet?

Carolyn Graham: So we are considering, we would not securitize Maxium's exposure under the same kind of program that they were using as a private company. We are considering expanding the facilities that we have, that we currently use for National Leasing portfolio, and potentially securitizing some of Maxium's ongoing growth through that channel.

Sohrab Movahedi: Got you, perfect. And generally speaking on NIM, obviously the pressure continues. Is the persistence of this NIM pressure a surprise to you?

Carolyn Graham: I think the items that are perhaps larger than we anticipated would be the size of the difference between the yield on the loans that are maturing, and what they're coming on at. So the competitive pressure is exemplifying the impact of lower interest rates, and so it's compounding it. And then I would say the other factor is how deposit costs have not ticked down at the same pace, that they seem to be stubborn, particularly in the broker space.

Sohrab Movahedi: OK. And so the reason you're a bit more cautious going into next year then is because of factors outside of your control? In other words competition could stay as aggressive let's call it as it has been on the asset side, and pressures could persist on the deposit side, is that fair?

Carolyn Graham: That would be fair, including the impact on some other funders related to the mortgage changes. So yes, the headwinds don't seem to dissipate, they just ebb and flow and morph over time.

Sohrab Movahedi: OK. And just one last thing. Chris, with some of this rebound, maybe anticipated rebound in oil prices and what have you, is there any potential tailwinds vis-a-vis the recoveries on provisions that you've already taken on the oil and gas production loans this year?

Chris Fowler: In terms of the accounts that we've written off, we would see little ability to have any recovery on them. But certainly with the oil recovery, we are already hearing of more activity in the oil field, both from the services side and the drilling side. So I think we've got a general, just a better feeling about, I think as it gets at $50 and above, it's certainly a positive. So that I think translates into other businesses in Alberta too. So I think it's certainly, a higher oil price is a good outcome in Alberta.

Sohrab Movahedi: So the business mood's improving?

Chris Fowler: Yes.

Sohrab Movahedi: OK, thank you very much.

Operator: Your next question comes from the line of Meny Grauman with Cormark Securities.

Meny Grauman: Hello, good afternoon. Just following up on Sohrab's question regarding just you macro outlook for Alberta in particular. I'm wondering, you talk about the

recession continuing. When you're planning what are you assuming for the economic outlook? When do you see the recession in Alberta ending?

And are you already assuming, are you already seeing sort of a stabilization in the economy? I'm looking at the labor market numbers seem to suggest that that's the case. I'm wondering what you're seeing on the ground there?

Chris Fowler: I'd say the general tone is improved. I wouldn't say it's robust at all. It's still -- everybody's very cautious. I've certainly met with a number of our clients that, as they look at their budgets and they're focused on 2017, they're being very specific in what they think they can achieve, and managing their costs to allow them to maintain profitability and positive cash flow.

So I would say that it is feeling more stable. It feels that it's unlikely necessary that we'd go back to a $26 oil price, so I think that really helps people have a better outlook on and more confidence as they look into fiscal 2017. But it has been a very challenging couple of years in Alberta for sure.

Meny Grauman: And then just on the margin front, you've been clear in terms of the macro environment and some of the mitigation factors or levers that you have, but I'm wondering if we go through another period of significant margin pressure, let's say the Bank of Canada cuts rates again, is there something that you still have in your arsenal that is more drastic in order to deal with the margin that you haven't sort of mentioned or brought up? Is there any discussion in terms of a bigger change to the business model to deal with even longer and deeper margin pressure?

Carolyn Graham: I'd say there's not a tool in our arsenal that we haven't yet considered applying. In the global financial crisis we did institute floors on lending arrangements. We've not triggered that at this point, not had those discussions, but we've certainly evaluated all of the ones that first come to mind.

Meny Grauman: Thank you.

Operator: Your next question comes from the line of Doug Young with Desjardins Capital.

Doug Young: Hello, good afternoon. Carolyn, I guess on the NIM side, hopefully these will all be quick, but NIM side it sounds like you're not expecting things to improve, but you're also not expecting things to deteriorate in your planning. Is that a fair kind of summary?

Carolyn Graham: That would be fair, yes.

Doug Young: And then Chris, just on the loan growth. We've seen a sequential decline in loan growth consistently over the last many quarters. You've had a contraction in your equipment financing and real estate project lending sequentially, but it sounds like you're still confident in getting double digit loan growth next year. And those two portfolios that contracted represent around 36 percent of your total book, so you obviously see the pipeline. What am I missing? Where is that robust growth come from?

Chris Fowler: Well, as we think about equipment finance, that is a portfolio that we have the opportunity to continue to grow. We've just added more capacity for growth by the acquisitions of CWB Maxium and Franchise Finance, so that broadens our opportunities and also moves our geography into Ontario from our growth there. We continue to see good opportunities in Optimum Mortgage. We think that potentially some of these mortgage changes will be a benefit for them as we look at originations on that personal loans and mortgage side.

And then again, we've just made a big investment in our internal capacity with our new core banking system. So we see general commercial as an area that continues to be of significant focus. So we are looking at our books. We are being very focused on that mid market client, and we believe that as we have improved our offer, we can attract and gain market share. So it's something we continue to focus on and we've made significant investments to deliver on that.

Doug Young: So in any particular quarter next year, if you didn't have double digit loan growth, that would surprise you, is that fair to say?

Chris Fowler: Well, again, that's how we've looked at the year, and we've obviously worked with our origination teams at the branch end, at the subsidiary company end, so that's a expectation that we have for the year. And of course we, again in our comments on the conference call script, we're not going to look for growth for growth's sake. This has to be growth that makes sense from a profitable perspective and in the verticals that we believe we've got the appropriate risk appetite to manage as well.

But it's certainly -- we're looking that we have the ability to continue to focus on how we grow and build our business across both loans and deposits and wealth management.

Doug Young: OK. Just lastly on Slide 13 on the top exhibit, you just show your gross impaired loans by province, and I guess I was a bit surprised by the bump up in Ontario, because obviously everyone thinks of Alberta as being the biggest issue. But there was a significant bump up in gross impaireds in Ontario, and in specific provisions as a result. Can you, what product, what division or what product line was that? Or was the majority of that bump to this flow drip?

Chris Fowler: That would be a combination of our Optimum Mortgage and I believe we have one real estate loan in that equation that added to the impairments. So not a lot of exposures, but that's the outcome. And again that's just having more loans in Ontario as we continued to grow there.

Doug Young: Is that more of a function of just a loan growth? And when you say one real estate loan was that one real estate project loan that went…

Chris Fowler: Yes.

Doug Young: OK. Thank you.

Operator: Again ladies and gentlemen, if you have a question at this time, please press star then the number one key on your touchtone phone.

Your next question comes from the line of (Lemar Phesok), TD Securities.

Male: Thanks. Carolyn, I just want to come back to some of the answers here, that you're saying that on the NIM side we think that things are going to flatline going forward. Four basis point quarter-over-quarter decline seems fairly substantial. What gives you the confidence that the margin pressure will subside going forward?

Carolyn Graham: We think we will remain around a relatively small band in and around where we've been the last couple of quarters. As we look out at the portfolio and the maturities in 2017, we believe that the majority of the repricing has occurred, so that's part of what's factoring into our decision.

Male: OK, thanks. And on the second one, what you said in your opening remarks was that the increase in sequential impaired loans was due to one oil and gas loan with no specific allowance. First, is this correct? And then secondly, can you talk a bit about this loan and why you aren't providing for it?

Carolyn Graham: It is correct that the increase in gross impaired loans in the energy portfolio is related to one loan, and it does not have a specific provision against it. Every gross impaired loan, we do a detailed review of that individual underlying credit, looking at the security that is available to us, both energy-related and other security that is supported by the balance sheet of the organization, and we do not anticipate a loss of principal on that exposure.

Male: OK, thanks. That's it. Most of my questions were already ask and answered.

Operator: Again ladies and gentlemen, if you have a question at this time, please press star then the number one key on your touchtone phone.

We do not have any questions at this time. I will turn the call over to the presenters for closing remarks.

Carolyn Graham: Thank you, (Sharon), and thank you very much for your continued interest in the Canadian Western Bank Group. We look forward to reporting our financial results for the first quarter of FY17 on March 2.

In the meantime, we wish you a happy holiday season. If you have any follow-up questions or comments, please call us or contact us by e-mail. Good day.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.

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