FINAL TRANSCRIPT

CWB Financial Group

2019 Third Quarter Financial Results

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PRESENTATION

Operator

Please go ahead, sir.

Matt Evans — Vice President, Strategy and Corporate Development, CWB Financial Group

Thank you, Sylvie. Good morning, and welcome to the CWB Financial Group 2019 Third Quarter Financial Results Conference Call. My name is Matt Evans and I lead the Investor Relations Team for CWB. Presenting to you today are Chris Fowler, CWB's President and Chief Executive Officer, and Carolyn Graham, our Executive Vice President and Chief Financial Officer.

I'd like to remind listeners and webcast participants that statements about future events made on this call are forward-looking in nature and based on certain assumptions and analyses made by Management. Actual results could differ materially from expectations due to various risks and uncertainties associated with our business. Please refer to our forward-looking statement advisory on Slide 14.

Before we begin, we recognize it's a busy day for the audience and I'll note that we do have a hard stop at the top of the hour, so we'll look to wrap up just ahead of that.

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

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

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

Moving to Slide 3, we delivered strong third quarter financial performance, including a new record for quarterly loan originations, as we gain momentum and make significant progress on our strategic transformation. Continued execution of our Balanced Growth strategy delivered a very strong double-digit increase in common shareholders' net income, compared to the third quarter last year, driven by double-digit growth of both branch-raised deposits and total loans, alongside solid credit quality and effective expense control. Our strategy has significantly expanded CWB's addressable market over the past several years, and we continue to create value through strategic diversification. We also continue to generate very strong increases in the lending categories and geographic regions where we've focused investment to step out our capabilities, which is general commercial loans in Central and Eastern Canada. General commercial loans provide excellent opportunities to create maximum value by delivering our full-service client experience that include solutions for both sides of the balance sheet. Relationships with business owners in this space now comprise nearly a third of our portfolio, and strong growth here demonstrates our expanding presence across the broadest segments of Canada's economy. Growth in Central and Eastern Canada is underpinned by solid performance from our businesses with a national footprint.

I'd like to highlight the contributions of CWB Maxium and CWB Franchise Finance, both acquired in 2016. From a combined starting point of less than $0.5 billion of total assets, our highly entrepreneurial and specialized teams have generated about $2.5 billion of net growth, more than a fivefold increase over three years. CWB Maxium is approaching the $2 billion threshold and CWB Franchise Finance surpassed the $1 billion milestone this quarter. This growth is highly strategic, as our relationships here are primarily concentrated in the general commercial lending category, and mainly in Ontario. Together, these two acquisitions have more than delivered on our commitment to deploy the proceeds of non-core business divestitures five years ago and transform our addressable market to a broader geographic footprint.

CWB National Leasing and CWB Optimum Mortgage also continue to contribute to our diversification story. CWB National Leasing is a nationwide equipment leasing leader, a three-time winner of the Operations and Technology Excellence Award from the Equipment Leasing and Finance Association, and one of Canada's Top 100 Employers. Through our highly entrepreneurial and innovative approach to the market, CWB National Leasing continues to generate strong growth, and through our positive and relentless client-centric culture, our teams are focused to deliver against changing expectations of small business operators across Canada.

The relatively constrained growth within CWB Optimum Mortgage over the past year mainly reflects our choice to tighten our approach to the market using our *AIRB* capabilities and in response to B-20, and we clearly tightened more than our competitors in the Alt-A space. We grew mortgage products in the pipeline specifically targeted to business owners who are confident in the outlook to resume growth at a rate resembling the rest of our book.

With ongoing contributions from each of these highly entrepreneurial channels, alongside an increased Ontario presence within our standard industrial equipment business, Central and Eastern Canada now account for a nearly a third of our portfolio and generated nearly 40 percent of our growth this quarter.

In recognition of the meaningful business presence we've developed in Ontario and the top talent we continue to recruit, we are excited to open our Toronto regional corporate office at 150 King Street West this quarter. Going forward, we are very excited to be on the cusp of serving business owners through our first full-service branch in Ontario. Our Mississauga branch will open in 2020, and is ideally situated to anchor service for a broad range of business owners in the Greater Toronto Area. Together, with accelerated investment in digital capabilities, the Mississauga branch will enable our teams to deliver CWB's uniquely proactive full-service client experience to business owners in key Ontario markets, through both human and digital channels.

Ongoing investment in our full-service capabilities continues to represent a central pillar of our Balanced Growth strategy to diversify funding growth, and on Slide 5, our success is demonstrated. Very strong double-digit growth of demand and notice branch-raised deposits over the past year includes contributions from our full-service banking branches, CWB Trust Services' notice account line of business and rapidly accelerating contributions from Motive Financial. Motive deposits have more than doubled so far this year, reflecting strategic pricing initiatives and focused investment in Motive's capability to deliver a winning client experience. Both in terms of total deposits and funding value, Motive now represents our fourth largest source of branch-raised funding, behind only CWB Trust Services and our main branches in Edmonton and Vancouver. Resulting from this strong branch-raised deposit growth, growth of broker-sourced deposits was well below the growth rate of our total loan portfolio.

It's clear that we continue to gain momentum and make significant progress on our strategic transformation, while delivering strong financial results. Further development of our differentiated full-service client experience will include highly scalable digital capabilities and an increasingly focused team-based personal service model. These efforts will continue through 2020. Together, with end-to-end process improvement, this integrated transformation represents a clear path to higher growth, increased profitability and maximum value creation for our upcoming transformation into the advanced approach for capital and risk management.

I'm proud of the progress we've made and excited for the changes to come. We continue to strengthen our presence in Ontario, while building on our previous strength in B.C. and navigating a challenging operating environment over the past five years in Alberta. Notwithstanding the potential for another slight contraction of GDP growth in Alberta this year, business owners are starting to benefit from lower taxes and less red tape. Approval of the Trans Mountain Pipeline is positive for B.C., Alberta, and for Canada overall. We are confident it will provide significant opportunities for our core clients and support renewed investment in our country. We are especially excited by the recent Notice to Proceed directed to contractors lined up for pipeline construction.

We continue to closely follow developments in the domestic and global economies and the application of monetary policy. While trade-related headwinds persist, Canadian housing market risks have moderated compared to earlier periods. Looking forward, we are committed to mitigate the revenue impact of potential lower interest rates with disciplined control of expense growth. We also remain confident in the strength of our disciplined underwriting and proactive loan management practices, and expect our prudent approach, that we've augmented with our enhanced capabilities, to support strong financial performance through the coming phase of the cycle.

As the operating environment continues to evolve, we remain confident that our Balanced Growth strategy will maximize long-term value creation for our clients, our teams and our investors. Our proven business model is focused to support growth and prosperity for business owners, who deliver 50 percent of Canada's GDP and employ 90 percent of Canada's workforce. Investment in capabilities to broaden our client relationships is clearly yielding results, and we see tremendous growth potential.

To accelerate growth and boost awareness of our unique brand within targeted markets, we were also excited to launch our new *Obsessed With Your Success*™ brand promise and *We Come To You* ad campaign. We will continue to take the key steps necessary to set CWB apart as a disruptive force in Canadian financial services and a clear alternative for successful business owners across the country.

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

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Thank you, and good morning. As Chris mentioned, we delivered a strong third quarter. Common shareholders' net income and pre-tax, pre-provision income were up 14 and 6 percent, respectively, from the third quarter last year. Total revenue was up 7 percent, including a 7 percent increase in net interest income. Non-interest income was up 2 percent from last year, mainly reflecting growth of credit-related fees, retail services fees and Trust Services income.

Net interest expenses were up 7 percent, primarily due to an 8 percent increase in salaries and benefits, driven by hiring activity to support overall business growth, execution of our strategic priorities, and annual salary increments.

Premises and equipment expenses increased 11 percent, primarily reflecting ongoing investment in technology infrastructure and premises to position CWB for future growth.

Other expenses were up 4 percent, partially reflecting higher advertising expenses associated with our new brand and marketing campaign.

The higher growth rate of common shareholders' net income, compared to pre-tax, pre-provisioned income, reflects completion at the end of February this year of the CWB Maxium contingent consideration three-year earn-out period, along with a lower provision for credit losses and a lower effective tax rate from the reduction in Alberta corporate income taxes.

Quarterly diluted and adjusted cash earnings per common share of $0.81 and $0.82 were up 16 and 9 percent, respectively, from last year. Revaluation of our deferred income tax balances from the change in Alberta corporate income tax rate amounted to less than $0.02 of earnings per common share. On a year-to-date basis, common shareholders' net income and pre-tax, pre-provision income were up 8 and 7 percent, respectively.

Earnings growth reflects an 8 percent increase in total revenue, including 9 percent growth of net interest income and a 4 percent decrease in non-interest income. Within non-interest income, growth of credit-related fees, net gains on securities and retail services fees was more than offset by the impact of approximately $3 million of gains realized from the CWT strategic transactions recorded within other non-interest income in the first quarter last year, along with lower wealth management fees.

Diluted and adjusted cash earnings per common share of $2.27 and $2.37 were up 10 and 6 percent, respectively. With three-quarters of 2019 in the book, we continue to expect full year earnings growth and return on common shareholders' equity to fall slightly below our medium-term targets.

Compared to last year, 7 percent higher net interest income reflects the benefit of double-digit 10 percent loan growth, partially offset by a four-basis-point decrease in net interest margin. The change in net interest margin mainly resulted from higher funding costs, reflecting a higher interest rate environment, competitive factors, and longer-duration fixed term deposits in both the branch and broker channels.

On a year-to-date basis, net interest income was up 9 percent, again reflecting 10 percent loan growth, along with the two-basis-point increase in net interest margin. The increase in net interest margin reflects higher asset yields and lower average balances of cash and securities, which more than offset higher funding costs.

Looking forward, we continue to expect to deliver growth of net interest income in the high single-digit range for Fiscal 2019, driven primarily by strong loan growth. We expect net interest margin in the fourth quarter to be relatively stable sequentially, reflecting no changes in the Bank of Canada interest rate, along with continued strong branch-raised deposit growth.

Our third quarter efficiency ratio of 46.5 percent compares to 46.0 percent last year and 46.8 percent in the previous quarter. Operating leverage was negative 1.1 percent, improved from negative 1.4 percent last year and negative 3.1 percent last quarter. On a year-to-date basis, the efficiency ratio of 45.9 percent compares to 45.4 percent last year. Operating leverage of negative 1.3 percent compares to positive 2.5 percent last year, and I'll note that operating leverage in Fiscal 2018 benefited from the cumulative effects of successive Bank of Canada increases, as well as higher acquisition-related revenue from the business lending assets we acquired on January 31 of 2018.

Changes in the efficiency ratio and operating leverage this quarter reflect non-interest expense growth from continued investment to advance our strategic execution. Our strategy is focused to deliver industry-leading growth over the medium term, and there is typically a lag between the timing of necessary investment and return, and quarterly volatility in operating leverage is expected. That said, we continue to expect the annual efficiency ratio to fluctuate around the average of the past three years, at approximately 46 percent, over the near term. We remain committed to prudently manage expenses, based on expected revenue growth, and expect to deliver slightly negative operating leverage on a full-year basis in 2019.

Turning to Slide 10, sound overall credit quality continues to reflect our secured lending business model, disciplined underwriting practices and proactive loan management. We continue to carefully monitor the entire loan portfolio for signs of weakness and have not identified any current or emerging systemic issues.

Under IFRS 9, the third quarter provision for credit losses as a percentage of average loans was 19 basis points, with 22 basis points related to impaired loans and a reduction of three basis points related to performing loans, due to a lower proportion of the portfolio classified in Stage 2 from a relatively stable macroeconomic environment. In the second quarter this year, provision for credit losses of 23 basis points consisted of 22 basis points related to impaired loans and one basis point for performing loans.

Under IAS 39, provisions for credit losses represented 21 basis points in the third quarter last year, with 22 basis points for impaired loans and a one-basis-point reduction for performing loans. On a year-to-date basis, the provision for credit losses of 22 basis points related entirely to impaired loans, and this compares to 20 basis points also entirely related to impaired loans last year under IAS 39.

Gross impaired loans at quarter end totaled $143 million, representing 51 basis points of gross loans, compared to $135 million or 53 basis points last year, and $168 million or 62 basis points in the prior quarter. With continued proactive management of our impaired accounts, resolutions exceeded new formations this quarter. As we've said before, the level of gross impaired loans fluctuates as new impairments are identified and existing impaired loans are either resolved or written off and is not directly reflect the dollar value of expected write-offs, given tangible security held in support of lending exposures.

The overall loan portfolio is reviewed regularly, with credit decisions undertaken on a case-by-case basis to provide early identification of possible adverse trends. Our business model remains focused on secured mid-market commercial lending and we have no material exposure to unsecured personal borrowing, including credit cards.

At July 31, our total allowance for credit losses in Stages 1, 2 and 3 was $111 million, which compares to $118 million last quarter, with the allowance for Stage 1 and 2 performing loans essentially unchanged from last quarter. At this level, the allowance for performing loans represents more than two-and-a-half years of average annual losses over the past five years, and that includes the elevated oil and gas losses in 2016.

Slide 12 provides our strong capital ratios at July 31, a 9.0 percent common equity Tier 1, 10.6 percent Tier 1, and 12.8 percent total capital. Our Basel III leverage ratio of 8.3 percent remains very strong. With these capital levels, we are well positioned to create value for shareholders through a range of capital deployment options consistent with our Balanced Growth strategy. Ongoing support and development of each our businesses will remain a key priority and we will continue to evaluate potential strategic acquisitions.

We repurchased approximately 63,000 shares under the Normal Course Issuer Bid in the third quarter at an average price of $27.91, and a total of 1.8 million shares so far this year at an average price of $27.08, and this compares to our July 31 book value of $28.82 per share.

Approximately 1.7 million shares remain available for repurchase under the normal course issuer bid. While our primary focus remains to drive continued growth and support strong capital ratios, the NCIB is a prudent tool to create value for shareholders when circumstances warrant, as they have at various times in the past year.

Yesterday, our Board declared a common share dividend of $0.28 per share, up $0.01 or 4 percent from last quarter, and up $0.02 or 8 percent from the common share dividend we declared one year ago.

Our steady execution on all fronts also includes progress towards our planned transition to the *Advanced* approach for calculating and managing regulatory capital. We continue to expect to submit our final application and receive regulatory approval to transition to the *AIRB* methodology in Fiscal

2020. We've undertaken an iterative and conservative approach to achieve this transformational milestone, which will create meaningful and lasting value for shareholders.

In closing, we're pleased with our strong performance this year. We're very proud of our teams as we continue to deliver on our strategy, transform our capabilities and create value for business owners across the country.

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

Matt Evans – Vice President, Strategy and Corporate Development, CWB Financial Group

Thank you. That concludes our formal presentation for today's call and I'll ask Sylvie to begin the question-and-answer period.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, if you do have a question, please press star, followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you decide you would like to withdraw your question, simply press star, followed by two. We do ask that if you're using a speakerphone to please lift the handset before pressing any keys.

Your first question will be from Sumit Malhotra at Scotiabank. Please go ahead.

Sumit Malhotra – Analyst, Scotiabank

Good morning. Carolyn, your comments on net interest margin, and specifically the fact that your current expectation is that NIM will be flattish into Q4, I'm curious how the shift in the rate backdrop in the last few months is impacting asset yields. I would have thought that the loan repricing or new business that you're underwriting is being done at lower spreads and that would have a negative impact on NIM, but, at least based on your comments, it sounds like that is not the case.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

You know, Sumit, we continue to set thresholds and return targets for all of our portfolios and the loan growth is coming in in exactly the areas that we're looking for and meeting our return hurdles. It's been a combination of both where we're seeing the loan growth and the strong branch-raised deposit growth that is funding it.

Sumit Malhotra – Analyst, Scotiabank

So, as of now, no material shift in—I'm leaving the funding side out of it for a second, because I know you, Chris, spent some time on the success you're having there, but specifically on loan yields, no major impact yet from the rate shift?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Yes, we haven't seen a significant change in loan pricing.

Sumit Malhotra – Analyst, Scotiabank

All right. Then, secondly—and I'll just leave it at this question for today—the provision in the quarter had a release of just under $2 million in the Stage 1 and 2 portfolio. This is the first time we've seen, at least in 2019, a release from you folks. Can I tie that into the movement we saw in gross impaired loans, the category you mentioned there was a major repayment or reversal? Am I right to tie those two together, and if you could give us a little bit more detail on what was the driver of the movement in that reversal, it would be appreciated?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, I wouldn't tie the two together. I wouldn't tie what happens to the Stage 3 impaired loans, necessarily, that would work over time, but I wouldn't say that that's what attributed to the Q3 movement. It really was the combination of both the expected macroeconomic factors, which were relatively stable, our internal default rate, the past due presence of where our clients fall in the portfolio, and so on a conditional probability of default basis, we had more clients move from Stage 2 back into Stage 1. That takes them from lifetime expected losses to 12-month expected losses, and that's primarily what created the difference in the quarter.

Sumit Malhotra – Analyst, Scotiabank

How about the GIL reversal itself?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

We had a very strong quarter of resolutions of impaired loans. We're always very focused on credit quality, and as the kind of the lifecycle of impaired loans, you've got a whole process on collection and we just had a very good quarter of resolving and finalizing loans. Of the $43 million, $39 million were actually gone and paid out and $8 million were upgraded. So, very, very strong results in credit quality management over Q3.

Sumit Malhotra – Analyst, Scotiabank

All right, that's helpful. Thank you for your time.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Great, thanks, Sumit.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Thanks, Sumit.

Operator

Thank you. The next question will be from Gabriel Dechaine at National Bank Financial. Please go ahead.

Gabriel Dechaine – Analyst, National Bank Financial

Good morning. Just can you run it by me again, the margin factor this quarter, the reduction helped, and then deposit pricing didn't? I've got a follow-up, but I just want to make sure I got that straight.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, it really was three basis points, so it wasn't made up of anything material.

Gabriel Dechaine – Analyst, National Bank Financial

Right.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

A basis point here, a basis point there, so not really anything that drives solely to the three basis points.

Gabriel Dechaine – Analyst, National Bank Financial

I don't want to make a big deal out of it. Actually, what I want to know is—because we did see some big growth in your deposit base at the branch, 13 percent, both in term and in demand and notice, sorry. So a twofold question - How does that inform your margin outlook, having that excess—or that fast growth in that cheaper source of funding, and two, was there perhaps some promotional pricing that drove those increases in the quarter and leading up to the quarter, and if so, do you kind of, you know, turn that tap off at some point and do we see a margin pickup at some point?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

There's two different questions. So, how does it inform our future outlook? Our outlooks have always included, and continue to include, strong growth in branch-raised deposits, but having two solid quarters of 3 percent branch-raised deposit growth sequentially helps give us more confidence in the amounts that we are considering for branch-raised deposits going forward. We are really pleased with how our strategies are bearing fruit in that regard.

As far as promotional pricing goes, we do not offer limited-term pricing promotions that are in place for several months and then reduced to a lower level. We offer what we believe are fair and competitive pricing and we tend to hold them there.

Gabriel Dechaine – Analyst, National Bank Financial

Okay. If you hadn't had that type of growth—and, again, we've had it for a couple of quarters—would you have a more bearish view on the margin perhaps?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Always, you look at the most recent future and think about what that means for the future. We've been talking for several years on the strategies that we were implementing to help support general commercial clients who would bring us both assets and liabilities, both sides of the balance sheet, so we are really pleased that we are seeing continued growth in those areas.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Yes, it's right on strategy, Gabe, and that's the real focus we have, and what we also see this quarter is reduction in broker deposits. We really have focused on how we can grow that full client relationship.

Gabriel Dechaine – Analyst, National Bank Financial

Now, last question is on the Optimum Mortgage book, 3 percent growth, so it's been trending downwards. Do you still expect to see upper single-digit growth for the full year? I'm just trying to think of—if you can help me out with the beyond 2019 outlook, where do you see mortgage growth evolving in the next year. Some of your peers have been reporting a bit of a rebound here.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, I'm going to start and then I'll turn it over to Chris. From overall growth in personal loans and deposits, Optimum is one portion of that. We expect to see high single-digit growth in that for Fiscal 2019, and that is what we're seeing year to date. Optimum growth, as a component of that, has been slower, though, and I'll let Chris speak to Optimum a little bit.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Optimum, we talked about it about a year-and-a-half ago, it was one of the first portfolios that we moved into the *AIRB* modeling for risk rating, and what we did at the time was target to have higher quality borrowers who are lower risk rate in that book. We've been zeroing in on that, plus adopting the B-20 rule for underwriting guidelines, and with that, it actually has reduced our underwriting, but we are very confident in the quality of that book. In terms of overall residential mortgages, we've tremendously increased our capabilities with the core technology investments we made that now gives us more access to A mortgages and the ability to securitize them. So, we see the whole mortgage area as an opportunity for growth. As we look into the next number of quarters, we'll be delivering a new business-for-self residential mortgage in the Alt-A side. We see that allowing us to capture more market share, as well. So, we're very confident in the go-forward approach for residential mortgages, both Alt-A and A.

Gabriel Dechaine – Analyst, National Bank Financial

Okay, thank you. Have a good long weekend.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thanks, Gabe.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Thanks, Gabe, you too.

Operator

Thank you. The next question will be from Steve Theriault at Eight Capital. Please go ahead.

Steve Theriault – Analyst, Eight Capital

Thanks very much. Carolyn, you talked about the efficiency ratio in terms of your outlook being stable, but, Chris, I thought I caught that you were going down the line of lower rates potentially being offset by better expense performance, so I guess I'm just—we're still three months away from the Q4 call, obviously, but should I take that to maybe mean you're starting to telegraph a deceleration in spend next year? Especially if we get some rate cuts, do you think you might have some offsets there?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

You're right, it's still early, but as we work on our projections, as our large transformational projects come to conclusion and go live, we will start to have the depreciation costs associated with them. We are always looking at the combination of growth in net interest income, other fee income, compared to expense growth, so we are continuing to think really carefully about how do we deploy our strategy and manage within the revenue projections that we have.

We are also—and we talked about it in the quarter—given the results of our technology, we're reworking how we deliver that great client experience through our branch network, combining our focused committed teams, efficient processes, and leveraged by our technology investment. As we work through the rest of 2019 and 2020, that work continues actively in the business, and so that will drive out, eventually, run rates that are more sort of the go-forward run rate.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Right.

Steve Theriault – Eight Capital, Analyst

That's helpful, and as I think about—like, as you wrap 2019, you changed your outlook statement to negative on operating leverage just for this year, but Q3 was better than Q2. Would you expect Q4 to be better—like, are you on a positive trajectory there and you would think Q4 is better than Q3, and you're on a bit of an improving trend here, or not necessarily?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

We were anticipating that the second half of the year would improve, compared to the first half, and that is what we delivered, and the strong branch-raised deposit growth that we've seen helps support that assumption looking into Q4. So, yes, we think we're on a positive movement, but, again as we've mentioned in the past, for us, as we think about executing on our strategy, positive operating leverage is positive but not materially large? So, positive in that probably one percent would be very good results for us.

Steve Theriault – Analyst, Eight Capital

Great. Then, lastly, for me, just to follow up on the demand and notice, you're at, I think, about 32 percent demand and notice deposits, relative to your deposit book. You've had a couple of good successive quarters here now in terms of driving growth. Would you be prepared to share any targets, or aspirational targets, or otherwise, in terms of where you'd like to see that get? Like, do you think you could get up to 40 percent over the next couple of years? It's hard to tell, given the virtual branch effort is still in the early stages, but you're obviously showing some good trajectory there, so anything on that front would be helpful.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

We don't have a target that we've explicitly thought about communicating. There is also a factor in this that is client driven. If our branch-raised clients prefer GIC rates versus pulling in one of our other savings accounts, then we could trend a different way. So, we tend to focus on the branch-raised overall - think about the components within - but not a target that we've put out.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

We see lots of opportunities as we look into Fiscal 2020. The digital front end of the Bank is going to have significant investment, which then will help us on onboarding, as well. So, we see great opportunities as we look at—for example, Motive, it had over 100 percent growth this year. We'll be able to improve that with better onboarding digital capabilities that are coming and investing in more fully in Fiscal 2020.

Steve Theriault – Analyst, Eight Capital

Is it disclosed how big Motive is relative to the total anywhere?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

No, we don't separate it out. It's just been very strong growth for us.

Steve Theriault – Analyst, Eight Capital

Fair enough. Thanks very much.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thank you.

Operator

Thank you. The next question will be from Doug Young at Desjardins Capital Markets. Please go ahead.

Doug Young – Analyst, Desjardins Capital Markets

Good morning. Just going back to NIMs and the branch-raised deposits—and I apologize if you covered this and I missed it, but what impact did that growth in branch-raised deposits have this quarter? I know branch-raised deposits are viewed as being more favourable. I guess it depends on the rates that you're offering, and maybe within the same vein, can you talk a bit about what's the funding cost advantage, from a rate perspective, between wholesale and the demand and notice deposits that you're raising?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

As far as the impact on NIM this quarter, it could be a basis point, no more than a basis point, you know, one of those small factors that contributes.

On the comparative funding cost, we'll have to come back to you on that, I don't have that at my fingertips. The positive with the relationship-based branch-raised deposits is not only the direct rate we pay to the clients, but they also have a higher funding value from a liquidity perspective, so we may potentially carry less liquidity against those.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Also, it creates a stickier client, too. Our goal is to satisfy both sides of the balance sheet. The transformation we've had underway is to materially improve that offer to our clients and what we are seeing are the benefits of that, with our businesses performing very well.

Doug Young – Analyst, Desjardins Capital Markets

I know you've given what your outlook for NIMs would be without a Bank of Canada rate cut. Can you remind us—let's say the Bank of Canada were to cut 25 basis points, and you look out over the next year as you do your planning, what is the impact, potential impact do you foresee on the NIM for Fiscal ’20?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

We continue to work on 2020 our forecast. We do think about the fact that we have a better mix in the balance sheet than we did the last time that rates fell. The key issue for us, as we think about the impact on NIM, will be around our branch-raised deposits and the portion that are what we call “administered rates”, so where they’re not directly tied to prime or CDOR, but where we make the decision of the rate to offer on those. So, that’ll be a fact of thinking about the rate environment, thinking about the competitive impact there.

Doug Young – Analyst, Desjardins Capital Markets

Okay, then just back to the—Chris—and I apologize, I think I missed the numbers—you said there were reductions in impaired amounts of $43 million, and then there was an amount you gave that was returned to performing and an amount that was, I think, written off, and I forget what the two numbers were.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thirty-nine were paid out, and then the difference was upgraded, so the loans returned to performing status.

Doug Young – Analyst, Desjardins Capital Markets

Okay, and I apologize, because I am able to do the numbers, but it looks like your write-offs were larger than normal, and so within that whole equation, was it higher than normal, was there any surprises in the write-offs that occurred?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

As I mentioned in my opening remarks, as you work through impaired loans, they come to a conclusion at certain points and then you have a bunch of resolutions. We had that this quarter, so we had significant resolutions occur in the quarter, which then included higher write-offs, and that's really the outcome of sort of the loan management process. As we look at our book, we're very comfortable where we sit today. I think the credit quality is very strong. If you look in the news release, we've got about $49.5 million of gross impaired loans in our top 10, and it's over 303 accounts. We've got, I think, a very stable, very strong credit quality book today, and not seeing any systemic issues in it.

Doug Young – Analyst, Desjardins Capital Markets

It sounds like it was more volume related than any particular surprise when you settled up.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Yes, no surprises, yes.

Doug Young – Analyst, Desjardins Capital Markets

Okay. Then, just lastly, a more hypothetical question. I mean, your CET1 ratio was flat. You've had risk-weighted asset growth under the standardized methodology. If you had a similar quarter and you were under *AIRB*, with this level of growth and deposit growth, and whatnot, would you be building CET1, and what would be an organic CET1 build under *AIRB*, on a normal basis? Thank you.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

We would be building organically from the levels of growth that we've had this quarter. Exactly what that would be, that's a good question.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Yes, the big win for *AIRB* is really the categorization of our portfolio, and being commercially focused, as you know, at 80 percent, the opportunity for us to have just much better capital allocation is definitely what we are driving for here, and our current growth, where anything in the 10 percent or above growth rate does consume capital, we will find that being alleviated under *AIRB*.

Doug Young – Analyst, Desjardins Capital Markets

I'd just be curious to see how you compare to some of the bigger banks, but we can take that offline, I guess.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Yes, absolutely.

Doug Young – Analyst, Desjardins Capital Markets

That's fine. Great, thank you very much.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thanks, Doug.

Operator

Thank you. The next question will be from Meny Grauman at Cormark Securities. Please go ahead.

Meny Grauman – Analyst, Cormark Securities

Hi, good morning. If I take a step back and I look across the past few months, we've had rate expectations plunging, trade worries spiking and the probability of recession increasing across North America and the world. If I look at your results, it doesn't seem to reflect that at all. You have 10 percent loan growth, the drop in the PCL ratio. I'm just wondering how you reconcile those big-picture worries with your performance and what you're seeing on the ground. It doesn't seem like there's a connection there at all.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

That is the opportunity we have in front of us with the market share that we currently have, we've got a low market share. What we are bringing to the market, of that sort of mid-market commercial - the areas we focused on and business owners - is the opportunity to be disruptive. To take this mid-market growth bank that we've had in Western Canada and import it to Ontario. We've done a lot of great transformation that's allowed us to capture more market share, and that's our focus. We're investing in our capabilities to continue to win more clients, really, at that front end. We've had great performance by our Ontario businesses, and we talked about it in our opening remarks. So, we see lots of potential moving forward.

Meny Grauman – Analyst, Cormark Securities

When you speak to your large number of commercial clients, do you see those trade worries, for example, coming through in their decision making? Do you sense any sort of change in the mood out there, in terms of business owners?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

I think everybody is wary, there's no doubt about that. I think there's a lot of noise. Both sort of that sort of macroeconomic, geopolitical, trade, all these issues are very, very top of mind. But, there's always going to be economic cycles, there's always going to be ups and downs, but we're also going to have many clients that navigate their way through all economic climates. Our focus is to zero in on those opportunities, make sure we've got the right mix of products and really talented staff that gets in front of them to provide the right financial solutions. So, we're focused on that.

Many Grauman – Analyst, Cormark Securities

Thank you.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thanks, Meny.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Thanks, Meny.

Operator

Thank you. The next question will be from Sohrab Movahedi at BMO Capital Markets. Please go ahead.

Sohrab Movahedi – Analyst, BMO Capital Markets

Hey, thanks. I just wanted to maybe ask an earlier question a little bit differently. As you think about your organization under the *AIRB* capital regime, and you think about some of your financial targets out there, and specifically your return on equity, do you think you're going to keep it at that 12 to 15 percent, or do you think your target will move up, as far as the return on equity is concerned?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

We will absolutely revisit all of the targets with *AIRB* approval, you know, it changes the landscape, it changes the opportunities for us, and so, we'll revisit all of the targets.

Sohrab Movahedi – Analyst, BMO Capital Markets

But given the capital allocation benefits, and the like, that I think you've talked about, is there any reason to believe why you wouldn't be targeting higher ROEs?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

This whole focus on *AIRB* — this transformation of the way that we run our Bank, going from a branch-centric organization to an enterprise-based bank — we've made tremendous transformation. *AIRB* is such an opportunity for us. As we think about our performance targets, they will all be re-evaluated, absolutely, and that will come with, once we get to approval. We definitely have options on how we think about our performance targets. It just changes our competitive opportunities and our ability to deliver much more effectively, with a better set of tools.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, thank you.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thank you.

Operator

Thank you. The next question will be from Scott Chan at Canaccord Genuity. Please go ahead.

Scott Chan – Analyst, Canaccord Genuity

Good morning. Chris, just on your geographic split, I just noticed that Quebec is growing really, really solidly off a low base, up 35 percent year-over-year. Is that National Leasing or are there some other factors that's driving that growth there?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Quebec is a combination of National Leasing and some corporate lending that we have in syndicated loans in that province, so the on-the-ground business in there is National Leasing and the balance of it is corporate lending.

Scott Chan – Analyst, Canaccord Genuity

Okay. Then, Carolyn, just going back to the NIM, I know you talked about stability in Q4, and I know it's tough, but if you kind of take what you did this quarter, if we look out into Fiscal 2020, assuming two Bank of Canada rate cuts, is it safe to assume that you'll probably have some slight margin compression next year?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

I think it would be a safe assumption that our margin tends to move along with the Bank of Canada rates.

Scott Chan – Analyst, Canaccord Genuity

Okay, fair enough. Thank you.

Operator

Thank you. Your next question will be from Nigel D'Souza at Veritas Investment Research. Please go ahead.

Nigel D'Souza – Analyst, Veritas Investment Research

Good morning, and thank you for taking my questions. I have two questions for you. The first is just another follow-up on the performing loan loss side. I understand the benefits from the migration of loans from Stage 2 to Stage 1. I want to touch more so on the stable economic outlook. The reason I bring that up is we are seeing some recent weakness in Western Canada, the oil and gas sectors are seeing higher credit risk, and there's employment of pressures in Alberta, and the real estate market in

British Columbia is under a bit of pressure, as well. So, is that stability driven by an offset of more robust economic conditions in Eastern Canada, is that how we should think about it, and does your outlook of that change? Is it possible that in the near term your forward-looking indicators, under IFRS 9, will be revisited or move lower, or is it possible that the weighting you have for your adverse case scenario, could that change or move higher given the current economic headwinds?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

All those things are possible. In our economic outlook, we consider the composition of our loan portfolio. As you noted, things that affect one of our provincial economies differently than it does the others absolutely plays into it, and we revisit our forecast, our outlook and our forecast every quarter.

Nigel D'Souza – Analyst, Veritas Investment Research

Okay. So, do you still expect stability in that forecast in the fourth quarter?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Well, it's an expectation, and we're not through the fourth quarter yet, so it depends on how the market expectations move.

Nigel D'Souza – Analyst, Veritas Investment Research

Okay, and the last question I have is just a follow-up on the *AIRB* transition. Carolyn, you mentioned a wide range of capital deployment options and I was wondering, as we think about the prioritization between growing risk-weighted assets or returning capital to shareholders, hypothetically speaking, if economic conditions would cause you to prioritize returning capital to shareholders instead of growing your balance sheet, would there be any challenges to that, in terms of regulatory hurdles or obstacles, or how do you think we should think about that dynamic?

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

I think they are both options, everything is on the table for us, and we will think carefully about how quickly we decide to deploy any capital that becomes available and what we think are the best options at the time. We are continually committed to driving long-term value for shareholders, but in all things, we pursue our long-term strategy in the face of what's going on in the environment at the time.

Nigel D'Souza – Analyst, Veritas Investment Research

Great, appreciate the colour, thank you.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Thanks, Nigel.

Operator

Thank you. The next question will be from John Aiken at Barclays. Please go ahead.

John Aiken – Analyst, Barclays

Good morning. I'm not sure—I mean, I know there's not any clarity on the resolution, but if you can actually guide a little bit on clarity on the liability issues under the new government for oil and gas loans? Would you actually consider increasing your growth targets if those actually came through?

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

In terms of oil and gas lending?

John Aiken – Analyst, Barclays

Yes.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

I think if we had clarity on that, in terms of us being able to control our destiny through exercising our security rates, we would be much more positive on that area. There's still many great companies in that market. I don't think it's going away soon, but from our perspective, we're just picking our spots, and today our participation in that market has been in the syndicated level, so sort of larger credits with strong balance sheets and good production profiles. But where the issues occurred was in the smaller producer area, and so we'll continue to monitor it, because it is, and has been historically agood business for us, and at this point we're being very careful.

John Aiken – Analyst, Barclays

Great, thanks. I appreciate your response.

Chris Fowler – President and Chief Executive Officer, CWB Financial Group

Thanks, John.

Carolyn Graham – Executive Vice President and Chief Financial Officer, CWB Financial Group

Thanks, John.

Operator

Thank you. At this time, I would like to turn the call back over to Mr. Evans.

Matt Evans – Vice President, Strategy and Corporate Development, CWB Financial Group

Thanks, Sylvie. Thank you all very much for your continued interest in CWB Financial Group. We look forward to reporting our fourth quarter and full year Fiscal 2019 financial results on December 5. With that, we wish you all a good day.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines. Enjoy the rest of your day.