EDITED TRANSCRIPT

Canadian Western Bank - First Quarter Fiscal 2020 Financial Results

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PRESENTATION

Operator

Good morning. My name is Jessica and I will be your conference operator today. At this time, I would like to welcome everyone to the Canadian Western Bank's Q1 Earnings Conference Call and Webcast. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star followed by the two. Thank you.

Mr. Matt Rudd, you may begin your conference.

Matt Rudd — Senior Vice President, Finance & Investor Relations, Canadian Western Bank

Thank you, Jessica, and good morning, everyone, and welcome to our first quarter 2020 financial results conference call. My name is Matt Rudd and I'm the Senior Vice President leading our Finance and Investor Relations teams.

Presenting to you today are Chris Fowler, our President and Chief Executive Officer, and Carolyn Graham, our Executive Vice President and Chief Financial Officer.

I would 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 analysis made by management. Actual results could differ materially from expectations due to various risks and uncertainties associated with our business. For more information, refer to our forward-looking statement advisory on slide number 16.

The agenda for today's call is on the second slide and with that I will turn the call over to Chris.

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Thank you, Matt.

I'll begin with comments on the continued execution of our transformational strategy and Carolyn will follow with detail on our first quarter results. I will then discuss our ongoing strategic priorities and outlook for the remainder of the year before we close with the question and answer session.

I'm pleased to report that we're off to a great start to what will be a transformational year for CWB. Our strategic priorities remain on track and we are focused to deliver strong financial results that leverage the strategic investments we've made. Our targeted growth this quarter demonstrates progress to our goal to become the best full-service bank for business owners in Canada. We are benefitting from our continued investments to enhance our in-person and digital capabilities and strengthen our full-service client experience.

Robust growth in branch-raised deposits was supported by our focus on further improvements to our client experience and resulted in a continued reduction in higher-cost brokered deposits. This growth reflects on-strategy performance for our full-service banking branches, Motive Financial, and CWB Trust Services. We also generated very strong new lending in our strategically-targeted general commercial portfolio. With ongoing profitable growth and strong capital ratios, we are pleased to provide shareholders with a $0.01 increase to the common share dividend compared to last quarter and $0.02 higher than last year.

Our strategy for long-term value creation is to solve for the un-met banking needs of Canadian entrepreneurs. We intend to become a disruptive force in Canadian financial services and a clear, full-service alternative for Canadian business owners. We are advancing our digital strategy and investing in our people and culture. We continue to enhance our operating model and make our core processes smoother and better for our clients. This includes continued streamlining of lending administration activities to more efficiently support higher levels of growth in client service.

As you'll see on slide five, we continued to execute against our strategic priorities on all fronts. We have moved into the final stages of preparation to submit our AIRB application with regulatory approval expected within fiscal 2020. With approval, we anticipate a reduction in risk-weighted assets calculated using the AIRB, rather than standardized approach, to increase our regulatory capital ratios. On an ongoing basis, AIRB approval will support an acceleration of our organic growth rate or allow us to consider other uses of capital, such as acquisitions or common share repurchases, while remaining conservatively capitalized.

This quarter we announced enhancements to our digital capabilities to accelerate our strategy to improve our client experience and fuel higher levels of client growth. The announcements included our partnership with Temenos to replace our current online banking platform with seamless, end-to-end digital banking experiences for the owners of small and medium sized businesses; a new fully digital group RRSP offering and non-registered product through CWB Trust Services to expand our addressable market; and a partnership between CWB National Leasing and AgDealer.com's equipment listing site to allow prospective clients to access a digital online financing application powered by CWB National Leasing.

We look forward to our first full-service branch in Ontario opening this spring. Together with our investments in digital capabilities, the Mississauga branch will enable our teams to deliver our uniquely proactive full-service client experience to business owners in key Ontario markets through both personal and digital channels.

This quarter we transferred our wealth management business to Stephen Murphy, our EVP Banking, to integrate our client offering of banking and wealth services. CWB has a unique opportunity to add value at every stage of a business owner's journey from managing cashflow today to building wealth for tomorrow.

We are proud of the progress our teams have made to align our culture with our ambitious strategic agenda and enhance our employee experience to create value for our people. We continue to be recognized as a career destination for top talent. This quarter we celebrated being named one of the Best Workplaces in Alberta to complement last fall's certification as a Great Place to Work Canada™. CWB National Leasing was recognized as one of Canada's most admired corporate cultures, one of Canada's top 100 employers, and one of Manitoba's top employers.

While making progress on our business transformation agenda, we achieved robust growth in branch-raised deposits and very strong growth in strategically-targeted general commercial loans. Our ongoing initiatives will position us to deliver breakout growth and maximize value creation for our upcoming capital transformation.

I will now turn the call over to Carolyn, who will provide more detail on our first quarter financial performance.

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

Thank you, Chris, and good morning.

Our performance highlights for the quarter are on slide six. Compared to the first quarter last year, common shareholders' net income and pre-tax, pre-provision income were up 8% and 1%, respectively. First quarter total revenue was up 4% compared to last year, driven by 4% higher net interest income that benefitted from 7% loan growth, partially offset by a 7 basis point decrease in net interest margin. Non-interest expenses were up 6%, driven by a 9% increase in salaries and benefits, combined with 5% growth in premises and equipment expenses. Higher salaries and benefits reflect hiring to support overall business growth and execution of our strategic priorities, along with annual salary increments. Increased premises and equipment expenses reflect ongoing investment in technology infrastructure to support future growth as well as depreciation of our previous investments. Diluted and adjusted cash earnings per share of $0.82 and $0.83 were up 9% and 4%, respectively. The higher growth rate of diluted earnings per share reflected the recognition of a $5 million charge for acquisition-related fair value changes in the first quarter last year related to the successful and accretive acquisition of CWB Maxium.

You'll see on slide seven that total loans were up 7% over the past year with positive contributions from all provinces. Central and eastern Canada continued to lead growth by geographic market with very strong 11% growth, representing roughly 40% of our overall increase in loans. Growth in this market was again underpinned by strong performance from our businesses with a national footprint, including CWB Maxium, CWB National Leasing, and CWB Franchise Finance. Our growth expectations for our business lines remain unchanged as we continue our progress towards our strategic goal for Ontario to represent a third of the overall portfolio. 6% growth in both BC and Alberta reflected expansion across all portfolios other than a contraction in real estate loans through successful completion of multiple projects.

We delivered further industry diversification with very strong 11% growth in general commercial loans that reflected ongoing efforts to target business owner clients and increase full-service relationships across our national footprint. General commercial loans now represent 30% of the total loan portfolio compared to 29% a year ago. Personal loans and mortgages increased 10%, primarily reflecting 'A' mortgage growth to leverage our securitization capabilities. Total loans within CWB Optimum Mortgage increased 1% from last year. We have experienced higher payout levels due to competitive pressures and the refinement of our risk appetite within the alternative mortgage market, which includes a preference for stronger borrowers. Ongoing enhancements to our 'A' insured mortgage lending capabilities and more risk-sensitive pricing with the option of ARB are expected to support stronger client retention and new growth in future periods.

Commercial mortgages increased 10% compared to last year with approximately 75% of the annual growth coming in this quarter, primarily from very strong new lending volumes across BC and Alberta. Strong 7% growth of equipment financing and leasing reflected increases across all provinces, while real estate project loans declined 11%, primarily driven by the impact of successful project completions. A number of large projects that began to fund as early as 2016 have been successfully completed and paid out over the past two years. Sequentially, our loan growth was up 1%. While this level of net growth was impacted by elevated paydowns, we had stronger fundings across the entire book this quarter and are comfortable with our pipeline of new lending opportunities moving into the second quarter.

Turning to slide eight, gross impaired loans totalled $243 million at January 31st. That compares to $136 million last year and $148 million last quarter, representing 84 basis points of gross loans this quarter, up from 51 basis points last year and 52 basis points last quarter. The majority of the increase in impaired loans relates to two commercial mortgage connections based in Alberta and excluding these two connections our gross impaired loans were approximately 60 basis points. 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 does not directly reflect the dollar value of expected write-offs given the tangible security we hold to support our lending exposures. The overall loan portfolio is reviewed quarterly with credit decisions undertaken on a case-by-case basis to provide early identification of possible adverse trends. We continue to carefully monitor the entire loan portfolio for signs of weakness and have not identified any current or emerging systemic issues.

At January 31st our total allowance for credit losses was $116 million compared to $113 million a year ago and $115 million last quarter. Our allowance for stage one and two performing loans was $91 million compared to $90 last year and $89 million last quarter. The overall credit quality of our portfolio continues to reflect our secured lending business model, disciplined underwriting practices, and proactive loan management. Our expected and actual credit losses remain low, despite the two loan connections that made up the bulk of our new impaired loan formations this quarter. We remain confident in the strength, diversity, and underwriting structure of our overall loan portfolio. We continue to expect fiscal 2020 credit losses to remain consistent with our historical experience.

Turning to slide nine, the first quarter provision for credit losses on total loans as a percentage of average loans was 18 basis points compared to 24 basis points last year and 19 basis points last quarter. The provision for credit losses on performing loans of 3 basis points compares to 2 basis points last year and 1 basis point last quarter. The first quarter provision on performing loans primarily relates to a slightly higher proportion of the portfolio in stage two, which, under IFRS 9, requires the recognition of lifetime expected credit losses. The provision for credit losses on impaired loans in the first quarter of 15 basis points includes consideration of the new impaired loan formations this quarter and compares to 18 basis points last quarter and 22 basis points last year. As I've noted, we manage impaired loans on a case-by-case basis and have reviewed each individual impaired loan exposure.

Slide 10 demonstrates our success in executing on key strategic objectives to grow and diversify funding sources. We delivered robust branch-raised deposit growth of 18% over the past year, including 26% growth of demand and notice deposits. About half of this growth came from our banking branches, a third from Motive Financial, and the remainder from CWB Trust Services. Our on-strategy growth in branch-raised deposits will be supported by digital on-boarding capability for personal banking clients in Motive Financial this year, followed by our remaining digital and branch channels over the next two years.

Our robust branch-raised deposit growth contributed to a 15% reduction in the total balance of broker deposits in the past year and an 8% sequential reduction. The reduction of our reliance on the deposit broker network is another of our strategic priorities, but I do want to note that this funding source remains a reliable and effective way to raise insured, fixed-term retail deposits over a wide geographic base and has proven to be a deep and liquid funding source for us. We increased our total funding raised through the debt capital markets by 31% from last year and this channel now represents 14% of total deposits, up from 11% last year. Securitization funding recorded as debt on our balance sheet increased 12% to support originations of equipment leases and residential mortgages.

Slide 11 highlights our solid track record of net interest income and total revenue growth along with the changes in our net interest margin. Despite a competitive operating environment, we continue to win and expand client relationships, grow our business presence, and deliver steady increases in revenues and earnings. Compared to last year, net interest margin was up 4%, reflecting 7% loan growth partially offset by a 7 basis points decrease in the net interest margin. Consistent with our strategy to become the best full-service bank for business owners in Canada, we've shifted the mix of our loan portfolio to a higher proportion of comparatively lower yielding but highly strategic and relationship-based general commercial loans. We've largely offset the margin impact by also delivering a favourable shift in our funding mix, driven by strong branch-raised deposit growth and a decline in higher-cost broker deposits. This positive shift in our funding mix came at a time of intense deposit price competition and overall higher funding costs.

The reduction in our net interest margin year over year and sequentially also reflected a 1 basis point negative impact related to the prospective adoption of IFRS 16, the new lease accounting standard, which requires the recognition of interest expense on lease liabilities. In prior years, all lease-related expenses were included in premises expense. On a sequential basis, our net interest margin decreased 1 basis point. Support for net interest margin was driven by very strong growth in branch-raised deposits, which largely offset the continued competition-driven increase in funding costs and the 1 basis point negative impact of adopting IFRS 16. Looking forward, as a result of the timing of loan growth and ongoing shifts in our loan mix, our expected growth in annual net interest income may moderate slightly on a full-year basis.

You'll see on slide 12 that our efficiency ratio of 45.5% was consistent with our expectations and compares to 44.4% last year and 48.2% in the previous quarter. Compared to last year, the efficiency ratio increased as non-interest expense growth reflecting our strategic investment in people, technology, and infrastructure outpaced revenue growth. The improvement from last quarter reflected the seasonal decline in non-interest expenses.

Operating leverage this quarter was negative 2.6% compared to positive 0.4% last year and negative 3.4% last quarter, reflecting the same factors as the efficiency discussion. As we've noted before, we expect quarterly volatility of operating leverage to continue, reflecting the timing of execution of our strategic priorities. We continue to expect to deliver slightly positive operating leverage on a full-year basis with an efficiency ratio relatively consistent with our 46% three-year average.

Slide 13 shows our strong capital ratios. At January 31st, and calculated using the standardized approach, our common equity tier-one ratio was 9.1%, tier-one ratio was 10.6%, and our total capital ratio was 11.9%. At 8.4%, our Basel III leverage ratio remains very strong. With AIRB approval, we expect a reduction in our risk-weighted assets, which would increase our regulatory capital ratios and put us on a more equal footing with our competition and expand our addressable market. We do not expect a material impact to our financial results in fiscal 2020 but, as Chris mentioned, we are excited about the potential for enhanced, long-term value creation that the transition to AIRB opens up for us.

Yesterday our board declared a common share dividend of $0.29 per share, up $0.02 or 7% from the dividend declared a year ago and up $0.01 or 4% from last quarter.

And with that, I'll now turn the call back to Chris.

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Thank you, Carolyn.

Motive Financial clients will receive our first delivery of digital banking in May. We are making the investments required to improve client experience across our group to support continuing growth and strong financial performance. We are very close to achieving the 30-30-30 diversification objective for BC, Alberta, and Ontario we set a number of years ago to materially diversify both our client base and broaden our geographic footprint. BC is our largest geography, Ontario is our strongest growth, and Alberta continues to provide sound business opportunities. Through continued strategic execution, we are positioned to capture increased market share within a larger, cross-Canada addressable market. Our pipeline of new lending is robust and we continue to target delivery of double-digit annual growth, where prudent. We remain on track to deliver strong net earnings, in line with our previous expectations.

We're excited about the transformational opportunities in the year ahead as we roll out digital banking and move our AIRB application into the final stage for submission, with regulatory approval expected prior to the fiscal year end. The significant progress our teams are making to transform our funding and capital management and to diversify our client base will accelerate our growth. I am confident that our transformation will support increased long-term value for all those who choose CWB, our clients, our people, and our investors.

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

Matt Rudd — Senior Vice President, Finance & Investor Relations, Canadian Western Bank

Thanks, Chris. And that concludes our formal presentation for today. Jessica, can you please open the line for the question-and-answer period?

Q & A

Operator

Yes, thank you. Ladies and gentlemen, we will now begin the question-and-answer session. As a reminder, should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press the star followed by the two. And if you are using a speakerphone, please lift the handset before pressing any keys. Your first question is from Meny Grauman of Cormark Securities. Please go ahead.

Meny Grauman – Analyst, Cormark Securities

Hi. Good morning. I wanted to follow up, Carolyn, on what you mentioned about, because of the timing of loan growth the expected increase in net interest income may moderate, so I just wanted to clarify what you meant by that and what are you assuming in terms of the rate outlook when you make that statement as well.

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

So, in our 2019 annual report we talked about total revenue NII growth of high-single digits. Clearly, when loan growth is slow in the first quarter — as it was geared more towards the remaining three quarters of the year — that will have a revenue impact, so we've just moderated the comment there on the outlook for net interest income. On the margin perspective, we've not changed our expectation for one Bank of Canada rate coming mid-year.

Meny Grauman – Analyst, Cormark Securities

And in terms of the outlook for loan growth — like how quickly do you expect loan growth to move back to the more normal range? Will we see that in Q2 or do you think it'll take longer than that?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

We're positive about what we have in the pipeline. We're positive about the loans that have been approved and waiting for the clients to request funding of them.

Meny Grauman – Analyst, Cormark Securities

And in terms of the build in stage two, is that just tied to the commercial mortgage exposure in Alberta or is there something else that's driving that?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

The drive to stage two, the majority of that increase was simply due to client characteristics. So, there are a certain number of hard thresholds that if a client passes they move into stage two. There was a little bit coming from the macroeconomic forecast and the impact on conditional PD, but individual client characteristics were the majority of the factor.

Meny Grauman – Analyst, Cormark Securities

And then finally, just on taxes, so there was another tax cut in Alberta on January 1st. So I'm just wondering, in terms of the outlook for the tax rate, should we assume that there's still more of a benefit coming starting in Q2?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

So, the full-year guidance that we had in our annual report would have included the expected increase of this second January 1st reduction.

Meny Grauman – Analyst, Cormark Securities

Okay. Thank you.

Operator

Your next question comes from Gabriel Dechaine of National Bank Financial. Please go ahead.

Gabriel Dechaine – Analyst, National Bank Financial

Hi. I just want to follow up on that description of the, you know, the build in stage two and change in client characteristics. Can you give me a bit more information on that please?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

So, the criteria that moves a client into stage two: one would be being on our watch list. Another one would be a hard deadline of 30 days past due would put you in there and potentially other characteristics.

Gabriel Dechaine – Analyst, National Bank Financial

Are we talking about a handful of borrowers or is there a broader group?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

You know, it's only about a 1% shift in the total portfolio between what's in stage two this quarter versus what's in stage two last quarter, so it's across the portfolio.

Gabriel Dechaine – Analyst, National Bank Financial

I meant like on the watch list. That's not a number that ever gets disclosed but are we talking a couple names added to the watch list here and nothing crazy?

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

I would say, Gabe, it's nothing crazy. There's definitely a change. I think we had three basis points this quarter, one last quarter, and two the prior quarter—

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

In the PCL — Performing loan allowance.

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Yeah, in the performing loan allowance. It's a number that will move around. I think the IFRS 9 process does create more volatility in this number. But, from a credit perspective, we clearly follow these fairly closely.

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

From the information that's in the quarter, Gabe, there's the information on the gross impaired both by province and by type of portfolio. In the depth of the IFRS 9 note —where we actually break the portfolio between low risk, medium risk, the watch list — You can find the watch list in there. And then you also have the characteristic of past due but not impaired loans in the notes as well and you can see there that that has remained relatively constant from the prior quarters.

Gabriel Dechaine – Analyst, National Bank Financial

Okay, I'll take a look. And then those impairments, one we anticipated clearly, it was in the news. The other one is a separate borrower? It's not the same borrower with different properties elsewhere?

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Yes. Different borrower, different properties, yeah.

Gabriel Dechaine – Analyst, National Bank Financial

Got it. And, Carolyn, you said that the impaired provision this quarter reflected some of that action. Did you take any provision or is it one of those situations where we see a big impairment but you don't actually expect the loss to come through because you're very comfortable with the security?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

We take a hard look at every single loan that's in the gross impaired category and record the specifics that we think are appropriate against them. So, we have taken a specific against some commercial mortgage exposures in this quarter.

Gabriel Dechaine – Analyst, National Bank Financial

And then just to wrap up, the real estate project loan book was down nearly $300 million sequentially. I assume that's what you're talking about on timing of loan growth, that particular portfolio. Like this was anticipated or wasn't it? And do you still expect that portfolio to grow this year?

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Real estate project loans, the best outcome is they pay out. And they are — And that's a positive thing. So we look at loan funding, so we also had very strong loan fundings. Our Q4 loan fundings was the third highest in the last eight quarters, but offset by loan paydowns. In terms of that particular book, we've actually had good originations over the last two quarters, but of course they fund over time. So we continue to be active market with strong tier-one borrowers and we're comfortable that we will see resumption of loan growth there, but again, it's all a timing thing. We had quite a volume of loans that we advanced through 2016 and 2017 which have come to completion and are repaying. So it's a strong portfolio and an area that we consider fundamental to our credit exposures.

Gabriel Dechaine – Analyst, National Bank Financial

Thank you.

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Thanks, Gabe.

Operator

Your next question comes from Doug Young with Desjardins. Please go ahead.

Doug Young – Analyst, Desjardins Capital Markets

Good morning. Just a few things. Just on the stage-two migration, and a lot of my questions have been answered on that, but is there any particular category or is there any particular region where you're seeing more? I mean I can see it's all in your business loan, or it looks to be all in your business loan category, but can you break it down maybe a little bit more granular?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

Not really anything that jumps out off the top of my head. We can go back and have a look and circle back with you, Doug, but there isn't anything that's top of mind.

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

There's no particular—I mean clearly, from a gross impaired loan perspective, these are commercial mortgages that have come into that category, but beyond that there's no, we don't see any systemic change in the portfolios. They're essentially the normal course of the flow of credit as some companies become challenged and we monitor it and report it appropriately.

Doug Young – Analyst, Desjardins Capital Markets

And, sorry, did you say it was more on the commercial mortgage side?

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

The gross impaired loans are, yes.

Doug Young – Analyst, Desjardins Capital Markets

Sorry, I'm talking just the stage one, stage two. All right. And then just on the two mortgages that went through your formations, can you talk a bit about the coverage ratio on that or have you talked about that?

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

So we had those two credits, one we talk about quite a bit. It was in the press throughout the second quarter. None of the loans in there for us were in default when the issue occurred. They of course became impaired given the receivership that has ensued in that program. We will follow our way through those loans and manage our exposures appropriately. And in the other case, again, it was another borrower who ran into challenges and became impaired. As we look at the value of security against loan advances, we feel very comfortable in the level of specifics that we have in place, the PCLs we put up. So, we look very deeply into these loans to ensure that we appropriately provided and we're comfortable with our exposures.

Doug Young – Analyst, Desjardins Capital Markets

Like you're not expecting any further adjustments on this in future quarters? You think you've done a thorough enough job on that?

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Yes. Things can change Doug, but based on all the information we have today we're very comfortable with the numbers we've reported.

Doug Young – Analyst, Desjardins Capital Markets

And then just on the funding. It looks like you're doing a great job in terms of branch-raised deposits, it feels like you're benefitting from that from a cost of funding perspective ,but that's being offset by higher deposited rate cost due to competition, as you mentioned. Are there promotions in your system that, you know, some of this kind of falls away in future quarters? Or is this something that you expect to get a benefit from actually raising more of the branch-raised deposits but the increased competition kind of takes a little bit back away from that?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

The overall strategic priority to strengthen the franchise to grow branch-raised deposits to develop more multi-product client relationships, this result is absolutely on strategy for that, so we're very pleased. It has never been our practice to offer what might be called promotional rates where they are high for a short period of time and then drop back down. But yeah, so we have gained a reputation for posting attractive rates and holding them steady over time. We get lots of questions about our Motive Savvy Savings Account and that is one of the accounts that falls into what we call 'administered rate accounts' where they don't move in accordance with prime but we have the ability to change them as the market changes and as the yield curve moves.

Doug Young – Analyst, Desjardins Capital Markets

Okay. And then just two number questions. Did I hear that you're still aiming to get positive operating leverage in fiscal 2020? And then can you remind us what your NIM outlook is relative to what you just posted in Q1 for the rest of the year? Thanks.

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

So, operating leverage, we are still anticipating slightly positive operating leverage and recognizing that that will be volatile from one quarter to the next. And on the NIM forecast, what we talked about at year end was that we have been in a band of 250 to 260 for quite a period of time. Our expectations were for NIM for the year to be somewhere in the middle of that band and we delivered 254 in the first quarter. It's still early on but we've moderated the net interest income outlook a touch, but still remain comfortable on the NIM side.

Doug Young – Analyst, Desjardins Capital Markets

Thank you.
Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by the one.

Your next question comes from Nigel D'Souza with Veritas. Please go ahead.

Nigel D'Souza – Analyst, Veritas Investment Research

Thank you. Good morning. I wanted to circle back on the impaired loans you took in the formations this quarter. I want to pivot to actually the total number of accounts classified as impaired. So, when I look at that number it's at 367 this quarter, so that's about a little over a 10% increase quarter over quarter, and you've highlighted two commercial mortgage accounts driving formations, so could you speak to what's leading to the increase in total number of accounts? Are those smaller files? And how much of the formation that you took was actually related to the commercial mortgage files that you mentioned?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

Of the overall increase in gross impaireds, probably three-quarters to 80% of it was related to those two connections that we've talked about. On the number of loans that are impaired, off the top of my head I believe the majority of that number increase relates to residential mortgages on the personal side. And the other increase would be just smaller dollar individual smaller outstandings.

Nigel D'Souza – Analyst, Veritas Investment Research

Got it. And if I could squeeze one last question in on the outlook for performing loan losses, with recent market volatility, if there's more commodity price pressure, could you maybe just speak to — maybe at a higher level — how does that impact your performing loan losses going forward?

Carolyn Graham — Executive Vice President & Chief Financial Officer, Canadian Western Bank

So, specifically, the price of oil, if we look at that only as a single metric, is a factor in a couple of our models, but it's not the major factor. So, the more significant impact would be the knock-on impact that that could have on GDP or unemployment. Those are the two most significant macro factors that impact our models.

Nigel D'Souza – Analyst, Veritas Investment Research

Thanks. That's very helpful. Appreciate it.

Operator

There are no further questions at this time. Please proceed.

Chris Fowler — President & Chief Executive Officer, Canadian Western Bank

Okay. Well, thank you, Jessica, and thank you, everyone on the line, for joining us and for your continued interest in CWB. We look forward to reporting our second quarter financial results on May 28th. And with that, I wish you all a good morning. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.