MARKETWIRED

Moderator: Carolyn Graham
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Operator: This is conference # 48139344.

Operator: Good day. My name is (Lori), and I will be your conference operator today.

At this time, I would like to welcome everyone to the CWB's Second-Quarter 2015 Financial Results conference call.

All lines have been placed on mute to prevent any background noise.
After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star 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.

Good morning or good afternoon, everyone. Thank you for joining us for our 2015 second-quarter results conference call.

Before we begin, please note that the conference call graphs, quarterly results

news release, and supplemental financial information are available on our Web site at cwb.com in the Investor Relations section. And our forward-looking statements advisory is on slide 13.

The agenda for today's call is on the second slide. Joining me is our President and Chief Executive Officer, Chris Fowler, as well as the other members of the Canadian Western Bank Group Executive Committee.

We have Kelly Blackett, Executive Vice President Human Resources; Randy Garvey, Executive Vice President Corporate Services; Greg Sprung, Executive Vice President Banking; and Bogie Ozdemir, Executive Vice President and Chief Risk Officer.

For today's call, Chris will begin with a high-level overview of our second-quarter highlights. He will then discuss our recently closed divestitures, our growth momentum and ongoing credit quality, and wrap up with comments on our longer-term outlook and strategic direction. I will close with a bit more detail on our second-quarter and year-to-date financial highlights, followed by the Q&A.

I will now turn things over to Chris.

Chris Fowler: Thank you, Carolyn.

This morning we reported solid second-quarter results with common shareholders' net income for combined operations of CAD53.5 million, up 5 percent from last year. On a year-to-date basis, net income was up 4 percent. Net income from continuing operations was up 10 percent compared to the second quarter last year to CAD51.5 million, and up 9 percent on a year-to-date basis to CAD103.9 million.

Overall, the first half of FY15 reflects solid operating performance, including good loan growth across our geographic footprint and all key lending segments, as well as sound credit quality.

On May 1, we completed the divestitures of Canadian Direct Insurance and

the stock transfer business of Valiant Trust. The resulting gains on sale will add approximately CAD1.38 to both book value and earnings per share in the third quarter. As we stated previously, the sale of these non-core businesses supports our long-term growth strategy; and the premium valuations confirm that the timing was right to divest.

While there is a moderate impact on the earnings power of continuing operations, we are actively pursuing opportunities to redeploy the proceeds. We are currently reviewing several options; but our preference is toward accretive, franchise building investments in the areas of equipment financing and wealth management.

Turning to the balance sheet, strong loan growth has been a mainstay of our long-term success; and we've maintained momentum through the second quarter. Slide 5 shows our quarterly loan growth over the past four-and-one-half years. Loans grew 2 percent this quarter, 6 percent so far this year, and 11 percent over the past 12 months, with increases in each lending segment.

While loan growth is important, we also have significant strategic focus on the liabilities side of the balance sheet and continue to make good progress in this regard.

One of our key long-term and strategic objectives is to increase the level of deposits that are lower-cost, provide associated transactional fee income, and strengthen relationships by providing clients with relevant tools for managing their business and personal finances.

This is part of our ongoing evolution from being seen primarily as a lender to being seen as a crucial provider of full banking services that are valued by our clients. Very strong 24 percent year-over-year growth in preferred types of demand and notice deposits demonstrates the success of our efforts, as well as the tremendous opportunity to drive profitable growth through more active management of the entire balance sheet, which also includes regulatory capital.

Turning back to growth, Alberta led all provinces over the past year, with particularly strong results in real estate project lending. As we continue to identify opportunities to finance well-capitalized developers on the basis of sound loan structures and acceptable pre-sale and lease levels.

Growth in equipment financing and leasing was also strong, as was performance from personal loans and mortgages, driven primarily by the ongoing success of Optimum Mortgage.

Our direct exposure to the energy industry grew incrementally during the second quarter, with a CAD69 million increase in oil and gas production loans. Direct exposure to oil and gas activity remains small relative to the overall portfolio, at approximately 6 percent of total loans outstanding. This includes loans to energy producers of approximately 2 percent and direct lending to service companies within the sector, representing approximately 4 percent of total loans.

The increase this quarter primarily reflects higher usage of existing credit facilities, as well as incremental new business. In spite of the increase, we expect near-term growth opportunities directly related to the energy industry to be limited by the low price environment.

During the second quarter, we assessed updated engineering reports for substantially all our reserve based credit facilities. Facility limits reflect current reserve estimates and very conservative oil price assumptions that are significantly lower than prevailing market prices.

It is interesting to note that the price differential between met Western Canadian Select heavy oil, the benchmark for exports from Alberta's oil sands, and WTI and Brent crude has contracted substantially in recent months. This observation, combined with the lower Canadian dollar, will likely help mitigate the impact of lower headline oil prices on overall activity in Alberta and Saskatchewan.

Canadian residential real estate markets have been resilient. And affordability

in most geographic areas, outside of certain neighborhoods in Toronto and Vancouver, remains within historical ranges, largely reflecting low interest rates.

However, as I mentioned, lower housing sector activity is apparent in Alberta and Saskatchewan. And the combination of historically high price levels and sentiment related to economic headwinds caused by low energy prices could lead to further moderation of housing sector activity in these and other markets.

I will highlight that our residential projects underway in Edmonton and Calgary have more than 80 percent of the units pre-sold; and to date, there's been no evidence of pre-sale rescissions or account deterioration related to these projects.

Overall, given our current pipeline of approved but unfunded facilities and ongoing discussions with our clients, we remain confident in our ability to deliver double-digit loan growth for 2015 that is in line with our target range of 10 percent to 12 percent.

Turning now to a discussion of credit performance, we continue to work proactively with our clients to assist the first- and second-order impacts on their businesses from reduced economic activity in parts of Western Canada. Just as we have done in prior cycles, we are supporting our clients with responsive service, disciplined and secured credit underwriting.

Slide six slide shows the level of gross impaired loans this quarter, which remained in line with our expectations. Total gross impaired loans of CAD93 million represented 50 basis points of total loans outstanding compared to 44 basis points last quarter and 30 basis points a year earlier. In spite of the increase, gross impaired loans remain low as a percentage of total loans.

The total number of accounts classified as impaired at quarter end was also lower than the same time last year. As we have noted in the past, the level of gross impaired loans fluctuates as existing impairments are either resolved or written off and new impairments are identified. The increase in impaired loans

this quarter primarily reflects two accounts.

Of the impaired accounts, which we resolved during the second quarter, the vast majority were either paid in full or returned to performing status. Based on our current view of credit quality, actual credit losses are expected to remain within CWB's historical range of acceptable levels.

Our secured lending business model, which has contributed to our long-standing track record for outstanding credit quality, starts at origination and continues through our relationship with each client. Given tangible security held in support of lending exposures, the level of gross impaired loans does not reflect the dollar value of expected write-offs.

Real estate project loans, for example, are supported through conservative loan structures and rigorous pre-sale requirements. Equipment loans are targeted to buyers of standard industrial equipment and are backed by hard assets with deep and liquid secondary markets.

We regularly stress our balance sheet and income statement to assess the potential impacts of various scenarios, including economic weakness within the oil exporting provinces.

Recent tests included the projected impact of a 30 percent correction in Alberta and Saskatchewan real estate values, as well as a simulation of CWB's peak credit losses realized simultaneously across all segments of the loan portfolio in both provinces. Results of these tests further support our confidence in CWB's proven business model, even under assumptions of severe economic conditions.

We have run various multi-factor tests that include knock-on effects that may be related to the assumption of significantly lower real estate prices and peak credit losses. These include changes in interest rates, higher levels of liquidity, much slower or negative loan growth, and an increase in standardized risk-weighted assets due to higher levels of nonperforming loans. While the combined impact of these negative influences do constrain earnings, CWB's financial stability remains sound in even our most severe tail-risk scenarios.

Turning to the longer-term outlook and a few comments on our strategic direction. We believe Western Canadian businesses should know that there is a bank that lives here, focuses here, and lends here through the cycle. This is one of the key reasons why we have been successful in building a growth-orientated financial services franchise over the last 31 years.

Our goal is to empower our teams to provide responsive solutions based on unique insight into our clients' businesses and personal financial needs. To do so, we've continue to invest to ensure our people are equipped with appropriate resources, supportive training, and effective tools, including relevant technology.

We continue to make progress, on time and on budget, towards implementation of our new core banking system early in the next fiscal year. The new system will extend our capacity to serve clients more efficiently, and it's an important step in the evolution of our franchise.

We've also continued to invest in our ability to reach more clients by expanding our service footprint and offerings within chosen markets. For example, we expanded premises in Prince George, BC, during the first quarter and will open a new larger branch in Medicine Hat, Alberta, later this year.

I will conclude my portion of the call with a few comments on our longer-term outlook. Times of heightened economic uncertainty have in the past provided us with our best opportunities to drive CWB Group's strategy forward.

As operators in Western Canada, we always respect the business cycle. We've managed through many cycles before; and we've always successfully grown and thrived, even when CWB's operations were much less robust and diversified than they are today.

We are proud of our Western Canadian address and comfortable with our exposure to businesses in this region. Alberta and Saskatchewan are full of seasoned operators with experience gained through numerous economic

cycles. Successful operators make smart decisions and investments at the bottom of the cycle. And I have confirmed, through, many conversations over the past few months that it's exactly what many of our clients are poised to do.

We continue to see strong corporate balance sheets and believe many businesses will be better positioned going into the next upswing than ever before. Against this backdrop, we remain focused on the performance metrics that drive long-term value for all our stakeholders including clients, employees, and shareholders.

As we look to the future, our strategy is to deliver ongoing profitable growth, a conservative balance sheet, efficient operations, and strong credit quality, all the while continuing to build our franchise with the capacity to meet more financial needs for more clients.

Notwithstanding current challenges, I believe the long-term outlook is positive. Alberta's new government has expressed willingness to work with business community. And there is opportunity to address the challenges facing our most important industries with a fresh approach.

From our perspective at CWB, we will continue to support clients with the same business approach that has served us so well through previous cycles.

I will now turn things back over to Carolyn for more details on the second quarter.
Carolyn Graham: Thank you, Chris.

Moving to the next few slides, I will begin with a reminder that the results of the divestitures which closed May 1, we have defined the contributions of both Canadian Direct Insurance and Valiant's stock transfer business as discontinued operations; all remaining operations as continuing operations; and the total as continuing and discontinued operations as combined operations. For the remainder of this call, unless noted otherwise, references to performance highlights refer to the results of continuing operations.

Overall, CWB's core operations continue to perform well. Quarterly common

shareholders' net income from continuing operations of CAD51.5 million and adjusted cash earnings per share of CAD0.65, which exclude the amortization of intangible assets and the non-tax-deductible change in fair value of contingent considerations, were each up 10 percent.

Quarterly total revenues on a tax-equivalent basis of CAD151.2 million represent a 6 percent increase from the second quarter of last year, as the benefit of strong loan growth was partially offset by a slight decrease in net interest margins and lower non-interest income.

Non-interest income of CAD18.1 million was down CAD2.2 million compared to the same quarter last year, as the combined increase in credit, retail, and wealth management sources was more than offset by lower net gains on securities.

The decrease in net gains on securities reflects ongoing active management of the securities portfolio through less favorable market conditions in the current period, as compared to elevated gains realized in the second quarter last year.

Based on the current market environment and composition of the securities portfolio, including the level of unrealized losses at the end of the second quarter, net losses on securities may reduce second-half FY15 non-interest income compared to both expectations at the beginning of 2015, as well as the level achieved so far this year although market conditions are inherently volatile and difficult to predict.

Compared to the previous quarter, common shareholders' net income and adjusted cash earnings per share each declined 2 percent. As the benefit of 2 percent loan growth and slightly higher non-interest income were more than offset by three fewer revenue-earning days at slightly lower net interest margins.

Year-to-date net income was up 9 percent, as the benefit of strong loan growth and lower preferred share dividends was partially offset by higher non-interest expenses, lower non-interest income, and a 4-basis-point decrease in net interest margins. Adjusted cash earnings per common share of CAD1.31

increased 8 percent.

Based on the standardized approach for calculating risk-weighted assets, CWB's all-in Basel III regulatory capital ratios were 7.9 percent common equity tier one, 9.1 percent tier one, and 12.1 percent total capital, all well above applicable regulatory minimums and within our internal thresholds.

We also maintain a very conservative Basel III leverage ratio of 7.7 percent. Capital generated from the strategic transactions involving Canadian Direct and Valiant will increase our regulatory capital ratios by approximately 70 basis points next quarter.

Yesterday, our Board declared a quarterly cash dividend of CAD0.22 per common share, 5 percent higher than the previous quarter and up 10 percent compared to the quarterly dividend declared one year ago. The Board also declared the quarterly dividend on our Series 5 preferred shares.

The next slide shows the historical trend of net interest margin spread on loans and the prime lending interest rate. The modest 2-basis-point decline in the second-quarter net interest margin largely reflects pressure on loan yields from the combination of competitive factors and the Bank of Canada's January 2015 interest rate cut, partially offset by reduced deposit costs and lower average balances of cash and securities.

Net interest margin was also down 2 basis points compared to the previous quarter, with the difference again reflecting lower loan yields, partially offset by more favorable fixed-term deposit costs. Year-to-date net interest margin was down 4 basis points, reflecting the same factors.

Continued pressure on net interest margin is expected in view of the current very low interest rate environment, competitive factors and a relatively flat yield curve.

That said, we maintain our strategic focus to mitigate the earnings impact on ongoing margin pressure through efforts to achieve stronger relative growth in higher yielding loan portfolios with an acceptable risk profile, improve the

funding mix to lower the overall cost of funds, and prudently manage liquidity levels.

Turning to slide 12, the gain on sale from the May 1 divestitures will be reflected in combined operations next quarter and will contribute to performance in 2015 that is better than the target ranges set at the start of the year.

Recognizing the financial impacts of these gains and the elimination of future earnings contributions from the divested businesses, we have determined that with the exception of targets related to loan growth and credit quality, the performance target ranges previously established for the FY15 are not meaningful for continuing operations.

With respect to loan growth and credit quality, the volume in the loan pipeline remains strong. And we are confident in our ability to achieve another year of high-quality double-digit loan growth.

Based on our history of strong underwriting and loan management, and in view of our secured lending business model, we expect the provision for credit losses will fall within the target range of 17 to 22 basis points of average loans for the full year.

Strong second-quarter and year-to-date results from CWB's core operations demonstrate our ongoing success toward achieving our longer-term strategic goals. We continue to deliver high-quality, profitable loan growth while optimizing our funding mix, especially through strong growth in lower-cost branch-raised deposits.

Growth within our complementary lines of business in trust and wealth management also demonstrates the increasing prominence of the CWB brand within our chosen markets. We are proud of these successes and believe they will contribute to significant long-term value for all of our stakeholders.

This concludes our formal presentation for today's call. I will now ask Lori to

begin the question-and-answer period.

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

Your first question is from Meny Grauman of Cormark Securities. Your line is open.

Meny Grauman: Good afternoon. First question is big picture. When I read your outlook for continuing options in the MD&A, it definitely reads more negative or more cautious about the economic outlook. I'm wondering if that's an accurate assessment, first of all?

Chris Fowler: How we portrayed the economic outlook -- we have 42 percent of our assets in Alberta, so we've got a low oil price We're certainly looking at that as cautionary. We are very will staffed in our branches. We've got a lot of great client relationships.

But it's not the same robust economic growth in Alberta that we've had over the last number of years. So, we are cautionary in that.

But we also have 58 percent of our loans outside of Alberta. And we certainly see continued growth in BC and Manitoba, in particular, and our presence in Ontario is growing every year. We are just putting context around what would be a slower growth environment in Alberta.

Meny Grauman: And just a follow-up on that, and turning to this stress test that you described, I am wondering if built into that stress test you are assuming reasonably good growth outside of Alberta, in particular. Is that a key assumption to what's driving your stress test conclusions?

Chris Fowler: That is a key assumption. We are looking at the normal operations in terms of when we set our performance targets last year, as we think about BC, Manitoba and Ontario, and the rest of Canada as it relates to Optimum and National Leasing being normal operations. And we are looking at constrained

operations in Alberta and Saskatchewan for the purpose of stress testing.

Meny Grauman: I'll try and sneak one more in. You talk about CWB continuing to gain market share in Alberta. And I'm just wondering if you could just update us in terms of competitive dynamics there.

Are you noticing any of your larger competitors changing their behavior in Alberta? Is anyone becoming a lot less aggressive or present in the province?

Chris Fowler: Historically that has been the case. We haven't really seen it as yet, so we are certainly monitoring it and looking for feedback from our branches in terms of client relationships. We haven't seen it in any great degree as yet. Thanks for that.

Operator: Your next question comes from the line of Shubha Khan of National Bank.

Shubha Khan: Thanks, good afternoon. Two quick questions on loan growth, really. The first is on real estate project loans. There was, at least in my opinion or in my view, it looked like the slow down was pretty pronounced relative to what you delivered in the preceding 18 or 24 months.

You talked about moderating housing market activity in Alberta. So, I'm wondering if this was primarily a demand issue or also, perhaps, the result of tighter underwriting or maybe just timing of the transactions.

Chris Fowler: Mostly the latter, timing of transactions. When we look at that portfolio, it has a duration of 18 months out to 36 months. We have projects today that started three years ago that are paying out.

It always has turnover in it, so the timing of new advances on the portfolio projects that we're lending into, you're just going to have months when you get more payouts than you have funding. We have a very robust there. We haven't seen in our market any distinct no-gos on projects that we are dealing with. They are continuing.

We are seeing still very strong pre-sell support in projects. We haven't seen projects that have run into troubles and when they come to closing have pre-sale rescissions. So, we're not seeing any great change in that market but certainly, timing will dictate how that loan growth number -- it's a net number from advances repayments.

Shubha Khan: OK, got it. Then exactly the same question for equipment finance. And on top of that, whether most of the slow down there would have been attributable to the heavy equivalent portfolio or did National Leasing slow as well?

Chris Fowler: There is no slowdown in National Leasing. As I mentioned last quarter, we have had just flat growth in Alberta. The other provinces still have positive growth but it's really that Alberta growth that is flatter, and that really has to do with the equipment.

We've also talked about the equipment finance book being our leading indicator. As order books shorten, the operators tend to first lay off staff and then they look to manage their fixed assets.

We just had a very large auction in Edmonton, a Ritchie's auction in Edmonton, so a lot of equipment would have traded hands there. I think we've got a dynamic where loan growth through equipment financing for particularly oilfield related will be muted until we see some correction in that price.

Shubha Khan: OK, perfect. That's all of my questions.

Operator: Your next question is from Sohrab Movahedi of BMO Capital Markets. Your line is open.

Sohrab Movahedi: Thanks, good afternoon, everyone. Chris, a couple of questions. One, on the stress testing, can you just tell us do you still generate double-digit ROE even in the stressed scenarios?

Chris Fowler: Yes. In the stressed scenarios that we have done, we are generating double-digit ROEs.

Sohrab Movahedi: OK, excellent. And then, I know, Carolyn, you said that, obviously with the dispositions and the divestitures, the financial targets are less relevant. But as you look to deploy that capital, do you expect that -- you've said, obviously, you want to make sure that they are accretive and financially attractive and so on and so forth.

Is it fair to assume that you would probably reinstitute similar types of targets? Or, put it differently, the types of acquisition targets you are looking for is to help still maintain 5 percent to 8 percent EPS growth, 107 to 112 basis point ROA, and so on and forth?

Carolyn Graham: I would say absolutely we're looking to continue the success of the CWB Group over time and build on it. So, we are looking for acquisitions that are strategic, accretive, and a good fit with our corporate culture. That doesn't change.

Sohrab Movahedi: OK. And those would be the type of metrics that you have targeted in the past, would be the type of metrics you would be targeting presumably in the future? Is that fair to say?

Carolyn Graham: Yes. Likely reasonably comparable, absolutely.

Sohrab Movahedi: OK. And, Chris, obviously you've been around the horn, so to speak. You've seen credit cycles. How is this cycle in Alberta in particular playing out relative to how you would have expected it to play out?

Chris Fowler: I would say we're still early in a cycle. If we think about this, having this call 12 months ago, we weren't talking about a credit cycle, we were talking about just growth. This environment started last November.

So, I would say we're early yet in this cycle. I think we will see what occurs through the summer and next fall.

A lot of activity is very seasonal in Alberta, in particular, with the oil and gas. The price of oil will dictate the volume of business that we will see later in the year.

If we look at our credit cycle experience from, say, 2009 and 2010, that did take to the latter part of 2010 to come through on the credit side. So, companies have, I think, seen that experience, they're back in a cycle, and they are managing their variable costs through labor, they're going to manage their fixed costs through the fleet and how they are investing their capital.

I think we're early yet but I think we've gotten a lot of core business clients that has gone through cycles, as well, so they've got some strength in how they manage their balance sheet.

Sohrab Movahedi: OK, thank you. And if I can just sneak one more in, do you think the change in the provincial government will have any bearing? Or has it influenced your outlook on how the cycle is going to play out?

Chris Fowler: I think the challenge that every government has when they come into power is they have to set their agenda. The current government here, this is their first time in power so they are in the midst of determining their agenda, and they are coming up with a budget for September.

I think most businesses that have come out to talk said that everybody wants to have very constructive conversations on what that's going to look at. And we're of that view.

We will be having constructive conversations about what this all looks like. This is a very dynamic province and there's lots of great opportunity.

Sohrab Movahedi: OK, thank you very much.

Operator: Your next question comes from the line of Sumit Malhotra of Scotia Capital. Your line is open.

Sumit Malhotra: Thanks, good afternoon. Maybe just to pick up on the last point of conversation, when we think about one of the first direct moves by the new government was to talk about the increase in the provincial tax rate. As we think about this from the outside, is it as simple as looking at your effective tax rate and adding 200 basis points? Or is it somewhat more nuanced than that?

Carolyn Graham: It's not quite that simple, as not all of our income is taxed in Alberta so a portion of our income is allocated and taxed in the other provinces. But a 20 percent increase in the Alberta corporate tax rate from 10 percent to 12 percent would decrease EPS by about CAD0.05, to give you a bit of scale.

Sumit Malhotra: All right. So maybe, again, I think you gave us the disclosure base more on your loan book but we should keep in mind that there is income in other provinces, as well. OK, we'll think that through. No, onto a couple of other factors.

With the divestitures closed, Chris, there's been, I'd say, more debate on the outside than from your comments, which have been clear. You've talked about wanting to redeploy the proceeds into likely acquisitions. I think the markets have the view that maybe prudence isn't a bad thing at this point in the cycle.

How has the acquisition surge looked to you? Are there opportunities that are compelling at this point or is it more of a wait-and-see approach that the Bank is employing?

Chris Fowler: Our perspective on acquisitions is to be conservative. We've made very strong acquisitions over the years. We've looked at many, many opportunities and made, I think, very strong accretive acquisitions that really supported our ability to continue to grow.

Our stated objective of looking at equipment finance and wealth management supports our strategic direction. Wealth management we see as a great opportunity for broadening our client relationships, expanding the footprint of that business within our Western Canadian presence.

We have opportunities, we are having discussions, we are building out our internal infrastructure to deliver wealth management effectively across our branch network. Acquisitions really do fit into how we think about growth.

And we're definitely focused on looking for accretive, strategic and cultural fit in those areas that we believe really support our strategic direction.

Sumit Malhotra: And, lastly, I want to tie in a couple of points around consumer exposure. Not the biggest factor for CWB, given the composition of your loan portfolio, but interested to note that in the past couple of quarters, there hasn't been much migration in the personal loan book component of your gross impaired loans.

If you could give us your viewpoint on what you have seen from consumer trends in the province and in your portfolio, especially given at least what sounds like the negative impact that some of the CapEx cuts are going to have on employment in the region.

Chris Fowler: We haven't seen a change in our gross impairment in both the bank side or in Optimum. So, the credit quality is really being maintained.

I think as we look at that, our Optimum book now is growing more quickly in Ontario that it is in Western Canada. So, that's been a big plus for it.

I would anticipate, as we talked about, having muted expectations on Alberta growth given the downturn in the price of oil, slower economic growth here that we will certainly continue to monitor that portfolio and ensure that we deal with credits as they come up, appropriately.

And, again, the other point is we are focused on residential secured lending. We don't have credit card book or have portfolios on secured lending. So, this is all secured lending, as well.

Sumit Malhotra: You touched on it and that's where I wanted to end. In the last six months, there has obviously been the divestiture of a couple of businesses that the Bank was viewing as non-core to its future growth prospects.

When you look at the Optimum portfolio -- I think you have somewhat answered it -- it certainly seems like it is one that you still view as an important part of the growth. And certainly the numbers have reflected that. Has there been any thought that perhaps this book of business is no longer right for where you view the potential for CWB, or is that something that's not on the table?

Chris Fowler: No, we are very supportive of Optimum. We think that is a business model that we can grow very effectively. And we've had a very good synergy between our trust business and Optimum in generating good deposits on the trust side that fund Optimum very profitably. Our goal there is to deliver strong credit quality with low-cost funding, and it's been a very accretive book for us.

Sumit Malhotra: Thanks for your time.

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

Doug Young: Good afternoon. I just wanted to go back to capital. Pro forma, as the divestitures, your CET1 would be -- I guess it's 8.6 percent. And I'm just wondering, given the environment and the outlook, where would you be comfortable taking that to?

Carolyn Graham: Generally, over the long term, we are comfortable in and around the 8 percent CET1 where we have traditionally been.

Doug Young: OK. And then along the same vein, you have done stress testing on your portfolio. It seems like fairly conservative expectations you've built in. And you say that you still maintain financial stability.

In your stress test, where does that is that this the CET1 down to? Is that a low 7 percent range that you get to in that? Can you give some benchmarks there?

Carolyn Graham: The CET1 remains in and around the 8 percent. That is where we feel comfortable sitting.

One of the things to think about with our portfolio is that our portfolio has a relatively short duration. As Chris mentioned, the real estate project loans being 18 to 36 months.

So, in our case, if loan growth slows, the portfolio does roll off relatively quickly so that risk-weighted assets decline relatively quickly if loan growth slows, which then supports the CET1 ratio, even in light of lower earnings through increased credit losses.

Doug Young: OK. Good point. Thank you very much.

Just moving on to the credit side, and I don't know if you can give -- there's two items -- some detail about the watch list. I think you've talked a little bit about your outlook but if you can put some details around the watch list and the development there.

And then I did see that your collective provisions did increase, I believe, sequentially. I'm wondering what drove that, if you can give some details.

Chris Fowler: We, of course, do maintain a watch list. We don't really talk about it, though, publicly in the sense that the watch list is a summation of all the credits that could actually be on there because they're late in financial reporting.

I can just tell you that we are very active in loan management and that's been a very key strength of ours over the years. So, we do maintain very strong discipline on how the clients adhere to covenants we've set. We've got a very strong internal process to manage credit.

We have had some increase in impairments but the watch list has maintained. It's an important document for us. We don't really don't about the levels on it because it's really not -- it's a difficult thing to filter out how they all got on

there.

Doug Young: Maybe just big picture, has it deteriorated materially or has it been fairly stable?

Chris Fowler: I would say it's fairly stable.

Carolyn Graham: Doug, on the collective allowance, every quarter, as part of our regular process, we re-estimate what we believe is an appropriate level for the collective allowance based on past history, what we're seeing in our portfolios, as well as our assessment of factors that exist in the economy in our markets today but may not yet be reflected in watch, impaired or specific provisions.

As we looked at this quarter, we did increase our management overlay, reflecting the fact that we expect that some of the knock-off effects of the lower price of oil are still to come in the portfolio, so we felt it prudent to be a bit more conservative there.

We also, though, look at the level of the collective over time. And if you compare the collective at the end of the second quarter compared to a year ago, it's up about 12 percent, which is relatively consistent with the growth in the portfolio. So we're comfortable with that level.

Doug Young: OK, perfect. I'll leave it at that. Thank you very much.

Operator: Again, to ask a question, press star one on your telephone keypad.

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

Darko Mihelic: Thank you. My question relates to slide 10 when you discuss your regulatory capital ratios. What is the level of total capital ratio that you guys are targeting?

Carolyn Graham: We generally target -- we would be comfortable maintaining over the long term in and around 100 basis points over our OSFI minimum, so that would

put us at about 11.5 percent. The subordinated debenture that will be considered for redemption in November is counting for about 70 basis points of total capital today.

Darko Mihelic: Right. So, when we do our pro forma, it seems as though the divestiture covers most of the redemption, assuming that you do not reissue or let the debt roll, I suppose.

Carolyn Graham: And we have been carrying more sub debt than might be optimal long term because we issued just before the NVCC rules came into play.

Darko Mihelic: OK. So, we're looking at basically -- the whole question comes down to redeploying capital. It seems as though in a very odd sense, you might be capital constrained because of the total capital ratio.

Effectively we're looking at 12.1, and there's only about 60 basis points of capital room. Would that be a fair assessment?

Carolyn Graham: We could redeem with that sub debt and then consider whether we needed an issue of one type or the other. But, again, depending on the redeployment of the proceeds from the divestitures, that could give us more time before we need to issue.

Darko Mihelic: OK. And is it fair to say, if you just simply redeem that sub debt, that's about CAD0.12 a share? It's relatively expensive debt. Do I have my math right there?

Carolyn Graham: I don't know that number off the top of my head, but we will come back to you on that, Darko.

Darko Mihelic: OK, thank you.

Operator: You have no further audio questions at this time. I will turn the call back over to the presenters.

Carolyn Graham: Thank you, (Lori). Thank you very much, everyone, for your continued interest in Canadian Western Bank.

We will report our third-quarter results on September 3. If you have any follow-up questions or comments, please call us or contact us by e-mail. Thank you and good day.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

END