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Michael Goldberg
Desjardins Securities

Shubha Khan
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PRESENTATION

Operator

Good afternoon. My name is Wayne and I will be your conference operator today. At this time I would like to welcome everyone to the Canadian Western Bank First Quarter 2014 Financial Results Conference Call.

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

Tracey Ball, Executive Vice President and Chief Financial Officer, you may begin your conference.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thank you, Wayne, and good morning or good afternoon, depending on where you're listening from, and welcome to the 2014 first quarter results conference call for Canadian Western Bank Group.

Before we begin, please note that the conference call graphs, quarterly results news release, and supplemental financial information are available on our website at CWB.com in the Investor Relations section. I'd also draw your attention to our forward-looking statements advisory is on slide ten.

The agenda for today's call is on slide two. Joining me today is our President and Chief Executive Officer, Chris Fowler. Also in attendance are Executive Vice-Presidents Randy Garvey, Brian Young, and Greg Sprung, as well as our Senior Vice President and Chief Accountant, who I'm very pleased to say will be my successor, but more on that later. Her name is Carolyn Graham.

For today's call I will provide a brief summary of our first quarter financial highlights and performance against our 2014 target ranges. I'll then turn things over to Chris for an overview of our longer-term outlook and strategy. The intent is to leave is as much time as necessary for Q&A at the end of the call.

Moving to slide three, CWB reported strong first quarter performance, highlighted by records for total revenues, net income available to common shareholders, and earnings per share. Quarterly loan growth was very strong at 4 percent and annual loan growth was 13 percent. Growth reflected good performance across almost all lending sectors with the strongest year-over-year increases coming from commercial mortgages followed by growth in our equipment financing and leasing and real estate project portfolios. Net interest margin was down from the prior quarter but up slightly from the same quarter last year. Based on the standardized approach for calculating risk-weighted assets CWB's all-in Basel III ratios were 8 percent common equity tier one, 9.5 percent tier one, and 13.2 percent total capital, all well above applicable regulatory minimums and within our internal thresholds. Another highlight subsequent to quarter end was closing our issuance of Basel III compliant 4.4 percent Series 5 preferred shares in the amount of $125 million. We also received regulatory approval to redeem the outstanding 7.25 percent Series 3 preferred shares on April 30, 2014. The redemption and partial replacement of the Series 3 preferred shares will have a positive impact on growth in net income available to common shareholders and adjusted cash earnings per share in fiscal 2014 while the timing of the new issuance will lead to dividends on both series of preferred shares in the second quarter. On a net basis it will add approximately $0.105 to earnings per share compared to 2013.

Moving to the next slide, record quarterly net income available to common shareholders of $52.6 million was up 16 percent over the same quarter last year while diluted earnings per common share increased 14 percent to reach $0.65. Adjusted cash earnings per share, which excludes the amortization of intangible assets and the non-tax deductible change in fair value of contingent consideration, was up 16 percent at $0.67. Record quarterly total revenues of $153.8 million represented a 14 percent increase from the first quarter last year based on strong growth in loans and other income as well as a 2 basis point increase in net interest margin to 2.64 percent. Other income of $28.5 million was up $6.2 million or 27 percent compared to the same quarter last year, mainly reflecting increases in trust and wealth management revenues, net gains on securities, and net insurance revenues. Higher wealth management revenues primarily reflect our mid-2013 acquisition of McLean & Partners Wealth Management, which contributed $2.4 million of the overall increase in other income. Higher net gains on securities were mainly the result of the realization of gains on CWB's portfolio of common shares. Based on the current market environment and composition of the securities portfolio, quarterly net gains on securities are expected to be lower through the remainder of the year. compared to the previous quarter net income available to common shareholders and adjusted cash earnings per share both increased 3 percent as the benefit of very strong 4 percent loan growth and 9 percent higher other income was partially offset by lower net interest margin, which will be discussed further in a few minutes.

Overall credit quality remained within expectations and the dollar provision for credit losses represented 19 basis points of average loans, unchanged from the previous quarter and up from 18 basis points a year earlier. Yesterday our Board declared a quarterly cash dividend of $0.19 per common share, unchanged from the previous quarter and up 12 percent compared to the quarterly dividend declared one year ago. The Board also declared a quarterly dividend on both the Series 3 and Series 5 preferred shares.

Slide five shows first quarter results compared to our fiscal 2014 target ranges. Strong performance early in the year has us well positioned compared to each of our target ranges. The volume in the loan pipeline remains strong and we are confident in our ability to achieve another year of double-digit loan growth. Based on our positive view of credit quality the annual provision for credit losses should remain within our target range of 18 to 23 basis points of average loans. First quarter performance compared to our target ranges for total revenue growth, profitably measures, and the efficiency ratio was also on track, despite the (moderate) impact of margin pressure compared to the prior quarter. In consideration of expected revenues and expenditures we believe our efficiency ratio target of 46 percent or better is challenging but attainable. One of our key objectives is to ensure expense growth is contained in consideration of expected revenue growth. That said, our focus is to add value for shareholders over the long term and we will continue to invest strategically in people, technology, and infrastructure to support future development and growth opportunities.

The next slide shows the historical trend of net interest margin spread on loans and the prime lending interest rate. First quarter net interest margin of 2.64 percent represented an increase of 2 basis points from the same period last year with the difference largely reflecting more favourable fixed-term deposit costs and lower average liquidity, partially offset by reduced loan yields. Net interest margin was down 8 basis points compared to the previous quarter, primarily as a result of a decrease in loan fees, partly due to competitive influences coupled with lower average yields on securities in certain loan portfolios. Meaningful improvement in the net interest margin is not expected in the absence of interest rate increases or a sustained steepening of the yield curve. The timing and amount of loan fees can be unpredictable and can also reflect changes in the loan mix based on growth during any particular quarter. That said, we will maintain our strategic focus to mitigate the earnings impact of 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, pertinently manage liquidity levels, and increase contributions from other income sources.

I'll now turn things over to Chris.

Chris Fowler, President & Chief Executive Officer

Thank you, Tracey.

As Tracey mentioned, I'm going to spend a few minutes on our current business outlook by referencing some key financial metrics, then I will move to a more general discussion of our longer-term strategy and close with a discussion of the second announcement we made this morning.

Slide seven shows our quarterly loan growth over the past four and a half years. Net quarterly loan growth of $579 million or 4 percent is a very strong start to the year. Annual loan growth is also strong at 13 percent and looking at the overall level of activity in our markets and our current pipeline of new loans we are confident in our ability to continue to deliver double-digit growth in line with our target range of 10 percent to 12 percent. Loan growth contributions in the quarter from commercial mortgages and real estate project loans exceeded our expectations and this growth early in 2014 will benefit earnings for the rest of the year. Although we continue to maintain our strategic focus on growing loans at a faster pace in equipment financing and general commercial loans, we will continue to take advantage of opportunities to grow in other lending sectors, which accommodate existing client relationships and meet our thresholds for both profitability and loan quality. The recent increase in natural gas prices from very low levels coupled with incremental improvements in the well-documented constraints on transporting Canadian crude oil have yet to result in escalating activity in the oil and gas sector. In the near term we expect growth opportunities in directly-related sectors to remain limited.

Turning to slide eight, the dollar level of gross impaired loans was down from both the prior quarter and one year ago. Total gross impaired loans of $54 million represents 33 basis points of total loans outstanding compared to 41 basis points last quarter and 39 basis points a year earlier experienced over the course of several credit cycles supports our view that gross impaired loans will likely fluctuate above the currently very low levels but overall credit quality is expected to remain strong. This view is reinforced by our secure lending practices and disciplined underwriting as well as positive overall economic outlook for our key markets. Consensus forecasts for Canada's domestic economy continue to anticipate a modest acceleration of economic growth in 2014 and 2015, largely predicated on improving economic conditions in the U.S. Key markets in Western Canada are expected to perform well relative to the rest of Canada, reflecting ongoing capital investment and in migration primarily related to the favourable long-term outlook for commodities. The Canadian residential real estate sector has been resilient and affordability in most geographic areas remains within historic ranges, largely reflecting very low interest rates. However, we continue to carefully monitor market dynamics within specific geographic regions.

Earlier in the call Tracey highlighted the strength of our results in relation to our 2014 performance target ranges. I'd like to expand on that discussion by talking about our strategy and our next phase of growth. Our vision is to be seen as crucial to our clients' futures. This vision continues to define our strategic direction but when we think about the future we are very aware that the financial services landscape is changing. The banking and financial services industry has undergone significant change in the past few years, which affects the way we compete, the regulatory environment, and the way we engage our clients. The achievement of our vision to be seen as crucial to our clients' futures requires us to embrace change as we match our unique capabilities with our clients involving requirements without trying to be all things to all people. In the past year we've taken steps to formalize the foundation of our strategic direction by calling attention to our four fundamental pillars: people, support, clients, and financial. In doing so we've refined the implementation of our strategy, ensuring we can evaluate our progress along the way. Our goal is to clarify accountability, promote alignment, and increase engagement throughout CWB Group with a clear line of sight on how day-to-day activities contribute to the achievement of our vision and our ability to respond to change.

The people pillar is focused on supporting our employees to achieve success. Simply put, our employees are our most valuable asset. Providing appropriate training and encouraging strong collaboration within and across our business units reinforces our commitment to success of the team. Building businesses and the processes to support them in a highly inclusive manner encourages engagement and the stamp of ownership from our people. You can't dictate the culture of an organization; you can only foster it and provide support.

The support pillar reflects the infrastructure we have in place to deliver our services and includes our investment in premises, technology, and business processes. Our focus here is to identify system and process improvements to ensure the sustainable delivery of our products and services. As we focus on this building block we must be open to innovative approaches and look to the future rather than the past. Our key strategic priority with the core banking system transformation is to move from a product-focused technology to a client-centric system, allowing us to capture better information and more accurately track revenue and profitability by client. It will assist in holistic management client relationships and support our plans to transition to an advanced methodology for calculating risk-weighted assets.

The client pillar is the reason we exist. We must responsibly deliver relevant products that create value for our clients. In addressing our clients' needs we strive to recognize and embrace the elements that have made us successful while achieving our strategic goals to enhance profitability, improve funding, and diversify revenues. As I've said before, recognizing that we cannot be all things to all people is a key element of our strategy. Our long-term success will be based on executing targeted approaches in areas of financial services where CWB Group is best positioned to add value and deliver expertise to our clients. Our offerings in targeted areas, such as equipment financing and leasing, commercial banking, and alternative mortgages, among others, will continue to be aligned with our capabilities, risk appetite, and profit expectations.

With respect to the financial pillar our goals are quite simple. We're focused on delivering constant growth, consistent growth, stability, and value for shareholders. Our measures focus on asset growth, yield, diversification, cost-effective growth in non-brokered funding, industry-leading asset quality, and the number of products per client. We also aim to enhance ROE by growing our non-interest income from our trust, wealth management, and insurance businesses. Growth in non-interest income supports our return on equity from lower capital requirements compared to traditional lending. Achieving measurable results from this diversification objective is particularly important in view of our current use of the standardized approach for calculating risk-weighted assets, persistent very low interest rates and ongoing regulatory changes.

As we execute our strategy we are committed to retaining our culture and our approach to doing business. Our Western Canadian base is a competitive strength and we remain optimistic about our pipeline for new business across the group. We feel we are located in the best part of North America. Western Canada continues to achieve the highest growth rates in Canada and we have ample market share to gain across all our businesses and in all geographies. Overall, we have a very positive view of the future and we continue to execute our plan to product consistent levels of growth, profitability, and financial performance for our stakeholders. I look forward to reporting back on our continued progress in the coming quarters.

Before I turn things back over to Tracey I'd like to comment on the second announcement we made this morning. As you know by now, Tracey will retire this coming September after 27 years with us. Yesterday the Board of Directors appointed Carolyn Graham, CWB Group's Senior Vice President and Chief Accountant, as the incoming Executive Vice President and CFO effective October 1st. I'd like to thank Tracey for her invaluable contributions as a founding member of the CWB Group leadership team. Words can't possibly express the influence that Tracey's leadership, integrity, knowledge, business acumen, and work ethic have had on CWB Group's development and success for more than a quarter of a century. Under her guidance we have now posted 103 consecutive profitable quarters and increased total assets from $250 million to more than $19 billion. She has been a valued mentor for myself personally and for many others in our organization and exemplifies the definition of a true leader.

Carolyn has worked closely with Tracey since first joining CWB Group in 2000. As a long-serving member of our senior management team, she has been our Chief Accountant since 2010. Carolyn is always eager and willing to do whatever it takes to make things better. She has been instrumental in building a strong CWB finance team and is always willing to share her knowledge, creativity, and enthusiasm. Without question, Carolyn is the right person for this job. From now until the end of September Tracey will continue to work with Carolyn, the executives, the Board, our shareholders, and our many other members of the CWB Group to facilitate a smooth transition. For the rest of us it's business as usual. We will continue to work together to grow our businesses, nurture our culture, and take care of our clients and each other.

Thank you all very much for your time. I will now turn things back to Tracey.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thank you, Chris, and thank you for those kind words.

That concludes our formal presentation for today's call. At this time I'll ask Wayne to begin the question and answer period.

QUESTION AND ANSWER SESSION

Operator

Thank you. Please press star one at this time if you have a question. You may at all times cancel your question by pressing the pound sign. Our first question is from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Good afternoon. Tracey, when you talk about NIM and you talk about, you know, any meaningful increases, you know, would have to be a result of the steepening of the yield curve or higher prime rates, does that mean that last quarter's 2.72 percent, you know, would that be considered meaningful in your eyes? I'm just trying to get a sense for 2014 in terms of what's a better kind of base to use, the 2.64 reported this quarter or kind of what was reported last quarter.

Tracey Ball, Executive Vice President & Chief Financial Officer

It's always a challenge to make a really definitive comment on that. One of the major reasons for the drop in margin in the first quarter actually was related to loan fees, some impaired interest recoveries and payout penalties, and those can be quite lumpy. As well, compared to the third and fourth quarter last year there was some strong payout penalties and fee amortizations as a result of payouts. Generally it's been around 44 to 45 basis points a quarter for those types of things and in our first quarter it was around 37 basis points, so it was a bit of a surprise but, you know, there's just a lot of different parts there that contribute to that. So it is really hard for me to say exactly what I think the range will be. I think we got through re-pricing most of our portfolio through 2013. We have some competitive factors showing up in some of them, um, for example, in real estate project lending the fees that we're collecting are a little bit less than they were, say, one or two years ago, so maybe one or two years ago we would have been collecting 100 basis points, now we're collecting 50 to 75 basis points. So there are those sort of factors in there and that's why we're focused on equipment financing and funding size and things like that.

Chris, do you want to add anything to that?

Chris Fowler, President & Chief Executive Officer

No, certainly that's the basis of it. As we look at our loan mix, I mean we absolutely are focused on growth in those higher-yielding books. But, as I said in my remarks, we have a lot of great clients across the different industries that we are also looking to support. Our two highest yielding portfolios are the equipment finance portfolio and the real estate project loans portfolio, so those are areas that still are very accretive to our growth and also to our NIM, so we will continue to focus on, you know, building the business in the most proactive manner.

Scott Chan, Canaccord Genuity

And just on those kind of sectors you were talking about, the high-margin sectors, you know, equipment leasing was still strong sequentially but under kind of the average growth of the total loans, maybe can you provide an update on the small and mid ticket outlook and also on the large ticket outlook for the rest of the year?

Chris Fowler, President & Chief Executive Officer

Sure. There is some seasonality in these businesses and certainly in our smaller ticket business the seasonal aspect hits it because two important portfolios for them are the agriculture portfolio and the golf and turf portfolio, which have limited activity in Q1 and really fairly limited in Q2 as well. So their stronger quarters are Q3 and Q4.

On the big ticket side, you know, we see different types of opportunities. Last year we had some strong growth through some portfolio acquisitions but also in resurgence of forestry activity in BC. We are seeing certainly improvements in the growth in Alberta. We did, in our remarks, talk about the fact that there is no pipeline announcements as yet. We anticipate in the future that will be a benefit to us in terms of growth, particularly in the equipment finance area. So as we kind of look out, you know, we do believe, we have a very positive view. We do expect some of these pipeline projects to go forward. Again, those are well suited to our business model and the focus that we have on equipment finance.

Scott Chan, Canaccord Genuity

Okay, appreciate it. And just one more question, Tracey. You talk in the MD&A about redeeming the full Series 3, which is about $210 million, you raised $125 million of NVCC capital, you know, when you talked about the accretion of $0.105 with the additional funding that was kind of, you know, the difference between the 125 and 210, was that in relation to, ah, does that take into effect of the, ah, I think the larger accretions that I would have thought?

Tracey Ball, Executive Vice President & Chief Financial Officer

Pardon me?

Scott Chan, Canaccord Genuity

Assuming that you're not replacing the full capital. I mean I guess you're using excess liquidity and potentially—

Tracey Ball, Executive Vice President & Chief Financial Officer

The 10.5 percent, I just did it annually, so if you just have a full year and you have the $209 million at 7.25 percent versus the $125 million at 4.4 percent, that's about a $0.12 range per share, but then we're going to have a double dividend in February and March and April, and that's about a $0.015 decrease. So just on an annual basis $0.105 improvement for our shareholders.

Scott Chan, Canaccord Genuity

Yeah. Okay, just wanted to double check. Thanks a lot.

Operator

Thank you. The following question is from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman, Cormark Securities

Hi. Good afternoon. I wanted also to dig a little bit deeper into your commentary around the margin, specifically you referenced lower average yields in certain loan portfolios and I wanted to ask which loan portfolios are you seeing that pressure. And then on the loan growth side we saw very strong quarter-over-quarter loan growth and I'm wondering if there's anything unusual there that influenced the growth this quarter that you think may be, you know, was a factor in the strength in Q1.

Chris Fowler, President & Chief Executive Officer

With respect to the first part of your question, the lower yields, again, this is a loan mix issue too, so our fastest-growing segment is commercial mortgages, which would tend to have a lower yield that equipment finance and other areas that we lend into. The project loans, as Tracey mentioned in her remarks, there is competitive pressures in there that have changed where say a fee before for a given loan to be, say, in the 1 percent range and it dropped 20 to 30 basis points. So those are competitive pressures that affect loan pricing.

In terms of the second part of your question, can you just repeat that? (Inaudible) growth in certain parts of the portfolio. Anything unusual for growth? No, we didn't see anything unusual for growth. I mean we, again, as we've mentioned, loan mix is a big driver of NIM. Our focus is to see what areas that we would look to promote but, again, we look to support our clients as the opportunities come. As I mentioned also before there is a bit of seasonality in portions of the portfolio, in particular in equipment finance. So there is some of that. So as much as we would provide an outlook on loan mix, you know, obviously as we look to service our clients the opportunities are those that are presented at the time.

Tracey Ball, Executive Vice President & Chief Financial Officer

Probably one other aspect, Meny, is that we did see good growth in the commercial mortgages and real estate project lending. Those tend to be much larger loans by individual transaction as compared to, say, equipment lending and particularly smaller ticket, so we did see those sectors quite strong and so that counts for some of the growth, the strong growth.

Meny Grauman, Cormark Securities

Great. Thank you.

Operator

Thank you. The following question is from Sumit Malhotra from Scotiabank. Please go ahead.

Sumit Malhotra, Scotiabank

Good afternoon. To go back to the net interest margin expansion the company had in the second half of last year, I think, and correct me if I'm wrong here, I think the bulk of that was related to liquidities management in terms of balance sheet positioning. Is that a fair statement? It had more to do with liquidities than, say, expansion in low yields?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, there would be probably around 5 basis points, I would say, between the first half of 2013 and the second half that came, ah, 5 basis points of the expansion came from the liquidity. There were other things going on though. We were launching our BDN program that helps us with our funding cost because it generally will displace one-year agent deposits and it's about 75 basis points cheaper, so that was in there. It started in July and by the end of this quarter it's about $270 million. Then you've got a lot of the re-pricings going on and it's, you know, as I've said many times before, there's just a lot of moving parts and you can't really predict with a lot of accuracy what exactly is going to happen.

Sumit Malhotra, Scotiabank

So if we focus on this moving part in terms of liquidity, do you think, I guess I'll stay with you Tracey, that there's much more the bank can do here in order to reduce the aggregate liquidity position such that it's a benefit to margin or is that, has that uptick run its course?

Tracey Ball, Executive Vice President & Chief Financial Officer

I think the significant aspects that we've been able to do with liquidity management we realized in 2013. So the other things that we'll do with liquidity or funding will be, you know, essentially around the edges and tweaking and I don't think it will be noticeable.

Sumit Malhotra, Scotiabank

Okay. Thanks for that. And if we move to another one of those moving parts, the comment this quarter about the competitive environment perhaps affecting loan fees, and I think you're being clear here in not mentioning pricing and saying fees. Is there a different fee structure that's perhaps associated with various components of your loan portfolio and maybe—I don't know if I'm phrasing this well but is there a specific portion of the loan book that you feel has been affected more as a result of the competitive environment?

Tracey Ball, Executive Vice President & Chief Financial Officer

Well, you know, as we just mentioned on that real estate construction portfolio we have, that's a high-yielding, high-fee sort of portfolio, and so we have seen the fees come off as there are competitive pressures always to do those loans. The other thing when we were doing our analysis, you know, drilling down into the difference between 2013 and 2014, we also had a number of fees that finished amortizing in 2013 that we would say were more, they're very close to the end of the crisis within like 2009/2010, and the ability to generate those fees was higher then, so that's sort of, it's gone over a few years but those ones are gone. They amortized out in 2013.

Sumit Malhotra, Scotiabank

Okay. Last one, this is probably for Chris, maybe to combine a couple of these things, where would you say the greatest competition the bank is facing is coming from now in your business? Is it from your larger Canadian peers or have we seen a return of some foreign players as well now that banks seem to be healthier globally? That's part A and then part B, and I know a lot of the questions have been around the margin, are you surprised that a good chunk of the benefit from the second half of last year reversed course in Q1? Because if I think back to the commentary at the end of last year it seemed like we were in a situation or in a position where the bank felt that the margin decline was, the bulk of the margin decline was now behind you and it was, I guess that's the question, was the magnitude of margin decline this quarter a surprise to you?

Chris Fowler, President & Chief Executive Officer

Okay, starting with your first half of the question, I would say the competition is primarily domestic. You know, we do see the big banks very much involved in commercial lending. They've always been our biggest competitors, you know, so that's really not changed. Where we have seen some foreign entrants would be in the syndicated market and we would participate in those loans. So certainly we had a recent deal here where we had been the lead on a loan and a foreign bank came over and became the lead on that loan. So definitely, you know, the market is dynamic and there are more foreign players in it but from a pricing perspective I would say the biggest issue is domestic.

Moving to your second question, being surprised, we definitely when we spoke at Q4 we were looking for stable NIM going into 2014 and, as Tracey has mentioned, as we looked through as Q1 evolved and looked at really some of the ending of these fees and looked at some of the fees that had contributed to NIM in 2013 I think we saw what NIM had done in 2013, some of that income wasn't sustainable in 2014. So looking at the sort of general loan pricing perspective it's probably not super volatile. It is driven, as we kind of break down the components of net interest margin it is more based in the fee side, and we see that as an issue as we look into 2014.

Sumit Malhotra, Scotiabank

Okay. So—

Tracey Ball, Executive Vice President & Chief Financial Officer

I was just going to add a couple other things just on margin in the future and, um, one of the other things that we were looking at was investing some of our liquidity into the equity markets, which would have had a positive impact on NIM, and we didn't, so they're in lower-yielding portfolios than our expectations would have been at the end of the fourth quarter, and we clearly did that deliberately because we felt that the markets had got a bit overvalued and that's why we sort of looked at taking some gains there, because we saw that rally and didn't know how long it would be sustained. We also have a number of project loans coming in the pipeline that do have fees but I can't give you a definitive sort of analysis of how that might play out. And just to make that final comment on commercial mortgages is a lower yielding no-fee portfolio, so, you know, to the extent that is a bigger part of our mix that'll affect the level of fees and it will affect the margin.

Sumit Malhotra, Scotiabank

And if I put all these moving parts together, I mean if I was to say absent a material move in interest rates to see the net interest margin hover in the mid 260s range, is that a reasonable expectation or do you feel that that might be low-balling it a bit?

Tracey Ball, Executive Vice President & Chief Financial Officer

Well I don't think it's unreasonable but I'm...

Sumit Malhotra, Scotiabank

Right. Yeah, okay. I understand there's a level about how precise you can be with this.

Tracey Ball, Executive Vice President & Chief Financial Officer

Yes.

Sumit Malhotra, Scotiabank

Thanks for your time.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thanks, Sumit.

Operator

Thank you. Once again, please press star one if you have a question. The following question is from Michael Goldberg from Desjardins Securities. Please go ahead.

Michael Goldberg, Desjardins Securities

Thank you. Once you're in the first quarter you had $1 million of gain on sale on mortgages and then you had some more later in the year; what are the prospects in coming quarters for mortgage sales?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, I know we're looking at two or three organizations that are interested in purchasing some mortgages, so I wouldn't be surprised to see a gain in the second quarter, but there's nothing, you know, nothing is finalized at this point.

Michael Goldberg, Desjardins Securities

Okay. And would you think that that might be the only gain that you'd have through the year?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, no, it really depends, Michael, because you've got to find, you have to have the right group of loans and you have to have identified the buyers, and I know that Les

Shore, who heads up our Optimum Mortgage, just commented at our Board meeting that he has two new potential buyers, so he'll be working hard to make a transaction work for both sides.

Michael Goldberg, Desjardins Securities

Okay. And also this quarter you had that change in the fair value of contingent consideration; what does that relate to and is it going to continue?

Tracey Ball, Executive Vice President & Chief Financial Officer

That relates to, um, I think it's McLean & Partners and, yeah, it goes to, um, what's the year? 2015. So by March 2015 we will have to make a second payment to McLean & Partners based on the performance of their business post acquisition. So that's a pretty common way of purchasing those types of businesses.

Michael Goldberg, Desjardins Securities

So it's until March 2015?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah.

Michael Goldberg, Desjardins Securities

Okay. And lastly, I don't have the number in front of me but I think I recall that your assets under management were down this quarter on the investment side. Given the strength of markets can you tell us what happened?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, there was a large institutional client that was one of the sort of founding clients, I guess, of Adroit and through, ah, there were a lot of relationships there that are no longer there and so they had a new, I think they had a new board and they wanted to go out to proposal for the administration and we lost that business because the competition came in at I think it was 50 basis points or more less than we were charging. So it was a big account. And the two principals from Adroit that started the company have both retired now, although I don't suspect that was a particular factor in this situation, it was just clearly a pricing factor.

Michael Goldberg, Desjardins Securities

Okay, thanks. Tracey, we'll be in touch, but best of luck.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thank you, Michael. Appreciate that.

Operator

Thank you. The following question is from Shubha Khan from National Bank Financial. Please go ahead.

Shubha Khan, National Bank Financial

Yeah, thanks. Good afternoon. Not to belabour the discussion on margins but did the rollout of your BDN program continue in Q1 and how large is that program now and are you still targeting a total size of 500 million or has the goalpost moved there?

Tracey Ball, Executive Vice President & Chief Financial Officer

Yeah, we're still targeting 500 million over time and we were at 270 million at the end of the first quarter. And, if my memory is right, we were at 230 million at the end of October 2013. So we're, you know, we're not trying to roll it out too fast but it's certainly a good area of funding for us.

So I don't know, Randy, do you know how much you would guess we would be rolling out in the next, say, six months?

Randy Garvey, Executive Vice President

I would say we're going to continue to roll it out at the rate that we have so far this year. So it's going to be pretty uniform in the way we roll it out.

Shubha Khan, National Bank Financial

Okay. And then just in terms of loan growth, I guess you had a pretty strong quarter, but we've seen business credit in the Canadian banking system overall fall from a pretty robust double-digit pace to a slightly more modest high single-digit pace over the past year and management at some of your, call it, larger peers, seem to have tempered their outlook for business credit of late as well. I'm just wondering whether you take a similar view. In other words, you know, maybe conditions are still supportive of double-digit growth (inaudible) by the bottom end of your 10 percent to 12 percent target range rather than the top end.

Chris Fowler, President & Chief Executive Officer

Well, as we look at our growth that we were able to put on in Q1 and we look at our pipeline of new opportunities, um, it's all very strong. So as we talked in our remarks about being able to reach our anticipated target range of 10 percent to 12 percent, we feel very confident in that.

We also believe that if some additional projects get announced, so if there is a pipeline project or either of this infrastructure projects that are to come, you know, we do anticipate that also assisting in increasing the GDP in both BC and Alberta. So we do see opportunities looking forward so we are positive on the outlook for, particularly for Western Canada growth in commercial loans.

Shubha Khan, National Bank Financial

Okay. All right, that's all my questions and, Tracey, you'll probably be on the next call but best wishes for your retirement.

Tracey Ball, Executive Vice President & Chief Financial Officer

Well thank you very much.

Operator

Thank you. There are no further questions registered at this time. I would like to return the meeting to Ms. Ball.

Tracey Ball, Executive Vice President & Chief Financial Officer

Okay, thanks, Wayne, and thank you very much, everyone, for your continued interest in Canadian Western Bank. We look forward to reporting our 2014 second quarter results on June 5th and, as usual, if you have any follow-up questions or comments please call us or contact us by email. Thank you, everybody, and have a good day. Bye for now.

Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.
