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Scott Chan
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PRESENTATION

Operator

Good afternoon. My name is Michael and I will be your conference operator today. At this time I would like to welcome everyone to the Canadian Western Bank Second 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, Michael, and good afternoon and welcome, everyone, to our 2014 second 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 also want to draw your attention to our forward-looking statement advisory 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 VP and Chief Accountant and our incoming Chief Financial Officer, Carolyn Graham.

For today's call I will provide a brief summary of our second 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 solid second quarter financial performance highlighted by strong loan growth of 3 percent in the quarter, 7 percent year to date, and 12 percent over the past 12 months. Growth reflected good performance across almost all lending sectors with the strongest year-over-year increases coming from real estate project loans, commercial mortgages, and our equipment financing and leasing portfolio. Net interest margin was down 5 basis points from the prior quarter, 2 basis points from last year, and unchanged on a year-to-date basis comparison. Based on the standardized approach for calculating risk-weighted assets, CWB's all-in Basel III ratios were 8.1 percent common equity tier one, 9.4 percent tier one, and 13.1 percent total capital, all well above applicable regulatory minimums and within our internal thresholds

Highlights this quarter included the February issuance of 125 million of Basel III compliant 4.4 percent preferred shares and the subsequent redemption of 209 million of the 7.25 percent preferred shares on April 30th. These transactions support our strategy to improve the efficiency of our capital structure under the standardized approach and will have a positive impact on growth in net income available to common shareholders and adjusted cash earnings per share beginning next quarter. The timing of the new issuance led to a one-time overlap of preferred share dividends in the second quarter.

Moving to the next slide, quarterly net income available to common shareholders of $51.2 million was up 19 percent over the same quarter last year while diluted earnings per common share increased 17 percent to reach $0.63. Adjusted cash earnings per share, which excludes the amortization of intangible assets and the non tax deductable change in fair value of contingent consideration was up 18 percent at $0.65.

Quarterly total revenues of $153.5 million represented a 13 percent increase from the second quarter last year based on strong growth in loans and a significant increase in non-interest income, partially offset by a 2 basis point decrease in net interest margin to 2.59 percent. Other income of $29.8 million was up $6.4 million or 27 percent compared to the same quarter later year, mainly reflecting increases in wealth management revenues, net gains on securities, and credit-related fee income. Growth in wealth management revenues is primarily attributed to our third quarter 2013 investment in McLean & Partners Wealth Management.

Net gains on securities mainly reflect strategic management of the portfolio based on unexpectedly favourable conditions in equity and bond markets. While we can’t predict future securities gains with certainty 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 were both 3 percent lower as a benefit of strong loan growth, higher other income, and a lower provision for credit losses was more than offset by the combined impact of three fewer revenue earning days, lower net interest margin, higher non-interest expenses, and the temporary increase in preferred share dividends.

Overall credit quality remains strong and the provision for credit losses represented 16 basis points of average loans, down 3 basis points from the previous quarter and last year. Yesterday our Board declared a quarterly cash dividend of $0.20 per common share, 11 percent higher than the quarterly dividend declared one year earlier and 5 percent higher than the prior quarter. The Board also declared the quarterly dividend on Series 5 preferred shares.

Slide five shows the year-to-date results compared to our fiscal 2014 target ranges. Performance through the first half of the year has us well positioned to achieve full-year financial results within all of our target ranges. The volume in the loan pipeline remains very substantial and we are confident in our ability to achieve another year of double-digit loan growth. Based on our positive yield credit quality, the annual provision for credit losses should remain at the low end of our target range of 18 to 23 basis points of average loans.

Performance compared to our target ranges for total revenue growth and profitability measures are also on track, despite the moderating impact of margin pressure. In consideration of projected revenues and expenditures, we believe our efficiency ratio target of 46 percent or better is challenging, but obtainable. The key objective 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, slide six, show the historical trend of net interest margin, spread on loans, and the prime lending interest rate. Second quarter net interest margin of 2.59 percent represented a decrease of 2 basis points from the same period last year, as lower loan yields were almost entirely offset by a more favourable fixed term deposit and debenture costs. Net interest margin was down 5 basis points compared to the previous quarter, primarily a result of lower loan yields and higher average liquidity. Year-to-date net interest margin of 2.61 percent was unchanged compared to the same period last year.

Meaningful improvement in net interest margin is not expected in the absence of interest rate increases or a sustained steepening of the yield curve. That said, we will maintain our long-term 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, prudently manage liquidity levels, and increase contributions from other sources over time.

I will 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 and touch on the composition of our recent growth. I’ll close with a brief discussion of some important people-related initiatives that are underway.

Slide seven shows our quarterly loan growth over the past five years. Net loan growth of 3 percent was strong this quarter, as was growth of 7 percent year to date and 12 percent over the past 12 months. Growth in real estate project loans has been very strong, continuing to exceed our expectations, while recent growth and general commercial loans has been more modest.

Interim construction lending, both residential and commercial, has always been a specialty of CWB. With robust activity in this sector in recent years, especially within our core Western Canadian footprint, we continue to identify opportunities to finance well-capitalized developers on the basis of sound loan structures and acceptable pre-sale and lease levels. Our focused teams of real estate lenders have a strong reputation in the industry and our success extends in large part from the trust we have earned through multiple business cycles with some of the country's top developers. We continue to benefit from these relationships through the current phase of strong development activity in our core markets.

Geographically, growth in real estate loans compared to last year was split evenly between BC and the prairies with particular strength in Alberta and Saskatchewan, where economic activity continues to be supported by robust population growth. We've invested heavily in developing our presence in both of these provinces, including the 2013 addition of a second branch in Saskatoon, a new commercial presence in Yorkton, and this quarter's relocation of our flagship Edmonton branch to significantly larger premises. Whereas Saskatchewan accounts for just 7 percent of our total loans, it contributed nearly 20 percent of our growth in real estate loans over the past 12 months. It's gratifying to see these results confirming the strategic investments we continue to make within our core markets. Going forward, we plan to continue to grow our presence and increase brand awareness within our targeted business lines and geographies.

Despite our overall solid financial performance this quarter, the operating environment remains challenging. This is especially true with respect to net interest margin and the ongoing challenges of persistently low interest rates, a relatively flat yield curve, and competitive factors. Tracey mentioned our long-term strategies for mitigating pressure on net interest margin, which include targeting stronger relative growth and higher yielding loan portfolios. Growth in equipment financing and leasing explicitly supports the strategic focus and we continue to make good progress in this regard. Real estate project loans, which I've already discussed, represent our second highest-yielding portfolio. We continued to gain traction on our strategic focus on general commercial loans, an area which also provides meaningful opportunities for us to strategically build on our base of core relationship-based deposits. While recent growth in this area has been somewhat lower than anticipated, it's partly the result of approved credit facilities that have not yet drawn. Taken together, the potential growth represented by undrawn credit facilities, our promising pipeline of new commercial business, and continuing enhancements to our commercial banking products and services support our expectations for relatively strong growth in this core portfolio over the long term. Based on the overall level of activity in our markets and our pipeline for new loans across all segments, we are confident in our ability to continue to deliver double-digit loan growth in line with our target range of 10 to 12 percent.

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 $51 million represented just 30 basis points of total loans outstanding compared to 33 basis points last quarter and 41 basis points last year. Experience over the course of several credit cycles supports our view that gross impaired loans will likely fluctuate above the current very low level but overall credit quality is expected to remain stable. This view is reinforced by our secured lending practices and disciplined underwriting as well as the positive overall economic outlook for our key markets.

The western provinces continue to generate the bulk of employment growth in Canada. Alberta accounted for two-thirds of new jobs created in Canada in 2013 and the very strong in-migration is supporting the population growth required to maintain stable employment conditions. Although these factors primarily reflect a favourable long-term outlook for commodities, the composition of economic growth in Western Canada has broadened in recent years with accelerations in non-resource exports, personal consumption, and housing-related activity. Our key western markets are expected to continue to perform well relative to the rest of Canada, supporting our optimistic outlook for ongoing profitable growth.

I'd like now to shift gears for a few moments and talk about an important people-related strategic initiative on slide nine. Our employees and their relationships with our clients represent our most valuable asset. Providing appropriate training and encouraging strong collaboration within and across our business units reinforces our commitment to success as a team. Planning for the future requires an ongoing focus on organizational depth and succession management at CWB has become an embedded leadership responsibility. With my appointment to CEO last year and Carolyn Graham's upcoming step into Tracey's role as CFO later this year, effective succession is a very relevant topic for our leadership group and the Board. Success in this area, including increased leadership development, will help us drive our strategy forward while supporting our core organizational culture and values. We believe that our investment in people through leadership development is an opportunity to reinforce our commitment to employees at every level. Our goal in this regard is to invest in the best.

Our unique management associate program is instrumental in our objective to grow our own top-notch business bankers and leaders in financial services and we continue to develop programs for mid career high performers and individuals with executive potential at the senior management level. While we work to ensure our employees are equipped to usher CWB into its next phase of growth, we will not lose focus on our clients. Our clients are the reason we exist and our long-term success extends from the execution of targeted financial services offerings where CWB group is best positioned to deliver unique expertise and real value. The recognition that we cannot be all things to all people is a key element of our business strategy our offerings in equipment financing and leasing, commercial banking, personal banking, and alterative mortgages, along with complementary services in trust, wealth management and insurance, will continued to be aligned with our capabilities, risk appetite, and profit expectations.

Wealth management offers an example of our explicit determination to get it right for our clients. We've invested extensively in reviewing our business model in this area. We've conducted client focus groups led by external facilitators to ensure we're getting honest feedback about how we are perceived and to identify unique areas of client need. Based on our findings, we've provided our people in this area with new planning tools and created new positions for dedicated wealth management specialists. These individuals will enable CWB to provide financial planning solutions customized to address the unique needs of our clients. We're also looking at ways to leverage the complementary wealth management solutions offered by McLean & Partners, Adroit, and Canadian Western Financial and we're optimistic about our progress so far. Our focus to be seen as crucial to our clients' futures is the key to our strategy to deliver consistent growth, stability, and value for shareholders. As we execute on this client-focused strategy, we are committed to retaining our culture and our approach to doing business.

Our Western Canadian base continues to be a competitive strength and we remain very optimistic about opportunities for new business across the group. I look forward to reporting back on our progress in coming quarters. Thank you all very much for your time and I will now turn things back over to Tracey.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thanks, Chris, and that concludes our formal presentation for today's call. At this time I'll ask Michael to begin the question and answer period.

QUESTION AND ANSWER SESSION

Operator

Certainly. Ladies and gentlemen, we will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If you have a question, please press star one on your telephone keypad. You can cancel your question if you wish by pressing the pound sign. Please press star one at this time if you have a question.

The first question is from Robert Sedran at CIBC. Please go ahead, your line is now open.

Robert Sedran, CIBC World Markets

Hi. Good afternoon. I wanted to ask about loan losses this quarter and I'm curious to know how like procedurally the loan loss kind of gets set. I know that there's a component of it that's the general or collective and then there's—I don't even know if there were any specifics this quarter at all but how much discretion, how much discretion is there in the number and how much is it formulaic? Because 16 basis points is obviously on the low side and you're guiding to the low end of the range going forward, which would mean a backup from here.

Tracey Ball, Executive Vice President & Chief Financial Officer

Thanks, Rob. So we don't do it specifically the way the other banks do it. We take a look at what we feel that we need to, we expect to charge off in terms of loan losses for the year. And the credit quality is very satisfactory this year in national leasing and in the bank and in Optimum

Mortgage. So our budget expectations, we're guiding to the low end of the range but at this point we may actually be looking a little bit lower later on in the year. We'll have to re-evaluate it. But our credit quality is just quite excellent right now, so... And when you have an expected loss model or, sorry, an incurred loss model, you have to take that into account from an audit point of view.

Chris Fowler, President & Chief Executive Officer

I'd also add in there the specifics are done on a loan-by-loan basis on a discounted cash flow base on what we anticipate realization to occur on that loan, and so the specific is actually the gap between the loan advance and the anticipated collection.

Robert Sedran, CIBC World Markets

But the delta on the general or the collective this time, it's just basically reflecting a pretty good credit environment, and so maybe—it doesn't necessarily need to head back up next quarter is kind of what I'm getting at.

Chris Fowler, President & Chief Executive Officer

Right. We will evaluate that quarter by quarter.

Robert Sedran, CIBC World Markets

And then just a point of clarification, Tracey, on your comment on the margin, you mentioned two things, lower loan yields, and I'm curious to know if that is more from a business mix or competitive environment perspective, and also higher liquidity and if that's just a temporary phenomenon and as that liquidity gets deployed you'll expect to get some of the margin back. I know you're not looking for a big increase in the margin but I'm wondering how much of the 4, 5 basis points this quarter might come back.

Tracey Ball, Executive Vice President & Chief Financial Officer

I wish I had a crystal ball, Rob, to be able to tell you that, but I can tell you that our fixed-rate loans dropped 2 basis points all together this quarter, and that can be due to a number of factors. Competition is certainly one of them but the other thing that happened during the quarter is we had some pretty good draw-downs in corporate lending, and that would be a low-margin business for us but a good risk and geographic diversification. But I don't, the trend is, I don't see a trend for it to go up.

On the liquidity side, we did have some extra liquidity during the quarter because of course we had raised our preferred share equity before we redeemed our preferred shares, but that one, you know, that can just fluctuate on normal course so I wouldn't get too excited about getting 2 basis points back in the third quarter. I think, you know, realistically we're just in this low interest rate environment and basically all we can do is tweak, and to the extent that our competition will outbid us and we want to keep that customer because they're valuable, then we will meet that rate.

Robert Sedran, CIBC World Markets

Okay, that's helpful. Thank you.

Operator

Thank you. The next question is from Shubah Khan at National Bank. Please go ahead, your line is now open.

Shubah Khan, National Bank Financial

Thank you. Good afternoon. So just a quick follow up on Chris' comments there with respect to loan growth, at least for, ah, in the first half of the year was pretty strong, so much of that growth has come, I guess, somewhat unexpectedly, in my view at least, from real estate project loans and corporate loans, and so I was wondering based on what's in your pipeline right now should we continue to expect robust growth in both those portfolios or will the focus going forward revert to sort of general commercial, national leasing, Optimum, that kind of stuff.

Chris Fowler, President & Chief Executive Officer

Well, what we have in this particular point is interim construction loans are a very short duration product and what we see in any particular quarter is ones where they draw off and other quarters where they would draw down. So we kind of look out and we look at our pipeline of loans that we have approved and not funded that we see still a mix of loans. And it's really a timing thing. We have a lot of those interim construction loans that will come back. So I think what we see when we see that, in essence a larger spike of the real estate project loans, we don't see that as a permanent thing, we see that as something that will work its way through. So we are—our pipeline includes undrawn and approved facilities in every one of our portfolios.

Shubah Khan, National Bank Financial

Okay. And then—

Chris Fowler, President & Chief Executive Officer

Timing is always the challenge.

Shubah Khan, National Bank Financial

Sure. Point taken. Maybe just a follow up also to Rob's question on the margin, I think last conference call you highlighted elevated competitive pressures on loan fees in particular, particularly those for real estate project loans. Did that account for a lot of the loan yield again this quarter or was it entirely different factors?

Tracey Ball, Executive Vice President & Chief Financial Officer

No, it didn't count for a lot of it this quarter. Where we saw the big adjustment would be, like the third and fourth quarter last year were very good quarters for loan fees and then when we looked into 2014 competitive factors brought the loan fees down compared to where we thought they would be. But it's been very, it's been stable this quarter.

Shubah Khan, National Bank Financial

Okay, that's helpful. Thank you, that's all my questions.

Operator

Thank you. The next question is from Darko Mihelic at RBC Capital Markets. Please go ahead, your line is now open.

Darko Mihelic, RBC Capital Markets

Thank you. Maybe just a follow-up on the NIM. Tracey, you mentioned some initiatives perhaps on the funding mix. Can you maybe talk to that? And is that meaningful or could it possibly be material for you to improve the margin?

Tracey Ball, Executive Vice President & Chief Financial Officer

I think, Darko, we'll be looking at a lot of aspects of funding and liquidity over the next, oh, foreseeable future. You know, we have continued focus on trying to grow our commercial relationship deposits but we've been slow trying to get a couple of our products out to have a complete cash management account for them. So in terms of our expectation on the beginning of the year, for example, we would have expected to see more growth in those accounts by now, but we didn't, ah, we are not able to launch really a full product mix until the third quarter. So that's going to take some time. I'm sure you're not surprised that there is a lot of competition for retail deposits across the entire bank system right now with the Basel III changes that are coming in from liquidity adequacy guideline. So we do see those rates, for example, in the deposit agent market actually, becoming more competitive. So that's a bit of a headwind. You know, it's not material but I just, there's not a lot that I can see in the next six months that would materially change the cost of our funding.

Our BDN program is good. We're at 320 million I think at the end of the quarter and a year ago we would have been at zero. That saves us about 75 basis points, depending on market conditions at the time versus an agent deposit, but it's 320 million, so it's still a tweak in that sense. So it's going to take a lot of, um, I guess what I call slow burns, you know, to keep our funding, to get our funding mix really where we want it to be. I mean there's strategy, there's training and all that sort of stuff which is going on. We also have our new system that will come on in 2015, which will help us with client relationships and identifying those areas. So I don't see anything material happening soon but everything is focused on that funding mix.

Darko Mihelic, RBC Capital Markets

And then so taken all together, given the low rate environment, perhaps some competitive pressures, a little impact from funding and maybe perhaps liquidity, you know, I suppose the question is we really care about net interest income, not necessarily just the margin, so from the perspective of, you know, it sounds like you are confident on the revenue targets for this year for—

Tracey Ball, Executive Vice President & Chief Financial Officer

That's correct.

Darko Mihelic, RBC Capital Markets

—for CWB, so we can expect maybe some margin compression or flatness, but that really wouldn't put any risk for this year. What about if you have to look a little further out though for next year. Not asking for guidance or targeting but is it realistic to think of it being much more challenging for double-digit revenue growth into 2015 given that your margin is going to have a hard time moving without the benefit of rates.

Chris Fowler, President & Chief Executive Officer

Well, you know, as we look at our different markets, Darko, you know, we have a lot of positive opportunities for more growth and, you know, as I said in my remarks, the in-migration into the west is just significant and the job creation. So there's a lot of GDP being created in our markets that really are targeted at the areas that we lend into. So we see the opportunity for growth not being just out in the next 12 months but we see longer-term growth opportunities. I mean clearly some things would be very beneficial if they occurred, like approval of a natural gas pipeline to the coast or potentially an oil pipeline, you know, things like that would then be even more supportive of that view of that growth opportunity. And most of that type of business is exactly the type of business we like and we lend into. So we do feel very positive as we kind of look out in that even three to five year time period.

Darko Mihelic, RBC Capital Markets

And then perhaps just as a follow-up to that, what about the efficiency ratio? It looks like 46 percent or less is doable. Is it possible to improve upon that next year given the margin pressure?

Tracey Ball, Executive Vice President & Chief Financial Officer

Darko, I don't think it would be, um, I wouldn't go there. I'd stay at 46 percent or less.

Darko Mihelic, RBC Capital Markets

Okay. All right, thanks very much.

Operator

Thank you. The next question is from Sumit Malhotra at Scotia Capital. Please go ahead, your line is now open.

Sumit Malhotra, Scotia Capital

Thank you. Good afternoon. First question is probably for Chris. You made a lot of comments in regards to the yields that you're receiving on the loan portfolio. Wanted to ask you here do you—at what point or how close are you, in your view, to hitting the inflection point in gross yields? And what I mean by that is the point where the new business that you're writing is essentially equivalent to the average yield on the portfolio that you have outstanding. Are we approaching that or is there still some distance to go?

Tracey Ball, Executive Vice President & Chief Financial Officer

It's kind of hard to be that specific. For example, you know, right now during this quarter we had, as you know, a lot of growth in real estate project loans, and those loans would have been put on or approved probably 18 months ago. So, you know, what's the margin on those loans versus what will get funded next quarter is difficult to manage or you've got, again in this last quarter we've had corporate lending that's drawn down and that's a thinner margin. We put quite a few commercial approvals up and we didn't see the draw downs on those, so those are generally a better yield.

I think, um, like in terms of growth, we're quite, you know, very positive about our growth, but the real key is for us to diversify our funding base over the long term and get some benefits there, and that's really why we talk a lot about our commercial focus. And Chris also talked about some of our leadership development and that's why it's a key part of our strategy, because we need to expand that relationship with our clients so that they have more products and services with, that they want to put their deposits with us, and that'll just be a very helpful and necessary part of our strategy.

Sumit Malhotra, Scotia Capital

Tracey, what would you say the, and this is another one that might be a little bit too specific here but if you were to offer the average duration of your commercial portfolio that's outstanding right now, what would you peg that at? Would it be in the two to three year range?

Tracey Ball, Executive Vice President & Chief Financial Officer

It depends on the sector.

Chris Fowler, President & Chief Executive Officer

I would say that—so we have about half our book floating rate, half our book fixed rate. On the floating rate side, that would comprise our commercial book, which would be a mix of floating rate term and operating loans, plus all the project loans are floating rate. The project loans probably have a duration at the short end of 18 months, at the long end of three years, so in the average two years, let's say, on the project loans. On our fixed rate lending, which is commercial mortgages and equipment finance being the national and the equipment finance book in the bank, you'd be looking at, on average, about a 33 to 36 month average duration across that book, so that would be kind of how we're thinking about those sort of splits, and how we fund it of course. The short-term rates are up. I mean there's a lot of competition on those shorter-term deposits right now.

Sumit Malhotra, Scotia Capital

I guess what I'm trying to get at with a lot of this is whether there was periods of time, especially after the, ah, let's say moving into 2010 when we had a couple of interest rate hikes, it seemed like maybe we were on the upward swing, was the business that you wrote then at much better spreads than what we've seen as of late and perhaps as that stuff rolls off that's what's depressing the average yield on the portfolio. I get the feeling that might be some of it but there are other issues that are also impacting the aggregate yields.

Chris Fowler, President & Chief Executive Officer

It's definitely part of it, Sumit. And when we look at our fixed rate loans as they, ah, kind of look at the maturities coming out, we're seeing less of a gap between the maturing rates and the market rate, whereas a year ago that was a bigger gap. So that is certainly a metric that we do look at.

Sumit Malhotra, Scotia Capital

Okay, let's move on to something else, and specifically I wanted to look at your wealth management business. Obviously you did another acquisition in that space about a year back and we're seeing a pretty healthy uptick as a result of the acquisition and because of market conditions in your wealth management revenue line. The bank's done a couple of deals in this regard and, Chris, I was hoping you could maybe emphasize or maybe talk to us a little bit about the strategy that you're thinking of in regards to wealth going forward. Is it an area that we should expect CWB to be more acquisitive and one that you want to comprise a larger portion of revenue going forward or is it always going to be more of an ancillary business line for the bank?

Chris Fowler, President & Chief Executive Officer

Well, it's definitely an area we're very interested in. We've made, of course, the two acquisitions, the most recent being a year ago with McLean & Partners. And so what we are in the midst of doing right now is we're reorganizing how we have those relationships at the branch level to make sure that we're having the correct conversations. We're doing a lot of training internally. So, looking out, we see wealth management as a key ancillary add-on to our core commercial banking. Core commercial is our focus and the owners of those companies would be the prime candidates for the wealth management side. So we see—looking forward, expect to see us talk about it more, because we do see it as one of those products that allows us to have a closer relationship with our commercial clients. So we see that as a very good opportunity and we're continuing to investigate.

Sumit Malhotra, Scotia Capital

So expect to hear you talk about it more but should we expect to see you acquire more in that area?

Chris Fowler, President & Chief Executive Officer

We have to—we are interested absolutely in growth and if that is organic or through acquisition, that's something we will continue to evaluate and make sure that we are, you know, making the correct steps for how we see our ability to grow. So acquisitions are absolutely possible. We're just making sure that we're doing it correctly as we move forward.

Sumit Malhotra, Scotia Capital

Last question for me is just wanted to revisit the progress behind the scenes, if you will, on the move to the AIRB methodology. I know this is something you've talked about in the past. At least from my seat I haven't heard too much from you directly in this regard. Is everything still on track as far as that process is concerned? I know we're still a few years out but just wanted to get an update from you on where things stand.

Tracey Ball, Executive Vice President & Chief Financial Officer

I'll start and then Chris can fill in afterwards. So we can't really do a tonne on AIRB until our core banking system has gone live. So that's the first thing. So that's, you know, the middle of 2015 is when we anticipate that we could go live with that. We are currently searching for a chief risk officer and we are looking for someone there that has some very good experience with going towards the AIRB. We're certainly setting up our credit score cards to become AIRB-compliant. We are getting our data quality ramped up through Moody's, having it done in a central location so that the financial statement data is generated in very high quality, which is necessary to prove, you know, your loss given default, your probability of default. So everything is moving along but the timeline will not have changed from the last update. So I'll just ask Chris to add on anything I missed.

Chris Fowler, President & Chief Executive Officer

No, you didn't miss anything. It is a multi-year project. We probably mentioned to you before we did have one of the large accounting firms give us a good roadmap that we are following as we look at the risk management process that we put in place that supports the AIRB application. So certainly our goal is to be very transparent and upfront with how we look to improve those risk management processes and, you know, engage with conversations with our regulator as we go along.

Sumit Malhotra, Scotia Capital

Thanks for your time.

Operator

Thank you. The next question is from Sohrab Movahedi at BMO Capital Markets. Please go ahead, your line is now open.

Sohrab Movahedi, BMO Capital Markets

Hi. Just a couple of quick ones. Just to follow up from Sumit's question, the loan growth that we're seeing here seems to be keeping track with the RWA growth, so is it fair to assume then that the riskiness, if you will, or the risk-weighted asset intensity of this loan growth is no different than the rest of the portfolio?

Chris Fowler, President & Chief Executive Officer

Oh, absolutely. We're growing in our core businesses.

Sohrab Movahedi, BMO Capital Markets

Okay. And then, you know, when you were talking about keeping revenue, you know, focused on revenue, even with margins declining, can you just give some colour as to what is happening, for example, to the size of loans, the new business that you're lining? I'm just trying to get a sense of, um, are you, you know, are you having to compromise your risk appetite, not so much from a quality of credit perspective but from a size of credit perspective, on names that you like just to defend basically that revenue growth forecast?

Chris Fowler, President & Chief Executive Officer

Well, we have established limits that we'll lend to individual borrowers and we've set our maximum loan at $50 million, but our core business, depending on the line of business, is a much smaller book than that. Our average loan in national leasing, for example, is $25,000. Our equipment finance group, the average loan is about $750,000. Our core commercial sweet spot is $2.5 to $20 million in a range. And then we have some—on the real estate project loans we might have multi-project developers where we'd be a little bit higher, and we do participate in some corporate syndications, which be in that $15 million to $40 or $50 million range. So we're very conscious of our exposures and our limits by name. So we look to continue to build a balanced book. We don't deviate from how we create our concentrations, both geography by industry and by loan size, and we're very comfortable in how the book is growing and don't find it to be skewed in any one particular area.

Tracey Ball, Executive Vice President & Chief Financial Officer

Our credit risk appetite has not changed. So what you'll see on the margin from a competitive point of view when we have those pressures is if we want to keep, we want to keep the client because it's a really good credit risk and a really good relationship for us and there are competitive pressures on the rate, then we will meet the rate. But it would be very unusual to change any terms. We're just, we're not that type of lender. We're not trying to go up the risk profile.

Sohrab Movahedi, BMO Capital Markets

Okay, that's helpful. Just one last one for me: Is the competition domestic or is it coming from south of the border?

Chris Fowler, President & Chief Executive Officer

Well, competition depends on loan portfolio. Because we are targeted in different specific areas. So if we, say, start with real estate project lending, that competition is entirely domestic. It's the big banks and HSBC would be our primary competitors there. On equipment finance, GE Capital is still our number-one competitor in that market. Plus the other banks are in there as well. So where we've seen the U.S. banks come in has been on some of the corporate syndications and I wouldn't necessarily say that we're competitors there. We're participants in those loans. But our general competition is domestic.

Sohrab Movahedi, BMO Capital Markets

Thank you very much.

Operator

Thank you. Once again, ladies and gentlemen, please press star one if you have a question at this time.

The next question is from Scott Chan at Canaccord Genuity. Please go ahead, your line is now open.

Scott Chan, Canaccord Genuity

Thanks. Good afternoon. Chris, just going back to the wealth management and the strategy, a lot of other Canadian asset managers have been buying out private wealth. Some leave it independently, some integrate it all together into one kind of solution. In terms of Adroit and McLean & Partners is there kind of a strategy, a separate strategy there, or is it going to still be run independently?

Chris Fowler, President & Chief Executive Officer

Well, our current strategy that we've deployed with those two companies is that, um, we have shared ownership, so we have management that still owns a portion of each one of those companies, so when they come to work every day they're still in their own business and they're building their clients, and the strategy we have in place is that where the bank can provide banking service to their clients, that's a great opportunity, and where they can provide wealth management opportunities to the bank clients is a great opportunity for us. So that's how we're structuring it.

What we've added into that mix is a wealth management layer within the bank where we have that ability to take those products and services that Adroit and McLean have and market that internally within the branch. So we're doing client surveys to ensure that the clients e have in the branch networks, we have a really good understanding of how they view wealth management products, what makes sense to them, do we have the right mix of products, are we able to deliver to our clients. So the structure we have today is the one we're following but, again, as I mentioned earlier, it's an evolution. We see this as a great opportunity for us as we continue to build our core commercial business, and wealth management is a great adjacent product to continue to build those relationships.

Tracey Ball, Executive Vice President & Chief Financial Officer

And there's a lot of (inaudible) demographics right now. So just to maybe anecdotally illustrate how that can work really well is we have a commercial banking client who sold their business recently, because they're in the later years of baby boomers or whatever, and they've sold it for $80 million, and we're in discussions with them as to how much they want to keep in GICs or in their operating account and they're talking to one of our wealth management people about managing their capital as they get older. So we can keep them within our group and that's very attractive.

Scott Chan, Canaccord Genuity

Okay. Thanks a lot, guys.

Operator

Thank you. There are no further questions. I would like to turn the conference back over to you, Ms. Ball.

Tracey Ball, Executive Vice President & Chief Financial Officer

Okay. Well thanks, Michael, and thank you very much, everyone, for your continued interest in Canadian Western Bank. We look forward to reporting our 2014 third quarter results on August 28th. If you have any follow-up questions or comments, please call us or contact us by email, and thank you very much and have a good day.

Operator

Thank you. Ladies and gentlemen, your conference has now ended. All callers are asked to hang up their lines at this time. Thank you for joining today's call.
