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CWB.TO - Q4 2017 Canadian Western Bank Earnings Call

EVENT DATE/TIME: DECEMBER 07, 2017 / 7:00PM GMT

CORPORATE PARTICIPANTS

Carolyn J. Graham *Canadian Western Bank - Executive VP & CFO*

Christopher H. Fowler *Canadian Western Bank - President, CEO & Non-Independent Director*

Matthew Evans

CONFERENCE CALL PARTICIPANTS

Gabriel Dechaine *National Bank Financial, Inc., Research Division - Analyst*

Lemar Persaud *TD Securities Equity Research - Analyst*

Marc Charbin *Laurentian Bank Securities, Inc., Research Division - Financial Services Analyst*

Meny Grauman *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Nick Stogdill *Crédit Suisse AG, Research Division - Research Analyst*

Robert Sedran *CIBC Capital Markets, Research Division - MD & Head of Research*

Stephen Boland *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

Stephen Theriault *Eight Capital, Research Division - Principal & Co-Head of Research*

Sumit Malhotra *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CWB Financial Group's Fourth Quarter and Year-End 2017 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to hand the floor over to Matt Evans, Head of Investor Relations. Please go ahead, sir.

Matthew Evans

Thanks, Karen. Good afternoon, and welcome to our call, everyone. As Karen said, my name is Matt Evans, and I head the Investor Relations team for CWB Financial Group.

Presenting to you today is Chris Fowler, CWB's President and Chief Executive Officer; and Carolyn Graham, our Executive Vice President and Chief Financial Officer. Also with us today are the other members of CWB's executive committee: Kelly Blackett, Glen Eastwood, Darrell Jones, Stephen Murphy and Bogie Ozdemir.

Before we begin, please note that the conference call graphs, quarterly results, news release, annual MD&A with audited financial statements and supplemental financial report are all now available on our investor relations website at cwb.com. Let me also remind you that our call today may include forward-looking statements, and it's possible that actual results may differ materially from these statements. Our forward-looking statements advisory is found on Slide 13, and the agenda for today's call is on the second slide.

I'll now turn the call over to Chris.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Thanks, Matt. I'll begin with our fourth quarter and fiscal 2017 performance highlights and comment on the continued execution of our strategy. Carolyn will follow with detail on our financial results before we move to the question-and-answer session.

Moving to Slide 3. This morning, we reported very strong fourth quarter and full year results from our continued success executing CWB's balanced growth strategy. We maintained our clear focus on business owners in 2017, while delivering growth across a broader geographic footprint, with increased industry diversification. We made significant progress toward the upcoming transformation of our capital management processes, and we also worked to ensure our technology investments and ongoing process improvements position us to meet the rapid pace of growth and change within our industry.

Alongside this strong strategic execution, we delivered record total revenues from core operations and record core pretax pre-provision income. Performance from core operations excludes the 2015 divestiture gains. We also delivered higher net interest margin every quarter, positive operating leverage, strong credit quality and increased our annual common share dividend for the 25th consecutive year. To cap off the year, we announced a significant strategic acquisition.

Carolyn and I both have more to say about the strategic benefits and expected financial impacts of this purchase. As a preface, I'll emphasize we expect the acquired assets to contribute at least $0.10 of adjusted cash earnings per common share in both the fiscal 2018 and 2019, which related positive contributions to return on common shareholders' equity, net interest margin and operating leverage.

Turning to Slide 4. Our balanced growth strategy includes the very clear objective to deliver strong growth of full-service client relationships with a focus on business owners. Balanced growth means a broader geographic footprint, reduced industry concentrations and improved funding profile for the bank and more full-service clients. We have actively sought to develop geographic diversification opportunities outside of Western Canada beginning in 2010 with the purposeful expansion of CWB Optimum Mortgage into Ontario and the acquisition of National Leasing.

Our goal has been to significantly expand our future growth opportunities without compromising the competitive advantage conferred to our focus on business owners. Our results in fiscal 2017 include clear evidence that our strategy is working. Without question, our performance this year exemplifies the benefits of broader geographic diversification. We delivered loan growth of 6% on a full year basis. While Alberta continues to recover from a prolonged recession, our non-Alberta loan book grew 11% on a full-year basis and 4% this quarter alone. Our key portfolio of general commercial loans grew 12% overall, including 18% growth outside of Alberta. At the same time, we remain active supporting and seeking new business with Alberta business owners, and we're starting to see green shoots in the economy here. With our businesses across the rest of the country delivering very strong performance, we are well positioned to benefit as Alberta recovery gains strength. The bar graph on Slide 4 tells this story. It demonstrates the progress we've made over the past year against our geographic diversification objectives. CWB Maxium and CWB Franchise Finance have both delivered strong performance since we acquired them last year, and both have made significant contributions to the execution of our balanced growth strategy. Combined with ongoing growth from CWB Optimum and National Leasing, we delivered a net increase of more than $1 billion in CWB's Ontario-based loan balances. This very strong well-diversified 31% increase and significant expansion in the proportion of CWB's total portfolio located in Central and Eastern Canada. Loans east of Manitoba now represent 23% of our total portfolio, up significantly from 17% last year and 10% in 2010 when we acquired National Leasing.

We are clearly making steady progress towards our strategic goal to achieve a 30-30-30 geographic split between BC, Alberta and Ontario. And looking forward, we're working to leverage the investments made in our powerful banking system to enable clients in Central and Eastern Canada to become full service.

I'm pleased to report the asset purchase we announced on the last day of fiscal 2017 will continue to move us forward towards our diversification goals. In closing, the acquisition on January 31, 2018, we expect to bring on approximately $900 million of assets, 3/4 of which were originated in Central and Eastern Canada. About 80% of the acquired portfolio is concentrated within the equipment finance and leasing category, with the balance comprised of general commercial loans. These assets are concentrated with the industries we know well, including transportation, construction and health care, with portfolio yields and security types generally comparable to our existing exposures within those industries.

While it's our intention on closing -- to execute all -- on all high-quality retention and renewal opportunities, I'll note that this portfolio has a relatively short duration, and we do expect some degree of portfolio runoff for these assets in the near term. Leaving the future acquisition benefits aside, fiscal 2017 was a strong year for the industry -- for industry diversification, as shown on Slide 5. For example, general commercial loans now comprise 27% of our overall portfolio, up from 22% last year. Our balanced growth strategy specifically targets growth in this area. General commercial activity represents the largest segment of Canada's economy, and client relationships in this segment provide opportunities for CWB to deliver full range -- our full range of products and services. This includes lending, cash management, business savings and other deposit services, along with personal banking and targeted wealth management and Trust Services for business owners.

Including ongoing strong performance from CWB Optimum Mortgage, personal loans and mortgages now represent 20% of overall loans compared to 18% last year. Steady increases in this category over the past several years mainly reflect the better than 20% annual growth CWB Optimum has delivered on a consistent basis. Going forward, we expect the growth rate for this business to more closely resemble the overall growth across the rest of the loan portfolio. This includes the expected moderating impact of changes to guideline B20 as well as CWB's overall risk appetite for Alt-A mortgages as a proportion of total loans.

Looking at other real-estate-related parts of the book, growth of the real estate project loans slowed this year in a manner consistent with our expectations. Loans within this category comprised a significant proportion of our overall growth in 2015 and 2016. With the contraction this year, these loans now represent 17% of total loans, down from 19% 1 year ago. While we actively support strong developers within our markets, the lower growth rate in this portfolio in the past year is consistent with our strategic objective to deliver balanced growth across all categories over a full cycle.

Our balanced growth strategy will continue to target further geographic and industry diversification through higher relative growth in Central and Eastern Canada, concentrated in areas such as equipment finance and leasing, general commercial loans and personal loans and mortgages, with more moderate relative growth across our geographic footprint within real estate project loans and commercial mortgages.

Slide 5 also demonstrates success against our balanced growth strategy to grow and diversify our funding sources. Targeted growth of business and personal deposits raised to our branches remains a key focus, and the average balance of branch-raised deposits was up 7% compared to 2016. Other funding highlights include a new record for annual issuance of senior deposit notes in capital markets, increased used securitization funding through the addition of the second partner, continued participation in the NHA MBS program and our inaugural participation in the CMB program. Of note, broker deposits were unchanged at 36% of total funding, and the average balance of broker deposits was unchanged from 2016. This aligns with our strategic objective to maintain broker deposits at a stable dollar value and a reduced percentage of funding, complemented by targeted growth in other categories.

As a reminder, the deposits we raised through the broker market are fixed-term deposits, with terms to maturity between 1 and 5 years. We do not offer demand products, such as high-interest savings accounts. To conclude my remarks, it's clear that successful execution of our balanced growth strategy is creating long-term value for shareholders. We met our medium-term performance targets in fiscal 2017, with the exception of adjusted return on common shareholders' equity and the dividend pay on ratio. I'm pleased to report that both of these metrics are trending in the right direction.

As we close fiscal 2017, I want to thank our people for their passion and commitment to help both our clients and CWB achieve our strategic goals. Today, through execution of our balanced growth strategy and our technology investments, we have an incredible opportunity to create exceptional client experiences for business owners across Canada. There's no doubt in my mind that CWB's future looks more exciting than ever before. Thanks to our tremendous teams, I'm very confident in our ability to achieve our full potential together. With that, I'll turn the call over to Carolyn.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Thanks, Chris. CWB Financial Group delivered a very strong fourth quarter and fiscal 2017. Fourth quarter common shareholders' net income of $61 million and record core pretax pre-provision income of $104 million were up 27% and 17%, respectively. Record quarter total revenue from core operations of $196 million increased 16% from the same quarter in 2016, with a 14% increase in net interest income, along with higher noninterest income. Net interest income benefited from a 6% increase in average loan balances and a significant 28 basis point improvement in net interest margin to 2.64%. Earnings growth also benefited from a decrease in the provision for credit losses to 20 basis points of average loans compared to 24 basis points in the fourth quarter last year. These factors were partially offset within common shareholders' net income by higher noninterest expenses and acquisition-related fair value changes. Diluted earnings per common share of $0.68 and adjusted cash EPS of $0.74 increased 26% and 25%, respectively. The gain-on-sale related to the appointment of a successor trustee for CWBT's exempt market securities business contributed $0.06 to adjusted cash earnings per common share. On a full-year basis, common shareholders' net income of $214 million and record core pretax pre-provision income of $391 million were up 21% and 10%, respectively. Strong earnings growth primarily reflects 10% growth of total revenues from core operation to a record $729 million, along with a normalized provision for credit losses. Total revenue benefited from 10% increase to net interest income and growth of noninterest income. Higher net interest income was driven by the combined impact of 6% loan growth and a 14 basis point increase in net interest margin to 2.57%. Growth of noninterest income mainly reflects higher credit-related fees, the CWT-related gain on sale and higher wealth management fees. These factors were partially offset within common shareholders' net income by growth of noninterest expenses, higher acquisition-related fair value changes and increased preferred share dividends. Diluted earnings per common share of $2.42 and adjusted cash EPS of $2.63 were up 14% and 16%, respectively. On Slide 8, fourth quarter net interest margin of 2.64% was up significantly, increasing 28 basis points from the same period last year. This mainly reflects higher asset yields and strong strategic execution, with favorable changes in the mix of both assets and funding sources. Net interest margin increased 4 basis points from the third quarter. Full year net interest margin of 2.57% increased 14 basis points, with sequential increases in each quarter. This steady improvement resulted from factors similar to those I've just described, partially offset by incrementally higher funding costs. Incorporating the impact on both asset yields and deposit costs, Bank of Canada rate increases in July and September contributed approximately 6 basis points to fourth quarter net interest margin. The benefit compared to the third quarter was partially offset by higher average balances of cash and securities. On a full-year basis, the Bank of Canada rate increases contributed approximately 2 basis points to net interest margin.

For our net interest margin outlook, there are a number of key factors to consider. Acceleration of loan growth in 2018 may require increased utilization of the relatively higher cost broker deposit funding channel. And we may periodically hold higher average balances of cash and securities, both in the event of macroeconomic or financial market volatility and in preparation for upcoming maturities. Competitive pressure on loan yields is expected to remain, and deposit costs are expected to move incrementally higher in 2018 due to both competitive factors and expectations for a lagged impact from the 2017 Bank of Canada rate increases. However, the combined positive impact of successful strategic execution and higher asset yields is expected to support incremental higher net interest margin over the near term. We anticipate that contributions from the relatively higher-yielding assets to be acquired at the end of the first quarter should more than offset the impact of more moderate growth within both CWB Optimum Mortgage and CWB Maxium compared to last year.

Chris described the growth expectations related to CWB Optimum a few minutes ago. CWB Maxium nearly tripled their outstanding loans this year to reach more than $850 million. More moderate growth from this business line is expected going forward, as the process to renew loans originated and securitized prior to CWB's acquisition runs its course. Overall, we expect incremental net interest margin improvement of between 5 and 10 basis points in 2018 compared to 2017's full-year NIM of 2.57%. This includes the estimated full-year contributions from the 2017 Bank of Canada increases. Slide 9 shows our strong efficiency ratio. The fourth quarter efficiency ratio of 4.6% improved from 47.0% last year, with the CWT-related gain-on-sale more than offsetting a number of seasonal expense increases and nonrecurring items. While noninterest expenses were up 10% for the full year, effective control of discretionary expenses continues across the group, and the 2017 full year efficiency ratio was stable at 46.4%. We delivered positive operating leverage of 0.3% for the year. We will continue to be disciplined in our expense control to deliver our medium-term performance targets. Recent increases to our cost base reflect last year's acquisitions as well as strategic investment in both technology and people to support exceptional client experiences and contribute to our AIRB transition. We've offset these increases with a stronger rate of revenue growth, including important contributions from our CWB Maxium and CWB Franchise Finance businesses, with future benefits expected from the January 31 closing. We fully expect our investments to drive future revenue growth and contribute to positive operating leverage over the medium-term. Turning to Slide 10. Overall credit quality remains consistent with our traditional range and reflects CWB's secured lending business model, disciplined underwriting practices and proactive loan management. The fourth quarter provision for credit losses was 20 basis points of average loans. This was down from 24 basis points in the same period last year and unchanged from last quarter. On a full-year basis, the provision for credit losses of 23 basis points is consistent with our traditional range of 18 to 23 basis points and slightly better than our previously stated expectations for the full year provision to fall in the range between 25 and 35 basis points. The annual provision last year was abnormally high at 38 basis points due to the impact of energy-related losses. We've reduced the balance of loans to oil and gas producers substantially over the past 2 years, and it now represents less than 1% of our total loans. We do not expect material credit impacts related to our remaining energy loans going forward. Overall, we expect the fiscal 2018 provision for credit losses as a percentage of average loans to be relatively consistent with 2017. I'll also remind you that

CWB will implement the IFRS 9 accounting changes on November 1 of 2018, 1 year later than the large banks. Slide 11 shows the level of gross impaired loans at October 31. Gross impaired loans totaled $168 million and represented 72 basis points of total loans compared to $127 million or 58 basis points last year and $168 million or 72 basis points last quarter. While Alberta-based loans represents 33% of CWB's overall loan portfolio, impaired loans within Alberta accounted for 63% of total impairments. The overall higher balance of impaired loans as a percentage of total loans compared to last year, with an increasing proportion of impairments located in Alberta, is consistent with our prior expectations, and reflects the lagging impacts of the 2015, 2016 regional recession. Gross impairments outside of Alberta represented 40 basis points of total non-Alberta loans compared to 44 basis points last year, reflecting a normal operating environment across most of the country. The level of gross impaired loans fluctuate as new impairments are identified and existing impaired loans are either resolved or written off and does not directly reflect the dollar value of expected write-offs, given tangible security held in support of lending exposures. For example, approximately $11 million of the balance of Alberta real estate impaired loans at October 31 has been resolved subsequent to quarter-end, with no loss. We continue to proactively monitor all accounts as well as developments within the residential housing sector. With the exception of the greater Toronto area and certain parts of greater Vancouver, Canadian residential real estate markets remain affordable. The change in housing market activity in the GTA, including fewer transactions and lower average prices for detached homes in the second half of 2017, partly reflects a host of macro potential changes implemented by various government and regulatory bodies. We expect revisions to oversee guideline B20 to further curtail market activity, and the changes may reduce the pace of home price increases across the country. With respect to CWB Optimum, as we've said before, we individually adjudicate each loan and focus on good quality borrowers in this segment. Our risk appetite conservatively targets affordably priced homes, and we're disciplined in focusing on the borrower's ability to pay. We assess markets by postal code and continue to actively adjust our maximum loan-to-value criteria based on local conditions. In general, we require larger down payments on more expensive homes to manage our exposure. The average loan-to-value at initial funding for uninsured mortgages was 65% in the fourth quarter, with notable sequential decreases in both BC and Ontario. The average size of mortgages originated by CWB Optimum this year was 348,000, with the average size of each outstanding mortgage at year-end $286,000. Given these relatively low amounts, we do not anticipate that recent increases in the prime rate will result in material changes in our borrower's ability to remain current. I'll note here that our response to the disruptive events in the Alt-A mortgage market earlier this year was supported by a thorough review of our 3 lines of defense risk management framework and risk appetite parameters. Our work here is ongoing, continuous and undertaken to ensure vigilant risk management and strong underwriting. During fiscal 2017, our efforts relating specifically to residential mortgage underwriting were focused to ensure fulsome oversight of all controls, including those in place to detect fraud as well as compliance with the coming changes to guideline B20. Taking a step back, I will note that the general trend in our consolidated balances of loans classified as past due, but not impaired, improved late in fiscal 2017. While some volatility in the balance of impaired loans may continue to be apparent due to the lagging impacts of the regional 2015-2016 recession, the improving trend in past due loans supports a more positive outlook for credit quality going forward. Slide 12 shows our very strong capital ratios at October 31. Under the standardized approach for calculating risk-weighted assets, our Common Equity Tier 1 ratio was 9.5%, Tier 1 ratio was 10.8% and our total ratio was 12.5%. At 8.3%, our Basel III leverage ratio remains very conservative. The 30 basis point increase in CWB's CET1 capital ratio from last year was driven primarily by strong retained earnings growth. Going forward, all capital levels will remain strong, with approximately 30 basis points of CET1 capital to be deployed to close the asset purchase on January 31. We've not purchased any common shares to the normal course issuer bid that was approved in September. We may choose to activate the NCIB in fiscal 2018, but only if the appropriate circumstances become apparent. Yesterday, our board declared a quarterly cash dividend of $0.24 per common share, up $0.01 cent or 4% from dividends declared last year and unchanged from the prior year quarter. Our very strong financial performance this year and optimistic outlook supported our 25th consecutive annual dividend increase. We expect earnings growth to support both the continuation of this trend and migration of our payout ratio towards 30% over the medium term. I will also note that we remain committed to all other medium-term performance targets with no changes. And with that, I'll turn the call back over to Matt for the question-and-answer session.

Matthew Evans

Thank you, Carolyn. This concludes our formal presentation for today's call, and I'll ask Karen to begin the question-and-answer period.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Robert Sedran with CIBC.

Robert Sedran - *CIBC Capital Markets, Research Division - MD & Head of Research*

Chris, you mentioned perhaps seeing some green shoots in Alberta and Saskatchewan. I'm wondering if that means you're now expecting some growth in those provinces in terms of loan balances in 2018? Or whether it might still be too soon to tell?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

I would say that we are still seeing loan demand in Alberta, and what has occurred in the past couple of years actually a lot of early repayments. So I think as we see more stability in our client these and less early repayments, and as that loan demand continues, we would look forward to some loan growth. But we still have a very muted view of the economy, but it's certainly a much better place than it was last year.

Robert Sedran - *CIBC Capital Markets, Research Division - MD & Head of Research*

So with some of that potentially balancing off, I guess, there's some emerging headwinds to growth at least in part of the book in Ontario. Is 6% feel like a number that you -- 6% you did this year feel like a number that you can beat next year?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Well, we're certainly budgeting to exceed it. I mean, again, as we speak to our aspirational growth, we always target to be at low double-digit, where prudent. So as we think about our -- really our footprint now with the branch network, plus our equipment finance group, plus Maxium, plus National Leasing, plus Franchise Finance, we've increased our opportunity to continue to grow. And our focus is to provide that prudent responsible growth, and that's what we're targeting.

Robert Sedran - *CIBC Capital Markets, Research Division - MD & Head of Research*

Okay, and just a quick one and this maybe unfair based on the timing but any thoughts, early thoughts you have on the Basel III release this morning in terms of what it does or doesn't mean to Canadian Western Bank?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So we'll -- we've just clenched it very, very quickly as you recognized it just came out this morning. So we are -- from the early work that we've done in advance of this finalization, we are comfortable looking forward and the question then becomes over what time frame might OSFI implement those changes?

Robert Sedran - *CIBC Capital Markets, Research Division - MD & Head of Research*

Okay. So more to come, I guess?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Absolutely.

Operator

And our next question comes from the line of Meny Grauman with Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Carolyn, you talked about looking for appropriate circumstances to pull the trigger on the buyback. And I'm wondering if you could just provide more detail, what are you referring to in terms of appropriate circumstances?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think that we viewed the NCIB as a capital deployment tool that was perhaps helpful to have in our toolkit if market conditions made sense and we felt that, that was the appropriate use of capital to benefit our shareholders over the long term. I would say with the current levels of our share price, those conditions certainly don't appear to be evident at this point.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Got it. And just turning to risk management on the mortgage book. You talked about your 3 lines of defense. But more specifically, given recent news, what do you do to ensure that you don't have document issues or client misrepresentation in the mortgages that you underwrite? I wondered if you could go into some details just to explain what exactly -- how do you manage that risk?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So I would say that is -- the risk that is in place related to the mortgage sector in general. So the controls that we've had in place since we began, Optimum Mortgage, in particular and the branch business for residential mortgages, as well has been continued to look at, how do we best understand what are the controls and processes that we have in place to verify income looking at the documentation and our policies are always thinking about how do we detect? And if we detect, then we would not fund that deal. So I would say it's just a matter of never losing sight of the fact that, that is a risk in residential mortgage lending. And as we develop, as B20 has developed over time, we continually look at how we can enhance and improve our processes. One of the things that we've done in 2017 is that Optimum Mortgage was the first portfolio where we actually implemented our AIRB models and scorecards. That gave us the ability to risk rate more granularly those exposures and we changed our risk appetite to consciously focus on mortgages that were a better risk quality. And so over the last 6 months, we have, I would say, reduced the risk on our new fundings. So that's been sort of -- it's been an interesting benefit of our AIRB journey that probably for us, came in at an appropriate time with the market developments that have gone on this year.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And just a follow-up question. Just in terms of how you look at risk retrospectively. Do you ever go back once you've written mortgages? Do you audit them to check that the verification has indeed been done accurately? How often would you audit it?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes, so we have an active 3 lines of defense over that business and the other businesses. It includes both a 1A and a 1B function so the business both completes the work and then has a review function that's independent that looks at it. Our credit risk management team also goes in periodically and looks at a cross-section of files and duplicates the underwriting decisions, recalculates the earnings coverage calculations. And then our third line, internal audit, also goes in periodically to look at both of those reviews. The other thing about this portfolio, it's relatively short duration. So most of those mortgages mature on average about 1 year but probably over 2 years would be quite rare.

Operator

And our next question comes from the line of Nick Stogdill with Crédit Suisse.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

If I could start with the acquired portfolio from ECN. Chris, in your opening remarks, you said you expected to contribute at least $0.10 next year and that does frankly seem quite conservative relative to what it was contributing at ECN. So maybe if you could give us some color on what are in those assumptions? How much runoff are you building in? Is there any parts of the portfolio you're intentionally letting runoff? And is there any cross-sell in those numbers -- embedded in those -- the numbers you putting out there?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So I'm going to start and then Chris will maybe come in. We are quite conservative, right? It is a portfolio that we will have for 9 months of the year. It's a relatively short duration, about 2 years on average, so there is -- that portfolio runs off quite quickly. We are working already to allocate the assets that we'll acquire amongst that businesses, National Leasing, CWB Maxium, as well as our Equipment Finance group and identifying tactics and strategies to work very hard on the renewals and retentions. I would say our assumptions on that are -- our assumptions are quite conservative. Our aspirations are less conservative. What else am I missing? Cross-sell opportunity. Our cross-sell opportunities, we will definitely look at as we move forward. That's part of the retention and bringing them into the CWB Financial Group as well.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. My second question, just on the loan growth. It sounds like you're expecting the personal and residential mortgage side to go to the portfolio average. It was up about 16% this year. So is maybe 8% a reasonable level? Like that's what the -- I guess, the portfolio looks like it's running at, excluding that category?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Well, I think, as a Chris mentioned, our sort of our standard growth would be low double digit. So something in that 10%-ish range would be consistent with our expectations.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Okay, so not that much of a deceleration? And then thirdly, just on the margin quickly. You said 5 to 10 basis points. What would it take to -- or what would it take for the result to come in at the low end of that range, the 5 basis points? What are -- what kind of assumptions are in that number versus the 10, I guess. Is it just higher liquidity?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Yes. So I would say the, you know -- as you know NIM is always a tough one to forecast because there's so many moving parts. But I would say at a lower at the lower end or at the lower end of the 5 to 10 basis point range, lower end would mean that we see more movement in the deposit rates. So we haven't seen beyond floating rate, deposit rates, we haven't seen much movement in deposit rates from the first 2 increases. And then the higher end would be either ongoing very little reaction in deposit rates; or stronger growth in the parts of our portfolio that are higher-yielding, and continued successful execution of our funding strategy around deposit rates -- branch rates, deposit growth in particular.

Operator

Our next question comes from the line of Steve Theriault with Eight Capital.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

A couple follow-ups maybe to start. Carolyn, you just talked about branch -- branch-raised deposit growth. A little bit slower in Q4, so maybe just some perspective there if maybe there's some seasonality, what you expect for next year? I guess, should we think about more of the full year 7% growth as what you hoped to build on for next year. Anything on how the new core banking system, which has been in place for a little bit now, is helping on that front?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So I'll start and then I might turn it over to Chris. I think one of the factors in Q4 was that we did transfer $71 million of deposit balances that were included with Canadian Western Trust exempt market security business. So that transferred over to the successor trustee in the fourth quarter. Seasonality, it's a bit hard to predict whether there's seasonality in deposit balances. It's also -- we have significant balances of business deposits in our mix and that tends to more flow with the individual business needs than any particular seasonality through the year. The 7% growth in branch-raised deposits on an average balance perspective would be the -- what we are looking to build off as opposed to the point in time balances. Thinking about our new core banking system, absolutely that technology supports our initiatives to grow branch-raised deposits. We will in the first quarter of 2018 roll out the technology that we are calling the virtual branch, which will give our clients -- our business clients the capacity to do their -- do all of their banking business from the office. So deposit their checks through to remote deposit capture and that will allow us to offer full-service banking to clients who aren't close to 1 of our 42 branches in -- spread across Western Canada. So that would include the clients of CWB Maxium, Franchise Finance, as well as the new portfolio.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

Is it safe to say that we should think of 2018 as a period where you're more piloting the virtual branch and that we are not likely to see a financial impact until '19? Or could we see something sooner?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Yes, I would say that the capabilities that we're delivering through our technology investment, that is a tremendous opportunity for us in capturing more of our clients' business in the businesses that Carolyn has described, including our Ontario-based businesses. So we have -- when you go live with the new product, and we just have a new online business banking, platform going live right now that again, provides much more functionality. So as we roll into 2018 and deliver the virtual branch, it will take time to have that really get more traction, but we see that as a tremendous opportunity for future growth and future ways for us to turn many of our single-product clients into multiproduct and so it's a big opportunity for us.

Stephen Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

Okay. And last thing for me. Just to follow-up on the ECN asset purchase. Just to follow-up that question. So the -- at least or the $0.10 of accretion that sounds conservative. What type of attrition or retention does that build in? Just to get a sense as you've given a sense -- or is it that sense of that is the minimum at, I guess, what I'm looking for is what the $0.10 range implies in terms of retrenched -- retention or attrition?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

So as we look at that portfolio, it has a very -- overall, it has loans out to 5 years but the overall average duration just over 2. So as we look at it -- to be conservative, we're saying okay, so the repayment continuous and then we have about kind of a 10% to 25% retention of that book. As we look at renewing and extending and providing new loans to those existing clients. Our goal, of course, as we look at the relationship opportunities across our National Leasing group or Maxium Financial Group and our equipment finance group is to have this great opportunity to capture new relationships with new clients. So we see it as a tremendous opportunity but as we think about taking in projected numbers, we feel we are being conservative but it is a kind of the duration equation is short so that really why we baked into the conservatism.

Operator

And our next question comes from the line of Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Chris, can you just clarify that? Sorry, I missed the 10% to 25% retention. So as the ECN loans roll off, you're hoping to retain 10% and 25%? I might have misunderstood that.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Well, that's -- the focus is if we think about the balances on the client is the renewal of the existing loans. And that client relationship to continue to build new origination essentially is what we're talking about.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Mathematically, so like 2-year duration let's say, they're all 2-year loans, half would mature next year, you're only expecting to retain 10% to 25% of that?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

So what we have, Gabe, we have a significant number of new client opportunities, that we have the opportunity to market to look to generate new business with. We've got very targeted opportunities with Maxium, with National Leasing, with the equipment financial group. The business of the portfolio that we're acquiring is right down the middle of the road for what we do in core business of the bank. So we believe that these client opportunities are very positive for us but we are looking to be very conservative.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So overall, just to clarify, we are estimating that we will take on portfolio of $900 million at the end of January. And our projections are that, that balance will be around just under $700 million by the end of October 2018. Just to try to sort of -- retention assumptions and all else sort of if we just go to the ending balance, that's what we -- that's what we are projecting.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And just to put some, I guess, more finer point on the term conservatism, that 10% to 25% retention, how would that compare to your normal book where you're -- you're getting repayments and you have to find new -- you lose some customers, you win some new one's, all that stuff. It would be much lower I assume?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

It's not really the same comparison. We're just looking at, I think, as we think about our existing business, we -- what -- this is a fantastic opportunity for us to have a number of new clients in the thousands. So we're really taking it as a tremendous opportunity to again broaden our geographical footprint into more Central and Eastern Canada. This is a portfolio that again as I said, is right down the middle road for us. It's a credit we understand and do in other areas of the bank. So it's a great opportunity for us to continue to grow and it's a great way to start coming in right at the end of Q1 with 3% growth.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Moving on. The margin outlook commentary and I appreciate the multiple facets of that discussion and how you expect that to impact it. One thing you mentioned in your MD&A was on how -- with loan growth accelerates you may have to step up your use of the broker deposit channel, which I get. I am just trying to square that -- some of your opening remarks, Chris, on the percentage of funding represented by the broker deposit channel and how you want to keep that at a stable dollar value and then a declining percentage of the funding because it sounds like it could go the other way if loan growth picks up?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So Gabe, the overall -- our overall, I'd say, in our medium-term forecast horizon is to continue to -- we want to keep broker deposits about the same dollar level outstanding, drive down the percentage of that funding source, as a portion of the whole. And we'll continue to do that through ongoing utilization of securitization of both equipment finance assets and mortgages. But that in the immediate term, if there are strong loan growth opportunities, we may access more of the broker market. That is our incremental funding source as we work to balance things out. So it's a possibility in the immediate term but the strategy that Chris talked about this absolutely remains our medium-term outlook and quarter projections.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. That's the distinction. Optimum growth have started to, I guess, moderate as you'd guided to and you explained in the release. And now you're saying you expect that portfolio to grow at closer to your overall portfolio rate. Let's say, historically, you were up 10%, 12%, or something like that. How much of that decline would you attribute to B20 versus your own restraint? And yes, let's leave it at that.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I would say you've absolutely got the 2 components, they're both factors there. B20 is tough right, we've talked before that there is -- there are absolutely current clients who fit the Alt-A lending space who will no longer fit primarily because of the 200 basis point stress test. We think on average perhaps 20% to 25% of that business might not qualify. We also know that there will be likely A client that no longer fit the A client space and may drop down to the Alt-A space. So there is the combination on how that will play out, we're not exactly sure. And then the other component is just our own thoughts on what our target composition of the loan portfolio is.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And my last one on this, and we did talk about fraud in one of the earlier questions. I don't know if this is something you can answer but I'm just generally curious. You did address it as a risk in this business. So I assume you have some sense of how prevalent it is in the marketplace? Like how often do you see fraudulent or misrepresentation, whatever word you want to use in the applications and is there like how often do you reject it? Is it a big deal?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I don't have statistics handy. I don't think that's something that we'd look to share. But from our perspective, it's just part of the business and it's one of the things that you consider in your underwriting that helps you make a decision of whether you're going to extend a commitment to that particular client. Yes, it's just one of the factors.

Operator

And our next question comes from the line of Sumit Malhotra with Scotia Capital.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Want to start with some of the components of margin. And specifically looking at your balance sheet liquidity. You mentioned in your MD&A that the margin would have been up 6 basis points or to a little bit more than it was, so 6 instead of 4 if not for the change in the liquidities. So last 2 quarters, we had seen that liquidity line trend lower. And I guess my simple question to you, is this just building up some of the assets required to fund the ECN purchase? Or was it something more market or macro-related that caused the turnaround in the liquidity level?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

It was nothing specific. It was just looking at the composition of the portfolio, both on the asset side and on the deposit side and when we have upcoming maturities and when they fall into both the 30-day liquidity coverage ratio, the 90-day NCCF and our own internal liquidity horizon. So nothing in particular there, just looking at sort of what maturities do we have either in the fixed-term deposits or in our capital markets. Nothing in particular and just reflects the prudent liquidity levels based on the current composition of the book.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And the only reason I'm asking about that is when you did a 2.57% margin for the year and you're saying it will be 5 to 10 basis points higher off that full year number next year. You're obviously in that range where you were in Q4. Now I would think that bringing the ECN portfolio over from what we see from their disclosure, I know it's relatively small part of your book. But on day 1, that would be additive to NIM. So is the role that liquidity plays here a major consideration in that forecast for NIM because it does sound somewhat conservative, otherwise.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

The total balances that we'll carry of liquidity is not a major factor, but we are anticipating that deposit costs will start to reflect those 2 Bank of Canada increases in 2018 that we haven't seen yet so far.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. That's fair. Let me go to a couple other items. Just on expenses. I'm pretty used to Q4 true-ups and expenses from the banks. We see that -- we've seen that a few times. You mentioned your expenses were higher in Q4. The items that drove it aren't usually the ones that, for lack of a better term, we think about from a year-end padding perspective. Each of your regulatory cost line was up over $1 million sequentially. Same thing with depreciation. Are these -- are there specific factors that drove those? Or are these more at a run-rate level because it did seem like a decent step-up in both factors.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Both of those lines that you've mentioned, Sumit, had adjustments and true-ups and amortization periods on a couple of things. So we brought them to -- we revised them and recorded the true-up there so they wouldn't be future run rate items. On a regulatory, in particular, with the increase, about half of that increase was this true-up and about half of it was overall costs that will be included in our annual cost going forward but they were recognized in quarter 4 for 2017.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

All right. So not a run rate, and good timing with the CWT again coming as well. Last one for me is in and around capital. So Chris, you're sitting at a rate now at around 9.5% on standardized and 30 basis points goes on the ECN deal. So we've talked a lot about the pickup you'll get when you move AIRB something like 200 basis points. I know we're still a few years away and as was referenced with the Basel IV rules coming out this morning, the regulatory environment continues to shift. But the way you're thinking about capital management, compared to where your larger peers, who are all designated as domestic or in 1 case, global sibs. Do you think you'll be managing capital when you're on AIRB at a lower level than the larger banks? Or do you think that once you're on AIRB, it will be the same rules of engagement for all members of the group?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

I would expect we wouldn't have DSIB add-on for sure. So we would have that as a different way of managing capital. Our anticipation is that we would, obviously, see where we end up with the AIRB opportunity. We believe that is as it is mentioned, a very positive for us for capital. And then we will decide how we best allocate capital given better capital treatment by different loan books. So we'll be very disciplined in how we look to allocate capital across our book and then look to how we deploy it and including how we think about acquisitions, where that -- will be most accretive. So we plan to spend time and make sure that we've got the right strategies in place as we focus on our business mix. It's a tremendous opportunity for us.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

I think the other comment I would make comparing us to the DSIB is that it also needs to factor in a comparison of the business models. So both the scope and scale of financial services that we choose to be in versus those -- the geographies in which we operate that business so those all things come into play as well.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

So just to tie those 2 together and leave at this. So if you're at something like 9.2% pro forma of the deal on a standardized basis, and you think where the AIRB you'd be north of 11%. You still view that as over-capitalized and you would be in a position to contemplate another deployment action if something of interest was to arise. Is that fair, Chris?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Yes, we believe we're in a very strong capital position even with the deployment of capital into the ECN acquisition.

Operator

Our next question comes from the line of Lemar Persaud with TD Securities.

Lemar Persaud - *TD Securities Equity Research - Analyst*

I'm wondering if you guys could talk to why you're not -- you're electing not to adopt IFRS 9 on November 1, '17. Is it simply because the transition requires some significant investment to complete the work required to report under IFRS 9? And perhaps related to that, could there be meaningful expense, outlays required over the next year as the bank works through the implementation?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

So the primary reason why we chose not to early adopt was that we are utilizing the models that are being built for our AIRB journey, and using them for IFRS 9 as well. So those models are just in process. I mentioned that during fiscal 2017, we rolled out the models and the scorecards to Optimum Mortgage, so it is still a bill. So we weren't ready to go live on November 1, 2017 so that election allowed us to have the 2 projects move forward together. From a perspective of costs related to IFRS 9, they are materially considered as part of either the project cost that we consider for AIRB or our regular projections around operating expenses included in the business. So I wouldn't say anything will jump out at you looking through 2018.

Lemar Persaud - *TD Securities Equity Research - Analyst*

Okay, that's helpful. And then in terms of your medium-term goals, I realized that the targets you guys layout are not annual targets, but you have been helpful in the past in guiding whether or not the upcoming year is one in which you expect to fall within these targets. Perhaps this question is for Chris, but I'm wondering if you could offer any commentary based on the current macroeconomic environment as you see it today whether or not it feels like 2018 will be one of those years you -- we could expect CWB to fall within your medium-term targets?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Well, as we look into the year, I think, we're -- we -- again, as I mentioned before, we're optimistic. We believe the acquisitions we've made the last couple of years with the Maxium acquisitions, Franchise Finance acquisition, we look at the addition of ECN into the book as a great start in fiscal '18, so we've got an improving economy in Alberta, certainly it's much more stable than it was, so we are seeing green shoots here. We've got the strongest economy in the country, is still BC so that is another good market for us. So when we look at our different lines of business, the footprint in which we are gaining traction. We feel positive on 2018 but we will, again as we say, we are -- we budget for that low double-digit growth but in a very prudent way. We will take the steps forward that we believe are the prudent steps to take.

Lemar Persaud - *TD Securities Equity Research - Analyst*

Okay, would it then be fair to say that based on where you stand today, it's possible that you could be within those targets?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Well I think that for -- if we think about 2017, we were in those targets and ROE and dividend payout ratio were moving in the right direction there. So I would say for 2018, that statement's probably consistent as well.

Lemar Persaud - *TD Securities Equity Research - Analyst*

Okay, that's helpful. And just to put a -- just to tie up the questioning on noninterest expenses. Was there anything unusual because like I'm used to seeing a build in Q4 for all the banks essentially, but it does seem unusually high this year. Is there just anything at all in there that is nonrecurring in nature?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Well, I've talked about a couple of items to Sumit's question, so those items, a number of them are true-ups that wouldn't be in the run rate going forward. I would say the other 1 that we have in there is a -- some higher provisions around our long-term incentive plan so we do hedge our exposures related to these share price movement of those plans but a higher share price also impacts the payout probability factors so that's factored in as well. So that is a -- that is not a onetime item but it just depends on how we perform and how the share price performs as well.

Operator

And our next question comes from the line of Marc Charbin with Laurentian Bank.

Marc Charbin - *Laurentian Bank Securities, Inc., Research Division - Financial Services Analyst*

Quick one. Can you guys comment on the uptick in charge-offs in the quarter?

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

In write-off?

Marc Charbin - *Laurentian Bank Securities, Inc., Research Division - Financial Services Analyst*

Yes, that's right.

Carolyn J. Graham - *Canadian Western Bank - Executive VP & CFO*

Let me just -- bear with me while I get there.

Marc Charbin - *Laurentian Bank Securities, Inc., Research Division - Financial Services Analyst*

I've $17 million versus...

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Yes, $17.5 million.

Marc Charbin - *Laurentian Bank Securities, Inc., Research Division - Financial Services Analyst*

(inaudible) 2 quarters.

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Right. So there's no particular timing for net charge-offs. I mean, when loans come into impairments, and you work them through, you set up a specific allowance. You determine what that individual loan situation will be, and you then take the charge-off when you believe that's the right time. It's typically when the loan is resolved and you feel there's no further recovery and it's just that finalization. So there's no particular reason for that net charge-off being in Q4 versus Q3 versus Q1 '18. It's just as the -- as we resolve them and that's really the story there.

Operator

And our final question for today comes from the line of Stephen Boland with GMP Securities.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

Hopefully it will be a good one. Just on the retention on the ECN portfolio. I guess, we'd always been told that this was more not one-off deals but vendor-type relationships where you're vetted with the manufacturer or in the dealership. And so it would provide like a steady, I guess, a steady flow of originations. Is that not the case? Or has something changed or is expected to change that's leading to, I guess, the retention going down so much?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

Well, I think as we look at the duration of the book, we've got -- we're putting in front of it the -- from an origination perspective it does include longer-term relationships, but our goal is to ensure that, as we think about where these balances are going to be, we're being very conservative as we think about the flow rate of it. So as Carolyn mentioned, we're starting -- we believe the starting point of $900 million at the -- at January 31 and at the year-end, about $600 million and then -- $700 million, I'm sorry. And then as we look at that, sort of that balance, our goal is to manage those relationships to continue to build them, to put the right people from our teams in front of those client opportunities. So we're definitely being conservative but, I think, that's prudent to be conservative, but our goal is to really take advantage of this opportunity. It's a wonderful opportunity. It's a well-built business in an area that we, again as I say, it's right down in the middle of the road for us from a credit perspective. And it does this acquisition, it does eliminate a competitor as well. So it's got a number of different opportunities for us.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

What would you -- what is the largest, I guess, vendor relationship? Can you disclose that at all out of the 900? Is there a 10% concentration manufacture or dealer-type company, nothing like that?

Christopher H. Fowler - *Canadian Western Bank - President, CEO & Non-Independent Director*

No. Yes, nothing to disclose on that.

Operator

And that concludes our question-and-answer session. I'd like to turn the floor back over to CWB for any closing comments.

Matthew Evans

Thank you, Karen, and thank you all very much for your continued interest in CWB Financial Group. We look forward to reporting financial results for the first quarter of 2018 on March 8. And with that, we wish you all a good afternoon and a happy holiday season.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a great day.