

EVENT: CANADIAN WESTERN BANK 2008 SECOND
QUARTER RESULTS CONFERENCE CALL

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OPERATOR: Good afternoon ladies and gentlemen and thank you for standing by. Welcome to the Canadian Western Bank Second Quarter Results Conference Call. At this time all participants are in a listen-only mode. Following the presentation we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press the star key followed by zero for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded today, Thursday, June 5th, 2008 at 3:30 p.m. Eastern Time, and would now like to turn the conference over to Ms. Tracey Ball, Chief Financial Officer.

TRACEY BALL (Executive Vice-President and Chief Financial Officer): Thank you, Patrick (phon), and good afternoon and welcome to the 2008 Second Quarter Results Conference Call for Canadian Western Bank. Before we begin I want to quickly note that the conference call graphs, quarterly press release, and supplemental financial information are available on the Bank's website at www.cwbankgroup.com in the Investor Relations section under Financial Report. Conference call graphs are also

available under the Webcast Events section on our website. I'd also like to draw your attention to the forward-looking statement caution on Slide 15.

The agenda for today's call is on Slide 2. Joining me for the presentation is Larry Pollock, President and Chief Executive Officer. Also in attendance are Executive Vice-President Bill Addington, Chris Fowler, Randy Garvey, and Brian Young.

I'd now like to draw your attention to Slide 3 and ask Larry to begin our presentation with an overview of our second quarter results.

LARRY POLLOCK (President and Chief Executive Officer): Thanks, Tracey. We are pleased to report solid financial performance for our 80th consecutive profitable quarter. We are very proud of this milestone as it represents a very significant achievement in today's Canadian banking industry. We will continue to enhance our disciplined growth strategy. I am confident we can extend this success for years to come. Another milestone in this quarter was surpassing \$10 billion in total assets. This is one of the original objectives our founding (phon) directors, and compares to an \$8 billion balance sheet at the same time last year, and \$4 billion just five years ago.

While total revenues and earnings growth continued to be constrained by a lower net interest margin, this primarily relates to ongoing

market disruptions that have posed increased challenges for the entire financial sector. Both of our segments performed well. Consolidated results were in line with our expectations despite continued pressure on net interest margin. Year-to-date results are up in good position to meet all of our annual performance targets led by expectations for another year of high-quality double-digit loan growth.

Economic fundamentals in our markets remain quite healthy, although we are seeing slowness in certain areas. Problems in the forestry industry continue to pose challenges for some of our clients. However, we are seeing signs of a turnaround in the national gas industry with gas prices nearly doubling since last winter. We expect this circumstance should result in improved performance in this area moving forward. Moderated residential sales activity is still apparent in some markets. But this compares to an unsustainable level of activity in recent prior period.

Overall, Western Canada's economic environment combined with the Bank's expanding market presence continues to support a solid flow of new high-quality lending opportunities. Compared to 12 months ago, we have also noted reduced competition in some areas of our businesses. Gross impaired loans have increased compared to the extremely low

levels seen over the recent past, but remain well below historic norms when measured against total loan growth. Our portfolio reflects our ongoing strong credit discipline and almost all loans are secured by tangible assets. Overall credit quality remains strong. We are well reserved in position to manage future swings in the credit cycle.

Another highlight in the quarter was the opening of a share transfer services office in Toronto. We are optimistic Valiant's expansion in the Canada's largest market will provide new opportunities for future growth in this business. As stated in prior periods, the Bank has no direct exposure to troubled asset-backed commercial paper, CDOs, US subprime lending, or monoline insurers. We are still maintaining high liquidity in response to market disruptions. Our strategy is to bring liquidity back to more normal and historic levels as market events continue to be sorted out.

Yesterday, our Board of Directors declared a quarterly dividend of \$0.11 per share. This represented a 10% increase compared to the previous quarter, and it was 22% higher than the dividend declared one year ago. Dividends are expected to remain at the high-end of our target payoff ratio for 2008 at 20% to 25%.

I will now turn things over to Tracey who will provide a summary of the financial highlights beginning with Slide 5.

TRACEY BALL (Executive Vice-President and Chief Financial Officer): Thanks, Larry. Second quarter earnings of \$25.3 million or \$0.39 per diluted share were up 14% and 11% respectively compared to the same quarter last year. Second quarter performance reflects very solid net income from banking and trust operation driven by strong growth on both loans and other income. Canadian Direct Insurance also posted good results with an earnings contribution of \$2.2 million. Total revenues on a taxable equivalent basis were \$73.8 million, an increase of 10%. Return on equity at 16.1% was 70 basis points lower than the same quarter last year while return on assets was down 13 basis points to 1.04%. These lower profitability ratios were mainly attributed to a constraint in interest margin.

Compared to the previous quarter, net income was down 2% reflecting a lower net interest margin, increase on interest expenses and two fewer revenue earning days in the second quarter. A 1% decline in total revenues from the last quarter also reflects the lower net interest margin in two fewer days, largely offset by continued strong loan growth and a \$500,000 increase in other income.

Slide 6 shows our year-to-date results. These include net income of \$51.2 million, up 20% over the prior year period. These earnings per

share of \$0.79, up 18%, total revenues on a taxable equivalent basis of \$148.4 million, a 16% increase reflecting 13% growth in net interest income and 25% growth in non-interest income. Return on equity of 16.5%, a 40 basis point improvement, and an ROA of 1.05%, an eight basis point decline compared to last year.

The next few slides summarize the highlights for our banking and trust operations beginning with Slide 7. Net income of \$23.1 million was up 18% over the same quarter last year on 12% growth in total revenue. Compared to a year earlier, total revenues reflect 10% growth in net interest income with very strong loan growth offset by a lower net interest margin. The second quarter net interest margin of 2.26% was 39 basis points lower than last year mainly due to increased deposit costs related to disruptions in the financial market, consecutive reductions in the prime lending interest rates, and the elevated liquidity level.

Growth in non-interest income of 25% reflects increases across almost all areas led by \$1.6 million higher gains on the sale of securities, foreign exchange and other, and a \$1.1 million increase in credit-related service fees. Gains on the sales of securities were mainly realized due to favorable pricing observed on certain government debt investments held in the securities portfolio while credit fees were up in line with strong loan

growth. Net income was down 6% compared to the previous quarter mainly due to the impact of the compressed net interest margin, a \$1.7 million increase in non-interest expenses and two fewer days, partially offset by a continued loan growth. Lower net interest margin was primarily due to the reasons already mentioned other than liquidity.

Slide 8 details of progress we have made in generating additional deposits through our branch network in Canadian Western Trust. Growth in total branch generated deposit kept pace with strong loan growth, increasing 2% in the quarter and 23% over the past 12 months. Within branch deposits the demand in notice component was up 6% in the quarter and 34% over the past 12 months. Quarterly growth in demand and notice deposit reflects the ongoing success of our Summit Savings® account, which grew to over \$500 million in total deposits. We are pleased customers have embraced this product and it supports our strategy to further diversify funding, and has proven to be an effective cross-marketing tool to increase customer awareness of the Bank's other products and services.

Demand in notice deposits comprise 29% of deposits to quarter end, up from both 27% in the previous quarter and one year ago. The branch generated deposit measured as a percentage of total deposits remained

unchanged from the previous quarter at 64%, down from 67% last year with the decrease reflecting increased liquidity rates through the deposit broker network.

Slide 9 shows the financial highlights for our insurance segment. Canadian Direct recorded earnings of \$2.2 million, a \$400,000 decrease from the same quarter last year that was possibly impacted by a \$700,000 before-tax contribution from the Alberta auto risk sharing pool. This impact is also reflected in the second quarter claims-loss ratio, which increased to 64% from 58% last year. Insurance earnings benefitted from a 5% growth in net earned premium from an increased policy count partially offset by lower average premiums per policy in the BC auto product line in reaction to the competitive pricing strategies of the Insurance Corporation of British Columbia. Combined ratio for the quarter of 92% was 500 basis points higher than the same quarter last year reflecting the pool's impact and higher claims experienced in the core business partially offset by a 100 basis point improvement in the expense ratio.

Net income increased \$700,000 over the first quarter due to improved claims experience attributed to the post winter weather, partially offset by a \$100,000 lower before-tax contribution from the pool and a decrease in net interest income due to two fewer days.

Slide 10 shows results in comparison to our fiscal 2008 performance target. As Larry mentioned, through the first six months we are in a good position to meet all of our annual targets despite the impact of reduced net interest margin.

I'll now turn things back to Larry, who will provide comments on outlook and strategy beginning on Slide 11.

LARRY POLLOCK (President and Chief Executive Officer): Thanks, Tracey. Our outlook for this year remains positive notwithstanding disruptions in financial markets and the marked economic slowdown in the US. The graph on Slide 11 shows second quarter pro forma income and EPS under different net interest margin assumptions. As shown, a net interest margin equivalent to our 10-year average of 2.60 would have added almost 0.09 or \$0.09 per diluted share net income, which would have been over \$30 million. The yield curve appears to be resuming a more normal shape, spreads to Canada have come in somewhat and pressures on deposit costs appeared to have eased slightly as well. We expect net interest margin will return to more normal historic levels over time, which should provide strong momentum for earnings growth in future periods.

I refer you to Slide 12. While economic growth has moderated in response to increased uncertainties and the economic slowdown in the US, we expect Western Canada will continue to outperform the rest of the country. There is a great deal of infrastructure remaining to be built. New deal flow remains healthy despite ongoing softness in certain areas. Credit quality also remains strong and within our expectations. As shown on the graph are our historical non-performing loans measured against average loans have averaged about 90 basis points over the past 10 years, and we are currently at 55 basis points of average loans. Loan losses even during higher levels of non-performing loans have not produced losses much in excess of our 15 basis point average. We still have a vibrant economy, relatively low interest rates, high employment, and strong commodity prices, which is not the environment that produces high loan losses when you maintain a strong credit culture and a secured loan portfolio.

I refer you to Slide 13. Trust services are showing strong momentum and we're very optimistic about opportunities for future growth in both Canadian Western Trust and Valiant Trust. Canadian Direct Insurance also continues to provide solid contribution and produced a 100% return on investment in just four years on an after-tax basis. We

have a tremendous opportunity to improve revenue diversification by enhancing other income sources, which is a key component of the fourth (phon) pillar which is business enhancement of our strategic plan. Our income target is to produce 30% of total income going forward. Trust insurance and other income can also be increased by selling more products to our existing customers.

Slide 14: Canadian Western Bank's strategic priorities remain centered on people, infrastructure, process, and business enhancement. We're making solid progress on all these fronts and remain committed to maintaining the Bank's excellent efficiency ratio. Our new corporate structure also dedicates more attention to enhancing our business. With Bill Addington, one of our Executive Vice-President is now concentrating his efforts exclusively on this area. As I mentioned, the outlook is positive despite disruptions to the financial markets and softness in some sectors. Overall we are maintaining our expectations in line with all of the Bank's fiscal 2008 performance targets. We still have significant untapped growth potential in all of our markets and I'm looking forward to continuing strong financial performance both this year and beyond.

I'll now turn things back to Tracey.

TRACEY BALL: Okay. Thank you, Larry. And that concludes our formal presentation for today's call. At this time I'll ask Patrick to begin the question and answer period.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question and answer session. If you have a question, please press the star key followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you're using a speakerphone before pressing any keys. One moment please, for your first question.

Your first question comes from Michael Goldberg of Desjardins Securities. Please proceed.

MICHAEL GOLDBERG: Thanks and good afternoon. I'm just wondering if you could give us some help in understanding the sensitivity of your net interest margin, you know, what suppose that the prime stays at four and three quarters through all of the third quarter, could you give us some idea what happens to your net interest margin, all other things

staying equal? In other words, just to get an idea of the impact of the role of your deposits during this time.

TRACEY BALL: Michael, it's Tracey. I don't have that specific of a number. The -- as you know, our prime base loans are going to re-price immediately, the change in price. If the price stays consistent then the shorter term deposits are going to catch up. I don't know, that would -- that's probably close to 6 or 7 basis points just based on the difference between our first quarter this year and our second quarter. But the deposit costs are really the key driver right now in the margin compression.

MICHAEL GOLDBERG: Right. So, you know, as what you're saying that, you know, roughly speaking, if all other things stay equal, if prime stays at four and three quarters, you know, that could add 6 to 7 basis points to the margin?

TRACEY BALL: That would be a guess. Yeah, that's what I'm seeing.

MICHAEL GOLDBERG: Okay. Also, can you give us some color on movements into and out of non-performing status during the quarter? In the first quarter, you had a fairly high level of formations and this quarter it is lower about \$5 million, were there any, curious (phon) sales and repayments included in that?

LARRY POLLOCK: I'll try that one, Michael. You turn the clock back a couple of years where we really didn't have any non-performing loans to speak of, their numbers were so small, they didn't measure very well.

MICHAEL GOLDBERG: Right.

LARRY POLLOCK: And then we started to see some formations, as you just noted. It takes a while to do the workouts and have those mature and start to come out of non-performing status. I think the third quarter, fourth quarter this year you'll start to see some of those move out, though you will still have others coming in, but it should stabilize, and that again is a guess, because you never know really -- really know for sure. But as I said in my earlier comments, we've not talked about non-performing loans, we have secured loans, and historically, on the graph if you look at formations they ebb and flow, but the actual losses have tracked right in around 15 basis points, well, because when your securing, you just have to dispose of your security and sometimes that takes a little bit of time.

MICHAEL GOLDBERG: Right.

LARRY POLLOCK: We're not anticipating alarming or high losses. We're extremely well reserved as you know. We continue to put reserves

up through those years when we really didn't have any non-performing loans.

MICHAEL GOLDBERG: Okay. And my last question is, to the extent that you can talk about them, could you give us some idea of the talk (phon) of acquisition opportunities that you mentioned in your report that you're exploring?

LARRY POLLOCK: Well, as you well know, it has been reported everyday in the papers, banks around the world are looking around and they are designating certain assets as non-strategic. And we have become aware of a lot of these situations where, as you know, very careful in how we conduct our business and what assets we look for, but we do look for new traits in acquiring assets, it should be accretive and they should be strategic. In other words, if you're buying something, what can you do with it in the future? How can you grow it? What does it do for your existing business? And we have to answer all those questions. We are going through that now and really what has happened is a lot of assets have been designated non for or non-strategic or they're assets that are redundant to a certain bank or they're trying to raise capital by disposing of capital intensive assets, and we're continuing to look at those opportunities. So we're not at the stage where we'll be announcing

anything and we're strictly in the exploratory stage, though, that's what we meant by that comment.

MICHAEL GOLDBERG: Would it be something that would be more likely a portfolio acquisition? In other words, you know, a bunch of loans or would it be something that could add to your non-interest income, you know, as you said that's a strategic objective to grow non-interest revenue as a percent of total revenue.

LARRY POLLOCK: Right, in both of those areas. We were looking to enhance both our non-interest income and enhance our asset growth through portfolio acquisitions, absolutely.

MICHAEL GOLDBERG: Okay. Thank you very much.

OPERATOR: Your next question comes from John Aiken of Dundee Capital Markets. Please proceed.

JOHN AIKEN: Good afternoon. I apologize if this is answered in your prepared comments; I'd jumped on to the call late, but are you -- I guess this is probably for Tracey -- are you actively beginning to manage down the level of liquidity that you have, and thus should we expect to see some at least near term relief (phon) fund spreads?

TRACEY BALL: Actually, John, I'll let Randy Garvey answer that question.

JOHN AIKEN: Okay. Thank you.

RANDY GARVEY: Yes, John, we are bringing down our liquidity levels to kind of more historical points, and we've actually started doing that and it should start to benefit our margin over the next couple of months.

JOHN AIKEN: Randy, is it safe to say that by early 2009, fiscal 2009, you should be able to see, you know, all loss being equal that would you plan on getting back to more normalized liquidity levels?

RANDY GARVEY: All else being equal, yes.

JOHN AIKEN: That's great. And I guess, Larry, question for you, in terms of, I guess, retail branch expansion, we've seen from stabilization; are there any plans to expand the network in the near term?

LARRY POLLOCK: Yes, we actually have three bank branches either under construction or those close to being under construction; they've taken a lot longer than we had originally anticipated. But, yes, we are absolutely interested in expanding our branch network and also expanding the size of existing branches which sometimes get lost in the numbers. We have increased significantly the size of some of our

branches by just, you know, building out the floor plate and adding more business.

JOHN AIKEN: Larry, the three branches; are they going to be retail and commercial or are some of them going to be your commercial only locations?

LARRY POLLOCK: Both. Retail/commercial lease will be full service units ranging in size, Randy, from what, 6,000 to 9,000 feet?

RANDY GARVEY: They're initially all going to be in the 6,000 to 7,000 foot range.

LARRY POLLOCK: With a plan so that we can expand them to a bigger floor plate, because we hadn't traditionally done that and we've found that was a challenge for us.

JOHN AIKEN: Great. Thanks very much.

LARRY POLLOCK: Good, John.

OPERATOR: Again, ladies and gentlemen, if there are any additional questions at this time, please press the star key followed by the one. As a reminder, if you are using a speakerphone, please lift the handset before pressing any keys.

Your next question comes from Sumit Malhotra of Merrill Lynch. Please proceed.

SUMIT MALHOTRA: Hi, good afternoon. Question regarding the dividend first off, in your comments they would be in the high end of the 20 to 25 range for the balance of the year. Do you expect in the second half to actually be within that range; is that appropriate way for us to think about it?

LARRY POLLOCK: Yes. Well, if you look at our forecast or target for this year and do the math, we would be in that range of 20% to 25%, which should be \$0.42 for '08.

SUMIT MALHOTRA: Okay. I guess in terms of targets the one that was more interesting to me was on the revenue side, and just to see (phon) how it relates to the spreads, I think you're basically in line with that target in the first half of the year, and those three moving pieces you talked about for spreads; the liquidity, the prime rate, and the market disruption, it seems like a few of them might go in your favor, but the comment on the market disruption was still a little bit dicey in terms of your funding costs. Are some of the other income lines when you talk about moving up to a 30% target, how achievable is that in the near term, or is that more of a

medium term issue that you're looking at, because obviously securities gains has been one area in the first half of the year that's been bigger than usual?

LARRY POLLOCK: Yes. Well, we're seeing growth in certainly our trust and the insurance company, so we're looking for a continued growth there. The income in the bank has held up very well. We're seeing opportunities to price loans up from historical pricing levels, seems to be a little bit less competition, which gives us more opportunity, but re-pricing your whole book takes time as the loan comes up, if for example, you've got a one year commitment out there and it's priced off Canada's, it's going to – it's not going to be producing much income, though you do the annual review and renegotiate the pricing level. Well, this takes time to build a back up, so really the margins in there are key focus right now and we try to put a little color around that with just one of the charts in the presentation. And hopefully that helps you on the margin side

SUMIT MALHOTRA: Yeah, that's obviously the ones they threw with a few moving pieces. Looks like you're going to help it with liquidity, prime rate, we might have one more move next week, the one that's the wild card is what you're seeing in terms of your deposit costs, and it

sounds like that one is the one area where you might still see some pressure; is that the right way to think about it?

LARRY POLLOCK: Yeah. Really that's not in our control.

SUMIT MALHOTRA: Not in your control, yeah.

LARRY POLLOCK: It's really dictated by the lack of liquidity other financial institutions have and their desire to price their deposits up just to fill that liquidity gap. And we're working – we're going to continue to grow our loan book, we have to move those pricing levels, but we've seen them come off a little bit the last -- I guess, Randy, what, three weeks, a month?

RANDY GARVEY: Yeah, last month.

LARRY POLLOCK: Yeah.

SUMIT MALHORTA: Okay. Thanks for your help.

OPERATOR: Ms. Ball, there are no further questions at this time, please continue.

TRACEY BALL (Executive Vice-President and Chief Financial Officer): Thanks, Patrick. And thank you very much everyone for your continued interest in Canadian Western Bank. We look forward to reporting our 2008 third quarter results on September 5th. As always, if

you have any follow up questions or comments, please call us or contact us by e-mail. Thank you and good day.

OPERATOR: Ladies and gentlemen, this concludes our conference call for today. Thank you for participating. You may now disconnect your line.