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SECOND QUARTER RESULTS
CONFERENCE CALL

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OPERATOR: Good afternoon ladies and gentlemen. 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 star followed by zero for operator assistance at any time. I would like to remind everyone that this conference call is being recorded on Thursday June 4, 2009 at 3:00 p.m. Eastern Time.

I will now turn the conference over to Ms. Tracey Ball, Chief Financial Officer. Please go ahead.

TRACEY BALL (Chief Financial Officer, Western Bank Canada):
Thanks Alysa (phon) and good afternoon everyone and welcome to the 2009 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 cwbankgroup.com in the investor relations section. Conference call graphs are also available under webcast

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events. Also before we begin, I want to draw your attention to our forward-looking statement advisory on slide 13.

The agenda for today's call is on slide 12. Joining me for the presentation is Larry Pollock, President and Chief Executive Officer. Also in attendance, our Executive Vice-President Bill Addington, Chris Fowler, Randy Garvey and Brian Young.

I will start by providing a brief summary of our second quarter financial highlights beginning on slide three, and then I'll turn things over to Larry for an overview of our outlook strategy.

In line with recent prior quarters, our intent is to leave the bulk of the call for Q&A and discussion on strategy. We will not recite in detail the numbers already disclosed in our report to shareholders issued this morning.

The bank's second quarter and year-to-date performance reflects the realities of our recessionary economic environment and ongoing challenges for the financial services sector. Positive impacts from loan growth were 1 percent in the quarter, 5 percent year-to-date and 14 percent over the past year, continued to be offset by the significantly lower net interest margin. Gains on the sale of securities augmented results

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again this quarter, as we capitalized on opportunities to crystallize gains, while maintaining convertible yields on other high-quality investments.

The dollar level of growth compared loans was down slightly compared to last quarter due to the resolution of some accounts. While impaired loans will fluctuate as we progress through the cycle, (inaudible) today, actual losses are expected to remain in an acceptable range. Our stable expected losses reflect the bank's secured lending practices and ongoing strong credit disciplines. We also have no unsecured credit card portfolios.

We were very pleased in the quarter to close our previously announced preferred unit offering. Private and public offerings were both fully subscribed, including the over (inaudible) granted to the syndicate of underwriters. In total, 8.4 million in preferred units were issued for total proceeds of nearly 210 million. We paid the initial cash dividend on these shares in April.

Moving to slide four, another major highlight in this quarter was the celebration of the bank's 25th anniversary. We marked a significant milestone by holding events in most of our major markets, including special celebrations in Edmonton, Calgary and today in Vancouver. Canadian Western Trust opened a new trust services office in Toronto in April, and

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now both CWT and Value (phon) have offices in Toronto, which supports are objective to increase market presence and geographic diversification.

Yesterday, our Board of Directors declared a quarterly dividend of \$0.11 per common share. This quarterly dividend is unchanged compared to both previous quarters and the dividend expires one year earlier. The Board of Directors also declared a cash dividend for 33 preferred shares payable on July 31, 2009 to shareholders of record on July 23rd.

Moving to slide five. Second quarter net income of 21.6 million was down 15 percent compared to a year earlier, as the positive impacts from strong loan growth and a 25 percent increase in other income was more than offset by ongoing margin compression and higher non-interest expenses. Included in non-interest expenses this quarter was 1.7 million of additional non-cash stock compensation expense, which Larry will touch on later.

Before and after-tax impact on this additional non-cash charge equated to \$0.03 per diluted common share. Second quarter diluted earnings per common share of \$0.30 were down 23 percent compared to the same period last year. This drop equated to \$0.09 per diluted common share and includes a \$0.04 impact from the initial cash dividend on preferred shares and a \$0.03 impact from the previously noted additional

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stock compensation expense. For comparison purposes, excluding these two factors, diluted variance per common share were down 5 percent compared to a year earlier.

Also compared to the same time last year, the increase in other income mainly reflects 4.6 million higher gains on the sale of securities and a one million increase in the combined contribution from Trust and Wealth Management services, partially offset by 1.3 million lower credit related fee income, reflecting reduced loan volume.

Total revenues on a taxable equivalent basis of 75.4 million were up 2 percent over last year. Again, the positive impact from strong loan growth and increased other income was offset by a 5 percent drop in net interest income.

Looking at the next slide. Return on common shareholders equity of 11 percent represented a 510 basis point decline from the same quarter last year, while return on assets was down 34 basis points to 0.70 percent. The impact from the compressed margin was again the main factor contributing to reduced profitability ratios, although the dividend payment on preferred shares further accentuated these declines.

Net income was down 16 percent compared to the previous quarters, reflecting higher non-interest expenses, three fewer revenue

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earning days and further margin compression. Total revenues were down 2 percent reflecting a comparable decline in net interest income. Net income year-to-date of 47.2 million was 8 percent lower compared to the same period in 2008, while total revenues decreased 3 percent to reach 152.3 million.

Slide seven summarizes the rapid and significant decline in the bank's net interest margins. As shown, consolidated second quarter net interest margin of 1.93 percent represented a 35 basis point decline compared to a year earlier, and six basis points lower than last quarter. To roughly illustrate the magnitude of this, under the assumption that the bank achieved its senior average net interest margin of about 2.6 percent based on our current asset position, second quarter net interest income before taxes would have been almost \$35 million higher OLC (phon) in April.

Consecutive decreases in the prime lending rate to its current historic low of 2.25 percent, coupled with increased deposit costs were the main factors impacting net interest margin compared to last year.

On a more positive note, we believe interest rates have bottomed, market spreads are definitely improving and overall deposit costs have begun to ease noticeably. These are all positive indicators for our net interest margin going forward.

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I'll now turn things over to Larry who will provide comments on our performance, targets, outlook and strategy beginning on slide eight.

LARRY POLLOCK (President and Chief Executive Officer, Canadian Western Bank): Thanks Tracey. This slide shows our results compared to our 2009 performance target ranges. It is clearly evident that the compressed margin and recessionary environment has impacted our performance much more than anticipated when we first established these ranges last year. The 175 basis point drop in the prime lending rate was much greater than we projected, and has had a negative impact on both total revenues and profitability.

While gains on sale of securities have helped alleviate margin pressures to some extent, this is not a sustainable source of income. We see these gains more as a bridge to higher margins in the future. Another factor impacting certain performance targets is the dividends on our preferred shares. This was not a consideration back in October when our targets were set.

The economic environment has flow—new deal flow, which combined with expected loan repayments will challenge our ability to meet the target of 10 percent loan growth. Modest improvements are expected

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for the efficiency ratio as improved margins will have a favorable impact on total revenue growth.

We are also actively managing discretionary expenses that are not directly tied to future growth and other strategic initiatives. Based on current credit quality, we continue to believe our targeted annual provisions for credit losses in the range of 15 to 18 basis points of average loans will be sufficient for the foreseeable future.

Moving to slide nine. As Tracey touched on, there are indicators suggesting we may be through the worst of the current operating environment, particularly as it relates to our margin. However, the recessionary environment is clearly evident in our markets and we will continue to be challenged before we emerge from this downturn.

The compressed margin has clearly been the main factor impacting our performance in recent periods, but we are optimistic that margin recovery will be the trend going forward. In addition to the factors already mentioned, our ongoing success in pricing new loans to produce better margins, coupled with over one billion of floating rate loans, which is about a quarter of our total floating loans that we have renegotiated with interest rate floors further supports our outlook. With the current interest rate

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environment, we have also unwound certain interest rate swaps to benefit future net interest income.

With chaos comes opportunities, and the successful closing of our recent preferred share offerings improved CWB's capital ratios to among the strongest of all Canadian banks. As shown on this slide, we are in an excellent position to manage through current challenges, and we have considerable flexibility to pursue a creative growth opportunity. We are committed to leveraging this capital prudently for the benefit of all CWB stakeholders, and we are currently evaluating alternatives in this regard.

The preferred unit issuance was unique to the market and has provided investors with excellent returns thus far. We are confident that common shareholders will also be rewarded from the expected potentially material earnings per share impact once the new capital is fully deployed. The warrants and preps are now trading independently on the TSX, and indicative, CWB would now—will now potentially issue additional preferred shares—or, could now potentially issue preferred shares at competitive yields. This will likely provide additional flexibility in raising capital for us in the right strategic—if the right strategic opportunity arose.

Turning to slide 10, we maintain our belief that Western Canada is well positioned relative to the rest of Canada to manage through current

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challenges. Our provincial governments have strong balance sheets and have enacted considerable stimulus in addition to that announced by the Federal government.

There are also recent favorable trends for certain resource prices, particularly crude oil. Operating profits have come down significantly as well, which is confirmed by the recent announcement—operating costs already have come down significantly as well, which is confirmed by the recent announcement of large capital projects related to the Alberta Oil Sands. Although Alberta and BC's employment picture has deteriorated in recent months, it remains favorable relative to the rest of Canada.

While economic factors have curbed the general level of activity, we have seen recent favorable indicators relating to housing sales. Loan growth will definitely be challenged for the remainder of this year, although margin improvement is our most important focus at this point.

There are opportunities to increase market share and we will maintain our efforts on building customer loyalty through a firm commitment to quality service and common sense business practices.

Non-interest expenses continue to increase and mainly reflect investments in areas related to our long-term strategic plan. These include ongoing development of our subsidiaries and further expansion of the

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branch network. While this has short-term consequences as it relates to our efficiency ratios, these expenditures should provide significant benefits over the long term. We will also be better positioned to hit the ground running when economic conditions improve as opposed to having to rebuild our infrastructure.

We would also like to comment on the pending changes to our long-term employee incentive plan. Historically, CWB's full program in this regard was a stock option plan. Although our results have been steady, the share price has been decimated with the market sell off. In essence, we now have an ineffective health tip plan with no current employee retention value for the bank. Our Board decided to bring CWB's plan more in line with industry practices by reducing the future reliance on stock options by adding a component of restricted share units. The overall cost going forward is comparable to the existing plan and will be left eluded to shareholders over time. In an effort to transition this plan, senior management voluntarily forfeited options without a commitment for a replacement. This was the source of the additional non-cash compensation expense of 1.7 million. It also resulted in a corresponding increase to contributed surplus for a neutral effect on regulatory capital.

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As shown on slide 11, the level of non-performing loans was down slightly compared to the prior quarter, continued above the average of our historic range. Overall, credit quality remained good and impaired loans are still well within normal levels in consideration of the recessionary environment. As expected, we resolved some accounts in the quarter and other problem loans are in various stages of being worked out.

Our loan portfolio is well structured and all current expected losses are reflected in our specific provisions already in place. It should also be pointed out that these levels have not resulted in any material changes to our general reserves or credit losses. Although gross impaired loans will fluctuate up or down as we progress through the cycle, based on our recent assessment, actual losses should remain manageable in relation to our target provisions and strong general allowance.

Moving to slide 12, we show targets relating to our strategic vision over the next five years. The ultimate achievement of these will require further development of the bank, and also our trust, insurance and wealth management businesses. Both will be supported by the ongoing retention of earnings at our targeted level, which is about 70 percent of net income. The new preferred shared capital will also materially benefit our flexibility to meet these objectives.

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Notwithstanding increased challenges and ongoing uncertainties in the near term, this is still a very exciting time for CWB. Our medium term outlook is positive and we look forward to extending our history of strong financial performance, which now stands at 84 consecutive profitable quarters. We are very proud of this accomplishment and believe it to be quite unique in the global banking environment.

I'll now turn things back to Tracey.

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

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct a question-and-answer session. If you have a question, please press the star 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 are using a speakerphone before pressing any keys. One moment please for your first question.

Your first question comes from Robert Sedran from National Bank Financial. Please go ahead.

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ROBERT SEDRAN: Hi. Good afternoon. Just a couple of quick questions. The first is, Larry, your comment on provisions for credit losses, you mentioned the foreseeable future. I'm just curious if that means even looking forward perhaps into early 2010? Or, if that's just basically for the next couple of quarters?

LARRY POLLOCK: Robert, we can—if we can more reasonably predict a couple of quarters than into 2010, but we are quite optimistic about 2010. But, I would hesitate to make any predictions at this point about 2010. '09, I mean, we're well into the third quarter now. So, we're really only looking one quarter forward, and a bit.

ROBERT SEDRAN: Okay. And, that's an annual comment right? In other words—or, is that 15 to 18 basis points, you know, for the next couple of quarters as well? Or, is that 15 to 18 basis points for the full year?

LARRY POLLOCK: Well, 15 to 18 for the first two quarters, so it would still be at the same pace.

ROBERT SEDRAN: Okay.

LARRY POLLOCK: Over the last two quarters. And, we see it now Robert.

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ROBERT SEDRAN: Yes. And, just very quickly, I know it's hard to answer this question every three months, but you know, with the flexibility that you have, are you seeing any change in the acquisition landscape, books of business or otherwise that more or less is coming available?

LARRY POLLOCK: We have looked at a lot of situations over the last while. We're now in the process of kind of wiggling it down to the things that are both strategic and accretive for us, and we'll be zeroing in in the next couple of quarters on some of the things that we're looking at.

Is that helpful?

ROBERT SEDRAN: It is. Thank you.

OPERATOR: Your next question comes from Gabriel Dechaine from Genuity Capital Market. Please go ahead.

GABRIEL DECHAINE: Good morning. The first thing I'd want to touch on is the loan growth. It was pretty slow during the quarter. I'm trying to determine what's, you know, changed I guess versus some of the comments you were making related to less competition in the marketplace, and you know, more opportunity to participate in club deals. I guess, where's the balance kind of swinging in terms of the, you know, loan growth potential?

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LARRY POLLOCK: Yes. There's a couple of moving parts here. We're still seeing a fair amount of deal flow. We pay particular attention to the quality of course. And, some of the deals bouncing around on the street don't meet our quality standards, and the easy way to deal with those is of course, if they're syndicated loans, just to simply pass because we don't lead those.

Another aspect is a lot of the transactions that we have approved are yet to be drawn. And, we experienced this a couple of years ago where companies are maybe a little bit more cautious about making sure they have credit in place, and go out and get their credit facilities renewed and increased, and get ready to move their businesses forward, but they're not always drawn right away.

And, the third one is, we do a lot of construction lending, and of course, it's obvious to everyone that construction is down across Canada, especially in our market place. And, these loans tended to be structured with reasonably high fees but low floating rate returns, because your draws on these loans quite often are not that material. Well, as they pay back, sure we're getting—they're offsetting the growth, the loan growth that we're booking, because you've got this money coming back at you, and neither loans that were started back in '07 and '08, construction loans, and they're

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now completed projects and you end up getting paid. But, we're getting paid back very low yielding floating rate loans, and the new ones we're putting out that are offsetting them gave us materially higher margins.

So, our focus right now is more on the margin than the volume, and there's never been a component of large volumes and low income. I would rather do a little bit lower volumes and get it priced right, because in the long run, that's going to pay off for our shareholders. So, we're focused on that right now, but we are starting to see resurgence of construction lending, because a lot of these projects take a couple of years to actually complete. And, our clients are looking forward a couple of years saying, well, the inventory is going to dry up and we want to be ready with new inventory when we do come out of this recession.

GABRIEL DECHAINE: Okay. My next question is on admins, and sorry if I missed this on the call. But, I looked at some of the OPSI filings and it looks like your fixed term deposits grew quite materially in October, November and December of last year, and can you quantify I guess, you know, what the opportunity is there to re-price some of those deposits? And, what the potential yield pick up could be? It looks like it's about \$1 billion. Most of that is one year, I guess, money?

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LARRY POLLOCK: Yes. What we decided to do as part of our strategy is move our liquidity up quite materially in the latter part of 2008. And, we raised a lot of, mostly one year money. And, your number of one billion is close, maybe a little bit low. And, if you look at what one year money costs today and what it cost a year ago, you're probably looking at more than 200 basis point pick up. Yes, at least 200.

UNIDENTIFIED SPEAKER: 200 for sure.

LARRY POLLOCK: So, there will be a very material impact on our net interest margins as we roll this off. And, it actually starts to roll in July, August, with the bulk of it, you're absolutely right, the bulk of it was in October, November area.

So, this will have probably the most material impact on our bottom line going forward.

GABRIEL DECHAIINE: Okay. That's encouraging. The other aspect you touched upon was the—you're giving up—unwinding some of the hedging. I guess you had some pay floating for received fixed swaps to protect you against falling rates, and that's no longer as advantageous anymore, necessary even. I guess, what's the—you know, how am I supposed to think of that in terms of, you know, how much your book might

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be mismatched? And, is it really the remaining risk of falling interest rates beyond that?

LARRY POLLOCK: Well, we have the view that you can't fall off the floor.

GABRIEL DECHAIINE: Right.

LARRY POLLOCK: So, when you hit the floor, you don't want to be hedged for declining rates when you can't decline anymore.

So, we decided to unwind the swaps. The areas—because they haven't shown up in the—because they're in the money and haven't shown up in the income statement, there's very specific rules around how you treat gains from unwound swaps. And, I can have Tracey comment on that if you'd like. We'll assume you don't want us to, but get into that accounting treatment but those have not shown up as yet. They have to effectively be amortized. The gains have to be amortized. Only the original life of the swap.

So, that's embedded into our income stream and will show up over the next while. And, some of them went out a couple of years.

GABRIEL DECHAIINE: So, between that and like the 200 pick up on the deposits, on the funding side for a good chunk of your funds, there's—you know, could we see 250 basis points of margin in 2010?

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LARRY POLLOCK: We have one graph there that we've shown you and we give you three different scenarios. I mean, you can make your own assumptions as to how long it will take. I for one firmly believe that we will get back to at least our historical margin of an average of 258 basis points. And, the modeling that we've done show quite dramatic turnarounds in margins in the next six to 12 months, and we had our governor of the Bank of Canada say he wasn't going to raise rates until June of 2010. I think he just reconfirmed that yesterday.

So, we're managing our books based on that comment, and if we had an increase, or for whatever reason the Bank of Canada starting move those rates up, that would just accelerate the process. But, because he has made that comment, I think we'll just see us grind it along and renew our deposits and gradually re-price our loans and build our margin back.

But, I firmly believe we'll get back to the 260, and I think we have a comment in here about what it actually means. You can do that math on 60 basis points on nine billion. It's 54 million in pre-tax income.

GABRIEL DECHAIINE: Okay. Thank you. I'll re-queue.

LARRY POLLOCK: Okay.

OPERATOR: Your next question comes from Ian De Verteuil from BMO Capital markets. Please go ahead.

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IAN DE VERTEUIL: Thank you. Is—Tracey, the accounting for the warrants, can you talk through under what scenario you actually would dilute—you'd do fully diluted including the warrants. Is it just above the stock price?

TRACEY BALL: Yes. It's just—it's the same as an option lan, so as soon as the shares start trading through \$15, then we have to...

IAN DE VERTEUIL: It's at 14 isn't it Tracey?

TRACEY BALL: 14 sorry. Yes. 14. And, you'd have to start looking at the diluted factors.

IAN DE VERTEUIL: What would the earnings have been this quarter if the shares had traded above \$14?

LARRY POLLOCK: If the warrants have traded...

IAN DE VERTEUIL: If the stock had traded above \$14, you would have an extra 14 million shares outstanding, and fully diluted. I've done away with the dividends.

TRACEY BALL: Yes. It wouldn't have been material lan.

LARRY POLLOCK: Immaterial.

IAN DE VERTEUIL: Thank you. The—so, going from 63 million to 77 million shares...

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LARRY POLLOCK: They don't do that right way because you're only looking at what you could acquire between the \$14 price rates and the market price.

IAN DE VERTEUIL: Right.

LARRY POLLOCK: An option. Like, you take that as if it's your proceeds.

IAN DE VERTEUIL: Yes. So, that's the only (inaudible) you've shown that comes in?

LARRY POLLOCK: It's very minimal.

IAN DE VERTEUIL: Right. The second question relates to the issue of the spreads, and certainly the re-pricing on the deposit side is going to be a material positive. The other element though is, I think prime in Q2 averaged around 265 and it's currently 2.25. So, I mean Larry, is this what you're referring to? That it just takes time for it to work through, because – and so, that's still compression on the loan side offset by your re-pricing and the re-pricing on the deposit book.

LARRY POLLOCK: That's right. It's just going to take time but we have over a billion now in loans that have—we've effectively, by putting floors on them, converted floating rate loans to fixed.

IAN DE VERTEUIL: Right.

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LARRY POLLOCK: Which is easier to match for us, and it gives us more certainty in what our margin is on them. And, I don't know whether you're familiar with how we've done that, but we would price a loan at prime plus two for example with a floor of five.

So, you're minimum return is 5 percent, but as prime moves up over a period of time, that client will then just pay the prime plus two.

IAN DE VERTEUIL: Right.

LARRY POLLOCK: So, philosophically that's how it works. So, the clients have been quite good about that scenario, and actually some very large sophisticated companies have actually gone on to the floor program.

IAN DE VERTEUIL: Is there any attempt to get the client base off of prime and onto SEDAR?

LARRY POLLOCK: Yes. A lot of clients are actually just doing that on their own now. I know there's some larger deals that could have been priced that way. Bill Addington is going to give you a comment.

BILL ADDINGTON (Executive Vice President of Corporate and Strategic Operations, Canadian Western Bank): I guess the comment I would make Ian is that form of pricing is more prevalent in the corporate world than the commercial.

IAN DE VERTEUIL: Mm hmm.

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BILL ADDINGTON: And, we sort of see that creative pricing in our corporate loan book and we participated in that, but we haven't made any—we'll just try to fix—to cover our commercial loan book, and nor would I think we would go down that path.

LARRY POLLOCK: But, we will in negotiating a new deal in the commercial sector try to steer our client. If it was an industrial equipment as an example, gear that client to a good trade.

IAN DE VERTEUIL: Thank you.

OPERATOR: Your next question comes from Michael Goldberg from Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG: Thanks. I have a few questions. First of all, I just want to confirm that the source of the investment gains was the same as in the first quarter?

TRACEY BALL: Essentially Michael, yes.

MICHAEL GOLDBERG: Okay. And, how much would you estimate that these gains added to earnings this quarter?

TRACEY BALL: About four million—no, sorry. Compared to what Michael?

MICHAEL GOLDBERG: Well, you know, if you figured that last quarter they added about \$0.09 a share, how much would you figure—

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would it be proportionate this quarter? Because, it looks to me like about \$0.07.

TRACEY BALL: That would probably be accurate Michael. Just divide it by 63 million after tax.

LARRY POLLOCK: Yes. You have to tax effect it as well.

MICHAEL GOLDBERG: Okay. Also, can you explain the accounting to me for the forfeiture of the stock options? Because it seems sort of counter intuitive that you extinguish a benefit and that creates an expense. And, can you also confirm that this is a one-time expense?

TRACEY BALL: Good question Michael and that's exactly what the Board's painted me to explain. But, under accounting rules, I would call them, if you have a voluntary forfeiture in the stock option, it's considered to be settled for no consideration and immediately vested. And so essentially, for whatever unamortized cost you have remaining, that you are amortizing over the vesting period, just gets recognized immediately as the next step.

I know it's a little counterintuitive.

MICHAEL GOLDBERG: I still don't understand. Maybe we can pick it up off line?

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TRACEY BALL: Yes. I think it's important to understand that it is sort of a one time item. It's an acceleration of everything that's left from the black—from the option evaluation at the beginning of when they were granted.

But, it's important to understand that it's capital neutral.

MICHAEL GOLDBERG: Great.

TRACEY BALL: The offset, to contribute as surplus.

MICHAEL GOLDBERG: Okay.

TRACEY BALL: From a shareholder point of view, it is a significant expense going through the income statement that, you know, it didn't have a benefit.

MICHAEL GOLDBERG: Right.

TRACEY BALL: It's also non cash.

MICHAEL GOLDBERG: Okay.

LARRY POLLOCK: Non tax deductible.

TRACEY BALL: Yes. Non tax deductible.

LARRY POLLOCK: Right. Now, I also estimate that you had net formations this quarter of about \$2 million. You know, and I guess that's based on new loans that were classified, net of loans that as you noted were rehabilitated to this quarter. Can you give me some idea how much,

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you know, either the gross formations during the quarter were? Or, how much the loans were that got fixed.

And, can you talk about the pipeline for further problem loan resolutions. And also, that pipeline for what you think there may be more going in as you said.

MICHAEL GOLDBERG: Chris can pitch in here if he likes, but...

CHRIS FOWLER (Senior Vice President of Credit Risk, Canadian Western Bank): That's a really hard question to answer because these things—we do monitor them along the way and a lot of them get resolved before they even become non performance. So, we are very proactive in dealing with these well ahead of time. It's just—if they get to the bottom and you can't do anything about them, then they go into the MPL numbers.

So, you end up with a period of time when they're going on and they're coming off. And, a couple of quarters earlier, we never had any non-performing loans before that, but we didn't have any coming off. They were just going on. And now, they've matured and are being resolved and we are now taking them off as you saw this quarter, as fast as they'd come on.

MICHAEL GOLDBERG: How much actually were resolved during this quarter?

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CHRIS FOWLER: Well Michael, on page nine of the quarterly report, there's the new table that we've constructed in there and it shows 29 million of new formation, 27.5 of resolved loans and 2.8 million of write offs, and that's the adjusted number.

MICHAEL GOLDBERG: Okay. All right. That's exactly what I was looking for. And, can you talk about what you foresee for further resolutions of the remaining loans that are still classified?

LARRY POLLOCK: We have a number of them that are being actively managed. We very actively manage these. And, a number of them hopefully will be resolved in the next quarter. And, there are a few of them that we expect will go on. So, I think if you refer to this table, you'll see more of the same going forward.

MICHAEL GOLDBERG: You think that it could be of the same scale as in the latest quarter, you know, in the 25, you know, 25 to 28 million range in the third quarter that come off?

UNIDENTIFIED SPEAKER: Well, we do show you on this new table that the value of the—the outstanding amount of our top 10 loans is 56 million of our (inaudible). So, all of those are at different stages of resolution or mitigation. So, the process is hard to be shown since the timing perspective, but we are, you know, as Larry said, it's very actively

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managing these loans every day, and we had last quarter, had some good resolutions.

LARRY POLLOCK: And, the first thing we do Michael is assess what our potential loss would be and put the specific audit if required. So, all of these situations would have a specific reserve if felt required.

MICHAEL GOLDBERG: Right. Okay. And, my last question, Larry you said you feel quite confident of returning to around a 260 net interest margin. Can you give us some timing on that? When you think you'll get there?

LARRY POLLOCK: That's the part I didn't give you. I said, you can look at our table, which is, I forget what slide number it is, it's in our corporate presentation anyway on our web site. We give you I think three scenarios there, and I really don't know. If you ask me this question a quarter from now, which I'm sure you will remember to do, we'll maybe be able to put a little more colour around it. What we saw this last quarter was a bottoming, we feel a bottoming of the margin compression in the early part of the quarter, and closer to the end of the quarter, an evening of that situation and improving margins starting to lume (phon). And then, we look forward at our deposit re-pricing and the impact of the forwards that we put on our loans and we say, we think that it's—this trend will continue.

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MICHAEL GOLDBERG: Right. So, that's why I'm asking because, you know, what I'm really saying is all other things being equal, if you assume, you know, that prime stays where it is and just look at the re-pricing of your deposits that's coming up, how long would it take you to get back to the 260 level?

LARRY POLLOCK: I think a year from now, when we know or maybe sooner, when we know what the Bank of Canada's position is going to be on prime rates, if that starts to move up and it can only really go one direction now, it would accelerate the process. So, if inflation kicked in and the Bank of Canada said, sorry, we can't wait until June. We have to start raising rates. Our dollar is, you know, at \$1.10 US, it's really hurting our economy and we have to raise in January, I would say, we'll start to see ourselves come back in the first or second quarter of next year.

MICHAEL GOLDBERG: Just so I understand, do you need a prime rate increase to get back to that 260 level? Or, if prime stays where it is right now, would you get there over the next 12 months?

LARRY POLLOCK: We could if—without a prime rate increase, if you could tell me what deposit costs are going to do.

MICHAEL GOLDBERG: Well, suppose they stay where they are now?

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LARRY POLLOCK: Then yes. It depends on loan growth as well and the shifting of your floating to your fixed book. But if—this is just a guess. I would guess that by—within a year from now, I think we'd be looking at margins very close to the 260.

MICHAEL GOLDBERG: Thank you.

OPERATOR: Your next question comes from Barko Michelik (phon) from CIBC. Please go ahead.

BARKO MICHELIK: Hi. Good afternoon. A few questions. I can't resist the one on the unwinding of the hedge. Maybe Tracey, you can help me out here a little bit. It looks like it's a \$5.4 million after tax. Do you gross that up and report it through net interest income over the life, which sounds like it's about two years? Is that about right? Is that how it's going to work?

TRACEY BALL: That's about right. Yes.

BARKO MICHELIK: Okay. I just want to make sure I understood that. And, you have about—or, you did have 517 million of derivatives in notional value, which looks like you've reduced to about 330. So, presumably, you can do this again? Or, I guess, why didn't you just unwind all of them, I guess is the question?

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UNIDENTIFIED SPEAKER: If they (inaudible) our shorter term and there's not as much value associated with them.

BARCO MICHELIK: Okay. I think—all right. That makes sense then. Another question, I guess for Larry or maybe just to finally go back to the question of security gains with Tracey before I ask Larry a final question. Tracey, is it actually tax effective to be taking these securities gains?

TRACEY BALL: It's taxed as ordinary income Barko. It's not capital gains. Like all banks, investments are considered inventory.

BARCO MICHELIK: Right.

TRACEY BALL: So, it's not tax inefficient or tax efficient.

BARCO MICHELIK: So, it's neutral from a tax point of view?

TRACEY BALL: Compared to interest income?

BARCO MICHELIK: Well, I mean, it's just curious—maybe we can take it off line, but I'm just curious that you'd go down that path. But, I guess, finally, the question that I have for Larry is with respect to given that margin is the number one issue for the bank, I guess the core deposit is the issue that I want to key in on. Have you come up with a strategy or something to much more aggressively target the far cheaper core deposit?

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And, would that be something that could be a game changer for Canadian Western Bank, you know, going forward?

LARRY POLLOCK: Yes. A lot of the deposits that have drained out of our retail network have been wholesale money, and this is, I guess, what you call hot money. It really just speaks out to highest rate in the industry, and it's questionable whether these are really your own customers or not, because they are just sort of rate junkies. So, we've run some of that money off, so it would appear that our retail deposits have drained down somewhat.

To counteract that, we have put in an initiative, Chris has done this with—you start with the staff side, and we have recruited senior people now to take a look at our—in our regions, to take a look at our retail deposit gatherings and our whole retail structure, and see how it can be enhanced. And, the discussions I've had with a couple of these people have been extremely positive. They say there's all kinds of wealth to be mined in our branch network still, and you know, historically we have not been as good at running our retail system as we have been running in our commercial system. So now, we're spending more money and time on doing that and building more branches. And, over time that will be enhanced for sure.

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BARKO MICHELIK: But, is it possible that it can become a game changer? Is it material enough that it could actually change your margin for you?

LARRY POLLOCK: Not quickly, no.

BARKO MICHELIK: No. Okay. Thanks very much.

OPERATOR: Your next question comes from Simmit Malholtcha (phon) from Macquarie Capital Markets. Please go ahead.

SIMMIT MALHOLTCHA: Good afternoon. Some of your piers have been helpful this quarter in walking us through the changes that are happening in net interest margin. I think this came up on the call last quarter as well. Would you be able to give us an idea how the—numbers wise, how they nem (phon) trended through the quarter? I can see obviously, the average for the quarter is what you provide us, the 193 or 192. But, where did we end up in the month of April for example, as things got better when you went forward?

LARRY POLLOCK: We saw a fall stack in April from the loans that we experienced in March. We hit bottom in March and we saw a little bit of a balance in April, even though we still had a prime decrease on April 22.

SIMMIT MALHOLTCHA: Mm hmm.

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LARRY POLLOCK: It was only a quarter. It was more than likely the last one. So, we started to see it bounce back, and this was really a result of both the activity that we've had with re-pricing loans and putting forwards in place, and that equated to over \$1 billion, which is more than 25 percent of our floating rate loans. So, we did a great job there.

SIMMIT MALHOLTCHA: So, if your Q2 average was 193, would I be in the ballpark to say that the month of April was perhaps between 2 and 2.1?

TRACEY BALL: That would be too high Starko (phon).

SIMMIT MALHOLTCHA: Simmit actually.

TRACEY BALL: Simmit, sorry. It was just under 2 percent.

SIMMIT MALHOLTCHA: Yes, I thought so. It's a much longer call today Tracey.

TRACEY BALL: Right.

SIMMIT MALHOLTCHA: If we do a prep share issue and the call gets crowded. Let's move onto something else. So, two is too high. I'll keep that in mind.

If I move on to the expense line for a minute, if I look at your compensation ratio, I know we look at the efficiency ratio in total a lot of the time, but if I look at the comp ratio this quarter, even after adjusting for the

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item of note that you flagged, it's maybe the highest one I've ever seen for Canadian Western Bank. And, I think this should—and, maybe I'll answer my own question, is this due to the fact that you brought some additional staff on and we haven't seen the benefit in the revenue line yet? Or, is 33 percent of the comp ratio a reasonable number we should look for going forward? It's up about 200 basis points sequentially.

TRACEY BALL: Well, there's a couple of things, depending on where you're comparing it to, but there's also the impact of the (inaudible). So, we would have had salaries and benefits. And, what we had done in the first quarter is we had put an expense line in for (inaudible) one number, it was an estimate. So, that's actually now been sort of reallocated properly in the second quarter.

The other thing is our Laduke branch (phon) opened up on—at the end of October, so comparing to last year, that'll be a different. As Larry mentioned, we have hired some specialists in head office to boost our retail. And also, in Canadian Direct Insurance, with the, you know, change in the economy, they have been carrying a lot of vacancies in their call centres through 2008 and those are now all stacked up.

UNIDENTIFIED SPEAKER: So, you look at revenue from those positions?

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TRACEY BALL: Yes.

UNIDENTIFIED SPEAKER: Almost immediately.

SIMMIT MALHOLTCHA: Last one for me is on the securities gains side, two parts to the last question. First of all Tracey, can you just remind me on the unrealized securities gains, the line you have the deposits with the financial institutions. What exactly are we looking at here? Because that's certainly been a key driver in the last two quarters in turning around the losses or the unrealized losses in to unrealized gains. Just, what type of positions those are?

And then secondly, certainly the realized gains have been much bigger the last two quarters, and you've talked about the low interest rate environment being an issue there. As longer-term rates have started to move up, should—maybe the gains you're getting in them be somewhat offset by smaller realized securities gains in the upcoming quarters? Is that a reasonable way to think about it as we go back to...

TRACEY BALL: Yes. That's correct Simmit. The opportunities that we had to crystallize those gains were really as a result of, you know, the interruption and the increasing interest rates—well demand, increasing demand for Government of Canada bonds visa vie provincial, for example. So, that allowed us to take gains without changing the quality of the

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investment. Maybe taking a little bit more duration to holding the yields, but that—we've been able to continue doing a little bit of that so far into next quarter, but we can see that with the market spreads normalizing, that's not going to be readily available as we go forward. But then, the margin recovers. So, you sort of get the two washing each other out. But, definitely the gains were used to mitigate the loss on the margins.

I'll let Randy talk a little bit about the first part of your question, which was—what was it Simmit?

SIMMIT MALHOLTCHA: The deposits for the regulated financial institutions. What exactly is driving that unrealized gain higher?

TRACEY BALL: It would have to be interest rates.

SIMMIT MALHOLTCHA: But, what exactly are those deposits? I'm surprised to see that line move so quickly.

UNIDENTIFIED SPEAKER: Deposits with unregulated financial institutions.

TRACEY BALL: Not unregulated.

SIMMIT MALHOLTCHA: I didn't say unregulated. It's regulated.

UNIDENTIFIED SPEAKER: I thought you said unregulated.

SIMMIT MALHOLTCHA: No. No.

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RANDY GARVEY (Senior Vice President of Corporate Services, Canadian Western Bank): They're financial senior deposit notes and instruments like that, and you know, they bear a premium compared to Government of Canada's in that—in similar terms and durations.

SIMMIT MALHOLTCHA: Very short dated?

RANDY GARGEY: Pretty much, yes.

SIMMIT MALHOLTCHA: Thanks for your time.

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

Your next question comes from Gabriel Dechaine from Genuity Capital Markets. Please go ahead.

GABRIEL DECHAIINE: Just—I'll ask a question on the credit here. The eight to 10 largest impaired loans, can you give me a bit of a description there as to what's in there? I can gather, you know, there's a lot of real estate construction loans, but just a bit more descriptive on that? Like, loan-to-value on these loans, the location and I guess also the stage of construction that they're in? If they are low-rise condos, if they are 50

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percent done or 70 percent done. Something like, you know, whatever you can provide me, that would be helpful.

LARRY POLLOCK: Sure. We've got—there's a variety of projects that are in that category. We've got some partially finished buildings. We have a couple of fully finished buildings where we've got—resulting from presale decisions. And, the bulk of these loans are—of the 10, there's only one that's not interim construction mode. So, the loan-to-value in most of these interim construction, if it was a building at the time these were put on the—probably at the very max would be 85 percent loan-to-cost, coupled with very strong presales at that time, or a land development loan that would likely be 70 percent of cost at the time it was done. The resolution period for these are various. We're working our way through them. We are in active discussion with all of these loans. So, they're—it's not really uniform. They're all in real estate, and they're all at different positions and they're all being managed.

GABRIEL DECHAIINE: Would it be safe to say that most of them are closer to being finished in terms of the construction loans? Or, is it really a mishmash?

LARRY POLLOCK: In looking at these, I would say that there's only, you know, one of them that needs a significant amount of construction.

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The balance of them require sales, and some have a little bit of construction to finish them off but it's more on the sales side. And really, the resolution of the positions to get them to the point where you can sell them. That's going to take a lot of time.

GABRIEL DECHAIINE: Okay. Thanks.

OPERATOR: There are no further questions at this time. Please continue.

TRACEY BALL: Okay. Thank you Alysa, and thank you very much everyone for joining us for our conference call today. We'll look forward to reporting our 2009 third quarter results on September 3rd. As usual, if you have any follow-up questions or comments, please call us or contact us by e-mail. Thank you and have a good day.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

LARRY POLLOCK: Thanks everyone.

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