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OPERATOR: Good afternoon. My name is Melissa and I will be your conference operator today. At this time I would like to welcome everyone to the Canadian Western Bank Second quarter 2012 financial results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question at this time, simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Ms. Tracey Ball, Executive Vice President and Chief Executive(sic) Officer, you may begin your conference.

TRACEY BALL (Executive Vice President and Chief Financial Officer, Canadian Western Bank): Thank you, Melissa, and good afternoon, everyone, and welcome to our 2012 second quarter results conference call for Canadian Western Bank.

Before we begin, please note that the conference call slides, quarterly results news release, and supplemental financial information are available on the Bank's website at cwbankgroup.com in the Investor Relations section.

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I'd also like to comment that our forward-looking advisory is on slide 10.

The agenda for today's call is on slide 2. Joining me today is Larry Pollock, President and Chief Executive Officer. Also in attendance, our Chief Operating Officer, Chris Fowler, and Executive Vice Presidents Bill Addington, Randy Garvey, and Brian Young.

To begin, I will provide a brief summary of our second quarter financial highlights and then I'll turn things over to Larry for an overview of our outlook and strategy.

We will leave as much time as necessary for Q&A at the end of the call.

Moving to slide 3, the Bank recorded strong second quarter performance highlighted by very strong loan growth, record total revenues, and our 96th consecutive profitable quarter, a period now spanning 24 years. Loan growth of 4 per cent in the quarter, 8 per cent year to date and 17 per cent in the past year pushed total loans past the 13 billion milestone. Growth reflected strong performance across all lending sectors and confirms the ongoing potential of our core business banking focus in Western Canada.

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Record total revenues of 127.9 million represented a 7-per-cent increase over the same quarter last year as the benefit of very strong loan growth more than offset the impact of a 21-basis-point reduction in net-interest margins and slightly lower other income.

Net income available to common shareholders of 39.7 million was up 7 per cent over the same quarter last year while diluted earnings per common share increased 8 per cent to reach $0.52.

Adjusted cash earnings per share, which excludes the non-taxable, tax-deductible change in fair value of contingent consideration and amortization of intangible assets was unchanged from last year at $0.55.

Subsequent to quarter end we were pleased to settle to contingent consideration related to National Leasing in exchange for approximately 2.3 million CWB common shares valued at 63.5 million.

The ownership transition will eliminate future contingent consideration charges and allow CWB shareholders to recognize the full benefit of National Leasing's growing contribution to the CW Bank Group going forward.

Other income of 20.3 million was down 0.3 million compared to a year earlier as the benefit of a 2.5 million lower charge for contingent consideration, growth in net insurance revenues and one additional

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revenue earning day was offset by a 2.1 million decline in net gains on securities, a 1.1 billion reduction in the other component of other income and slightly lower credit-related fee income.

Based on current market expectations and the composition of the securities portfolio we believe future quarterly net gains on securities will be lower.

Moving to slide 4, compared to the previous quarter, net income available to common shareholders and adjusted cash earnings per share, as expected, were both down 4 per cent as the positive revenue impact of very strong loan growth and a slightly improved net interest margin was more than offset by higher non-interest expenses and too fewer revenue earning days.

An improvement in overall credit quality was evidenced by our eighth consecutive quarter of lower gross impaired loans. A provision for credit losses represented 19 basis points of average loans with 2.1 million of the 6.3 million provision allocated to the collective allowance to support ongoing loan growth.

Yesterday our board declared a quarterly cash dividend of $0.16 per common share. This dividend represents a 7-per-cent increase from the

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previous quarter and is 14 per cent higher than the quarterly dividend declared one year ago.

Slide 5. Slide 5 shows the strong year-to-date performance has us well positioned in relation to our fiscal 2012 target. The volume in the pipeline for new loans is encouraging and we remain very confident about our ability to achieve another year of double-digit loan growth.

While a 25-basis-point reduction in net interest margin and lower gains on securities compared to last year have had a moderating impact on total revenue growth, we believe this measure will improve through the remainder of the year with ongoing loan growth and somewhat stabilizing margins.

Gross and net income available to common shareholders should be supported by higher revenues, as well as the elimination of fair-value charges for contingent consideration.

The year-to-date efficiency ratio of 44.9 per cent is within our annual target of 46 per cent or less. The second quarter efficiency ratio of 46.2 per cent increased 250 basis points compared to the prior quarter, largely reflecting the recommencement of EI and CPP premiums for many employees and the timing of certain marketing and other initiatives. We expect to achieve the efficiency ratio target for the year.

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The year-to-date return on common shareholders' equity and return on assets are on target at 15 per cent and 1.05 per cent respectively.

Our commitment to grow in less capital-intensive areas, such as equipment financing, alternative mortgage lending and other areas supports our objective to enhance return on common shareholders' equity over the long term.

Slide 6. Our Basel II capital ratios at April 30th remained well above both regulatory minimums and our internal targets. The tangible common equity to risk-weighted assets ratio was 8 per cent, the tier-one ratio was 9.9 per cent and the total capital ratio was 13.2 per cent. All ratios include the full transition impact of IFRS which reduced capital ratios by approximately 40 basis points.

The total capital ratio compared to prior periods was impacted by the redemption of 125 million of subordinated debentures in March of 2012.

The pro-forma capital position under Basel III at April 30th, adjusted for the impact of the May 29th National Leasing settlement and using the standardized approach for calculating risk-weighted assets shows a common equity tier-one ratio of 8 per cent, a tier-one ratio of 9 per cent and a total ratio of 11.8 per cent.

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All the pro-forma Basel III ratios are now above required regulatory minimums of 7 per cent, 8.5 and 10.5 per cent respectively, which has the bank well positioned for the forthcoming transition effective January 1st, 2013.

The impact of the National Leasing settlement added approximately 45 basis points to the regulatory ratios.

The next slide shows the long-term trend of net-interest margins, spread on loans and the prime lending interest rate. The margin and spread on loans for periods prior to the fourth quarter of 2010 have not been restated for either IFRS or the change in accounting for loan fees that commenced in the first quarter of 2011.

Compared to the prior quarter, net interest margin of 2.81 per cent improved 4 basis points as the benefit of lower average liquidity and reduced debenture expense more than offset the impact of lower yields on loans.

Margin was 21 basis points from the same period last year with the difference largely reflecting lower yields on loans and preferred shares, partially offset by a reduction in fixed-term deposit costs and reduced debenture expense.

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Year-to-date net-interest margin of 2.79 per cent was down 25 basis points compared to the same period in 2011, reflecting the factors already noted.

The pressure on earnings growth resulting from a constraint in interest margin will likely continue, although it appears margins have somewhat stabilized.

Based on our current view, we don't expect further improvement until the interest rate environment normalizes, which would include both higher rates and a steepening of the yield curve.

I'll now turn things over to Larry to provide additional comments on our overall outlook and strategy.

LARRY POLLOCK (President and Chief Executive Officer, Canadian Western Bank): Thanks, Tracey.

Slide 8 shows our historical level of gross impaired loans and write-offs measured as a percentage of total loans. Overall, credit quality continued to improve with a dollar level of gross impaired loans decreasing for an eighth straight quarter. Gross impaired loans have returned to more normal historical levels and will likely fluctuate around the current level moving forward.

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The quarterly and year-to-date provision for credit losses, when compared to a new specific provision resulted in an increase in the dollar level of the collective allowance and future write offs are expected to remain within the bank's range of acceptable levels.

The total number of accounts classified as impaired was also down significantly compared to a year earlier. Indications of a slowdown in Canadian real estate markets reduced the likelihood of a rapid and sustained deterioration in prices.

While there are certain markets where residential prices and building activity have risen beyond expectations, we continue to believe Canada's overall market for residential real estate remains healthy.

Affordability levels generally remain within historical ranges largely owing to very low interest rates. Elevated prices in specific markets, an increased level of Canadian consumer debt and a potential for higher interest rates within the foreseeable future are among the many things we consider to insure our underwriting standards reflect current market risks.

We regularly stress our portfolios and results show that in the event of a 30-per-cent decline in real estate values, our expected provision for losses would remain manageable.

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The primary impact of this scenario on near-term performance would most likely be a decrease in loan growth resulting from the combination of lower demand and tighter credit criteria.

Our total exposure to project loans for high-rise condominiums remains low when measured as a percentage of total loans and the average loan to value for these loans is approximately 60 per cent.

We also stress the loan portfolios for the expected impact of a rapid increase in interest rates and believe this is another manageable scenario. This is confirmed by the excess debt service capacity required for our underwriting processes as well as an increased number of clients choosing fixed interest rates.

Very low natural gas prices have impacted the financial flexibility and debt-service capacity of many exploration and development companies, but the bank's direct exposure remains low. Low natural gas prices have been a reality for quite some time, and recent price fluctuations are not expected to have a material impact of the overall quality of the loan portfolio.

As we've seen over the past two quarters, the main impact of low natural gas prices for the bank is constrained lending opportunities within

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the sector. The overall outlook for consolidated loan growth based on the volume in our pipeline for new loans remains encouraging.

The next slide, number 9, highlights our strategic priorities and outlook. The bank's strategy for 2012 will remain focused on our two strategic themes of do what we do, only better, and make the whole worth more than the sum of the parts. This includes further developing the existing synergies between our banking, leasing, trust, insurance and wealth management businesses. And we see ongoing success with more referrals across all business units.

Our initiatives to expand market share are based on the enhancement of existing client relationships while increasing both our physical presence as well as external awareness of our offerings, particularly in our core western Canadian markets. We will also continue to invest in our people, infrastructure and technology to support future growth.

One key initiative in this regard is the implementation of a new core banking system to replace existing infrastructure and technology. This represents the largest single program the bank has ever undertaken. Major supporting contracts are now at or near execution and preliminary

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timelines indicate our go-live date on this new system will take place in the first half of 2015.

An additional business highlight in the second quarter was a successful system conversion at Canadian Western Trust that is expected to enhance client service, increase capacity and improve efficiencies.

Including the National Leasing settlement, the bank's capital position using the standardized approach for calculating risk-weighted assets now exceeds all minimum requirements under Basel III.

We highlight the standardized approach because, on an apples-to-apples basis compared to larger banks that utilize an advanced approach for calculating risk-weighted assets, we believe our capital base is very strong.

The advanced approach allows banks to carry far less capital on a per-loan basis, as evidenced by CWB's much lower leverage measured by total assets to equity. In some cases, we believe we may be carrying as much as three times the amount of capital as other banks for similar credit risks with our certain portfolios despite our long history of low loan losses compared to the industry.

We continue to evaluate the bank's potential transition to an advanced methodology where calculating risk-weighted assets known as

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AIRB, but our analysis confirms this is a multi-year process. Implementation of the new core banking system is a critical component for a number of AIRB requirements which includes the collection and management of certain types of data.

Economic activity remains relatively strong throughout our core geographic markets. However our markets are not immune to macro events that are outside of our control. Global uncertainties have increased notably over the past several weeks, particularly in the Euro zone, and we continue to closely monitor global economic headwinds to assess the potential impacts on CWB.

We will also continuously evaluate our liquidity strategies to insure the bank remains well positioned in the event of any unexpected economic or market fallouts.

Today we announced an increase in the quarterly dividend for common shareholders. Based on our 2012 earnings expectations and including the issuance of common shares related to National Leasing, the increased dividend will likely place us at the lower to mid-point range of our target payout ratio of 25 to 30 per cent of net income available to common shareholders.

We continue to evaluate dividends each quarter.

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We believe settling the contingent consideration related to National Leasing was a good result for CWB shareholders. We are committed to building on our position as the leader in small and mid-ticket leasing and believe there are opportunities for significant growth in this space. We also believe there are additional synergies between the bank and National Leasing that can now be realized more efficiently.

All of our operating affiliates remain... maintain strong momentum and have excellent potential to further develop and grow, including Canadian Direct Insurance and our trust services companies.

Overall our second quarter and year-to-date performance continue to build off our record results last year. While we expect ongoing challenges, including increased competition and global uncertainties to continue, we are very well positioned to deliver continued value for stakeholders, particularly over the long term.

Despite an increased level of caution, our outlook for 2012 and beyond remains positive.

I'll now turn things back to Tracey.

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

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OPERATOR: At this time I would like to remind everyone in order to ask a question, press * then the number 1 on your telephone keypad. And your first question comes from the line of Robert Sedran from CIBC. Your line is now open.

ROBERT SEDRAN: Good afternoon. Larry, I just want to follow up on your comment about the ability to drive some synergies from the National Leasing now that the contingent consideration has been cleaned up.

Can you give us some examples perhaps of what you're talking about and maybe give us a sense of how large the opportunity might be?

LARRY POLLOCK: Well, certainly the largest one would probably… your opportunity might be an acquisition in that space. And there are a number of other companies out there that would be good fits with us and they're operating in the same space.

Had we made an acquisition prior to taking out the preferred shares, there would be a multiple of the value of that acquisition would have to be shared with the preferred shareholders. So that's one example.

Another would be vending some of the bank's business in. Say we took... the bank's in the leasing and equipment financing business as well and we could better distribute our lower end of our big-ticket side through

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National Leasing than we can through our banking system because, you know, the process, if you're banking, you have write a credit, do annual reviews and that sort of thing, and National Leasing is highly automated to handle those smaller-term leases far better than the bank.

So that's another opportunity, just to sort of answer your question there.

ROBERT SEDRAN: Has the acquisition pipeline been active that you've been reluctant, or is there something else that might trigger beyond just this opportunity now being a better one that might trigger some activity there?

LARRY POLLOCK: Well, we will be more aggressive looking in that space now because if we made an acquisition before, we would have had to bolt it onto the bank and then we would have been operating two leasing companies. It wouldn't have been efficient for the bank's shareholders to merge the two up front.

ROBERT SEDRAN: Okay. And just to follow up on the system spend – and I know you guys have talked about this in past calls but I can't exactly recall the answer – so the spending, I gather, should I consider it to kind of be in the run rate, expense run rate already, or is there incremental spending to come that's going to start soon and go into 2015?

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LARRY POLLOCK: Well, there has been some spending, but a lot of the spending on the system will be capitalized and amortized over a period time, after the system goes live. So it's not likely you'll see any of those expenses in the near term.

ROBERT SEDRAN: Okay. And is it fair to say – the last one for me – is it fair to say the AIRB, if it is dependent on the implementation of this system, then we're talking something clearly beyond 2015 before you can get there?

LARRY POLLOCK: Yes, and the point we want to make though is that we are still calculating our capital on the standardized approach. So if you're comparing our capital to one of the big six banks, you're not talking about the same things because some of the bigger banks need roughly one third of the capital we would need to finance a commercial loan.

And I expect over time that, you know, two things can happen. Maybe the AIRB will require higher capital over time and bring them closer to us. We are not a proponent of operating with far less capital than we have today. We think the standardized approach, using roughly 10 per cent of a commercial loan in capital, is closer to being the right number as opposed to three or four per cent.

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So somewhere down the road these numbers will come together. And there is no assurance should we launch into this AIRB process – which we can't right today anyway – would result in far lower capital ratios at the end of the day.

I think this is very much a moving target, and we just want you and everyone else to understand that we are carrying a significant amount more in capital than the other banks as it relates to risk-weighted assets.

ROBERT SEDRAN: Understood. Thank you.

OPERATOR: Your next question comes from the line of Scott Chan from Canaccord Genuity. Your line is now open.

SCOTT CHAN: Hi. Good afternoon.

LARRY POLLOCK: Hi.

SCOTT CHAN: Just on the expenses, on the salaries and benefits, I guess for some of the benefits it was up 14 per cent quarter over quarter to approximately 7 million. There's a comment about the recommencement of EI and CPP premiums. Can you just take me back of, I guess, when those were stopped? And I guess going forward with paying these premiums, is that going to be just a higher run rate going forward?

TRACEY BALL: What happens is for all the high-priced help you don't... you end up paying all your CPP and EI at the beginning of the year

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because our bonuses are paid in January. So it creates a... and then it goes further into the second quarter as well for all other employees. So it's mostly... a lot of employees wouldn't be... they would have reached their maximum by the last part of the year. So that's that reason.

We also had restricted share units in the first quarter benefit from a hedging strategy we put in place, and in the second quarter it really normalized. So I think if you're looking at the first and second quarter together, that's probably your best indication of a run rate.

SCOTT CHAN: Okay. And just, you talked about depressed natural gas prices, but what about the recent decline of WTI oil energy prices? Can you just, I guess, put a framework on how that could potentially impact your business?

LARRY POLLOCK: Well, it's been... it's been a concern for some time. I would say more the land locking of the oil sands production is a bigger concern than the price itself. But really, what you're seeing the WTI price is really not the price that most Alberta producers are getting. Chris knows probably better than me, but it's in the...

CHRIS FOWLER (Chief Operating Officer, Canadian Western Bank): It's about $20 less than the WTI.

SCOTT CHAN: Okay.

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LARRY POLLOCK: So those spreads are still quite wide, and it's all driven by the ability to carry inventory and (inaudible) the pipelines end up, and those inventories have been very high. So there is some concern in the oil side. Although oil prices have been... you know, if you look back a year, we'd probably be very happy at $85-$89 WTI. Brent is still $100.

SCOTT CHAN: All right. Okay. Thank you very much.

OPERATOR: Your next question comes from the line of Gabriel Dechaine from Credit Suisse. Your line is now open.

GABRIEL DECHAINE: Hi, good afternoon. Just the competitive situation, you were talking about that as one of the contributors to the margin contraction. If I look at your loan balances, you're pretty much at... you're just shy of your full-year target. So you know, it doesn't seem to be that you're backing off on loan growth. So in order to maintain this, you know, expansion of the loan portfolio are you giving up on price, holding on terms? What's the... you know, what's the message there?

LARRY POLLOCK: Well, the approach we take when we look at each loan, because we find that the customer, if at all possible, would like to deal with us, we will make some concessions on pricing if there is other business to be obtained from that client or we already have other business. In other words, if there's a relationship opportunity there...

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GABRIEL DECHAINE: Right.

LARRY POLLOCK: ... to build with that client going forward. To strictly compete head on with one of our competitors on a five-year fixed-rate, you know, long-term, 25-year amortized piece of real estate on a one-off basis, we probably would not take that deal.

So we have been reasonably selective, and as you can see by the volumes, doing quite a good job of it. That's just on the real estate side though. But we've really seen strong volumes, both in National Leasing and our big-ticket leasing operations where we get very high spreads and at very attractive growth levels in both those areas and our optimum mortgage unit has just gone $1 billion. So we're seeing enhanced volumes there. With some of the big banks actually pulling out of that market and not dealing with brokers anymore, it's leaving us more opportunity.

So we're not… I shouldn't say we're not concerned about margin anymore, but we have started to see a levelling off of the margin decline. I don't think you'll see much decline from here, and it doesn't look likely we're going to see a rate increase.

But the bank's sitting on over $6 billion in floating-rate loans, and if we did have an increase, we're extremely well positions to reap the

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benefits of even slightly higher rates. Increase quite… they increase our revenue significantly going forward.

So piling the volume on, you want to do it when you can and you have to be patient when the rate environment becomes more favourable, as we said in our comments, opening comments, we're very, very well positioned being a bit asset sensitive right now.

GABRIEL DECHAINE: So you're thinking margins might still be under pressure and maybe go down, or stay flat or down a little bit, like out to 2013?

LARRY POLLOCK: No. I mean, it changes month to month and… but we haven't... we saw some pretty rapid declines there for a while and now, we're not seeing that anymore. It's kind of levelling off because you've got repricing of deposits and deposit rates have come down. We've had, just in our branch network, about 13-per-cent growth in deposits, in core retail deposits this year.

GABRIEL DECHAINE: Um-hmm.

LARRY POLLOCK: And that's just amazing. So we're able to finance more and more of this without leaning on the agent network which is all one- to five-year fixed term. So I think we're really well positioned right now and just have to be patient. Our view on whether rates will go down, we

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don't take this lightly, but we did see a decrease globally I think today. So…

GABRIEL DECHAINE: The competitive pricing, what kind of spreads are you seeing now? I know one of the banks, I don't know if it's the same market that you're in, talking about CR... pulling back on the commercial real estate. You know, spreads that, you know, have gone from 100 basis points to below like 60, 70 kind of thing. And like overall in your portfolios, where are you seeing that?

LARRY POLLOCK: Yes, we wouldn't be… we wouldn't be competing in those ranges.

GABRIEL DECHAINE: Okay.

LARRY POLLOCK: There's also the other part of the equation is what assumption do you make on your deposits? You know, are you going to finance longer-term real estate with your savings accounts, which I could argue would be perpetual?

GABRIEL DECHAINE: Um-hmm.

LARRY POLLOCK: We don't take a lot of risk there. We're reasonably well matched all the time because you never know which way the market's going to turn when some unexpected event happens globally.

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So we just take quite a conservative approach and our margins are, you know, would make any of our competitors' mouths water, I think.

GABRIEL DECHAINE: Just a couple of quick ones here. The leasing business, the new… there's a relatively new public competitor element. I'm not terribly familiar with them, but are they playing in the same sandbox as you as far as, you know, new business organically and potentially acquisitions as well?

And then if you could just remind me your leverage ratio, your slide is on here, what's kind of the maximum you'd want to go to?

LARRY POLLOCK: I'll answer the first question and I'll have Tracey talk about leverage.

GABRIEL DECHAINE: Sure.

LARRY POLLOCK: Their focused element or the old Newcourt people.

GABRIEL DECHAINE: Yes.

LARRY POLLOCK: A little older than they were and some of us will remember.

GABRIEL DECHAINE: They're focused more on the big ticket side in primarily Eastern Canada. So we're not running across them a lot and our people tell us that they're now poking around in the U.S. so they'll probably

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be expanding south of the border. So we really haven't run into them much and certainly National Leasing tell us that they're not running into them on a day-to-day basis. We're setting record volumes in National Leasing, so obviously the competition isn't that severe out there.

GABRIEL DECHAINE: Okay, great.

LARRY POLLOCK: And Tracey...

TRACEY BALL: Just on the leverage side, Gabriel, we're at about 11.8 compared to the big bank average of 20.6. And we wouldn't see our number changing significantly for a couple of reasons. One is we are under the standardized approach and we do, of course, predominantly commercial banking which requires 100 per cent risk weight.

We could see a little bit of a growth in the leverage ratio if we're able to grow our lower capital businesses faster than our commercial businesses. So our lower capital businesses would be National Leasing, then the Optimum Mortgage and our own business that qualifies as small business. But I wouldn't think we'd have a material change.

GABRIEL DECHAINE: Okay, thanks a lot.

OPERATOR: Your next question comes from the line of Michael Goldberg, from Desjardins Securities. Your line is now open.

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MICHAEL GOLDBERG: Thanks. My first question for Larry, and I don't want to paint you into a corner, but you did say that with the dividend increase just announced, that it brings you to the lower to midpoint of your targeted payout of 20 to 30 per cent. Is that based on, or should we take that to mean payouts on your expected fiscal 12 earnings, which would be… you know, which would imply something, you know, in the neighbourhood of minimum $2.50 to $2.60 a share?

LARRY POLLOCK: No, our payout range, well, I guess you could look at it that way, but our payout range, I think you said 20 to 30 and it's 25 to 30.

MICHAEL GOLDBERG: Okay.

LARRY POLLOCK: It's a pretty narrow range. And being in the low to mid part would mean it's in the 26-, 27-per-cent range there, Tracey?

TRACEY BALL: Yes, yes.

MICHAEL GOLDBERG: Okay.

LARRY POLLOCK: And the reason …

MICHAEL GOLDBERG: I missed that.

LARRY POLLOCK: Yes, and the reason we try to keep it fairly conservative, although we have increased our dividend I believe more rapidly than any other bank in Canada recently, for sure, is when you're

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growing as fast as we are, our shareholders and you probably would tell us you'd far prefer us to retain the capital and build growth as opposed to just distributing it back to the shareholders. So we try to maintain a balance between both those views.

MICHAEL GOLDBERG: Okay. Also with the termination of the third party lease administration program in National Leasing, will there be any cost savings?

LARRY POLLOCK: What we've done is we've shifted our business focus and retained the people into other positions. But yes, we have actually experienced a reduction in our staff levels and refocused and redesigned our office configuration to focus on the areas that we can continue to drive more business.

Some of the verticals we're really concentrating on now would be golf and turf, medical and agriculture are three areas with… agriculture's actually producing very low losses and a good growth area for us. So we're setting some volume records in National Leasing.

So long winded answer to a short question, but yes, we do not support layoffs. We support redeploying people and National Leasing have done a masterful job of that and redeploying the skills that those people had into other areas.

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So if you're looking at the earnings there, I mean we don't segment them out but we look at them, of course. You wouldn't know that we lost that servicing agreement.

MICHAEL GOLDBERG: Really?

LARRY POLLOCK: That's right.

MICHAEL GOLDBERG: Okay, because it was… you know, it showed up quite a bit in that other other number.

LARRY POLLOCK: Yes, stay tuned. I mean, this company is a spectacular performer.

MICHAEL GOLDBERG: Okay. Also, it looks like your liquidity went down by about 13 per cent during the quarter. Can you explain why the big reduction?

LARRY POLLOCK: We intentionally brought our liquidity down. Our assumption was when, you know, early in the year that there was a lot of talk out of Europe... coming out of Europe, for sure, about a big event happening with either Greece or Hungary or Spain or one of those other countries, Italy. It hasn't come about.

And also, we were being cautioned by the Bank of Canada and our Minister of Finance and OSFI on this looming real estate bubble that was going to break.

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As we said in our comments, we don't think that there's going to be a massive correction in real estate values and when you actually drill down and look at the various markets, it's really only Vancouver and Toronto that are going up spectacularly. I looked at Saskatchewan's numbers recently and I think over the last five years, the headline is 95-per-cent increase in house prices over five years. But the average house price is $230,000. So they're very, very affordable.

Alberta and Edmonton, as an example, has been in the $350,000 range for an average house price for maybe four or five years and was actually higher in 07 than it is today. And Calgary has had very marginal increases.

But Vancouver is where you've got the graph going straight up to the moon, and we've seen some softening, probably a 10-per-cent correction already in the Lower Mainland and specifically in the City of Vancouver. When you get outside of the city in some of the outlying areas, Abbotsford and the outlying areas of Surrey and Richmond, the prices are affordable there.

So when you see the statistics, you're focused right on the very high-priced areas, the core of Vancouver.

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TRACEY BALL: Michael, I'll just add on the liquidity, there are a couple of other factors at play in the fourth and the first quarter. We had pre-raised some money for deposit maturities, and then we also ended up doing the capital note issuance. And so we had more liquidity than we expected initially, but we also had to pay out our debenture in March, so 125 million. So that took up a lot of… or it took liquidity down by a fair swap.

So we were high in liquidity in the fourth quarter and the first quarter.

MICHAEL GOLDBERG: Okay, thank you. And just one other one. In rough terms, could you give us some idea how much you believe AIRB would reduce your risk-weighted assets?

LARRY POLLOCK: You can make all kinds of assumptions, I guess, but we do provide some clarity there in a 20-per-cent reduction in our capital, which would be about 50 per cent the average reduction from the other banks would produce an ROE of, Kirby, over 20 per cent, north of 20 per cent.

So if we came down to the levels of the other banks, we would be running an ROE in the 25-per-cent range, if we operated on the same amount of capital as the others.

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But we're not proponents of having small amounts of capital and high leverage. You know, I could talk all day about what caused the problems in the banks that had failed around the world, but it's high leverage and low levels of capital. And we're not proponents of having either one of those things.

So we are quite comfortable earning our 15-per-cent ROE on capital levels that are, you know, 30, 40 per cent higher than the other banks.

MICHAEL GOLDBERG: Thanks very much, Larry.

OPERATOR: Your next question comes from the line of Brad Smith, from Stonecap Securities. Your line is now open.

BRAD SMITH: Thank you. Thanks very much. I had two very quick questions. One was with respect to the formations. I'm wondering if I could just get some additional information as to where the source of that reversal on formations in the quarter came from between say the personal and the commercial portfolios.

And then another question with respect to your stress testing, you know, we all I think agree that higher rates would bring an opportunity to improve margins, but could you talk a little bit about how you think higher rates might impact your loan and allowance cushion positioning?

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And the reason I ask that is because the allowance levels are getting down well below where they were last time interest rates were more normalized. And I'm just wondering if your stress tests provide any insight into that.

LARRY POLLOCK: Yes, well, we've actually been increasing our general allowance. I guess we call it something else these days.

UNIDENTIFIED MALE SPEAKER: Collectives.

LARRY POLLOCK: Collectives. We keep changing the name of things, but our formations are down because what happens when you go through a difficult period of time like we did through 08 and 09, it takes a couple of years before you resolve a lot of the non-performing loans if you have them. We're seeing those being revolved, I think it's eight quarters in a row now we've seen reductions in formations.

We have a couple of differences though. When we recover a reserve that, a specific reserve that we had, it goes back in the general. We don't take it in the income. And if you notice through the charge through our income statement has not changed. So we will in these better times now continue to charge through roughly 20 basis points in reserves and adding, and we will continue to add that to our general reserve.

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BRAD SMITH: But perhaps I'm misreading the sub-pack, but on page 8, it looks to me like you had positive formations or increased formations of 2.8 million, which is breaking that reduction trend that's been in place. Maybe I'm misreading it, but…

And then with respect to the overall allowance levels, I mean, they are running at, you know, 50 or 60 basis points opposite the total portfolio, including the collectives. And that's, you know, probably 60 per cent of where they were even 10 years ago. So I'm just again coming back to the implications of rising rates for allowance levels.

TRACEY BALL: Yes, it's Tracey, Brad. We'll get back to you and sort of look at that. I don't think it's anything unusual, like our trends are all good. So it's probably just a situation where a combination of write-offs and settlements have just switched over during the second quarter.

But Kirby will get back to you. And it's not… it's not really anything that we're concerned about.

BRAD SMITH: Okay.

LARRY POLLOCK: And your second question was on margin and what impact would rising rates have on us? I think we talked about that earlier, but certainly with about 50 per cent of our loan book on floating rates, you would see an increase in margin with any increase in rates. How

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does it affect us? If rates go up too rapidly, certainly that will reduce the amount of applications you're going to get. People tighten up, they don't go ahead with projects. So I don't think you're going to see any rapid increase in rates, if we see any this year at all.

Is that all?

BRAD SMITH: Okay, thanks very much.

LARRY POLLOCK: Okay.

OPERATOR: Again, if you would like to ask a question, press * then the number 1 on your telephone keypad. Your next question comes from the line of Sumit Malhotra, from Macquarie. Your line is now open.

SUMIT MALHOTRA: Good afternoon. First question is for Tracey regarding the contingent consideration with National Leasing. Obviously the… I just want to make sure I have the numbers right here. Obviously the share count is going to go up for the 2.3 million shares that are being issued. But in the numerator of EPS, is it correct to say we should see the non-controlling interest line decline by about 1.7 million a quarter?

TRACEY BALL: No.

SUMIT MALHOTRA: No? Okay.

TRACEY BALL: No, (inaudible).

SUMIT MALHOTRA: Sorry?

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TRACEY BALL: The contingent consideration calculations was showing up as an increase to the liability.

SUMIT MALHOTRA: The liability. So it wasn't… that non-controlling interest increase that we saw at the beginning of 2011 was that National Leasing related or something else?

TRACEY BALL: No, under IFRS, the wests(ph) that we issued…

SUMIT MALHOTRA: Yes.

TRACEY BALL: We had to change where it was recorded. It's one of the funny accounting things.

SUMIT MALHOTRA: Right, yes.

TRACEY BALL: So that's what that is. It's not related to National Leasing.

SUMIT MALHOTRA: Okay, so the only EPS movement here is going to be the share count.

TRACEY BALL: Right.

SUMIT MALHOTRA: And obviously you were taking the contingent consideration through other income on a reported basis.

TRACEY BALL: Yes.

SUMIT MALHOTRA: Okay, I just want to make sure I had that clear. Secondly on loan growth, 4.2 per cent quarter over quarter is certainly a

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very good number. Though if I compare where you were at the end of April to where you were at the end of March using the regulatory data, it actually didn't look that different, which means April was a somewhat light month compared to the strong growth you've been producing. I don't want to put too much emphasis on one month, so can you first off, correct me if I'm wrong there, but secondly, just help me out. Was there anything that was… that caught your attention in terms of the slower pace of growth in April?

LARRY POLLOCK: We don't usually look at month to month. Did you want to…

CHRIS FOWLER: Well, there was… we… we… as you know, we're quite involved in interim construction portfolio and we did actually have two large loans that, high-rise loans that paid out in full in April. And that's what dropped that balance. Over the quarter it's still very strong.

TRACEY BALL: Yes, so you get… you can get lumpy things when large residential interim construction loans pay out. So you get a big payout and then, you know, it takes a while to make that back up.

SUMIT MALHOTRA: But yes, maybe since Chris jumped in, stay with him, nothing you're seeing in terms of what I'll call a somewhat more choppy economic backdrop here in the last few months, be it Europe, U.S.,

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China, it doesn't sound like you're seeing a material softening in demand for particularly commercial loans relative to the trends you've had in the last couple of quarters?

CHRIS FOWLER: No, not at all, no.

SUMIT MALHOTRA: Okay, and then mixing in loan growth with capital, 4-per-cent quarter-over-quarter loan growth, 5-per-cent RWA growth, and you know, the shares that are being issued here get you up to 8 per cent on Basel III, can you talk a little bit about how you manage the relationship between loan growth and what that does to your capital? And then alongside that, what type, you know, some of the larger banks have talked about OSFI wanting some sort of a buffer above the 7-per-cent Basel floor. Can you talk to what the regulator has signalled to you folks and what level of Basel III common equity you're managing to?

LARRY POLLOCK: Yes. We have not had a clear indication from the regulator as to what buffers… sorry, anybody else, that's our understanding anyway, certainly not us. We don't know what those buffers will be, so we have a significant buffer right now and we expect that that 8-per-cent range will be met by the end of the year, as we stated in our opening remarks.

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But we caution you in that our 8 per cent and everybody else's 8 per cent are not the same 8 per cent. Their capital to risk-weighted assets is quite a bit less than ours. So logic would be that maybe our buffer will not be as high. I would argue that it shouldn't be.

But we don't know yet and we'll look for direction from our regulator over the remaining months of this year.

SUMIT MALHOTRA: But you're… you know, is it fair to say you're not turning away business on the sense that, you know, you want to keep the RWA growth to a level such that your capital ratios aren't declining because obviously your risk-weighted asset growth is running at by far the highest levels of the industry on an organic basis.

So are you comfortable enough in the capital position that it's not impacting the way you originate new business?

LARRY POLLOCK: No.

SUMIT MALHOTRA: It might be a bit of a softball, but I just want to make sure.

LARRY POLLOCK: No, I mean, we've continued to grow. Obviously 17 per cent in the last 12 months is a spectacular number. We will continue to grow and we wouldn't do that growth if we didn't think it was profitable growth. And if it's profitable growth and accretive to our shareholders, then

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of course we'd raise more capital but we still have other plans to continue to raise capital internally. As you know, you can't carry other banks' capital in your investment portfolio. And we historically have done a lot of that and we will be reducing those levels over the remainder of the year. And that reduction will actually produce more capital going forward.

So we don't have to look to sell shares or any of those things right now to raise more capital. We think we're generating enough and we're generating enough growth in less capital-intensive areas, as Tracey mentioned before. If we can continue to do that, then we can generate internal capital to finance growth probably in the low double-digit numbers.

SUMIT MALHOTRA: Lastly, this is probably for Tracey, a bit of a back and forth on liquidity. The decrease in liquidity, the increase in NIM that I thought you had signalled last quarter pretty much played out. Just on those topics, you were talking about in relation to the deposit and sub-debt maturation, has the benefit to NIM, is it all in the numbers this quarter or is there some further benefit that we'll see in Q3?

TRACEY BALL: No, there would be no further benefit from those particular items.

SUMIT MALHOTRA: So now it's more of a normal course?

TRACEY BALL: Normal course, yes.

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SUMIT MALHOTRA: Okay, and then the second part of it is liquidities lower this quarter, but once we're all done with Basel III capital, which seems like most of the Canadian banks were there, the next part of the fund will likely be stable funding and liquidity. Can you offer your early thoughts on how the bank feels in relation to that part of Basel III and is there a greater push that's going to be required to improve your sources of stable funding?

TRACEY BALL: We think we're in a really good position for the framework as it's written now, but our regulator has very much cautioned us that we are to expect additional calibrations in guidance the end of the year. So we're not really in a position to give you any definitive answer in terms of our ratios.

SUMIT MALHOTRA: And I'll stop here. In your initial or early work on this, do you feel that the implementation of these new standards will have a material negative impact on your net interest margin, or no?

TRACEY BALL: I don't think we can say right now because where it would have an impact on our margin would be if certain types of deposits became so competitive that it just pushed the pricing up, and we don't… we don't know how that's going to work out. We've seen some increase in the agent market of about 25 basis points as we understand the larger

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banks are trying to move to deal with the longer-term funding ratio or the net stable funding ratio.

So they are trying to stretch term out. We don't have really that issue because we do raise a lot of term deposits. So I think that's where we'll see the competition is for certain types of deposits. But our growth strategy is on the branch side is to get those relationship deposits that are Basel III friendly.

SUMIT MALHOTRA: Thanks for your time.

TRACEY BALL: Okay.

OPERATOR: Your next question comes from the line of Michael Goldberg, from Desjardins Securities. Your line is now open.

MICHAEL GOLDBERG: Thank you. In the first half of the year, we've seen increases in risk-weighted assets just under $600 million a quarter. Would it be reasonable to expect the growth in risk-weighted assets to continue (inaudible) near a case like that?

LARRY POLLOCK: Looking forward, we don't see any reason why we shouldn't continue, although you have to remember we're always going off a higher base. So the per cent will always be stressed but through 2011, we grew I think 16 per cent over the calendar year; the last 12 months, 17 per cent. So we're still looking at a pretty stable pipeline of

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business. So whatever we're doing, we're doing right and our clients seem to be gravitating to us.

MICHAEL GOLDBERG: Okay, thank you.

OPERATOR: There are no further questions at this time.

TRACEY BALL: Okay, thanks, Melissa, and thank you, everybody, for your continued interest in Canadian Western Bank. And we look forward to reporting our 2012 third quarter results after the market closes on August 29th.

And as usual, if you have any follow-up questions or comments, please call us or contact us by email. Thank you and have a great day.

OPERATOR: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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