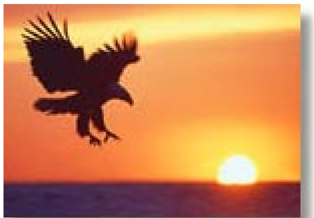

WHERE EAGLES SOAR INC.
Judy Johnston – Senior Vice President
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Eagle Net

EDS Survey Findings

According to a survey conducted by EDS and the Economist Intelligence Unit (EIU), regulatory pressures and increasing competition in the financial services market are forcing executives to scrutinize their current business processes and adopt new operating models to gain greater operational clarity and maximize efficiency.

The survey results indicated that a majority of respondents plan to re-engineer business processes on a process-by-process basis to reduce duplication and redundancy across business geographies and functions. Although implementing internal shared utilities was found to be a critical method for achieving a more consistent view of operations, the survey also found that executives are utilizing external shared services and outsourcing as a way to improve their operational strategy.

Fifty-two percent of financial services companies that were surveyed outsourced their business processes to a local third party provider with twenty-six percent more planning to do the same in the next three years.

NCUA Decision

A federal magistrate has ruled that the National Credit Union Administration cannot stop a Plano, Texas credit union from becoming a mutual thrift. This decision could open the door to more conversion attempts, banking and credit union officials say.

Credit Unions Consolidation - Membership to reach Two Million in 2005

Thirty credit union mergers took place in June with 10 of the merging institutions under $1 million in assets, contributing to the net decline of 175 credit unions for the first half of 2005. At the end of June, there were 9,171 credit unions and according to Dave Colby, CUNA mutual corporate economist, we can expect the loss of another 360 in 2006. The largest merger was between Meriwest Credit Union, with $940 million in assets and Silicon Valley Credit Union with $93 million in assets, to create yet another credit union with over $1 billion in assets.

Additionally, eight credit unions converted to community charters, adding a potential of 3.9 million members.

Mr. Colby says that credit unions appear to be more successful at tapping into potential members gained through charter expansions, as well as through indirect lending programs and that we are now on track to easily top a net two million member increase in 2005.

The total number of community conversions and expansions that have taken place in the U.S. from 2000 to June 2005 are 581 and 162 respectively.

Canadian Business – Fifth Annual Corporate Governance Survey

As reported in Canadian Business, the companies that topped the Canadian Business list of highest-scoring boards appear to have all the tools they need to facilitate that discussion. Once again, it is Canada's financial services and Old Economy companies that dominate this year's list of 25 best boards. At the summit: Bank of Montreal and Bank of Nova Scotia, whose shares have outperformed their peers over the past three years, with National Bank and Royal Bank both ranked at 9, and Manulife Financial ranked at 25.

For the first time since Canadian Business has published their survey in 2001, CIBC has not made the list of top-scoring companies. The bank has very recently announced it would pay U.S. $2.4 billion to settle outstanding shareholder lawsuits related to CIBC's alleged attempt to help the now infamous Houston-based energy company hide billions in debt.

In contrast, Bank of Montreal has been lauded for its governance standards and was one of the first companies in Canada to implement a comprehensive board evaluation system that examined not only the effectiveness of the board as whole, but also the contributions of each director.

Amex Bank of Canada – Direct Marketing

The Direct Marketing News advises that Amex has been a breeding ground for talented direct and database marketers for many years and has been a forerunner of innovative database marketing in Canada.
Under the stewardship of Beth Horowitz, president and general manager of Amex Canada and President and CEO of Amex Bank of Canada for the last three years, this tradition has continued and early last year Amex launched three Aeroplan cash cards that resulted from a co-branded card deal Amex Bank of Canada Struck with Aeroplan, the frequent flyer program of Air Canada. Amex competed with a number of other prominent banks for the Aeroplan deal and winning it was a distinct coup. It made Amex a participant in the two largest consumer coalition loyalty programs in Canada. Amex already had a co-branded Air Miles card. Direct marketing played a pivotal role in the promoting of the Aeroplan cards and went on to become one of Beth Horowitz's all-time favourite direct marketing campaigns. All the channels produced successful response particularly to inbound phone and Internet.

2005 Australian Banking & Finance Insurance Awards

Congratulations to Where Eagles Soar's ex-Managing Director in Australia, Mark Williams, who was part of a winning team, CommInsure, who won the awards for Best Call Centre and Best General Insurance Product.

Toronto Dominion and Royal Bank of Canada – Enron Exposure

According to a National Bank Financial Inc. analyst, unlike CIBC, Toronto Dominion Bank and Royal Bank of Canada will likely not take a significant hit to its book value if it settles in the Enron investor's class-action lawsuit. In the case of Toronto Dominion, they could incur a pretax charge of roughly $850-million before it affects the bank's book value. A TD settlement will likely be higher than $300-million, but probably lower than $850-million. RBC is unlikely to see anything close to the CIBC settlement, because of its relatively minor role in the Enron fiasco. Their exposure was quite limited. In late July, RBC agreed to pay $25-million to settle its part of the so-called "MegaClaims" litigation. In a separate deal, RBC paid $24-million so that its bankruptcy claims against Enron would no longer be subordinated.

CIBC – Ex-Ceo & Other Ex-Officers Off the Hook?

Some investors have argued that John Hunkin and his former top lieutenants at Canadian Imperial Bank of Commerce should be forced to give up part of their lucrative compensation in light of the bank's U.S. $2.4 billion settlement for the Enron class-action suit. Mr. Hunkin recently stepped down as CEO with approximately Cdn. $52 million in stock and securities, although he has not sold any of his holdings. Sources familiar with the matter say that it is unlikely that CIBC will pursue Mr. Hunkin or other ex-officials, because it does not believe it has any legal basis to make them forfeit their pay.

ATMs – May be an easy target for Thieves

We have written in previous Journals about the increase in fraudulent activity when using debit cards at ATM machines and at various retail outlets and last month it really hit home when I became the victim with my client card. Whilst I was away from Canada on vacation and I did have my card with me in Florida, someone used a card bearing my number and used my PIN to deposit an empty envelope with a credit to my account and then proceeded to withdraw two amounts. Luckily, my bank put a freeze on my account, credited my lost funds and issued me a new card.

I have been doing a lot of research into this matter and have discovered that every ATM card strip is loaded with a three-digit security code, known as either CVV (Card Verification Value) or CVC (Card Verification Code). The characters are different from the CVV2 value that's actually printed on the card, and often requested of consumers when shopping online. These CVV or CVC codes are invisible to consumers, so they can't be tricked into divulging the information. The secret data is supposed to prove the plastic inserted into an ATM machine is really the plastic issued to the consumer by the bank. But apparently, many banks don't check the codes, they just skip the process, assuming that if the PIN is accurate, the card must be authentic. Implementing the added step of checking all the magnetic stripe information will largely stop fraudulent activity - Have you turned up the protection?

More Fraudulent Activity – SouthTrust

Both our CEO, Pat Palmer, and I received official e-mails from SouthTrust Bank in the USA asking us as customers of the bank to participate in a planned software upgrade and to link to a website to start the procedure of confirmation of our customer data. The only problem is that Pat and I have never had accounts with SouthTrust.

What Kind of Banks do Canadians Want?

In a recent submission to the government on its review of the Bank Act now underway, Scotiabank suggests consumers and the banks would be best served if not only mergers between Canadian banks was allowed, but also the takeover of Canadian banks by foreign banks. The editorial in the Toronto Star suggests that whilst Canadians would like to see Canada's big banks become more competitive internationally, they would not be prepared to accept less competition between the banks here in Canada if it meant they could be more competitive internationally. Foreign takeovers of some of our banks to promote competitions, the Toronto Star points out, could mean a single shareholder might dominate one or more of our major banks. Are Canadians willing to let the interest of a single shareholder dictate the policies of our most financial institutions? - "A proposal that purports to solve one problem creating another is hardly reassuring".

Canada's Government Seeks Support for Bank Mergers

The Liberal government say they would like to release long-awaited bank merger guidelines this fall, before an expected early 2006 election and there appears to be growing support among opposition MPs. One senior bank official has said that Finance Minister, Ralph Goodale, is trying to "buy" support from the Bloc Quebecois and the New Democratic Party, which count credit unions as powerful constituents.

The credit unions have been pitching themselves as ideal buyers for orphaned bank branches, meaning one way to gain the favour of these opposition parties is to approve a merger of larger retail banks, where the maximum number of locations would be auctioned off.

Privacy – Secondary Marketing

The Privacy Commissioner of Canada ruled in July that the inclusion of marketing materials constitutes "secondary marketing" and that consumers should be entitled to opt-out of receiving these materials.

The case began when a bank refused to acquiesce to a customer's request to remove the marketing materials from their monthly credit card statement. The bank claimed that the inclusion was common industry practice and did not constitute the use of personal information since all its customers received identical materials.

The Commissioner's assessment of the complaint focused on three key issues:

- This practice constituted "secondary marketing" since the customer had provided their personal information to the bank primarily for banking purposes. The inclusion of marketing materials thus constituted an additional "use" of the customer's personal information.

- Canada's privacy statute says that businesses can ask for as much personal information as they like, but consumers can only be required to disclose information that is essential to the particular service. By refusing to allow a customer to opt-out of secondary marketing materials, the bank violated the law by effectively requiring personal information for purposes not strictly necessary to provide the primary banking services.

- The Commissioner canvassed practices at several other Canadian banks and found that while inclusion of marketing materials was indeed standard practice, refusal to permit an opt-out was not.

Selling the Crown Jewels

The recent acquisition of MBNA by Bank of America, heightens concerns of relationship erosion by many financial institutions that previously sold their credit card businesses to MBNA. Not to downplay MBNA's data mining capabilities, it goes without saying that Bank of America has extensive data mining and marketing to go with their extensive product range. In fact, Bank of America cannot just target narrowly defined market segments but they can zero in on "market slivers".

Any financial institution selling product relationship portfolios to other organizations must always understand the relationship erosion risk not just immediately but over time.

Visa USA & Amex cutting ties with CardSystems Solutions Inc.

Visa USA Inc. and American Express Co. are cutting ties with the payment-processing company that left 40 million credit and debit card accounts vulnerable to hackers in one of the biggest breaches of consumer data security. Banks that issue Visa cards have until October 31st to replace Card Systems with one of the hundreds of other payment processing companies in the U.S. Amex also notified CardSystems it would sever their relationship as of October.

CIBC pays Millions to settle U.S. Claims

CIBC has agreed to pay U.S. $125 million to settle claims that it helped hedge funds make improper mutual fund trades in the United States through a series of "sham loans". CIBC, Bank of America Corp. and other lenders came under investigation in January 2004 as part of a probe of the U.S.'s $7.6 trillion mutual fund industry. Regulators accused the banks of financing customers engaging in so-called rapid trading of funds, which erodes the return of long-term investors. Bank of America and FleetBoston Financial Corp. agreed to pay $675 million last year to settle allegations that executives let favoured clients improperly trade mutual funds, the largest penalty levied in the investigation.

Bank of Montreal – CRM

BMO has implemented a customer relationship management system that lets it predict a customer's likely next major purchase or life-changing event, such as buying a house. It uses analytics software to make predictions so the bank can proactively market a relevant product such as a credit card or mortgage to a customer. Called the Optimizer, the system is being supplied to about 16,000 sales, service and support staff.

Royal Bank of Canada – Asia Miles

Royal Bank has launched a co-branded credit card offering Asia Miles in partnership with Hong Kong based airline, Cathay Pacific. The card will be promoted across Canada, but not launched nationally. Frequent fliers to Asia are targeted in heavily populated Asian centres like Toronto, Vancouver, Calgary and Montreal.

Toronto Dominion's Southward Expansion

TD Banknorth Inc. has paid U.S. $1.9 billion for Hudson United Bancorp of Mahwah, New Jersey, an organization that has been under a cloud of regulatory problems, lack of growth and uncertainty about its future. The purchase will help the bank expand its deposit base nearly 40 percent and give it branches in New Jersey and Pennsylvania for the first time. The bank hopes to make the deal pay by cutting $41-million U.S. in costs by 2007.

Fixing a Major Banking Problem (Teresa J. Tschida)

Our Arizona-based principal, Ian Percy, sent us an interesting article by Teresa j. Tschida:

"John Richards was not the kind of customer banks love. For a decade, he's had a checking account at a big national bank, call it "A-One," in a midwestern city -- but only because they have a branch next to his office. Richards' certificates of deposit were at one credit union; his car loan was at another. He had a credit card through another bank. And he went to a small, locally owned bank for his mortgage.
When Richards bought a new house, he checked the mortgage rates at A-One only because it was one of the few branches in his new hometown; an online home-loan company was next on his list. But when he walked out of the A-One branch location in his new hometown, Richards suddenly felt like royalty. "I've never been treated so well in my life," Richards says. "The bank *president* helped me get the loan and set me up with an investment advisor who scheduled time to talk to me about when my CDs are due. It used to take me 15 minutes to talk to an A-One *teller* at the last branch."
By the time Richards got the key to his new house, he had eight products with A-One Bank -- a mortgage, a line of credit, two checking accounts, two savings accounts, a credit card, and an online banking account. And soon, he will be talking with the investment advisor about those CDs.
Richards is in his mid-thirties -- there will be a lot of mortgages, car loans, savings accounts, and investments in his future. Thus, we can suppose that the behavior of a few people at one A-One branch location has ensured the bank of an awful lot of business for decades to come -- not to mention the new customers that Richards will steer toward the branch. But how did one small branch make him an engaged customer when another, much larger, branch of the same bank couldn't do it in a decade? Why, after a 10-year relationship, did Richards finally fall in love with A-One Bank?
There is a reason for the variation, of course. Some branch locations are better at customer service than others, and leaders of financial institutions must look past the décor, the training programs, the steps, and the mission statement to find out why. The answer to the bank variation conundrum lies with the people behind the desks and counters -- and the answer is not one bit replicable.

A bank branch can reach peak profitability only if it engages customers. To do that, the branch has to find and hire people who have a talent for the job and who actively work to engage customers, then keep them engaged. Relatively speaking, finding the employees may be the easy part. The last part is the hardest -- *the key to a successful bank branch is leaving good employees alone*.

Many banking executives look to systemic, actionable steps to create cost-saving efficiencies and face-saving behaviors. They try mightily to make every bank branch the same to alleviate, or perhaps even eliminate, differences that can't be controlled and that can cause problems. But an over-implementation of efficiencies and steps ties bank employees' hands and can make it impossible for them to serve individuals, well, *individually*. And treating each customer the way he or she wants to be treated is how banks create engaged customer relationships.

So how can bank executives learn to back off to develop more profitable branches? How can they eliminate "bad" variation in service to foster healthy individuality? Here are some key actions that executives and managers can take:

- Speak with painstaking clarity about what the customer experience should feel like.
- Be relentlessly consistent in your coaching. Have daily conversations about the customer experience, and celebrate the successes that win customers over.
- Never tire of describing the *outcomes* you want -- but let employees figure out how to get there.
- Above all, fight the urge to put in more actionable steps. They create robotic (and unhappy) frontline staff. Robots don't create an environment that grows emotional engagement.

The best people to determine what needs to be done in a bank branch are the people who work there six days a week. The branch manager knows how persnickety Mr. Smith likes to be served as a customer, and she knows which employee on her team helps Mr. Smith best. The frontline staff knows if bilingual tellers need to be added or if paperwork takes time that would be better spent with customers. Freeing bank employees to do what they need to do permits them to focus on growing relationships with customers, which is key to growing the bank's business.

Much of the work of a bank must be done by rote -- vault audits, for example -- but customer engagement is intensely personal and human. Banks must let the people who know best do their best. That's because backing off -- as long as senior managers are clear about the outcomes they want -- can produce an astonishing result: competence. As Curt Coffman, coauthor of *First, Break All the Rules* and *Follow This Path*, puts it, "The best way to make a dog crazy is to change the length of its leash every day." The same is true for people. And crazed employees don't run profitable banks.

John Richards is now settled in his new home in his new town. Twice a month, he sees the president of his bank, who encouraged him to join a local club -- and was even his sponsor. "I had no idea how much easier a good bank can make your financial life," Richards says.
Clearly, Richards was both a victim and a victor of bank branch variation. With a little less stress on steps and a little more on outcomes -- and a lot less stress for the customer -- the branch he abandoned might become one he'd go back to.”

Fuelling Strategic Change (Pat Palmer's Contribution)

Every one of us has seen and felt the impact of rising fuel costs at the pumps and elsewhere over the past months. This has not been incremental but a quantum leap in basic energy costs across the total spectrum of economic activity. Financial institutions that are on the leading edge of strategic issues are already assessing the business impacts on their operations, their customers, their staff, their suppliers, and of course, their shareholders. The inflationary influence of not just fuel, but all energy costs will change the way we live, work and play.

Many leading financial institutions have a program for continuous process re-engineering which undoubtedly will begin to focus on energy sensitivity analysis in all aspects of business. Those who do not operate in such a culture will either go through painful cost cutting or bewilderment on how to cope with the multiple impacts. The leadership of these organizations must come to decision scenarios considering the multiple impacts on all stakeholders around their operations.

For instance, customer choices are getting challenged when it comes to large vehicle purchases such as SUVs; the new home farther from work and larger than their previous one; the type and sources of energy in their future plans; and the families commuting, transporting and travel habits on a regular or specialty basis. Contingency cash and perhaps credit lines will begin to be strained, forcing new choices in the individual and family financial worlds. Mortgage growth is bound to slow and budget pressures will begin to negatively impact ability to meet payments. Will you recognize the signs? Will you have constructive, empathic solutions or clinical credit scoring benchmarks of negative action? Are you ready? Is your staff prepared?

Talking about staff, they will be going through the same stresses and strains as your customers plus demonstrating the behaviour at work that the leadership desires, which can be additional pressure for management and staff.

Fuelling Strategic Change (Continued) (Pat Palmer's Contribution)

Most staff today commute to work by vehicle or public transit. Both will cost more, far more than staff's normal salary increases to cope with average cost of living. Financial institutions cannot hand out pay raises that will offset staff's pocket book erosions. There will be staff looking for transfers closer to home or hoping the organization relocates their functional or business departments out of expensive core city locations to suburban options. Undoubtedly, staff will have to make behavioural changes in their personal lives to deal with energy erosions in financial well-being and lifestyle. Will you counsel staff on "energy planning?" What message will you give them to relay to customers? Will they believe the messages? The majority of staff will need budgetary assistance for dealing with the unprecedented cost increases in what is now considered, basic necessities.

Suppliers, besides the energy companies, directly dealing with the financial institutions will be dealing with significantly higher fuel costs. For example, armoured car companies, couriers and delivery services. From basic stationary to signage and snow removal services, suppliers will be looking to recoup their higher energy costs. How will you deal with their request or new price lists? Will tenders and outsourcing accelerate? Or will you be ahead of the requests with process re-engineering solutions and perhaps even coopetition syndicates for similar services? Reacting will cost you more than well thought out actions.

Undoubtedly, shareholders will not become charity givers, agreeing to less financial institution income, smaller dividends or larger salaries for management and staff. Yes, individually they will understand the fuelling erosion taking place because they feel it but they will have expectations of the leadership that the financial institution will fair better than the competition so the brand reputation will grow during the horrendous energy cost increases.

We will not speculate on government's reactions except to say don't look for benevolent tax breaks or rebates. The political systems and their masters have a style and substance to maintain all on its own.

Fuelling Strategic Change (Continued) (Pat Palmer's Contribution)

What will benefit from the fuel fallout? More telecommunication video conferencing, energy saving solutions in automobiles, heating, lighting etc. For instance, many farmers in the rural areas are seriously developing wind alternatives and exterior wood furnaces. It is unlikely that urban communities will change by-laws and attitudes to accommodate these. So what options are there?

Yes, we will have to make strategic changes at home, at work and at play. The financial institutions have no choice but to deal with the strategic necessities while at the same time finding innovative business solutions to help all stakeholders and the organization meet their goals. The checklist is not all negative. Better financial institutions will emerge from this strategic wave, not all, but those with the right leadership, advisory support and forward focuses will.

I Leave You with Some Humour

"A crusty old man walks into a bank and says to the woman at the window – "I want to open a damn account." The astonished woman replies, "I beg your pardon, sir. I must have misunderstood you. What did you say?"
"Listen up, damn it. I said I want to open a damn account now!"
"I'm very sorry sir, but that kind of language is not tolerated in this bank."
The teller leaves the window and goes over to the bank manager to inform him of her situation. The manager agrees that the teller does not have to listen to that foul language.
They both return to the window and the manager asks the old geezer, "Sir, what seems to be the problem here?"
"There is no damn problem", the man says. "I just won $200 million bucks in the damn lottery and I want to put my damn money in this damn bank."
"I see", says the manager, "and is this b***h giving you a hard time?"