Annual Meeting of the Shareholders of Laurentian Bank
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Speech by Robert Cardinal
Senior Executive Vice-President, Finance, Administration and Strategic Development, and Chief Financial Officer

Thank you, Réjean. Good morning, ladies and gentlemen,

2006 was another good year for Laurentian Bank in terms of improving the Bank's profitability. Our net income rose 8% from $65.3 million in 2005 to $70.3 million in 2006. The return on common shareholders' equity was 8.2%, which exceeded our objective of 7 to 8%. Last year, we were at 7.8%.

Diluted net income per common share increased by 10%, from $2.26 to $2.48 in 2006.

These results include the 20 cents per share coming from income from discontinued operations related to the sale in December 2004 of the BLC-Edmond de Rothschild joint venture, compared to 41 cents per share in 2005.

The Bank reported net income from continuing operations of $65.6 million, or $2.28 per common share, diluted, compared to $55.6 million and $1.85 per common share, diluted, in 2005, a respective increase of 18% and 23% over 2005.

The objective for diluted net income per share, set at $2.05 to $2.35 per share, was attained with a result of $2.28 per share. The Bank's total revenue stood at $531 million, an increase of 6% compared to 2005, which is in line with our objective for 2006.

B2B Trust in particular had and outstanding performance throughout 2006, due to significant higher loan volumes and net interest margins. Its contribution to the Bank's net income thus increased by 27%, to reach $24.3 million.

Retail Financial Services showed an increase in revenue, in particular as a result of the growth of the mortgage loan and deposit portfolios. Moreover, this business line's contribution remained relatively stable at $34.6 million.

Commercial Financial Services also improved its contribution, which amounted to $22.7 million in 2006.

For its part, Laurentian Bank Securities generated very good results, with net income of $3.8 million, a 14% increase over 2005.

Our efficiency ratio, obtained by dividing the Bank's total expenses by total revenue, was 75.7%, a slight improvement over 2005. Our stated objective—between 75% and 73.5%—was not attained, notably because of additional expenses incurred in terms of salaries and employee benefits, business development, and compliance with new internal control requirements. The improvement of our organisational efficiency will remain a top priority for 2007.

Our tier 1 capital ratio was 10.3% as at October 31, 2006, compared to an objective of a minimum of 9.5%.

Our credit quality, for its part, remained stable, while our loan portfolios saw an appreciable increase. Our loan losses as a percentage of average assets were 0.24% in 2006, comparable with 2005 and in line with our stated 2006 objective of 0.22% to 0.25%. The provision for credit losses was $40 million, as it was in 2005. In fact, impaired loans improved in the first quarter of 2007, as I will be explaining in greater detail a little further on.

The Bank's improved performance in 2006 is mainly due to the increase in our net interest margin from 1.99% in 2005 to 2.14% in 2006, which resulted from the growth of loan and deposit portfolios, tighter asset and liability management, and the redemption and issue of debentures in the amount of $150 million at a lower rate of interest. Furthermore, the tax strategies implemented during 2006 reduced the Bank's effective tax rate to 26.3%, as compared to 30.6% in 2005. This decrease in the tax rate is largely the result of an increase in our investments in Canadian securities that pay non-taxable dividends, corporate restructuring that reduces the tax rate on credit insurance operations, and amendments to the minimum tax on financial institutions.

The increase in profits was partly attenuated by the decrease in non-interest income resulting from the sale of the Bank's 51% stake in Brome Financial Corporation in December 2005. This transaction reflects the Bank's strategic decision to focus its activities on its four business lines. Furthermore, revenues from securitization decreased slightly to $10 million in 2006, compared to $11.7 million in 2005. There was greater asset securitization in fiscal 2006 in order to finance the significant growth in loan volumes and optimize the Bank's funding structure. However, considering market conditions, securitization operations generated slightly lower revenues.

Revenues from treasury and financial market operations decreased following the decision to focus on maximizing net interest income rather than treasury gains, a much more volatile type of revenue.

The dividend paid per common share remained as stable in 2006 as in 2005, at $1.16 per share or $0.29 per quarter. Our common shares yielded an average dividend return of 3.74% for 2006. The distribution rate was 46.7% in 2006 compared to 51.2% in 2005. For the past few years, we have been aiming for a dividend payout ratio ranging from 40% to 50%.

Our return on shareholders' equity objective for fiscal 2007 is 8% to 9%, for a diluted net income per common share of $2.55 to $2.85. This objective corresponds to a growth range of 3% to 15%, including net income from discontinued operations. Our total revenue objective was set within a growth range of 4% to 5%, which corresponds to $550 to $560 million. The efficiency ratio remains unchanged in a range of 75% to 73.5% and takes into account the projected growth of our revenues, higher technology investments, increases in depreciation expenses following the opening of new branches and offices from previous years, and business development-related expenses. To attain this objective, the Bank is also counting on improving its efficiency internally by revising its processes.

We also upgraded our credit quality objective by reducing our loan loss target based on average assets within a range of 0.24% to 0.21%.

The tier 1 capital ratio objective was kept at a minimum of 9.5%.

Let's now look at the results for the first quarter of 2007 which were announced last week. The results for the first quarter compare favourably with our objectives for 2007.

The return on common shareholders' equity was 9.4%, which exceeds our target for 2007, namely a return between 8.0% and 9.0%. Our efficiency ratio is 73.7%, within the target range of 75% to 73.5% set for 2007.

Total revenue increased by 6% to $141.6 million compared to the first quarter in 2006. This was mainly as a result of the improvement in net interest income, which increased by $7.2 million, or 8.2%. The net interest margin and our loan and deposit portfolios continued to grow, while non-interest income remained rather stable. Diluted income per share was $0.74 during the first quarter of 2007, compared to $0.59 for the same period in 2006.

With respect to credit quality, our net impaired loans now stand at -$2.8 million, compared to -$2.7 million for the same quarter in 2006. For the past two years, various measures have substantially decreased the Bank's exposure to the forestry and wood products manufacturing industries, which have been impacted by the rise in the Canadian dollar and higher energy prices.

To conclude, we are pleased with the financial results attained in 2006 and in the first quarter of 2007 and will continue to focus our efforts on developing all our business lines as well as improve our operational efficiency.

Thank you for your attention.