



CONFERENCE CALL TRANSCRIPT  
THIRD QUARTER 2007  
SEPTEMBER 6, 2007

TÉLÉPHONISTE : Bienvenue à la conférence de la Banque Laurentienne. Welcome to the Laurentian Bank conference call. Je cède maintenant la parole à madame Gladys Caron. I would now like to turn the meeting over to Ms. Gladys Caron. À vous la parole. Please go ahead, Ms. Caron.

Mme G. CARON: Merci. Bienvenue. Good afternoon everyone.

Our press release was issued today on Canada Newswire and is posted on our website. This afternoon's overview of our third quarter of 2007 will be provided by our President and CEO, Réjean Robitaille, followed by a presentation by our CFO, Robert Cardinal, who will highlight Laurentian Bank's financial performance. Finally, Réjean will conclude.

The following members of our senior management team are also present at this call to answer any questions:

Bernard Piché, Head of Treasury, Capital Markets and Brokerage;

Luc Bernard, Head of Retail Financial Services and SMEs;

François Desjardins, Head of B2B Trust;

Lorraine Pilon, Head of Corporate Affairs;

Michel Trudeau, Head of Laurentian Bank Securities;

Louis Marquis, Head of Credit;

Marc Paradis, Controller;

Pierre Minville, Head of Integrated Risk Management;

André Lopresti, Chief Accountant;

and myself, Head of Public Affairs, Communications and Investor Relations.

Before we start, I would like to mention that a PowerPoint presentation accompanying this conference call is available on our website and will be referred to by Réjean Robitaille and Robert Cardinal throughout their speeches. During this conference call, forward-looking statements may be made, and it is possible that actual results could differ materially from those projected in such statements. For the complete forward-looking statements, please refer to our press release or to the PowerPoint presentation.

I will now turn the floor over to Réjean Robitaille.

RÉJEAN ROBITAILLE: Thank you, Gladys. Good afternoon everyone.

This morning we announced solid results for the third quarter of 2007. With earnings per share of \$0.85 and a return on equity of 10.5%, our results have shown constant and sustained growth for several quarters now. Our loans and deposits continue to grow compared to last year and the last quarter. Assets and revenues of each of our four business lines increased year-over-year.

As shown on slide 4, after 9 months, our net earnings per share stand at \$2.34, compared to \$1.64 for the same period last year. This represents a substantial 43% increase. The return on common shareholders' equity reached 9.9%, compared to 7.3% for the same period last year. All other 2007 objectives have been met or exceeded.

As presented in slide 5, in addition to our profitability indicators, our efficiency ratio improved significantly and stands at 73.4% after 9 months. This figure is very encouraging, showing the solidity of our results and the improvement of the Bank's capacity to generate internal growth and maintain good cost control.

Now if we look at our growth performance, as shown on slide 6, total loans increased by 10% and total deposits by 3% over the last 12 months. This growth reflects our development strategies and initiatives, such as our sustained investments in the optimization of our branch network, the establishment of alternative sales networks and our effective marketing campaigns. The growth for residential mortgage loans and B2B Trust investment loans were particularly high this quarter.

For Retail Financial Services, total loans increased by \$570 million or 7%, while we had a 3% growth in personal deposits compared to last year.

For Commercial Financial Services, the total loan portfolio rose by 10% over the third quarter of last year. The Real Estate Financing group continue to perform very well with 18% growth compared to last year.

B2B Trust portfolios have continued to show strong growth. Total deposits are up by 8%, an increase of \$392 million over the same quarter last year while investment loans have increased by \$625 million, a 45% increase compared to last year. Business and marketing initiatives also contributed to a \$19-million increase in brokered mortgages.

All divisions of Laurentian Bank Securities, performed well during the quarter, even though the third quarter is usually a softer one. Assets under administration were up 8% from last year.

We are continuing the Bank's development while maintaining a conservative approach in all of the Bank's sectors, including our lending, financing activities, risk management and investment activities.

The recent turmoil related to the liquidity crisis has retained our attention to that effect. Earlier during the quarter, we have mentioned that we are supporting the "Montreal agreement" and that our exposure to the conduits covered by this agreement is approximately \$20 million. This position represents less than 1% of our liquidity. Moreover, we are not a liquidity provider for any bank- or non-bank-sponsored conduit and none of our retail clients own, with the institution, paper issued by these conduits.

I will now ask Robert to provide you with more details on our financial performance.

ROBERT CARDINAL: Thank you Réjean,

My comments will focus mainly on a comparison of our results for the quarter with the same quarter last year. I will also briefly comment the financial performance of the lines of business.

Slide 7 shows that, on a GAAP basis, diluted earnings per share for the third quarter of 2007 were 85 cents and the return on equity was 10.5%. In 2006, we had posted a diluted EPS of 13 cents for the same quarter.

### **Important elements**

Results for the third quarter of 2006 included an unfavourable net tax adjustment of \$11 million as a result of the 2006 federal budget, for 47 cents per share, as explained in note 8 to the quarterly financial statements included in our press release.

In the third quarter of this year, we have no important element to report.

Excluding the 2006 tax adjustment, EPS for the third quarter of 2006 would have been 60 cents diluted per common share. On this basis, diluted EPS rose by 25 cents or 42% on a year-over-year basis.

Compared to the 68 cents posted in the second quarter of 2007, excluding the reported special tax items, earnings per share of this quarter of 85 cents were relatively strong, aided by the three additional days in the quarter.

I would also like to mention that performance-based compensation which increased by \$3 million, had an impact on current quarter results in comparison to last year. I will comment on this in a few minutes. However, we consider this item to be part of our core activities.

**Year-over-year comparison**

Total revenue increased by \$13.0 million or 9% to \$151.0 million in the third quarter of 2007, compared to \$138.0 million in the third quarter of 2006. The variation mainly results from the \$10.3 million increase in net interest income arising from the strong loan and deposit growth, as well as from the higher interest margin. Net interest margin increased from 2.16% in the third quarter of 2006 to 2.39 % in the third quarter of 2007.

The \$2.7-million increase in other income reflects continued improvement in many activities, including treasury and financial markets, services related to loans and deposits, mutual fund sales and brokerage operations. These were partially offset by lower securitization revenues, which are largely dependent on market conditions at the time loans are sold, and credit insurance income, as reported life insurance claims were higher for the quarter.

On the cost side, non-interest expenses increased by \$5.1 million, up 5% from the same quarter last year, mainly as a result of higher salaries and employee benefits, which increased by \$5.2 million, including \$3.0 million in performance-based compensation. The fluctuations were primarily in stock appreciation rights and annual performance-based compensation programs. The remaining \$2.2-million increase from last year is due to higher salaries and employee benefits resulting from normal salary increases and additional employees over the year, essentially for business development activities. I would like to remind you that a more detailed disclosure of the salary and employee benefit item is provided on page 31 of our press release. Costs other than compensation remained almost unchanged.

As shown on slide 8, we continue to have stronger and less volatile earnings on a year-over-year basis for the following reasons:

- First, an improvement in our net interest margin, which was 2.39% in the quarter versus 2.16% last year, with substantially higher asset volumes from lines of business as outlined on page 28 of our press release and a lower level of liquidities.
- Second, other income from core activities such as services related to loans and deposits and mutual funds commissions continued to contribute strongly to the growth of our top-line.
- Third, our loan growth continued while our loan losses remained stable at \$10 million.
- Finally, our effective tax rate is going down. Excluding the tax item I mentioned earlier, the effective tax rate for the quarter was 29.1%, compared to 30.8% last year.

As shown on slide 9, our net impaired loans went from plus \$5 million in the fourth quarter of 2006 to minus \$8 million at the end of this quarter, reflecting primarily a reduction in gross non-performing loans. Our credit quality situation remains good.

Risk management continues to be an important element at Laurentian Bank. We continue to maintain strong capital ratios and closely monitor our loan portfolio, and the credit and market environment.

### **Contribution of business lines**

All lines of business contributed to total revenue growth when compared to the same quarter a year ago.

On slide 10, total revenue of Retail Financial Services increased by \$4.6 million, or 5.1%, over the year, to reach \$95.3 million. The sector contribution to net income increased by \$3 million to \$9.7 million or 45% over last year, reflecting the significant level of business development activities. Growth in average loans and average deposits of respectively \$507 million and

\$422 million, higher income from mutual funds, fees on deposits and Visa, lower loan losses and a lower income tax rate associated with lower taxes on credit insurance revenues were also key factors in these results.

As shown on slide 11, net income contribution of Commercial Financial Services decreased slightly to \$6.1 million. Total revenue was relatively stable at \$20.7 million, as the increase in net interest income resulting from the higher loan and deposit volumes was offset by lower loan fees, mainly in Ontario. Also, this business line had higher loan losses, as 2006 had benefited from a \$0.6 million recovery on a commercial mortgage.

The next slide shows that net income contribution of the B2B Trust line of business grew by 20% to \$8.1 million. The main drivers of this increase were impressive growth in personal loans and deposits—namely \$625 million in investment loans and \$269 million in average deposits—lower loan losses on the personal line of credit portfolio, and stable non-interest expenses.

As can be seen from slide 13, net income contribution of Laurentian Bank Securities was \$0.6 million for the quarter. LBS has been expanding its activities over the past years through the opening of new offices and the introduction of the institutional equity division. This has led to a 17% or \$1.3 million increase in revenues for the third quarter of 2007, compared to the same quarter of 2006.

On slide 14, the Other sector reported a negative contribution of \$1.4 million for the third quarter of 2007, compared to a negative contribution of \$14.7 million for the third quarter of 2006. Results for 2006 included a net \$11.0-million income tax charge, as noted above. Excluding the effect of this tax charge, the net income contribution was -\$1.4 million compared to -\$3.7 million last year. The improvement in profitability is mainly attributable to the higher interest and non interest income, as progress continued to be made in treasury and financial markets operations, particularly in liquidity and asset and liability interest rate management, despite the lower securitization revenues.

This concludes my comments. Now, back to Réjean.



RÉJEAN ROBITAILLE: Thank you, Robert.

Now, turning to some of our initiatives, the Bank made other steps in its development, as can be seen from slide 15.

The promotional campaign launched by B2B Trust in May, designed to promote new enhancements to the program, has had great success. Thanks to the various improvements made to our processes, we have been able to ensure adequate management of the high volumes of applications we received and maintain our rigorous credit criteria. The campaign was also followed up by a professional thank-you program for which I have received positive comments. The high regard of clients for the dedication of this team is very rewarding. We will continue to support the initiatives of this subsidiary, which has carved a name for itself in the intermediary community.

Continued investments made to optimize the branch network generate very positive impacts. Among the strategic initiatives during the quarter, we are continuing to expand our alternative sales force, particularly mobile bankers, who now number around sixty. They have made a significant contribution to the mortgage growth by effectively supporting our branch teams.

During the quarter, we focused on the development of new products to provide a better response to the specific needs of SMEs, a target clientele that is the focus of our special attention.

Innovative new products were introduced for SMEs, including two new credit cards with unique advantages for cardholders, such as one of the longest payment periods in the industry and insurance coverage. We also expanded our line of packages. Four new packages aimed at mid-sized SMEs allow them to save on transactions and facilitate their management.

We are pursuing our efforts to improve the Bank's operational efficiency. The improvement of the efficiency ratio is very encouraging in this regard. Different initiatives are in progress, particularly in the branch network and the SME sector, where we hope to reduce the time

devoted by our personnel to administrative tasks. This will allow them to focus more on business development and serving our clients.

In our Laurentian Bank Securities subsidiary, now that the Institutional Equity division has been launched, the management will focus over the next few quarters on the processes of its Retail Financial Services division. After doubling its team of investment advisors over the past two years, it is now important to develop better tools and processes to support the team and optimize their tasks.

In conclusion, as shown on slide 16, we are maintaining our efforts to ensure the Bank's development and create value for our shareholders by focusing on our 3 priorities:

- Increase our profitability.
- Improve operational efficiency.
- Further develop our human capital.

In summary, the third quarter of 2007 was a strong one, with:

- stronger total revenue coming from core high-quality sources of revenue that generated net income growth;
- more efficiency at many levels as we continue to improve the way we do things and rigorous execution continues to drive our development;
- improving operating leverage;
- and maintained credit quality.

This wraps up my comments. I will now turn the floor back to Gladys.

TÉLÉPHONISTE : Merci, madame Caron. Thank you, Ms. Caron.

(QUESTION PERIOD)

GLADYS CARON (Head of Public Affairs, Communications and Investors Relations, Laurentian Bank): I would like to turn the call over to the conference operator for the question-and-answer session. Please feel free to ask your questions in French or in English.

OPERATOR: Thank you. Merci. Pour poser votre question, appuyez sur l'étoile 1. Si vous désirez annuler votre question, appuyez sur le dièse. If you wish to ask a question, please press \* 1 on your telephone. To cancel your question, please press the # key. Vous pouvez maintenant procéder. You may now proceed.

The first question is from Michael Goldberg, from Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG: I just wondered, do you consider the \$0.85 earnings per share as indicative of ongoing earning power or stronger than normal and if it's normal or even close to normal, then why no dividend increase?

RÉJEAN ROBITAILLE (President and CEO, Laurentian Bank): Thank you, Michael. I think it's a very good question and I'll start in terms of the \$0.85. And as I mentioned and as also Robert mentioned, those are core net income, so pretty strong based on what we had in the last few quarters. But there was no special elements during the third quarter. So that's one point. I think we're confident with that. We had a strong and it seemed that we have a good internal growth, both in terms of loans and deposits and we expect to see the same type of growth in the near future.

There is also another impact concerning the current market situation, as you know. That market environment has potential to impact our results in the short term basis as let's say it has the same potential to have an impact on any other financial institutions.

That said, we remain very confident that we will meet our objectives for 2007 and that the business continue... will continue to show future growth potential for us. Execution is one of the main things and also the focus that we have, so we remain very confident that we will meet our objectives for 2007.

Now for the last part of your question, I think that let's say in terms of dividend increase, as you know, we are re-evaluating our dividend payments on a quarterly basis. For the first time I think in the last five years, we're now below our target range. The payout ratio is between 40 and 50 per cent. In Q3, we're at 34 per cent. We're certainly in a very better situation right now than let's say we were a few years ago and we will let's say follow closely that situation on a quarterly basis.

MICHAEL GOLDBERG: How should we view the lack of a dividend increase now that you are below your 40 to 50-per-cent objective in terms of an expression of confidence in the future?

RÉJEAN ROBITAILLE: Well, as I mentioned, we're confident in the future. That said, there's still some uncertainty in the market and also some uncertainty concerning let's say for example Basel II. Basel II came to... Let's say we'll start that at the beginning of next year and we're still waiting for some information from us concerning that.

So we are looking at that situation. Let's say I think that it's important to be rigorous and that's why we're doing that right now.

MICHAEL GOLDBERG: Okay, I have one more question. You know, talking about the current environment and particularly the asset-backed commercial paper issue, National Bank looks like it has significant exposure to this issue.

RÉJEAN ROBITAILLE: Hello?

MICHAEL GOLDBERG: Yes. Also, it looks like a number of their commercial clients may be holding this paper. So do you view this as an opportunity to strengthen your commercial business, your SME business, perhaps the misfortune that they are experiencing?

RÉJEAN ROBITAILLE: In any let's say turmoil in the market, there is always opportunity and we see that effectively as an opportunity.

MICHAEL GOLDBERG: Thank you.

OPERATOR: Thank you. Your next question is from Sumit Malhotra, from Merrill Lynch. Please go ahead.

SUMIT MALHOTRA: Hi, good afternoon.

RÉJEAN ROBITAILLE: Good afternoon, Sumit.

SUMIT MALHOTRA: The first question is on the capital side. Obviously, with the growth that you had in personal investment loans, that drove a lot of the increase in risk-weighted assets this quarter. One other one that was a little bit interesting to me on the off-balance-sheet items credit related commitments were up about 100 million plus quarter over quarter. Can anyone give a little bit of colour on what specifically is in that bucket?

RÉJEAN ROBITAILLE: I think that's a good question. In terms of maybe I'll ask Bernard to talk about the capital ratios. Effectively, we had a strong growth in Q3. Bernard, if you want to add on the capital ratio. Concerning the other question, I think we will have to get back to you, Sumit.

BERNARD PICHÉ (Head of Treasury Capital Markets and Brokerage, Laurentian Bank): I'll start on the capital ratio. As you know, our tier one is at 9.7 and somewhat lower from last quarter, but it's still well positioned versus our peers. In fact, only TD has a higher tier-one capital ratio among the banks in Canada.

Tier two, we're in the middle of the banking group. So we're comfortable with those ratios. We expect them to hold the next quarter. Next year, there are lots of things to be looked at. Basel II will be one of them, but so we are comfortable with the ratios we have now and we're monitoring this change.

SUMIT MALHOTRA: Now the ratios are fine and as I said, most of your growth is explainable from it looks like it's mostly B2B trusts, but just that one off-balance-sheet bucket was a little bit interesting. But, yes, anything you can provide me afterwards would be helpful.

The next question on the efficiency which I think was probably the best, the best trend in the quarter. There is something in the press release that says talking about retail financial services that more than 25 per cent of the bank's retail branches have already been renovated or relocated. And you talked about the 60 mobile bankers. In terms of the branches, is it your goal to do all 100 per cent? What's the timeframe of this and how would this affect the efficiency mandate going forward?

RÉJEAN ROBITAILLE: I think it's important also always to let's say renovate or look at the optimization of the branch network. We're doing that on a continuing basis. It's not necessarily the goal to be at 100 per cent because let's say there's some branches that are very well located and who don't need many renovation. But that said, I think we have let's say a three-year plan concerning the improvement of the existing branch network and we monitor that very closely.

But that's the continuous improvement that we have to do on that.

SUMIT MALHOTRA: Réjean, I had gotten the feeling that you had laid out 70-per-cent efficiency ratio as more of a medium-term target. And, you know, again this maybe goes back to Michael's question. You're below 72 per cent as a bank for the first time in I don't know how long, but it doesn't seem like it's been anytime soon. If you view this result as sustainable, is there an operating leverage objective you're looking for on a quarterly basis that you're going to try to manage too as a bank? Is that the metric that we should be focusing on here, that gap between revenue and expense growth?

RÉJEAN ROBITAILLE: Well, as you could see, the gap for this quarter was between let's say we had 9 per cent of increase in income and 5 per cent in expenses, which is a considerable gap of 4 per cent. Next year will be a bit lower than that.

But that said, because it's important to continue to invest in our business development, that said, that's how we will continue to improve our efficiency ratio. I already mentioned that we are working throughout the bank to review our processes. That's not a short-term project. That's probably a three-year plan also project concerning that.

But the overall target that we have in let's say in medium term will be to be below \$0.70 of efficiency.

SUMIT MALHOTRA: Okay, last one for me. You talk about the turmoil in the market right now and how it has the potential to affect Laurentian Bank possibly. I guess the one area I thought of most for this bank would be how would the pressure on liquidity in the environment affect your management of liquidities but it looks like the margin benefited again from a reduction in some of the shorter dated assets on your balance sheet.

Is this... when you talk about it has the potential to affect you, I always think of LB as being a lot less market sensitive than its peers when it comes to revenue. Are you specifically thinking about the fact that you may have to retain a greater proportion of liquidity on your balance sheet, just given the fact that short-term funding may not be as accessible as it was a few months ago?

RÉJEAN ROBITAILLE: I think that we have to remain cautious in that type of environment. And we have sufficient liquidity. We have to look at monitoring the situation. I think that that's risk management. So we have to remain cautious concerning that.

We will probably increase our liquidity in the near future, definitely. And we will continue to monitor the situation on a daily basis.

SUMIT MALHOTRA: Okay, thanks very much, guys.

RÉJEAN ROBITAILLE: You're welcome.

OPERATOR: Thank you. Once again, please press \* 1 if you have any questions. Veuillez appuyer sur \* 1 si vous désirez poser une question.

Alors, il n'y a pas d'autres questions, Madame Caron. J'aimerais vous retourner la parole. There is no further questions registered at this time. I would now like to turn the meeting back over to you, Ms. Caron.

GLADYS CARON: Thank you all for joining us today. Merci de votre participation. If you have any further questions, the phone numbers are listed on the press release. Thank you.

TÉLÉPHONISTE: Merci. La conférence est maintenant terminée. Nous remercions tous les participants qui se sont joints à nous aujourd'hui. Veuillez s'il vous plaît raccrocher votre ligne et bonne journée à tous.



The conference has now ended. Please disconnect your lines at this time. We thank you for your participation and have a great day.

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