CONFERENCE CALL TRANSCRIPT
FOURTH QUARTER AND YEAR 2007
DECEMBER 4, 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 fourth quarter and year 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 cautionary note regarding forward-looking statements, please refer to our press release or to the PowerPoint presentation. I would like to add that our complete 2007 audited and consolidated financial statements including notes are available on sedar.com and on our website.

I will now turn the floor over to Réjean Robitaille.

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

I am very satisfied with the 2007 results. This year showed considerable improvement in profitability and operational efficiency. The diluted earnings per share were $3.48, up 40% from 2006. Our return on equity also grew considerably, reaching 10.9% versus 8.2% a year ago. Increased revenues in all of our business lines, linked primarily to strong loan and deposit growth contributed to the Bank's performance.

As shown on Slide 4, all our 2007 objectives have been reached. Moreover, some of our results exceeded our annual objectives, such as the return on equity, the net diluted earnings per share, total revenue and the efficiency ratio.

As presented in Slide 5, our efficiency ratio improved substantially in 2007, reaching 73.2% versus 76.1% in 2006. Our efforts to increase revenue combined with diligent cost control successfully contributed to the fact that the ratio has been the best in the last four years.

Now, let me point out the trend in growth, shown on slide 6, as our total loans and BA's increased by 9% and total deposits by 6% over last year. Excluding all securitization activities for 2007, total loans would have increased by 12%. In Retail Financial Services, total loans rose by 7% while Commercial Financial Services' book increased by 15% over the last twelve months. Real Estate Financing group, the largest subset of Commercial Banking, continues to perform very well with 22% growth compared with last year.

B2B Trust's loan portfolios have shown strong growth over last year. The Investment Loan portfolio is up by 55% or $791M, while maintaining our underwriting requirements. Moreover, total deposits were up by 9% over the fourth quarter of last year. Laurentian Bank Securities continues its development as assets under administration are up 4% from last year.

This internal growth is the direct consequence of our well-targeted strategies and actions, including investments in our distribution networks and systems, increased business development personnel, initiatives to develop a performance focused culture as well as targeted and efficient marketing campaigns.

Now turning to slide7, as we have already announced, our exposure to the securities issued by the conduits covered by the Montreal agreement is limited. We have reduced the value of our investments by $2.9M or $2.0M, after taxes, corresponding to approximately 15% of the value of these securities. We are following this matter closely, and continue to support the Montreal agreement.

We have also announced an increase in our quarterly dividend of 10% or $0.03 per common share. The quarterly dividend is therefore increased from $0.29 to $0.32 per share. This reflects our confidence as well as that of the Board of Directors in the future development of the Bank.

Finally, our unionized employees have voted in favour of an agreement in principle between the Bank and the Union for the renewal of the collective agreement. This is excellent news for our organization, and clear proof of the marked improvement in our working relations. The new agreement will be for a term of four years and will be in effect until December 31, 2011.

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, and for the whole year with those of 2006. I will also briefly comment the financial performance of the lines of business and say a few words about our 2008 objectives.

Slide 8 shows that, on a GAAP basis, diluted earnings per share for the fourth quarter of 2007 were $1.14 and the return on equity was 13.8%. In 2006, we had posted a diluted EPS of 84 cents and a ROE of 10.8 %.

Both quarters included $0.19 of EPS from discontinued operations representing the recognition of $5.2 million or $4.4 million after income taxes, of deferred gain on the sale of BLC-EdR, as mutual funds sales significantly exceeded the minimum requirements both in 2006 and 2007.

Net income from continuing operations in the fourth quarter reached $0.95 per common share, compared to $0.65 per common share in 2006.

Important items

Net income in both quarters included certain important items of a nonrecurring nature, as described in our press release, which specifically impacted our EPS. The most important items are as follows:

For the fourth quarter of 2007:

- a $4.0-million gain resulting from the worldwide restructuring of Visa or $3.3 million after taxes and $0.14 per common share;
- a favourable tax adjustment of $2.2 million resulting from the resolution of certain tax exposures representing $0.09 per common share;

- and a charge of $2.9 million related to the $20-million portfolio of securities issued by conduits covered by the “Montreal agreement” representing $2.0 million after taxes or $0.09 per common share.

Results for the fourth quarter of 2006 included only a favourable tax adjustment of $2.1 million or $0.09 per common share as explained in our press release.

Excluding these items, EPS would have been 80 cents in the current quarter, compared to 56 cents last year, a growth of 43% in our core EPS.

Again excluding these items, core EPS for the fourth quarter of $0.80 is lower than the earnings per share of $0.85 we reported in the third quarter, which included no important significant item.

As explained in our press release on pages 6 and 7, results of the current quarter were also affected by certain other items related to the liquidity and credit crisis. The most important net impact was the effect of the narrowing of the Prime-BA spread estimated at approximately $2.7 million before income taxes for the quarter. This interest rate spread which negatively impacted our results for the quarter has substantially reverted to its historical level since the beginning of November.

Now let’s turn to slide 9 for the highlights of the year compared to last year.

As to results from continuing operations and excluding important items explained at the bottom of the slide, net income reached $83.0 million or $2.99 per common share and the return on common equity was 9.4%. This represents a significant progress in our core EPS which shows a growth estimated at 40% for the year compared to 2006.

Slide 10, summarizes the main drivers behind theses results, namely:

- An improvement of the net interest income, due mainly to loans and deposit growth, tighter asset and liability management as well as liquidity management. Net interest income grew by $33 million or 9% to $390 million. Net interest margin increased to 2.31% in 2007 compared to 2.14% in 2006. Growth in our personal loans reached $790 million or 19% and $770 million or 11% in residential mortgage loans, including securitized loans.

- Other income was $193.7 million in 2007, compared with $182.6 million in 2006. The $11.1-million increase in 2007 is mainly attributable to growth in core activities, including higher fees on deposits and card services, on mutual funds sales, brokerage activities and from treasury and financial market activities. Other income also includes the $4.0-million gain on the Visa worldwide restructuring.

- The provision for credit losses remained stable at $40 million for both years.

- Non-interest expenses increased by $16.6 million or 4% compared to a growth of 8% in our total revenues. The Bank benefited from a strong positive operating leverage of 4% over 2006. The $16.6-million increase is mainly related to higher salaries and employee benefits, as a combined effect of salary increases, new hiring and performance-based compensation as well as tight control over investment technology, rents and other expenses.

- Finally, the Bank benefited from a lower tax rate. The effective tax rate for 2007 was 22.7%. Excluding the impact of several important items of a non-recurring nature explained on page 5 of our press release, the effective tax rate for 2007 would have been 27.9% compared to 29% in 2006. This lower rate, in 2007, results from the increase in investment in Canadian securities that generate tax-exempt income such as dividends, and also from a corporate reorganization that reduced the tax rate on foreign credit insurance income. Note 18 to the Annual Consolidated Financial Statements provides further information on the income tax expense.

2008 Objectives

As Réjean mentioned, we met or exceeded all our objectives for 2007.

Revenue grew significantly as a result of higher loan and deposit volumes and overall improvements in all business segments, while cost control measures limited increases in expenses. Results for the year also benefited from certain items as described earlier.

Excluding these items, return on common shareholders’ equity would have been 10.0%, including discontinued operations, and diluted net income per share, $3.18, as explained on pages 2 and 3 of our Press release.

Objectives set for 2008, described in the table on page 2, namely a ROE of between 9.5% and 10.5%, take into account that the Bank will not necessarily benefit from significant items next year as it did in 2007. Furthermore, the objectives take into account certain planned costs associated with initiatives aimed at accelerating the Bank's growth, as well as the uncertainty related to the prevailing liquidity and credit crisis. The EPS target of $3.30 to $3.60 for 2008 represents a growth of between 4% and 13% over the core EPS of $3.18 for 2007 including the $5.2M from Industrial Alliance for both years.

As shown on slide 12, our net impaired loans went from plus $5 million in the fourth quarter of 2006 to minus $11 million at the end of this quarter, reflecting primarily a reduction in gross non-performing loans. Our credit quality situation remains very good.

Risk management continues to be a very important element at Laurentian Bank. We continue to maintain strong capital ratios and closely monitor our loan portfolio, and the credit environment. We also continue to remain very cautious and to monitor very closely the market environment, which is more directly affected by the asset-backed commercial paper crisis in Canada.

Contribution of business lines

All business lines contributed to total revenue and income growth when compared to last year.

On slide 13, total revenue of Retail Financial Services increased by $23 million, or 6.5%, over last year, to reach $377.1 million. The sector contribution to net income increased by $10.3 million to $44.9 million or 30% over last year, reflecting the significant business development activities. Growth in average loans and average deposits of $506 million and $365 million respectively, higher income from mutual funds, from fees on deposits, the Visa gain 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 14, net income contribution of Commercial Financial Services increased slightly to $24 million. Total revenue was relatively stable at $82.8 million. The increase in net interest income resulting from the higher loan and deposit volumes, mainly in Real Estate Financing and in the small and medium commercial in Québec, was offset by lower loan fees, mainly in Ontario.

The next slide shows that net income contribution of the B2B Trust line of business grew by 25% to $30.5 million. The main drivers of this increase were impressive growth in personal loans and deposits – namely $791 million in investment loans and $289 million in average deposits – lower loan losses on the personal line of credit portfolio, and relatively stable non-interest expenses which led to a strong improvement of the operational efficiency ratio.

As can be seen from slide 16, net income contribution of Laurentian Bank Securities was $7.1 million for the year. LBS has been expanding its activities over the past years through the opening of new offices and the introduction of the institutional equity division. Excluding the impact of the gain on the sale of Montreal Stock Exchange and the asset-backed commercial paper provision, this expansion has led to a 25% or $1.0-million increase in net income for the year compared to last year, resulting from the good performance of the institutional divisions.

On slide 17, the Other sector reported improved revenues and contribution for the year. The improvement is attributable to the resolution of various tax exposures, as explained earlier, and also largely 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 has taken other steps in its development, as can be seen from Slide 18.

During the fourth quarter, we have carried on with our initiatives to improve our efficiency, such as optimizing important processes in our business lines and corporate sectors. This optimization will of course continue in 2008.

In our Retail Financial Services Sector, we began replacing all our ABMs and the deployment should be completed by the end of December 2007. We continue to improve our customer information management tools, while removing sales and administrative barriers. We are already known for our proximity to customers and we believe that with a more comprehensive and powerful knowledge base on their clients, our branch-based employees will be able to even better serve them.

Regarding Commercial Financial Services, in early November, we moved a commercial banking centre to Thornhill in Ontario. This is a better location for our customers and provides us with better visibility. We continue to set the foundations of the long term development of this sector.

B2BTrust, which does business with over 16,000 independent financial professionals across Canada, will continue its development as planned, through channel and product expansion, focussing solely on five core distribution channels: mutual funds industry, insurance industry, investment industry, mortgage brokerage and deposit brokerage.

Laurentian Bank Securities is continuing its development by applying rigorous execution to its growth activities and daily management. This sector added employees in strategic positions in its Retail division, Institutional Equity and Institutional Fixed Income sectors in order to consolidate its position to further continue its development.

In summary, as shown on Slide 19, the year 2007 was a very good year with:

- Increased total income coming from organic growth and high quality sources of revenues;
- Significant improvement of our operational efficiency at several levels at the Bank;
- Improved credit quality
- And strong net income improvement from continuing operations

In conclusion, for 2008, we will continue to maintain our efforts to ensure the Bank's development with a long-term vision by focusing on the same three priorities:

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

We are very proud of our 2007 accomplishments. However, we are aware that we must continue to improve our profitability in 2008. We are committed to do so and we are counting on our dedicated employees to do this. After all, they are the Bank's best asset and I want to thank them for their performance in 2007.

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

MS. G. CARON: At this point, 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 English or in French.

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

(QUESTION PERIOD)

OPERATOR: There are no further questions registered. So I would now like to turn the meeting back over to Ms. Caron.

MS. G: 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.

(QUESTION PERIOD)

The first question is from Rob Sedran, from National Bank Financial. Please go ahead.

ROB SEDRAN: Hi, good afternoon. Réjean, I'm going to start with an easy one. If I annualize the new dividend and use the bottom end of the EPS target range, I land below the 40-per-cent payout. Now, I know the dividend is reviewed every quarter, but just philosophically, what is the view on the dividend? Some of your larger peers or all of your larger peers I guess have settled into in every other quarter pattern. Is that the sort of policy you would like to see at Laurentian Bank?

RÉJEAN ROBITAILLE (President and CEO, Laurentian Bank): Well, first of all, I think that... well, thank you, Rob. I think that's a good and easy question. Well, with a 10-per-cent increase I think that's significant. As you mentioned, we will review that on a quarterly basis. That said, we did have a strong growth in 2007 and we think that we could do the same thing in 2008. So it's important for us to also continue to grow our capital. And as you can see in terms of our capital objectives for next year, it's over 9.5 per cent. So we will look at the situation on a quarterly basis, but I think it's important that you notice that we will also continue to grow the capital based on the strong growth that we have in the past and we're planning to have.

ROB SEDRAN: Okay, my second question surrounds the issue of credit quality. Specific provisions have been unchanged for the last eight quarters at $10 million, which says to me there is an element of conservatism in that figure, at least from the way I looked at it. It looked like formations were down, which sort of bucks the trend that we've seen so far this quarter from some of the larger banks.

Can you talk a little bit about credit quality? I noticed that you took out the PCL ratio objective this year. Any colour you can give us would be appreciated, especially in the context of some of the strong loan growth you've been recording.

RÉJEAN ROBITAILLE: I will ask Louis Marquis, responsible for Credit, to answer that question.

LOUIS MARQUIS (Laurentian Bank): Well, as you've seen, our impairment levels have decrease materially in the year. We're in a stable environment. The fourth quarter was a good quarter for us and I see no signs at this point of any deterioration. We're not seeing any sign in our books of deterioration. But of course it's a market that we have to be very careful about right now.

RÉJEAN ROBITAILLE: As for the objective that you mentioned, this year we did a benchmark and we also did the same thing last year. We did a benchmark comparing objectives versus let's say our peers and decided to not show let's say the credit quality in terms of it's already in fact including in all the other objectives in terms of EPS and return on equity. But as Louis mentioned, we will certainly follow very closely the situation.

ROB SEDRAN: Okay, and the late question, just a point of clarification because I'm not sure if I caught this correctly, but the $3.30 to $3.60 objective that you mentioned from an EPS perspective, does that include the roughly $0.18 or $0.19 from discontinued operations or is that $3.30 to $3.60 from continuing operations?

RÉJEAN ROBITAILLE: No, that's including the $0.19, let's say the 5.2 million on the balance of sales of Edmond de-Rothschild.

ROB SEDRAN: Okay, thank you.

OPERATOR: Thank you. Your next question is from Michael Goldberg, from Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG: Thanks. I also had a few questions. First of all, would I be correct in estimating that the impact of the narrower prime BA spread in the quarter was about $0.08 a share?

ROBERT CARDINAL (Chief Financial Officer, Laurentian Bank): Yes, it's about 2.7 million if you take a tax rate of roughly 30 per cent. It comes to about...

RÉJEAN ROBITAILLE: Eight to 10 cents per share.

MICHAEL GOLDBERG: Okay, and also about the $3.30 to $3.60 earnings objective for 2008, does that take into account passage of the federal budget in the $4 to $5 million tax change that would result?

ROBERT CARDINAL: I have to say that, yes, it takes... We described the impact of approximately $4 to $5 million which arrived after we prepared our objectives, but unfortunately, it does take into account that impact.

MICHAEL GOLDBERG: Okay, so it's reduced by that amount.

RÉJEAN ROBITAILLE: Yes.

MICHAEL GOLDBERG: Okay, and after the passage of the budget, what would be the appropriate effective tax rate to assume for 2008?

RÉJEAN ROBITAILLE: I'll let Robert answer that question.

ROBERT CARDINAL: We provided the table on page 5 of the press release where we, if you take there is a sub-total where the excluding these items the effective tax rate would have been 27.9% in 2007. So roughly 28 per cent would be a good number, 28% for 2008 as well.

MICHAEL GOLDBERG: Even taking into account reductions in the tax rates?

ROBERT CARDINAL: No, that would be, the impact of the federal mini budget would probably increase that effective tax rate. That 28% is without the impact of $4 to $5 million from the mini budget.

MICHAEL GOLDBERG: Okay, also I just have a couple of number questions. How much were commissions in Laurentian Bank Securities in the fourth quarter and how much was stock-based compensation in the fourth quarter?

ROBERT CARDINAL: Commissions maybe, Michel?

MICHEL GOLDBERG: When you talk about commissions, are you referring to the... on the retail division?

MICHAEL GOLDBERG: I had a number of about $4 million.

ROBERT CARDINAL: Yes, I see what you mean. Because we changed the presentation since in 2007. So you would like the impact. I think we will probably have to call you back with that answer.

As to your second question, which is the impact of the stock-based compensation in the fourth quarter, we provide on our additional information where we break down the salary and fringe benefits increase which should be somewhere here, and on that I think we call it supplementary information. There is a table on the non-interest expenses and the fourth quarter everything included in performance based compensation, the amount was $6.8 million, all inclusive.

MICHAEL GOLDBERG: Okay, and I have one final question. How much are the cumulative mutual fund sales now since the sale of BLC-EdR?

RÉJEAN ROBITAILLE: As you know, this is confidential information, so we can't say that. Just to mention that in the last three years, we were above the threshold and each year, we had a better year than the previous one.

MICHAEL GOLDBERG: Okay, that's great. Thank you very much.

OPERATOR: Thank you. The next question is from John Aiken, from Dundee Securities. Please go ahead.

JOHN AIKEN: Good afternoon. Réjean, with your initiatives for growth that you detailed in your presentation, how much flexibility is built into that because what we're seeing with your range of EPS is fairly wide and what I'm getting at is if the environment deteriorates and you are unable to generate as high a revenue growth as you may want, is there opportunity to scale back on the level of spending and reduce expenses on a go-forward basis?

RÉJEAN ROBITAILLE: The answer is yes. As you know, we are still very prudent in terms of cost control. I think that we did that in 2007. That said, it's important also for us to continue to invest in our business development. There's some initiatives for 2008 that will probably continue to help in terms of increasing the profitability overall.

As you know, in terms of the target that we had prior to this one, it's to increase profitability and mention to a lot of people that we want to get to the double-digit returns as soon as we can. That's done.

That said, I think that we have also to show sustainable double-digit returns in the future. So that's why we will continue to invest in our business development. But we will follow the situation very closely in terms of the current market environment and it will be possible to let's say reduce some of those initiatives in the future.

JOHN AIKEN: Great, thanks. And in terms of the new contract that you have in place with the union, I was wondering I guess the first question for Robert, is there material impact on the benefits? You gave some very good disclosure as to what we're expecting for salaries. And I guess secondly for Réjean, does the new contract do anything to improve the flexibility that you have with the union in case there is opportunities in the marketplace and allow you to redeploy employees or anything along those natures?

ROBERT CARDINAL: About the costs associated to salaries and everything else, the agreement we made, it's all inclusive, it's all included in our EPS targets and ROE targets for next year. It's taken into account.

RÉJEAN ROBITAILLE: And impacts aren't that important. In terms of the second part of your question, as you know, I think we're very, very proud with the relationship that we have now with our union and the signature, the agreement in principle concerning that showed that we certainly have a very good relationship with our union. And also based on the fact that we will have a four-year contract, I think shows that.

In terms of flexibility, there is always a possibility and I think that's two key words when you have a unionized force is respect and communication and that's what we showed to them in the last let's say two years and a half and based on that, we were able to do a lot of things this year. So I think that in terms of flexibility, that's not a concern for us.

JOHN AIKEN: Great, thank you very much.

OPERATOR: The following question is from Ian de Verteuil, from BMO Capital Markets. Please go ahead.

IAN DE VERTEUIL: The question I have relates to securitization. It looked as if you had a, from the notes on page 7, when you talked about various things in the quarter, one of those was spread compression. But the second related to quite a reasonable sized gain on your securitization. And then you offset it with mark-to-markets on the swaps. I guess I would have thought there would be a good gain just because I know the CMB went very well. But why was it this particular quarter that there would be this decrease in the fair value of the seller swaps? I know spreads have blown up, but would that, like on a normal basis, would I just assume those two offset on a normal basis?

RÉJEAN ROBITAILLE: I'll let Bernard answer that question.

BERNARD PICHÉ (Head of Treasury Capital Markets and Brokerage, Laurentian Bank): Yes, Ian. No, the profit on securitization is what it comes when we do, and it's an ad hoc thing, depending of the type of mortgages that we securitize and all that. The swap adjustment was related, as you have just mentioned, to the spread that has developed over BA’s for the funding of the bank-sponsored conducts on which that we are using for... that we have been using for securitization. So that widening of spread has meant that we have to mark-to-market those swaps negatively.

It so happens that the two components were of a magnitude, a rather similar magnitude.

IAN DE VERTEUIL: So given where we are today, if you securitize $300 or $400 million of residential mortgages again, what would be the net of those two?

BERNARD PICHÉ: Well, the adjustment to the swap is done. We have assumed certain patterns of wider spreads in the future and that has been done by our risk management group and we have established a new mark-to-market. Assuming that the conditions do not change and we go ahead with a securitization, we may end up having to register a profit. I can't predict the size, depending of the blocks that we securitize, and it would not necessarily be offset by a change in the swap value, unless the spread that we have seen widening since mid-August widened further.

IAN DE VERTEUIL: Right.

BERNARD PICHÉ: Which I hope will not happen.

IAN DE VERTEUIL: Let's all hope that doesn't happen. So you would effectively... these swaps you put back in to hedge the interest rate on these conduits, you would continue to put those back in but there's no reason, you know, assuming spreads remain where they are, that the only difference would be you wouldn't have the $2.8 million fair value loss on the swaps.

BERNARD: Yes, that's right.

IAN DEVERTEUIL: Thank you.

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

SUMIT MALHOTRA: ... target, maybe more philosophical than anything else. Nine and a half per cent plus, I compare that to some of your larger peers who I think at the low end are saying 8 per cent plus.

When I think about Laurentian Bank right now, your loan portfolio almost 85 per cent retail, pure play on Canada, not much on the capital market side, not really looking at acquisitions. Can you give us maybe a little bit of an idea behind your thought process like keeping the capital ratio target at such a high level, especially compared to some of your peers in Canada?

RÉJEAN ROBITAILLE: Well, I think that as I mentioned, for us it's important to continue to show important capital ratio. And you may ask some of our peers, it seems low for me, but that's their point of view.

And, well, there's specific items concerning that. We will have the Basel Accord. We're doing the standard method. As you know, we're not in the advanced method. And we feel comfortable at a level of 9.5 per cent or more that even if we have a retail portfolio, we think that's an adequate level. The same thing also and that's a thing that we work on. We certainly want to see an improvement in terms of our rating in the near future. I think that we show strong growth and strong profitability and it's important also for the rating agency to continue to show a good level of capital ratio.

SUMIT MALHOTRA: You hit on a couple of things that I was trying to lead into as well as, number one, this is the third year of very strong, I think you've used the word "stable" a few times, increasing stability in the results. Where are you in the process with the rating agencies in terms of an upgrade because you have mentioned that in a few occasions.

And number two, when I think about the fact that your business-to-business trust loan portfolio, I think it's up 25 per cent year over year this quarter. What can you tell us about the Basel II Accord and how that might impact some of the risk weightings you have on different pieces of your loan portfolio?

RÉJEAN ROBITAILLE: For the first part of your question, as you know, I think the rating agencies, they do on an annual basis usually it's during the spring. So we have a positive outlook with DBRS and they are aware of our results. We will follow the situation very closely. As for the Basel Accord, maybe I could ask our Chief Risk Officer, Pierre Minville, to answer the question.

PIERRE MINVILLE (Chief Risk Officer, Laurentian Bank): The impact of Basel II for a standard bank is usually favourable for a retail bank. So as our portfolio is mainly in retail, and also taking into consideration the capital for operational risk, the net of both is favourable to a retail bank. So you should see some impact on the ratio.

SUMIT MALHOTRA: Okay, thanks for that. Quickly turning over to net interest margin, you know, obviously a key part of your success over the last three years, and we saw some weakness that you referenced this quarter, when I look at the four operating segments, if you will, net interest margin, at least for commercial retail and business-to-business, I realize or I recall that one was down. So a good part of the success you had in increasing them has come from reducing your liquidities, balance sheet management, those types of factors. Where do you think we are in terms of net interest margin heading into 2008? Because your loan growth still looks very good. How about the other half of the net interest income puzzle? Do you think you're in for a period where this large increase on margins is about to flatten now, we're about to see more of a balanced environment in terms of where your NIM comes from here?

RÉJEAN ROBITAILLE: I'll let Bernard answer that question.

BERNARD PICHÉ: It's always difficult to answer a question like that. What I can say is that we have, as you know, sustained a very sharp improvement in the margin. We've been saying for a few quarters than we thought that this should taper off and finally, it happened this quarter. We have been, as you know, impacted by the prime BA spread by the cost of holding liquidities with the BA moving up. I think that impact is factored in the number that we've seen in Q4.

As we move forward, I don't expect a significant duration nor improvement in that margin. I think we have reached a good plateau.

However, I should be prudent in saying that what we have seen lately has been an adjustment on the side of the cost of funding, which was one side of the balance sheet. But as you know, we've seen more and more an adjustment in the pricing of products in the industry. As an example, I was looking this morning at the swap rate in Canada five years, for example, and we have seen the swap rate go down about 80 basis points in the last... since late July while the mortgage rates have stayed quite stable at 7.25, 7.30.

So there is a capacity for the industry to adjust pricing on both sides of the balance sheet to make sure that the margins are going to be sustainable, which I believe is what will happen next year.

SUMIT MALHOTRA: Okay, thanks for that. The last one is a quick numbers question. The ABCP charge that went through other income, could you just confirm what line item that went through? Was it treasury, financial markets, brokerage or was it other? Just looking to clean that up.

ROBERT CARDINAL: Yes, there are two portions for a total of $2.9 million. The $2.1 million of the security…

RÉJEAN ROBITAILLE: The Laurentian Bank Security.

ROBERT CARDINAL: The Laurentian Bank Security went through the brokerage commission line and the other, the $0.8 million went into treasury and financial markets.

SUMIT MALHOTRA: Okay, thanks very much.

OPERATOR: Thank you. Once again, please press * 1 at this time if you have a question. Veuillez appuyer sur * 1 si vous désirez poser une question.

The next question will be from Michael Goldberg, from Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG: Thank you. National Bank has said that somewhere under 100 of its commercial clients have been left holding asset backed commercial paper and presumably, they're not too happy about this. Has this created business opportunities for Laurentian Bank and is there anything that you've been able to do to take advantage of those opportunities?

RÉJEAN ROBITAILLE: The answer is yes. In any let's say crisis there are always opportunities and we're there to look at those opportunities, definitely.

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