



CONFERENCE CALL TRANSCRIPT

FIRST QUARTER 2010

MARCH 3, 2010

OPERATOR: 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.

GLADYS CARON, VICE-PRESIDENT, PUBLIC AFFAIRS, COMMUNICATIONS AND INVESTOR RELATIONS : Merci. Bienvenue. Good afternoon everyone.

Our press release was issued today on Canada Newswire and is posted on our Web site. This afternoon's overview of our first quarter 2010 results will be provided by our President and CEO, Réjean Robitaille, as well as by our CFO, Michel C. Lauzon.

Other members of our senior management team are also present on this call to answer any questions. You will find their names and titles on Slide 18 of the presentation available on our Web site. Réjean Robitaille and Michel Lauzon will refer to that presentation throughout their speeches.

During this conference call, forward-looking statements may be made, and it is possible that actual results may 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 Slide 2 of the presentation.

I will now turn the floor over to Réjean Robitaille.

RÉJEAN ROBITAILLE, PRESIDENT AND CHIEF EXECUTIVE OFFICER: Thank you, Gladys. Good afternoon ladies and gentlemen.

The first quarter of 2010 was another solid quarter for Laurentian Bank and I am pleased with our results. The growth in our earnings and in our balance sheet attests to the fundamental strengths of our institution. Our strong first quarter performance was in part the result of numerous growth and development initiatives that we have been pursuing. Notably, our growth engines generated very strong loan growth and we increased our loans by more than two billion dollars over the course of the last year. I am also pleased by our strong revenue growth which, thanks to positive operating leverage, generated a significant improvement in the Bank's efficiency ratio and earnings. We have maintained our momentum and remain well positioned to benefit from improving economic conditions.

As shown on Slide 3 of our PowerPoint presentation, for the first quarter of 2010, net income increased by 28% year-over-year, totaling \$32.0 million or diluted earnings of \$1.21 per common share. This compares with \$25.0 million or diluted earnings of \$0.91 per common share in the first quarter of 2009. Return on equity reached 12.3% in the first quarter of 2010 compared with 10.0% a year earlier. These strong results were achieved despite higher loan loss provisions and lower securitization revenue.

Turning to Slide 4, while we recognize that we only have one quarter under our belt, the results to date suggest that we are on track so far to achieve our 2010 objectives. Our business plan and a more supportive economic environment, in conjunction with our high level of liquidity and our good capital base, provide the flexibility to prudently continue to deliver growth.

I will now call upon Michel to provide you with a more in depth analysis of our financial performance.

MICHEL LAUZON: Thank you Réjean.

Financial highlights of the first three months of 2010 can be found on Slide 5. We were particularly pleased with total revenue which increased by more than 15% year over year, driven by a 22% rise in net interest income and a 3% increase in other income. The provision for loan losses, at \$16 million, remained flat sequentially but \$4.0 million higher than in the first quarter of 2009. Higher expenses associated with various initiatives to support business development pushed non interest expenses up by almost 9% year-over-year. In the first quarter of 2010, diluted EPS and ROE reached \$1.21 per share and 12.3% respectively, compared with \$0.91 and 10.0% in the first quarter of 2009. Drilling deeper into the results, I will discuss the main drivers of the Bank's performance during the first quarter of 2010.

Firstly, net interest income of \$120.7 million in the first quarter of 2010 increased by \$22.0 million from the first quarter of 2009. As highlighted on Slide 6, the net interest margin, at 2.13%, was 13 basis points higher than the net interest margin of 2.00% earned in the first quarter of 2009, owing to repricing initiatives undertaken last year to strengthen margins. However, the margin was 6 basis points lower than in the fourth quarter of 2009, mainly due to higher volumes of low yielding fixed-income trading securities and liquid assets on the balance sheet during the quarter.

Secondly, other income of \$59.7 million rose by \$1.9 million from the first quarter of 2009. The \$3.4 million improvement in fees and commissions on loans and deposits associated with the year-over-year increase in business activity and the continued stronger contribution from Laurentian Bank Securities and Capital Markets, more than offset lower securitization revenues. Revenues from securitization activities decreased by \$6.3 million, from \$10.5 million in the first quarter of 2009, to \$4.2 million in the first quarter of 2010. This was a result of the lower level of securitized loans and the tightening of credit spreads in the market.

Thirdly, as highlighted on Slide 7, the provision for loan losses amounted to \$16.0 million in the first quarter of 2010, unchanged from last quarter but higher than the \$12.0 million recorded a year ago. The year over year increase largely relates to higher provisions in the commercial loan portfolios. During the quarter, the credit

quality of our consumer loan portfolios remained stable, allowing for a reduction in the loan loss provisions allocated to these portfolios.

Slide 8 highlights the credit quality of the loan portfolio. Gross impaired loans of \$157.4 million at the end of the first quarter of 2010 increased by \$19.9 million from year-end 2009. The quarter over quarter increase largely relates to commercial and real estate loans as well as some additional impairment of retail residential mortgage loans. Improving economic conditions and measures that were undertaken early on to reduce our exposure to the point of sale financing portfolio resulted in the credit quality of the overall retail loan portfolio stabilizing during the quarter. Net impaired loans stood at \$36.0 million at January 31, 2010 compared to \$23.0 million at October 31, 2009. Despite the slight deterioration in overall credit quality, due in part to impaired commercial loan formations lagging in this slowly developing economic recovery, it should be noted that the ratio of gross impaired loans to total loans, BA's and reverse repos remains at an acceptable 0.90% level. Therefore, while we continue to closely monitor market conditions, the credit quality of our loan portfolio remained satisfactory in the quarter.

As presented on Slide 9, the efficiency ratio for first quarter of 2010 improved significantly to 66.7% compared to 70.7% for the first quarter of 2009 and 70.8% for all of 2009. This good positive leverage performance was achieved as higher investments in staff and technology generated a proportionately higher growth rate in loans, deposits and fee income.

One of the main drivers of the Bank's improving results is loan and deposit growth, as highlighted on Slide 10. Total loans and BAs rose by \$2.1 billion or by 15% over the last 12 months. Contributing to this growth were residential mortgages which increased by \$1.6 billion or 25%, benefiting from our effective distribution channels and strong underwriting activity. Personal loans decreased slightly by 0.7% over the year as solid growth in investment loans and home equity lines of credit were more than offset by the impact of our strategy to further reduce our exposure to point-of-sale financing. While total deposits increased by \$2.9 billion over the last 12 months, thanks, in large part, to the successful launch of the B2B Trust's High Investment Interest Account, they decreased by \$43.1 million during the quarter as the Bank actively managed its excess liquidity levels and funding costs. That being said, retail deposits continue to provide a stable and diversified source of funding, at comparatively attractive rates.

A conservative loan portfolio, strong liquidity and a solid base of personal retail deposits position the Bank well for the future. I would also like to point out that, at the end of the first quarter, our capital position remained solid, with a Tier 1 capital ratio of 11.0% and a tangible common equity ratio of 9.1% which reflects the high quality of the Bank's capital.

Turning now to the performance of our business segments on Slide 11, a few items have been reclassified for 2009 in order to facilitate comparisons with current

business segment reporting under our revised business unit structure. As of November 1, 2009, we formed a new business segment, Laurentian Bank Securities and Capital Markets, which now includes certain Bank-related capital market activities, that were previously reported in our Other segment. As well, in an effort to enhance the delivery of value added services to our customers, international services are now consolidated in the Real Estate and Commercial segment. The Retail and SME Quebec and B2B Trust business segments were not affected by the reorganization. As a result, comparative figures were reclassified to conform to the current period presentation.

Slide 12 shows that total revenue in Retail and SME Quebec in the first quarter of 2010 rose by 7% compared to a year ago, reaching \$112.5 million. This increase was a result of higher loan and deposit volumes, improved interest margins, and higher fee income. As the credit quality of retail loan portfolios stabilized during the quarter, loan losses were relatively unchanged, at \$9.8 million compared to \$9.5 million a year ago. Non-interest expenses rose by 5% year-over-year to \$86.5 million, mainly as a result of increases in salaries and employee benefits and staffing levels. Net income in the first quarter of 2010 reached \$12.6 million, 23% higher than a year earlier.

Slide 13 highlights the Real Estate & Commercial segment, which now includes foreign exchange and international services. Total revenue increased by 38% to \$27.6 million in the first quarter of 2010, mainly as a result of higher net interest

income due to growth in loan volumes and repricing measures initiated last year. Loan losses rose to \$5.2 million in the first quarter of 2010 compared to \$1.7 million in the first quarter of 2009 as management recorded provisions on certain deteriorating accounts. However, losses have remained acceptable and the overall credit quality of the portfolio remained satisfactory considering the challenging economic conditions. Non-interest expenses decreased by \$2.4 million to \$4.2 million in the first quarter of 2010, mainly as a result of the partial resolution of certain operational issues during the quarter, which generated a \$2.1 million favourable adjustment to non-interest expenses. Net income increased by 58% year-over-year, to \$12.7 million in the first quarter of 2010.

As shown on Slide 14, B2B Trust's revenue increased by 27% to \$29.8 million in the first quarter of 2010. A significant \$6.2 million increase in net interest income was the result of volume growth and recovering margins. Loan losses, which include provisions on investment lending activities, remained low at \$1.1 million in the first quarter of 2010, compared with \$0.8 million in the first quarter of 2009. Higher salary and employee benefits, as well as higher technology costs, resulted in non-interest expenses increasing to \$12.6 million in the first quarter of 2010 compared with \$10.8 million in the first quarter of 2009. Positive operating leverage resulted in the efficiency ratio improving by nearly 4% to 42%. Net income rose by 36% year-over-year, to \$11.1 million in the first quarter of 2010.

Average deposits grew by \$2.6 billion during the year, reaching \$9.0 billion at the end of the first quarter of 2010. During the quarter, volumes associated with the High Interest Investment Account rose by \$80.3 million. This product continues to be popular among the financial advisor community.

As of November 1, 2009, the newly formed Laurentian Bank Securities and Capital Markets business segment includes the activities of Laurentian Bank Securities as well as certain Bank capital markets activities that were previously reported in the Other segment. As can be seen from Slide 15, revenues grew by more than 18% to \$14.5 million in the first quarter of 2010, as a result of continued strong performance of the Institutional Fixed Income division and improvements in the Retail and Institutional Equity divisions. Higher variable compensation costs were largely responsible for non-interest expenses increasing to \$11.7 million in the first quarter of 2010 from \$8.6 million in the first quarter of 2009. In addition, the settlement of Laurentian Bank Securities' dispute with the Autorité des marchés financiers related to the Third Party Asset-Backed Commercial Paper crisis did not have a material impact on expenses as the bulk of this cost had been provisioned in prior quarters. Net income decreased to \$1.8 million in the first quarter of 2010 from \$2.5 million in the first quarter of 2009.

The Other sector, presented on Slide 16, posted a negative contribution to net income of \$6.1 million in the first quarter of 2010, compared with a negative contribution of \$3.8 million in 2009. Net interest income improved to negative \$8.8

million in the first quarter of 2010, compared to negative \$13.8 million in the first quarter of 2009.

Other income for the first quarter of 2010 was \$4.9 million, compared to \$9.8 million. Lower revenues from securitization more than offset improvements in other treasury operations. Non-interest expenses increased to \$5.4 million for the first quarter of 2010, compared with \$2.4 million a year earlier, owing to higher allocated technology costs and capital tax expenses.

This concludes my comments. Now Réjean will offer some closing remarks.

RÉJEAN ROBITAILLE: Thank you Michel.

We continued to build on our solid foundation in the first quarter of 2010. Not only did our assets surpass \$23 billion at quarter-end, but our revenues are becoming increasingly diversified. We are working hard to better serve our growing number of clients and in doing so, we are increasing the share of wallet of each client. Furthermore, we are strategically expanding our reach. The Real Estate Financing team recently opened a new office in Quebec City. Now with seven offices, this group is broadening its reach and at the same time, improving its proximity. The Retail Banking segment has been expanding the number of mobile bankers. With this distribution network now close to 100, it serves as an important lever to assure

the continued growth of mortgages and other financial products sold through our branch network.

Lastly, Laurentian Bank Securities has been selectively adding brokers to its Retail Brokerage division, allowing the Bank to further expand its presence to more clients.

The agility to quickly harness strategic opportunities, and the competitive advantages in this time of economic recovery, has made it possible to attain even stronger core earnings and a growing balance sheet.

I will now turn the floor back to Gladys.

GLADYS 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. Thank you. Pour poser votre question, appuyer sur étoile un. Si vous désirez annuler votre question, appuyez sur le dièse. If you wish to ask a question, please press star one on your telephone. To cancel your question, please press the pound key. Vous pouvez maintenant procéder. You may now proceed.

The first question is from Gabriel Dechaine from Genuity Capital. La première question est de Gabriel Dechaine de Genuity Capital. Please go ahead. La parole est à vous.

GABRIEL DECHaine: Good morning. Sorry, good afternoon. I guess the thing that jumped out at me here was the jump in... the spike in gross impaired loans and should we be drawing a line between the growth you experienced in your commercial loan book and mortgage book over the past year or more to this rise in impairment? That'd be my first question.

RÉJEAN ROBITAILLE: Okay, well good afternoon, Gabriel. I'll ask Louis Marquis, Head of Credit, to answer that one.

LOUIS MARQUIS: Not necessarily. I would not necessarily draw a line between the two. There has been some softness in real estate in commercial. We expected that. And more specifically, we've classified a couple of loans, one real estate loan of about \$14 million as impaired, another commercial loan of \$6 million. That would explain the bulk of the increase. I would note that those loans are not in liquidation. We are working out with the client right now to resolve the issue but given their risk profiles, we have decided to classify them impaired. But there is no material losses expected on those loans.

GABRIEL DECHaine: Okay. And so the real estate loan, that's probably one of the larger ones. What's your limit again? I thought it was... Is it \$20 million or is it \$10 million?

LOUIS MARQUIS: In real estate financing, the limit is \$30 million.

GABRIEL DECHaine: Okay. Now, as far as the growth goes in commercial lending and in commercial mortgages over the past year or more, I can't get away from this connection I'm making in paying that (phon) in impairments. My understanding was that you guys were able to exploit some softness in the market, some of your competitors were backing away with... You know, why shouldn't I think they were backing away for a reason? And this is maybe, you know, causing you some problems (inaudible).

RÉJEAN ROBITAILLE: Louis, once again.

LOUIS MARQUIS: The window that we talked about in the previous few quarters was more specifically in term loans, where other type of lenders and banks were basically out of the market for quite a while, which created an opportunity. And there's really no quality issue for us in that portfolio.

GABRIEL DECHAIINE: Okay. That's reasonable. And just to move on to the margin, you talk about the fixed income trading inventory. Has that reversed at all since the quarter end? And I guess the liquidity, I haven't run the numbers here but the liquidity ratio, I would expect that to be going down over time. Are you still maintaining a conservative mindset there? And should we expect the, you know, that to ease off and your NIM to kind of revert to that 220 basis point level that would... it was turning to?

RÉJEAN ROBITAILLE: Michel will answer that one.

MICHEL LAUZON: Thank you, Réjean. Gabriel, we ran in... We started the quarter with a stronger growth rate in the positives than we had expected, which was a good thing, but also meant that we had added... we added liquidity early on in the quarter, which we're now redeploying into loans. But we did have a higher level of liquid assets than we were... had originally expected. Also, all the trading inventories at the broker do fluctuate based on market conditions and we just had higher inventories during the quarter. This could reverse but it depends on operational requirements and market conditions going forward. But if you take those effect... that effect out of the balance sheet growth in the quarter, which was roughly \$.5 billion, then your NIM comes back up to around 2.19, which is where we were at the end of last quarter.

GABRIEL DECHAINE: So the... you're catching up to the liquidity that came in early in the quarter. I imagine that's probably a B2B. And then the capital markets inventory, fixed income inventory, that may drop but hasn't yet?

MICHEL LAUZON: The important thing is to look at the trend net interest income overall.

GABRIEL DECHAINE: Mm-hmm.

MICHEL LAUZON: And not just at the margin and we're happy with the growth in net interest income.

GABRIEL DECHAINE: No, no, but the... and a... Like, volume growth...

MICHEL LAUZON: Yeah.

GABRIEL DECHAINE: Clearly helped there?

MICHEL LAUZON: Yeah.

GABRIEL DECHAINE: Okay. Lastly, I guess the salary... there's a couple of divisions there that talk about salary increases. Is this part of your, you know, on your annual increase process? Or were there any areas that saw, you know, an extra incentive comp being paid out? And if you could remind me when the next union contract is up for renewal, I believe that's the end of 2011; that's not all being impact... reflected in these increased salary numbers, is it?

RÉJEAN ROBITAILLE: As for the union contract, you're right. We have until the end of December 2011. As for the overall expenses, Michel will answer that question.

MICHEL LAUZON: Well with... As we've been funding growth, rapid growth throughout the year, we have been adding staff in the business development areas in all our business lines and that has pushed the expense... staff expenses higher. Also, even though our annual salary increases only hit our expense line in the middle of January, for this year, we do have the pipeline effect from last year's salary increases pushing expenses higher but no more than what was expected in the market at this point in time. And so that has pushed the expense line higher as a result.

UNIDENTIFIED MALE SPEAKER: Year-over-year.

MICHEL LAUZON: Year-over-year.

GABRIEL DECHAINE: Okay, just to sneak one more in there, the loan growth, you know, it was very strong over the past several quarters. Are we really having to key in on the retail, residential mortgage market there for... to keep that growth rate going? Or do you see other areas that can, you know, keep it above average?

RÉJEAN ROBITAILLE: Well, I think that we have invested a lot in our business development over the last few years, and we continue to do so. As I said earlier, we already have now close to 100 mortgage mobile bankers, and we want to continue to increase that number. So the trend is our friend on that side. There is still a little opportunity. There is still the... of market share to gain and we are confident and we mentioned that, well at the end of the fourth quarter, that we think that we should see the same type of growth in 2010 than what we have in 2009.

GABRIEL DECHAINE: Okay. Thank you.

TÉLÉPHONISTE: Thank you. Merci. The next question is from Michael Goldberg from Desjardins Securities. La prochaine question est Michael Goldberg de Desjardins Sécurité. À vous la parole. Please go ahead.

MICHAEL GOLDBERG: Thanks. Wonder if you could give us a little more colour on the two big loans classified during the quarter and the prognosis for them? And also in the fourth quarter, there were two agricultural loans totaling about \$8 million that were classified. Could you give us an update on what's happening with those?

RÉJEAN ROBITAILLE: Louis Marquis (unintelligible).

LOUIS MARQUIS: Regarding the two loans of this quarter, I'll be a bit careful because those are actually loans that are current with our borrowers so I don't want to go in too much detail. One is a condo project which, for which the outlook is average of... There's a concern of getting out the full payment of interest and principal and, as you know, when there's a doubt to that effect, we classify them doubtful. But the loan is current right now and we... there is more expectation of getting out all than of having a loss down the road but should there be any softness in the market, then the story could change. But in the current market, we probably will get out all.

The commercial loan is a workout situation typical that will take quite a few quarters to see where it ends. We've put a reserve on it to... in case we go in a liquidation scenario later in the year but it's one that I would expect that will work, that we'll work with for... a few quarters still to see if they can turn around.

They have been hit by the economy and will the economy pick up, (inaudible) have them go through a... it's too early to say right now.

The two agricultural loans have not moved much. It's a... Any loan in agriculture that, call it impaired is very long... it's a long process. They work through their different bankruptcy protection laws and it's a process that takes a lot of time and lots of patience from us. But at the end of the day, losses are always minimal in that sector.

MICHAEL GOLDBERG: And the workout loan, what industry is it in?

LOUIS MARQUIS: Transportation.

MICHAEL GOLDBERG: Okay. Thank you. Just one other thing, your incentive comp was down quite considerably from the fourth quarter. You want to explain what's going on there?

RÉJEAN ROBITAILLE: Michel will answer that question.

MICHEL LAUZON: Yes, thank you, Michael. Overall, the... In the quarter, there were about \$4 million of non-recurring unusual items which net had a positive impact on earnings, or a negative impact on expenses.

We've alluded to \$2.1 million recovery on... for operational issues that we had provided for and the remainder is a result of the reversals in incentive compensation provisioning.

MICHAEL GOLDBERG: So but \$1.9 million...

MICHEL LAUZON: Net of other things as well but the bulk of it would be there.

MICHAEL GOLDBERG: Okay. Thank you very much.

TÉLÉPHONISTE:

Thank you. Merci. The next question is from André Hardy from RBC Capital Markets. La prochaine question est de André Hardy de RBC Capital Markets. Please go ahead. La parole est à vous.

DAVE MUN: Good afternoon. It's Dave Mun here.

RÉJEAN ROBITAILLE: Hi, Dave.

DAVE MUN: I'm using André's phone. Just a follow-up question to Gabriel's loan growth question on the mortgage side. Can you remind us or give us a little bit more colour on what geographies the new loans are coming on or the

uninsured/insured mix and the typical LTV ratios on origination and whether that changes... that's different from your current book? And then a second question, just a clarification, it looks like your PCL related to mortgages dropped quarter-over-quarter but your gross impaired loans increased for mortgages. Is that just a matter of more insured mortgages are going impaired?

RÉJEAN ROBITAILLE: Okay, I'll start, Dave, with some of your questions and then I'll pass the buck to Louis Marquis. In terms of geography and insured to non-insured mortgages, well roughly, I'd say, I would say half of the new... up to 60 percent of the new mortgages that were bringing on our books are insured and, as you know, we have two channels of distribution. The one is through our branches here in Quebec and that the most important one but we also have in Ontario through B2B Trust a mortgage broker activities, which is doing... been doing good. It did great in 2009; still going well in 2010 but most of the activities are still coming from the Quebec region.

In terms of LTV, I would say on average something around 60 to 70, that would be a good guess. As for the provision for credit losses on mortgages and the fact that the gross impaired loans have increased a little bit on mortgages also, I'll ask Louis to answer that one.

LOUIS MARQUIS: Would you kindly take that part of the question from the beginning?

DAVE MUN: Sure. Yeah sure. On page seven of your report to shareholders, it looks like your provision for credit losses related to mortgages dropped by a half quarter-over-quarter but then gross impaired loans related to mortgages increased. And I assume that's just a matter of the insured, a larger portion of insured mortgages went impaired and you wouldn't really take a loss for that. I just wanted to clarify if there... that was it or if there was anything else. And also, just to follow up on the response, was the 60 to 70 percent loan to value on the total book or just on the uninsured?

RÉJEAN ROBITAILLE: That's uninsured. That's on the uninsured.

DAVE MUN: Good, thanks.

RÉJEAN ROBITAILLE: And then on the new business. As for the gross impaired loans, you're right. Most of... Well, I would say the same thing that the one that we originate so 50 percent to 60 percent of the growth that we have on the investment that we have there is coming from insured mortgages, so with a potential lower level of losses.

DAVE MUN: Great, thank you.

TÉLÉPHONISTE: Thank you. Merci. The next question is from Sumit Malhotra from Macquarie Capital Markets. La prochaine est de Sumit Malhotra from Macquarie Capital Markets. Please go ahead. La parole est à vous.

SUMIT MALHOTRA: Good afternoon.

RÉJEAN ROBITAILLE: Good afternoon, Sumit.

SUMIT MALHOTRA: Couple of questions regarding other income line items; I'll start with securitization. You've certainly suggested to us that that's going to be a less... or less of a contributor on the revenue line. Also in regards to your comments on liquidity, just looking at your disclosure here, the amount of... or of mortgages securitized this quarter, 50 to 65 percent lower than we have seen over the last couple of years this quarter. How are you feeling about the securitization channel in terms of your need to access liquidity as 2010 progresses?

RÉJEAN ROBITAILLE: Well we still have excess liquidity. I think that we want to manage that kind of excess liquidity so that's one reason why we have decided to securitize less than the last few quarters and we think that, going down the road, that could be also the case. So that's mainly it. We continue to manage very prudently our excess liquidity.

SUMIT MALHOTRA: How have you thought about your liquidity position relative to some of the... I don't think there's that many specifics yet but in terms of some of the commentary that's come out of the Basel Committee in terms of not only capital standards but where liquidity is going to go?

RÉJEAN ROBITAILLE: Well in terms of liquidity and even in terms of capital, as you know, it's still too early to say. There is still a lot of uncertainty (inaudible) those rules but in terms of liquidity, or what we are seeing in the... our model showed that we could be very well positioned to face the current proposals but it's still too early to say.

SUMIT MALHOTRA: And you feel that way in terms of both capital and liquidity?

RÉJEAN ROBITAILLE: In terms of capital, that could be a little bit different. There is a lot... There is, I think, probably more uncertainty on this and... but Michel will provide you more flavour for that question.

MICHEL LAUZON: Right. Thank you, Réjean. Hello, Sumit. The... Yeah, the rules came out in December. They are still under discussion. There is still a lot of work to be done either on a national level or even an international level to get any type of clarity around that. What we know so far is that there are some items for which will affect us very little, things like capital market rules or innovative tier 1 capital or the per-tax assets. And the rules around those are relatively clear, even

though there's definitely a lot of room for movement around that. Other areas such as intangibles and counterparty risk and pension fund liabilities or pension fund assets, those could impact us at varying degrees but there is a lot of uncertainty around how those will play out over the next six to 12 months.

SUMIT MALHOTRA: Last time we met in this forum was, I believe, early December and at that time, the Bank had opted to make a small move in the quarterly dividend. Obviously, these proposals that we're talking about came out a few weeks after that. Just based on those last comments, Michel or Réjean, is it appropriate for us to think that further dividend increases from Laurentian Bank are likely going to have to wait until we get some greater clarity on where exactly these rules go? Or do you feel that the capital position and profile of the Bank is such that you could make a move, another small move before everything is officially set in stone?

RÉJEAN ROBITAILLE: Well, you're right, Sumit. When we increased the dividend the last time, it was before the new, their new proposals. Under the current rules, well Laurentian Bank is definitely in a good position to increase its dividend but based on the new proposals, that might be different and there's still a lot of uncertainty regarding the Basel proposals. And I think the one thing that has characterized Laurentian Bank over the last few years, it's our prudent approach so we will remain prudent, and we will wait for clarity on the rules. I think that's the best way to do it. It's... I said that earlier.

It's hard to play the game when you don't know the rules. So by the end of the second, well, half of the year, we should have better clarity on this and then we will be able to address the dividend.

SUMIT MALHOTRA: That's reasonable. Thanks for that colour. Two more questions on fee income and I'll wrap it up there. First, on brokerage operations, certainly the second half of the year the Bank reached a new plateau in the contribution from that line item and it stayed pretty consistent this quarter. Is there anything operationally or environment-wise that you have seen different when it comes to the fixed income operations at Laurentian since that's certainly been an area of interest for market participants?

And then number two, revenue from treasury and financial market operations, a bigger print than we've seen for a little while. Can... Probably for Michel again, could you just give me a reminder of what exactly, what operations run through this line item? And that would be it for me.

RÉJEAN ROBITAILLE: Okay, I'll ask Michel Trudeau, President and Chief Executive Officer of Laurentian Bank Securities, to answer your first part of your question and then Michel Lauzon will answer the second part of your question.

MICHEL TRUDEAU: Hi, Sumit. You're referring to the fixed income group, where we've (unintelligible), which is most (inaudible) in our sector. Yeah, there are changes and we obviously, we are... we see deficits on the public front, which has increased the, that sector in the profile. We've seen credit spreads moving significantly during the last two quarters of last year and now a bit more tranquility there as well with the open ag rate (phon) at a quarter percent. There's good carry in that sector. And we're seeing good momentum going forward. There could be a bit of adverse wind (phon) if overnight rates were to move up significantly but we continue to impact in that business. The supply (phon) is now growing for the first time in many years and we continue to occupy a greater and greater share of that pie so things are moving along there nicely.

RÉJEAN ROBITAILLE: Second part of the question, Michel.

MICHEL LAUZON: Yes. Well, treasury area of the Bank encompasses many different functions beyond its primary function, the financing and managing the Bank's capital. You have primary liquidity management, secondary liquidity management, ALM securitization and structured product hedging. So I don't really want to go into each of these but the primary driver I would guess of fluctuations there over the last few quarters has been secondary liquidity management, where we've had to take some write-downs on security portfolios in the past which are in this group, and we did not have to do that this quarter.

The fact that we did eke out a small realized gain on the portfolio and our available for sale portfolio on realized gain position has improved in the quarter and you can see that in the notes to the financial statements.

The other piece is ALM, where we tend to try to manage the Bank's overall GAAP management, interest rate sensitivity management and neutralize those impacts in each of the business units. And that can fluctuate by a few million dollars each quarter. And we've done reasonably well over the last 12 months in this area.

SUMIT MALHOTRA: So it's fair to say that the, shall we say, unrealized losses in the AFS securities book were, for the most part, cleaned up in the back half of 2009 and the improvement in marketing conditions has left you somewhat confident that you're not going to have to take too many charges there as we go forward?

MICHEL LAUZON: That's our feeling, market conditions permitting.

SUMIT MALHOTRA: Thanks for your time.

RÉJEAN ROBITAILLE: You're welcome.

TÉLÉPHONISTE: Thank you. Merci. Once again, please press star one on your telephone keypad if you have a question. De nouveau, n'hésitez pas à appuyer sur étoile un pour poser une question. The next question is from Michael Goldberg from Desjardins Securities. La prochaine question est de Michael Goldberg de Desjardins Sécurité. À vous la parole. Please go ahead.

MICHAEL GOLDBERG: Just a clarification. Can you explain what you mean by operational issues in connection with the \$2.1 million recovery from the fourth quarter?

RÉJEAN ROBITAILLE: Okay, Michel?

MICHEL LAUZON: Michael, you remember last quarter we did mention that there were some operational issues which we felt needed to be provided for. We built up a reserve last quarter in case we had to suffer losses in that area. And that happened right at the end of the quarter so it took a while to clear up what exactly had been going on and in the end, we reversed out a significant portion of that provision, which totaled \$2.1 million.

MICHAEL GOLDBERG: Okay, so...

MICHEL LAUZON: The reversal was \$2.1 million.

MICHAEL GOLDBERG: Okay. All right, I think I recall now. Thank you.

TÉLÉPHONISTE: Thank you. Merci. There are no further questions registered at this time. Nous n'avons plus de questions pour le moment. I would like to turn the meeting back over to Miss Caron. J'aimerais retourner la parole à madame Caron.

GLADYS CARON: Thank you all for joining us today. If you have any further questions, do not hesitate to contact us. Our phone numbers are listed on the presentation. Thank you.

RÉJEAN ROBITAILLE: Thank you.

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