

LAURENTIAN BANK / BANQUE LAURENTIENNE

CONFERENCE CALL – Q1 2007 / APPEL CONFÉRENCE – T1 2007

FEBRUARY 27, 2007 / LE 27 FÉVRIER 2007

TÉLÉPHONISTE : Bienvenue à la conférence de la Banque Laurentienne. Welcome to the Laurentian Bank conference call.

Soyez avisés que cet appel est enregistré. Please be advised that this call is being recorded.

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.

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

Before we comment on our performance for the first quarter of 2007, I would like to remind you that our shareholders' annual meeting will be held on March 6 in Montreal.

Our press release was issued today on Canada newswire and is posted on our Web site.

This afternoon's overview of our first quarter results will be presented differently than the previous conference calls.

From now on, the overview will be provided by Réjean Robitaille and Robert Cardinal, respectively President and CEO and CFO.

The following members of our senior management team are also present at this call: Bernard Piché, Head of Treasury, Capital Markets and Brokerage;

Luc Bernard, Head of Retail Financial Services and Small and Medium Enterprises; François Desjardins, Head of B2B Trust; Lorraine Pilon, Head of Corporate Affairs; Michel Trudeau, Head of Laurentian Bank Securities; Marc Paradis, Controller; Louis Marquis, Head of Credit; André Lopresti, Chief Accountant; and myself, Head of Public Affairs, Communications and Investor Relations.

At this time, I would like to invite Réjean Robitaille to begin.

MR. R. ROBITAILLE: Thank you, Gladys.

Good afternoon everyone.

We announced this morning the results for the first quarter of 2007. With earnings per share of \$0.74 representing an improvement of 25% compared to the same quarter last year, a return on equity of 9.4%, as well as an efficiency ratio of 73.7%, these results compare favourably with our 2007 objectives.

In fact, the Bank had a solid quarter. Each business line provided a good performance, and we continue to see loan and deposit growth.

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

Following his comments, I will make an overview of our strategies for the business lines and discuss our three main priorities for 2007.

MR. R. CARDINAL: Thank you, Réjean.

I will mainly comment on our results for the quarter compared to the same quarter last year and our 2007 objectives.

I will also touch upon the financial performance of the lines of business.

Earnings per share for the first quarter of 2007 were \$0.74, and the return on equity was 9.4% compared to an earnings per share of \$0.59 for the first quarter of 2006. This represents a growth of 25% above the target range of 3 to 15% set in our 2007 objectives, represented by the target of \$2.55 to \$2.85 shown on page 2 of our press release.

Our return on equity of 9.4% exceeds our 8 to 9% target range for the year. This range includes the impact of discontinued operations, which may favour our fourth quarter results.

I have to note that net income in both quarters includes certain important elements of a non-recurring nature, as described in our press release, which specifically impacted our earnings per share.

In my view, the most important among them would be the following.

The first quarter of last year included the following two elements: a \$2.4 million tax adjustment relative to the Quebec corporate income tax rate change for \$0.10 per share and a gain of \$0.9 million on the sale of the Bank's participation in Brome Financial for \$0.04 per share. The first quarter of this year included a \$0.9 million tax adjustment for \$0.04 per share. Excluding these items, earnings per share growth was even stronger.

Note that variable compensation charges and discontinued operations had a similar impact on both quarters.

Compared to the same quarter last year, total revenue was up by 6%. The growth was largely due to higher net interest income that increased by \$7.2 million or 8%.

Net interest income continues to be generated primarily by loan and deposit growth in most business lines and by liquidity and tighter asset and liability management in our Treasury division.

On the cost side, non-interest expenses increased by \$1.6 million or 1.5% versus the same quarter last year, mainly as a result of higher salaries and employee benefits.

Other costs remain largely unchanged.

We saw a good improvement in our efficiency ratio from 76.8% last year to 73.7% in the current quarter. Our impaired loans went from \$+5.4 million in the fourth quarter of 2006 to \$-2.8 million at the end of this quarter. Even though there is still room for improvement, our credit quality situation is definitely much better.

We continue to see stronger and less volatile earnings on a year-over-year basis for the following reasons:

Firstly, an improvement in our net interest margin, which was 2.27% in the quarter versus 2.10% in the first quarter of 2006, with less revenues from securitization.

Secondly, our loan growth continues while our loan losses remain stable at \$10 million.

And finally, our effective tax rate is going down. Excluding the non-recurring tax items mentioned earlier, the effective tax rate of the quarter was 28% compared to 32% last year.

All lines of business showed a significant increase in their net income contributions when compared to the same quarter a year ago.

Please refer to the summary table on page 6 of our press release.

Net income contributions of Retail Financial Services increased by 43% over the year to \$9.3 million. Growth in average loans and in average deposits of \$481 million and \$277 million respectively, as well as the lower tax rate associated with the lower taxes on credit insurance revenues, were the main drivers.

Net income contributions of Commercial Financial Services increased by 13% to \$6.4 million. Excluding the \$0.9 million gain on the sale of Brome Financial last year, the increase in net income contributions would have been 34%.

Net income contributions of the B2B Trust line of business increased by 34% to \$7.4 million. Growth in personal loans and deposits and lower loan losses on the personal line of credit portfolio are the main drivers.

Net income contributions of Laurentian Bank Securities increased by 45% to \$1 million.

The net income contributions of the other segments were down essentially as a result of the non-recurring tax adjustments mentioned earlier.

Lower securitization income was offset by improvements in net interest income associated with liquidity and asset and liability interest rate management.

Now, compared to the fourth quarter of 2006, excluding discontinued operations, earnings per share on a consolidated basis for this quarter stood at \$0.74. It is a 15% increase over the \$0.65 posted during the fourth quarter of 2006, which benefited from a relatively low tax rate of 18%.

This concludes my comments.

Now, back to Réjean.

MR. R. ROBITAILLE: Thank you, Robert.

I will now have a look at the strategies of our four business lines.

The improving performance of Retail Financial Services is definitely the result of our strategies and actions to increase our loan and deposit volumes.

We have seen a 6% growth in total loans and a 3% growth in total deposits over the same quarter last year. On a year-over-year basis, our residential mortgage loans increased by \$427 million, which represents a growth of 8%. Sales efforts and mainly marketing initiatives contributed to the improvement of the results of this business line.

Moreover, new products have been launched for the RRSP season. Starting this year, we have been offering again the China Objective Notes and started to distribute the new Clarington Target Click funds. Our clients can benefit from these new products, which allow them to diversify their investment portfolios.

We will be wrapping up our RRSP campaign tomorrow, and even though the final results will be available in a few days, I can say that we are on our way to surpass our results of previous years.

Commercial Financial Services' stronger performance compared to the first quarter of last year is mainly due to higher loan volumes. Total loan portfolio grew by 6% over the same quarter last year. This business line mainly benefited from the very good performance in the Real Estate Financing group where the portfolio grew by \$133 million over last year.

In order to create concrete synergies in Quebec between our Retail network and our Small- and Medium-Enterprises' teams, our commercial segment underwent organizational restructuring during the quarter.

Small- and Medium-Enterprises Quebec, Farm-Lending, and Micro-Business now report to Luc Bernard, Head of Retail Financial Services.

Furthermore, to improve our commercial presence and develop synergies in Ontario, Real Estate Financing and Mid-Market Ontario will now report to a Toronto based senior executive, Paul Hurtubise.

B2B Trust continues its growth strategy, focusing on increasing the number of distribution alliances and increasing logistical support of all its current alliances.

As a result, investment loans grew by \$247 million; brokered mortgages by \$34 million; and brokerage deposit volumes increased by \$284 million over the same period last year.

This already performing business unit continues to manage a growing bottom line while pursuing the goal of building extra capacity and efficiency needed to support accelerated future growth.

At this point, B2B's efficiency ratio improved to 46.2% for the quarter from 52.8% in the prior year period.

Laurentian Bank Securities continues to expand with the development of its institutional equity operations and the growth of its retail brokerage franchise. Brokerage assets under administration were up 9%.

For the next quarters, our strategic focus will be on our three main priorities which are:

The first one: to increase our profitability. We focus on improving our line revenue, mainly reinforcing our strategies to increase sales of high-margin products. This approach starts to show results. For example, the number of Visa accounts grew by 4% over last year. Our income from mutual fund sales increased by 30% compared to last year. And our credit insurance income showed a 20% increase over the same period last year.

The second one: to improve operational efficiency. Under the leadership of a senior executive, we have started a project to review our main processes in order to improve our efficiency in all our existing operations and to increase our investments in business development activities related to high-margin products.

The last priority but not the least: to further develop our human capital. We will mainly continue to implement our new performance management program.

In conclusion, we had a good start with a solid first quarter. We are certainly on the right track to meet our yearly objectives. However, we have to remain

cautious about the cyclical nature of our revenues, mainly for Q2, which is a shorter quarter. In essence, execution is the key, and we will maintain our focus.

I want to thank our employees for their work and their dedication. All together, we are committed to meet our objectives and to continue to improve in the future the Bank's results.

This wraps up my comments.

I will now turn it 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.

OPERATOR: Thank you, Ms. Caron.

Pour poser votre question, appuyez sur *1. Si vous désirez annuler votre question, appuyez sur le dièse.

If you wish to ask a question, please press *1 on your telephone keypad. To cancel your question, please press the # sign.

Vous pouvez maintenant procéder. You may now proceed.

Once again, do not hesitate to press *1 for any questions or comments.

Encore une fois, n'hésitez pas à appuyer sur *1 pour toute question ou commentaire.

The first question is from Sumit Malhotra from Genuity Capital.

Please go ahead.

MR. S. MALHOTRA (Genuity Capital Markets): Good afternoon.

MR. R. ROBITAILLE: Good afternoon

MR. S. MALHOTRA (Genuity Capital Markets): My first question has to do with what we are seeing on the net interest margin side.

You have been pretty up front about the fact that you think some of the ALM benefits are going to start to taper off, but in the last two quarters, in the other segment, we have seen average assets decline by a million... or a billion dollars almost, and this is the big reason you have referenced for the liquidities benefiting them.

How sustainable do you think this level is we are at now, 2.27%?

MR. R. ROBITAILLE: Well, I think that you already mentioned it right. You see that we continue to have deposit and loan growth. That is definitely a point. In terms of we also have a better mix because we put more emphasis on high-margin products. So that is a point.

In terms of the total asset liability management and the liquidity management, that certainly helped. At this level, I think that we have probably done what we had to do.

And the other aspect mainly, if we want to improve that, is to continue to have a better mix and a better growth in terms of loans and deposits.

MR. S. MALHOTRA (Genuity Capital Markets): Well, as far as sustainability, somewhere in this level that we have seen the number jump eight basis points quarter over quarter, you seem comfortable with that as long as the mix continues to stay at least where it is now, if not improve.

MR. R. ROBITAILLE: The answer is yes.

MR. S. MALHOTRA (Genuity Capital Markets): Okay. The next question would be looking at impairments.

A good overall drop this quarter, and we saw the commercial loan book which – I think it is fair to say – was a bit of a challenge in 2006, drop sharply. A bit of a movement up on residential mortgages though. The number overall is still small but in terms of growth, a big jump quarter over quarter,

Anything special you can highlight for us there?

MR. R. ROBITAILLE: There is really nothing special. We were coming from such a good market and it is really a few elements added together, but nothing in particular and nothing that should raise any concerns at this point.

MR. S. MALHOTRA (Genuity Capital Markets): Okay. My final question or... Sorry, was there something else?

MR. R. ROBITAILLE: No.

MR. S. MALHOTRA (Genuity Capital Markets): Okay. My final question has to do with securitizations.

First off, I do not think I saw it anywhere in the press release. Can you verify for us what the level of outstanding securitized loans was at the end of the quarter? If you do not have it now, if someone could please let me know after the call. That is number one.

Number two, you suggested in Q4 we would start to see the securitizations pick up again early in 2007. It looks like you held off this quarter.

Is that just a reflection of the fact you are getting deposit growth from other sources and securitizations were not needed?

MR. B. PICHÉ: Yes indeed, Sumit. As you have seen from the numbers, we have reduced slightly the liquidities over the quarter but, more importantly, we have had a very good personal deposit performance that has funded the growth on the other side of the balance sheet. That has created the niceties we have seen on the margin.

As we move forward, I have to assume that there will be some shortcomings and that we will need securitizations. Our hypothesis is that some of the securitizations would be needed most probably in the next three quarters.

But again, I could be surprised by the good performance we have had on deposits continuing, which is very beneficial to the margin, as you know.

MR. S. MALHOTRA (Genuity Capital Markets): Okay. Thanks very much.

OPERATOR: Thank you.

The next question is from Ian de Verteuil from BMO Capital Markets.

Please go ahead.

MR. I. DE VERTEUIL (BMO Capital Markets): Hi. Can you guys hear me?

MR. R. ROBITAILLE: Yes, Ian.

MR. I. DE VERTEUIL (BMO Capital Markets): I am just following up on some of those questions on spreads. Is it...

From your comments, it sounds as if... that if you were to disclose just loan and deposit spreads separately as opposed to looking at an all-in spread, that those would be stable this quarter versus the end of 2006.

Is that a reasonable statement?

MR. R. CARDINAL: If I can interject, this quarter for sure, the slight improvement in the liquidity management and the size of equity has helped the number, you know – the 2.27 – improve somewhat. But I think what is underlying this improvement in the margin is the volume of the core businesses we are doing on the loan side and on the deposit side.

So, again, I said at one point that I think the percentage of margin should stabilize. I have been proven wrong because it improved this quarter again. But I think it should stabilize and the margin, but the dollars revenue that the margin should be growing because we are in a growing business.

MR. I. DE VERTEUIL (BMO Capital Markets): Right. Then, maybe I could ask it a different way.

I mean, if I think about spread, part of spread is based on liquidity. So how much of it is, you know, loans and deposits, how much of it is securities. And then, there is an element of spread that comes from just spread on the loans that are there and spread on the deposits that are there.

What I am trying to get at is if we remove the effective liquidity of better... of reduced liquidity, so better loan and deposit numbers, would spreads have been flagged up or down?

MR. R. CARDINAL: It is difficult for me to say. I think that we would not have seen as much of an improvement as we have had. So it would be closer to flat, yes, most probably. But in dollar terms, this is a growing business.

MR. I. DE VERTEUIL (BMO Nesbitt Burns): Okay. That is all. Thank you.

OPERATOR: Thank you.

Once again, do not hesitate to press *1 for any questions or comments.

Encore une fois, n'hésitez pas à appuyer sur *1 pour toute question ou commentaire.

Now, Ms. Caron, there are no further questions registered at this time.

I would now like to turn the meeting back over to you.

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.

End of conference call

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