



LAURENTIAN  
BANK

CONFERENCE CALL TRANSCRIPT  
SECOND QUARTER 2007  
JUNE 1, 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.

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

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

Bernard Piché, Head of Treasury, Capital Markets and Brokerage;  
Luc Bernard, Head of Retail Financial Services and SMEs;  
François Desjardins, Head of B2B Trust;  
Lorraine Pilon, Head of Corporate Affairs;  
Michel Trudeau, Head of Laurentian Bank Securities;  
Louis Marquis, Head of Credit;  
Marc Paradis, Controller;  
Pierre Minville, Head of Integrated Risk Management;  
André Lopresti, Chief Accountant;  
and myself, Head of Public Affairs, Communications and Investor Relations.

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

I will now turn the floor over to Réjean Robitaille.

RÉJEAN ROBITAILLE: Thank you Gladys. Good afternoon everyone.

The second quarter of 2007 was a good one. Our results continue to improve, with earnings per share of \$0.75 and a return on equity of 9.7%. The Bank's loans and deposits continued to grow and each of our business lines produced good results. The strategies implemented in recent years are generating increasingly positive numbers.

Our ROE was 9.7% for the quarter and 9.6% for the first six months of the year. It exceeds our target range of 8% to 9% for the year, as shown on slide 4. This target range includes the impact of discontinued operations, which may have a positive effect on our fourth quarter results. All other 2007 objectives have been met or exceeded.

As shown on slide 5, our total loans increased by 8% and our total deposits by 3% over the last 12 months. Our continued growth is the result of increased sales efforts, marketing campaigns and the introduction of new products and services. Revenues from each business line continue to increase and their assets are rising as well.

For Retail Financial Services, total loans increased by \$443 million or 6%, while we had a 3% growth in personal deposits compared to last year. Once again this year, we achieved record RRSP sales, and at the end of April, our results were ahead of last year's.

For Commercial Financial Services, the total loan portfolio rose by 5% over the second quarter of last year. This business line continues to benefit from a strong performance in the Real Estate Financing group, where the portfolio grew by 17% over last year. Farm lending also continues to grow, with a 7% increase in average loan portfolio over the same period.

B2B Trust continued its growth strategies and focused on increasing sales of high-margin products. Investment loans rose by 19%, an increase of \$254 million over the second quarter of last year.

Business development and marketing efforts also contributed to a \$30M increase in brokered mortgages and to a \$195M increase in brokered deposit over the same period last year.

Laurentian Bank Securities continues to expand with the development of its institutional operations. Assets under administration were up 9% from last year.

Now, turning to some of our initiatives during the quarter, the Bank made other steps in its development, as can be seen from slide 6.

We were very pleased to learn that our revamped website was ranked first among financial institutions and third overall, according to a study of the companies' website that made Quebec's 500 list and conducted by the Secor Group. The Bank's website now better reflects the new image of the organization, as well as its approach based on simplicity and proximity.

Moreover, since mortgage loans are a key product in the banking industry, the Bank wishes to be the reference for housing and to further highlight its expertise in this area. To do this, it has launched a brand new interactive website for homebuyers. This website is a one-stop-shop, providing useful information on financing options as well as on all the steps necessary for buying a house.

Our exclusive banking partnership with the Montreal subway authority was expanded to include the three new Laval subway stations that opened in May, bringing to 24 the number of ABMs in the metro. Our presence in the Montreal subway is part of our value of proximity and accessibility.

B2B Trust, for its part, introduced a promotional rate on investment loans under \$50,000. This promotion allows clients to take advantage of investment opportunities in the post-RRSP season. The promotional offer coincides with the launch of a series of new enhancements to the Investment Loan Program that B2B Trust also unveils: a

streamlined 100% Investment Loan product with a new guideline, simplified documentation requirements and more eligible funds.

For the Commercial Financial Services business line, the Real estate group continued to generate excellent results, while Small-and-Medium Enterprises, Farm lending and Micro-business teams progressed. Also, the Real Estate sector completed a CMBS transaction during the quarter.

As Laurentian Bank Securities continues to grow, its Institutional segment and Retail brokerage activities benefit progressively from significant investments made to enlarge the team and open new offices.

I will now ask Robert to provide you with more details on our financial performance. After his speech, I will provide an update on our three main priorities for 2007.

ROBERT CARDINAL: Thank you Réjean,

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

Slide 7 shows that, on a GAAP basis, diluted earnings per share for the second quarter of 2007 were 75 cents and the return on equity was 9.7%. In 2006, we had posted a diluted EPS of 91 cents for the same quarter.

Important elements

Net income in both quarters included certain important items, as described in our press release, which specifically impacted our EPS. The following are the most important items, all pertaining to income taxes.

The second quarter of last year included:

- a \$10.7 million favourable tax adjustment resulting from the reduction of certain tax exposures for 45 cents per share, as explained extensively in last year's second quarter press release under income tax recovery.

In the second quarter of this year, favourable tax adjustments totalling \$1.6 million comprised 2 items:

- First, \$0.9 million related to last year repatriation of capital from foreign credit insurance operations; and
- Secondly, \$0.7 million related to the lower tax rate on the \$4.4 million gain on the sale of Montreal Stock exchange shares during the quarter.

Excluding these items, EPS would have been 68 cents in the current quarter, compared to 46 cents last year, a growth of close to 50% in our core EPS.

I would also like to mention that a few significant items, such as performance-based compensation, had an impact on current quarter results in comparison to last year. I will

outline these in a few minutes. However, we consider them to be part of our core activities.

Excluding the tax items, earnings per share in this quarter reached 68 cents. They were relatively stable compared to the 70 cents posted in the first quarter of 2007, which was 3 days longer.

#### Year over year comparison

Compared to the same quarter last year, total revenue grew by \$14.7 million, or 11%. Revenues continue to be largely impacted by higher net interest income, which increased by \$9.8 million, or 11%. Growth continues to be generated primarily by loan and deposit growth in most business lines and by a tighter liquidity management by our treasury division. Non-interest income increased by \$4.9 million, or 11%, spread over many activities, such as fees and commissions on loans and deposits, brokerage operations, treasury and financial markets and mutual funds commissions.

On the cost side, non-interest expenses increased by \$9.0 million, up 9%, from the same quarter last year, mainly as a result of higher salaries and employee benefits, which increased by \$7.7 million, including \$4.7 million in performance-based compensation. The fluctuations were primarily in stock appreciation rights and annual performance-based compensation programs. The remaining \$3.0 million increase from last year is due to higher salaries and employee benefits resulting from normal salary increases and the addition of 70 employees over the year, essentially for business development in the Retail activities. A more detailed disclosure of the salary and employee benefit item is provided. You will find it on page 31 of our press release. Costs other than compensation remained almost unchanged.

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

- first, an improvement in our net interest margin, which was 2.34% in the quarter versus 2.11% last year, with higher asset volumes from lines of

business and a lower level of liquidities, as outlined on page 29 of our press release.

- Second, other income from core activities is contributing more to the growth of our top-line ;
- Third, our loan growth continued while our loan losses remained stable at \$10 million;
- and finally, our effective tax rate is going down. Excluding the tax items I mentioned earlier, the effective tax rate for the quarter was 28.5%, compared to 33.6% last year.

As shown on slide 9, our impaired loans went from plus \$5.4 million in the fourth quarter of 2006 to minus \$2.8 million at the end of the first quarter to minus \$7 million at the end of this quarter, reflecting primarily a reduction in gross non-performing loans. Even though there is still room for further reductions, our credit quality situation is definitely better.

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

#### Contribution of business lines

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

First, total revenue of Retail Financial Services increased by \$4.8 million, or 5.6%, over the year, to reach \$90.3 million, as shown on slide 10. Despite the increase in revenues, the sector contribution to net income was slightly lower than last year, since non-interest expenses increased by \$4.6 million, reflecting the significant level of business development activities that took place during the current quarter. Growth in average loans and average deposits of respectively \$459 million and \$352 million, higher loan losses as well as a lower income tax rate associated with lower taxes on credit insurance revenues were also key factors in these results.



As shown on slide 11, net income contribution of Commercial Financial Services increased by 31% to \$6.0 million. Loan and deposit growth, primarily in commercial real estate financing, as well as a \$0.4 million gain from the securitization of commercial mortgages, contributed to this improvement. Also, this business line benefited from lower provision for credit losses.

The next slide shows that net income contribution of the B2B Trust line of business jumped by 24% to \$7.1 million. Growth in personal loans and deposits—namely \$254 million in investment loans and \$195 million in brokers' deposits—lower loan losses on the personal line of credit portfolio and lower non-interest expenses, were the main drivers of this increase.

As can be seen from slide 13, net income contribution of Laurentian Bank Securities increased by \$4.2 million to reach \$5.3 million. Net income included an after tax gain of \$3.7 million on the sale of shares of the Montreal Stock Exchange. Excluding this gain, the sector contribution increased by over 40% to \$1.6 million over last year, largely in institutional activities.

Net income contribution of the Other segments, shown on slide 14, were down, mainly as a result of the non-recurring tax adjustments of the second quarter of 2006, and the \$4.3 million (\$2.9 million net of income taxes) loss on medium-term liquidities sold prior to maturity. This transaction, as explained in our press release, was completed to benefit from the inverted yield curve that prevailed at the end of the quarter and further improve margins on liquidities. Excluding these items, net income contribution was -\$3.3 million compared to -\$4.6 million last year; progress continued to be made in treasury and financial markets operations, particularly in liquidity and asset and liability interest rate management.

This concludes my comments. Now, back to Réjean.

RÉJEAN ROBITAILLE: Thank you Robert.

Over the next quarters, our focus will continue to be on our 3 main priorities, shown on slide 15, that is:

First: Increase our profitability by increasing our top-line revenue, namely by reinforcing our strategies to increase sales of high-margin products. This approach continues to show good results. For example, income from VISA cards grew by 15% over last year. Our income from mutual fund sales increased by 26% compared to last year. The Bank also improved its balance sheet asset mix by increasing its loan portfolio and reducing the level of liquidities.

Second: Improve operational efficiency. We have started various efficiency-improving initiatives. We were pleased to see a progress in our efficiency ratio for the quarter, but we have to pursue our efforts in this matter, so that we can invest more in business development.

And the third priority: further develop our human capital. We will continue to implement our new Performance Management Program. To date, almost 80% of our managers have received training sessions to strengthen their performance management skills.

The Bank's performance has improved steadily over the last few quarters, reflecting our employees' diligence and dedication. And I want to thank them for their strong commitment.

In conclusion, the second quarter of 2007, while shorter, was a good one:

- We continued to improve our results from core high-quality sources of revenue that generated net income growth;
- We improved the way we do things and rigorous execution continues to drive our development;
- All across the company, we remain focused on our 3 main priorities.

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

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

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

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

MICHAEL GOLDBERG: Thanks. A couple of questions. First of all, you realized on a portion of your Montreal Exchange shares, what's your intent with respect to the remaining shares that you have?

RÉJEAN ROBITAILLE (President and CEO, Laurentian Bank): This is Réjean Robitaille speaking, Michael. Good afternoon. So we have already, as you know, sold let's say 20 per cent, more than 20 per cent of the position. Right now, we do not project to sell the remainder post... portion.

MICHAEL GOLDBERG: Okay, and the second thing, I get the impression that the message that you're trying to convey is that earning power is fairly steady right now, excluding the tax items at around, you know, high 60s to \$0.70 a share.

RÉJEAN ROBITAILLE: Um-hum.

MICHAEL GOLDBERG: Is that enough to support a dividend increase yet?

RÉJEAN ROBITAILLE: We're certainly let's say in a better position than we were a few quarters ago. That said, and as you know, we will review... the payout ratio is between 40 and 50 per cent. If we look at the overall core results, we're now at 43 and we will look at the situation on a quarterly basis.

MICHAEL GOLDBERG: You still haven't declared your dividend for this quarter, correct?

RÉJEAN ROBITAILLE: Yes, we have.

MICHAEL GOLDBERG: Okay, I guess I must have missed it. I had another question for Robert about the increased disclosure on variable compensation.

ROBERT CARDINAL (Chief Financial Officer, Laurentian Bank): Yes.

MICHAEL GOLDBERG: And what I'm wondering, you know, it is a little different from numbers that we've talked about in the past. So first of all, just to confirm, it does include stock appreciation rights expense?

ROBERT CARDINAL: Yes, the performance-based compensation that you find on page 31, we split the salaries and employee benefits in three lines, for salaries, employee benefits, on the third line is performance based. And this includes the stock-based appreciation rights, the costs for each of the quarters. The top of the page shows

the two quarters of the current year and we also provided the comparative quarter for last year.

So it includes the stock-based. It also includes the cost of the annual bonuses, the short-term bonuses, and it also includes the commissions to the brokers of Laurentian Bank Securities and other minor programs which are not significant.

MICHAEL GOLDBERG: Okay, and how much for this latest quarter was the stock appreciation rights?

ROBERT CARDINAL: What I could tell you, I mentioned in my remarks that a total of 4.7 million, we had a variance from the same quarter last year of 4.7 million. Of that, I think it's close to 2.7 million, which is in stock appreciation rights, and the remaining, about 2 million, is related to the bonus program.

MICHAEL GOLDBERG: Okay, I'll follow up with you offline.

ROBERT CARDINAL: Yes, if you remember last year, in the first quarter our stock went up to \$45 and then in the second quarter of last year, it dropped to about... yes, to 35 and it dropped to below 30. So in the second quarter, we had a reversal of expenses while this year, it increased in the second quarter. So that's what makes most of the increase of the costs this year.

MICHAEL GOLDBERG: Okay, thank you very much.

OPERATOR: Thank you. Once again, please press \* 1 if you have a question. Veuillez appuyer sur \* 1 si vous avez une question. Your next question is from Ian de Verteuil, from BMO Capital Markets. Please go ahead.

IAN DE VERTEUIL: The charge to change some of your liquidity... some of the securities in the liquidity portfolio, should that... can you try to quantify what impact that's going to have on spread going forward?

RÉJEAN ROBITAILLE: We'll ask Bernard Piché, Head of Treasury, to answer that question.

BERNARD PICHÉ (Head of Treasury Capital Markets and Brokerage, Laurentian Bank): Yes, good afternoon, Ian. Those positions were Canada Bonds that we sold that were rather short dated. You're talking about the impact it will have on the margin going forward?

IAN DE VERTEUIL: Yes.

BERNARD PICHÉ: Okay, so for the next two quarters, we're talking about \$900,000. And then for next year and the year after, in the order of \$300,000 to \$400,000 per quarter.

IAN DE VERTEUIL: And that is simply taking off...

BERNARD PICHÉ: That's naturally a steady state scenario where rates haven't moved and everything else stays the same.

IAN DE VERTEUIL: Okay, thank you.

BERNARD PICHÉ: It could be a lot better (inaudible).

OPERATOR: Thank you.

IAN DE VERTEUIL: So you're positioned for a raise?

BERNARD PICHÉ: No, no, I'm just saying those positions are now out, so the latest rise in rates, for example, will not effect.

IAN DE VERTEUIL: Right, okay. Thanks.

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

JOHN AIKEN: Good afternoon. I was a little bit surprised by the absolute level of expenses in the quarter. Was this related to investments on business growth and initiatives? And I guess a second part to this question is was there any accrual bonus in Laurentian Bank Securities related to the gain on sale of the Montreal Exchange shares?

RÉJEAN ROBITAILLE: Well, I'll answer the question. In terms of... Robert explained a bit in terms of the... why we have expenses. As you know, most of that part was based on the performance-based compensation and the stock appreciation rights and also in terms of the bonus because right now, and as I mentioned, we have met or exceeded most of our results.

As for your second question, the answer is no, there was no bonuses based on the Montreal Stock Exchange to Laurentian Bank Securities.

JOHN AIKEN: Great, thank you very much.

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

SUMIT MALHOTRA: Just talking about the liquidity management again, you gave us a little bit more detail in the press release this time on some of the items you're looking at. What would you say is the key driver behind this? Are you looking at a ratio in terms of asset items, like the cash, the securities, the repos and looking at that versus deposits? What do you think has been over the last year the key driver behind the continued reduction of liquidities and is there more of it possible going forward?

RÉJEAN ROBITAILLE: I will also ask Bernard to answer that question.

BERNARD PICHÉ: Sumit, we have over the last I would say close to 12 months now reviewed fundamentally how we were managing liquidities in the bank and also in its wholly-owned subsidiaries. So we have the ratios and subsidiaries, for example, to hold some T-bills and all that. So we reviewed that and took a more consolidated approach which allowed us to reduce some of the holdings we were having. We also looked at the para(?) or measures we were looking to measure liquidity and we moved to what I think is more and more the benchmarks that are used by the industry which are liquidity survival horizon tests. So we benchmarked ourselves, we've looked at the situation and we've established benchmarks what is now close to a year ago. They are approved by the board. They are reviewed every day by the risk management group and we are quite satisfied with those survival horizons and those have allowed us to reduce liquidities while feeling very comfortable that the bank is in good shape in terms of liquidities. Naturally, all of that has been done under the supervision of regulatory authorities and so I can rest you assured that we feel very comfortable of those levels. Perhaps just one point, Sumit, that would add to comfort on that is that Standard & Poors just came out last week with their annual review of the bank and you can read in there that they say that the bank, Laurentian Bank meets expectations under Standard & Poor's liquidity survival horizon analysis and scores in line with the average of the six



banks. So the overall text there shows that Standard & Poors that has started doing a review of all of the Canadian banks asking for more precise information of what's available in the financial statements came out with that conclusion. So overall, I am satisfied and it seems that benchmarking ourselves we are looking good.

SUMIT MALHOTRA: So in the past, can I take from that last comment, in the past was the bank required by its rating agencies to maintain a higher level of liquidity than perhaps is the case given the frankly very solid improvements that have taken place in the last couple of years? Has that been one of the drivers behind the reductions in liquidities?

BERNARD PICHÉ: For sure, the improvement of the situation of the bank has allowed us to feel even more comfortable, but it's not really this. I think we used to rely, like other financial institutions, on traditional liquidity ratios, you know, the ones that you can calculate from a financial statement. And I think more and more, it is seen that short-term funding and repos and all that can have you hold significant level of gross liquidities that are in fact not adding to the objective of protecting a bank against funding disruptions. So we've moved away from those traditional benchmarks of liquidity and I think like I would suspect most other banks given the benchmarking we're doing, to a more rigorous approach where we look at survival horizons. And that's the approach that regulators are looking into more and more and as I said, as Standard & Poor has started implementing to review Canadian bank liquidity. Your second part of the question is that there are a lot more room in there. I don't think so. I think most of the work is done. We are over our benchmarks but I don't think we will be shrinking those liquidities further. There is still some improvements, as we've mentioned, with the transaction we just performed of improving slightly the margin of the liquidity we carry, but I think – I've said that in the past – I think the best part of the improvement is behind us.

RÉJEAN ROBITAILLE: This is Réjean Robitaille speaking. Also, that's on the liquidity side, but the main explanation why we had a big improvement in our net interest margin as you know is because of the loan, the growth that we have on the loan in deposit portfolio. That was the main driver and the other one was the better mix in fact in our loan portfolio. After that, the liquidity management was certainly a factor, but not the main factor.

SUMIT MALHOTRA: Okay, let's switch over to another area of improvement. That's credit quality. And Robert touched on this in his comments. Provisions have been flat for six consecutive quarters, which is... has been very flattering to the bottom line. When you look at the change in the structure of the loan book to portfolio, the loan book much more retail oriented than it used to be, you coupled that with the fact that gross impairments are dropping very nicely for I think this is the third quarter in a row. Are you comfortable with this level of provisioning going forward? Do you think that even with the loan growth you've enjoyed that you'll be able to keep the provisions at this flat level we have seen for the last year and a half?

RÉJEAN ROBITAILLE: Sumit, I will ask Louis Marquis, Head of Credit, to answer that question.

LOUIS MARQUIS (Head of Credit, Laurentian Bank): Well, the economy has certainly been good and we see no sign of deterioration right now. So I don't see any material movements in our loan losses in the short term. I don't know if that covers your question.

SUMIT MALHOTRA: No, I think that's it for me. And this is just a numbers one. Réjean, I think it was you who mentioned on the MXX that you sold 20 per cent of your position?

RÉJEAN ROBITAILLE: A little bit more than that, yes.

SUMIT MALHOTRA: A little bit more. So is it fair to say, I did some quick math after that, is it fair to say your book value on the MXX position is close to zero?

RÉJEAN ROBITAILLE: Well, kind of, yes.

UNIDENTIFIED MALE SPEAKER: Yes.

SUMIT MALHOTRA: Okay, thanks a lot.

RÉJEAN ROBITAILLE: You're welcome.

OPERATOR: Thank you. Once again, please press \* 1 if you have a question. Veuillez appuyer sur \* 1 si vous avez une question.

Alors, Madame Caron, il n'y a pas d'autres questions pour le moment. Je vous retourne la parole. I would now like to turn the meeting back over to you.

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

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

La conférence est maintenant terminée. Veuillez s'il vous plaît raccrocher votre ligne. Merci d'avoir participé à la conférence et bonne fin de journée.

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