LAURENTIAN BANK

CONFERENCE CALL TRANSCRIPT
SECOND QUARTER 2008
MAY 28, 2008

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.

MS. CARON: 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 second quarter 2008 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.

Other members of our senior management team are also present at this call to answer any questions. You will find their names and titles on Slide 16 of the PowerPoint presentation. In order to facilitate the understanding of our results, a PowerPoint presentation is available on our Web site. Reference to that presentation will be made 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 Slide 2 of the PowerPoint presentation.

I will now turn the floor over to Réjean Robitaille.

R. ROBITAILLE SECTION

Thank you, Gladys. Good afternoon everyone.

I am very pleased to report that the Bank continues to show strong results. For the second quarter of 2008, net income reached $25.1 million or $0.93 diluted per common share. It represents an increase of more than 20% of the net income on a GAAP basis. Excluding the tax adjustments recorded during the same quarter last year, net income improved by 32% and net income per common share by 37%. Our efficiency ratio continues to improve, reaching 71.3% versus 74.8% last year. Volume growth, good expense control, positive leverage and securitization activities were the main factors that contributed to these results.

As shown on Slide 4, for the first 6 months of 2008, total revenue growth and efficiency ratio, at 6.7% and 71.6% respectively, have exceeded, up until now, the performance indicators that we have set for the year. Return on equity and net earnings per common share, excluding one significant item during the first quarter of this year, also exceeded our 2008 performance indicators while Tier 1 capital ratio remained in line.

Business development efforts and initiatives to improve business processes continue to bear fruit. Geared towards increasing profitability and efficiency, they are cornerstones to the achievement of 2 of our priorities. In the next quarters, we will also increase focus on further developing our human capital, our third priority.

As shown on Slide 5, our loans and deposits are once again in growth mode this quarter. Our total loans and BA's rose by 6% and total deposits by 7% over the same quarter last year. Excluding all securitization activities, that we use for funding purposes, total loans and BA's have increased by 14%.

In the current market that continues to affect the industry, we are convinced that our prudent approach in terms of risk, combined with our very solid balance sheet, our high level of liquidity and our strong capital ratios will be instrumental in continuing our development and growth, and thereby enhancing shareholder value.

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

R. CARDINAL SECTION

Thank you Réjean,

Let us turn to Slide 6 for the highlights of our results for the second quarter of 2008. On a GAAP basis, diluted earnings per common share amounted to $0.93, and the return on equity was 11.2%. For the second quarter of 2007, diluted earnings per common share were $0.75, and return on equity, 9.7%.

The second quarter of 2008 does not include unusual items. However, the second quarter of 2007 included two items of a non-recurring nature related to taxes totalling $1.6 million, as described in our press release.

On the bottom of Slide 6, excluding these tax items, earnings per share would have been $0.93 in the second quarter of 2008, compared with $0.68 for the same quarter last year, representing a 37% growth. On this basis, the return on common shareholders' equity was 11.2% compared with 8.8% last year, and 10.9% in the first quarter of 2008, excluding the $5.6 million tax adjustment related to the further reduction in the federal income tax rate.

The main drivers of our current results are shown on Slide 7.

- Net interest income improved by $3.5 million, or 4%, due mainly to loan and deposit growth, to reach $99.0 million. Net interest margin was lower at 2.23% versus 2.34% last year. This decrease is mainly attributable to the higher level of liquidities we have maintained throughout the quarter as a prudent measure and also to facilitate future loan growth.

- Other income increased by 13% to $56.5 million compared with the same quarter last year. This increase came mostly from higher income associated with the securitization of $406 million of residential mortgages during the quarter, which generated a $9.2-million gain on sale. The gain on securitization of residential mortgages was particularly high this quarter, stimulated by favourable interest-rate conditions during the quarter. The gain was partially offset by a $1.2-million reduction of the value of certain swaps to reflect the unfavourable market funding costs. Servicing revenues continued to increase, amounting to $1.6 million during the quarter compared with $0.7 million last year, as a result of a higher level of securitized loans, as shown on page 6 of our press release.

- The provision for credit losses remained stable at $10 million versus last year.

- The operating leverage is positive with a growth of 6.8% in our total revenues, while non-interest expenses increased by 1.7%, or $1.9 million, mainly in salary and technology depreciation expense.

The effective tax rate was 27.4% for the quarter versus 22.7% for the same quarter last year. Excluding the effect of tax adjustments, the effective tax rate would have been 28.5% for the second quarter of last year. Our lower current tax rate reflects the favourable effect of holding a higher level of investments in Canadian securities generating non-taxable income and the reduction in federal income tax rates that took effect in the first quarter of 2008.

As shown on Slide 8, our net impaired loans amounted to minus $2.3 million in the second quarter of 2008 versus minus $7.0 million at the end of the same quarter last year. Our credit quality situation remains very good as our provisions for credit losses continued to exceed our gross impaired loans at quarter end.

As presented on Slide 9, our efficiency ratio continued to improve to reach 71.6% for the first 6 months of 2008 compared with 73.2% in 2007. During the second quarter of 2008, the efficiency ratio was 71.3%, representing a net improvement over the 74.8% reached for the same quarter last year.

Our capital ratios have slightly improved while the Bank has adopted the new Basel II framework. The Bank has adopted the standard approach for the credit risk and the Basic Indicator Approach for operational risk. In our view, these methods are appropriate for the Bank at this point considering its size. As I stated previously, we continue to closely monitor our loan and securities portfolios, as well as the credit and market environments.

Contribution of business lines

Let's now have a look at the performance of our business lines. Slide 10 shows that total revenue in Retail & SME Quebec rose by $6 million, or 6%, over the same quarter last year, reaching $101 million, coming mainly from higher loan and deposit volumes and higher card service revenues. Average loans and deposits grew by $723 million and $340 million respectively. Total revenue growth was partially offset by higher provisions for credit losses in the retail portfolios and by a $2.9-million rise in non-interest expenses due to an increase in salaries as well as in the number of employees to support our growth initiatives. The sector net contribution increased significantly by $1.8 million, or 27%, over last year to reach $8.6 million. Compared with the first quarter, total revenue and net income of the quarter were slightly affected by the shorter number of days (90 days versus 92 days).

As shown on Slide 11, the net income contribution of Real Estate and Commercial increased by 21% to $7.4 million. Total revenue rose by 11% to $17.6 million resulting mainly from higher loan volumes in the real estate portfolio. Average loan growth was 22% compared to the same period last year. Provisions for credit losses were relatively stable. However, non-interest expenses decreased by $0.3 million as a result of efficiency gains due to the reorganization of activities related to the commercial segments in 2007.

The next slide shows that B2B Trust has also posted a strong performance. Net income contribution was up by 29% over last year to $9.2 million. Total revenue increased by 11% to $25 million. The business line continues to benefit from strong growth in loans and deposits, namely $908 million in investment loans and $676 million in average deposits. The business line also benefited from lower loan losses as a result of the sale of a personal line of credit portfolio in the first quarter of this year as well as from stable non-interest expenses. Overall performance of B2B Trust continues to lead to a strong improvement of the efficiency ratio, which reached 43% during the quarter versus 48% for the same period last year. The second quarter results of B2B Trust were also affected by the shorter quarter.

As can be seen from Slide 13, net income contribution of Laurentian Bank Securities was $0.4 million during the quarter versus $5.3 million for the same quarter last year. In the second quarter of 2007, we recorded an after-tax gain of $3.7 million on the sale of a portion of the shares of the Montreal Exchange. Lower contribution was also due to mark-downs in the institutional fixed income portfolio and, to a lesser extent, by the reduced level of activities in retail brokerage operations. This was partially offset by lower non-interest expenses as a result of lower variable compensation and cost control measures.

On Slide 14, the Other sector total revenues improved by $6.4 million over the second quarter of 2007. The variation is due to a large number of items as listed on the slide and explained in our press release. In summary, this increase resulted mainly from the $9.2 million gain on securitization, while net interest income decreased by $6.3 million over last year due to asset and liability management and to the higher level of securitized loans. Last year, a $4.3-million loss on medium-term liquidities sold prior to maturity had been recorded. As I stated earlier, the second quarter of 2007 included two favourable tax adjustments totalling $1.6 million.

As shown in note 13 of our financial statements, we realized, on May 1st, a $12.9-million pre-tax gain on the sale of the balance of our shares of the Montreal Exchange. This gain was reflected in Accumulated other comprehensive income at the end of the second quarter of 2008. This gain will therefore be included in our third quarter results.

I am also pleased to report that Standard & Poor’s recently revised the Bank’s outlook from “stable” to “positive”, thereby reflecting the Bank’s substantial progress in core earnings achieved over the year.

This concludes my comments. Now, back to Réjean.

R. ROBITAILLE SECTION

Thank you, Robert.

Now, turning to some of our initiatives during the quarter, the Bank has taken other steps in its development, as can be seen on Slide 15.

We continued to invest time and efforts in improving main processes and operations in order to be more efficient. We also focussed on business development activities in targeted growth sectors.

The Retail Group generated good growth during the quarter. The branch network as well as our mobile mortgage teams continued to benefit from their combined efforts to increase our presence in the residential mortgage products sector. Mortgages and home related products are key for the Retail Group as the aim is to increase our share of wallet and to become the primary banker of all retail customers. In order to do so, we position ourselves to be the Homeowner's Bank. Our marketing strategy, the quality and competitiveness of our products as well as the expertise of our teams all support this positioning and contribute to the development of our residential mortgage portfolio. Our investment product portfolio also did well during the quarter, boosted by great customer response of newly launched products. Moreover, in the current economic context, we are satisfied with the level of mutual funds sales generated during the last months.

B2B Trust continues to perform well and to improve its services and tools for the financial intermediary community. This past month, B2B launched a new online investment loan application platform, which enables mutual fund advisors to submit their loan applications electronically and to receive, within seconds in many cases, a credit decision. At the same time, this platform processes each application from end-to-end, which improves internal efficiency, customer experience and response time.

With respect to servicing our commercial clients, we pursue our strategy of increasing the number of account managers to accelerate our growth, while implementing administrative improvements in order to better use the abilities of our sales force as administrative tasks are redirected to specialized administrative units.

Since the beginning of the year, Laurentian Bank Securities has continued to strengthen its position. For example, its retail division launched new products to complete its product offering and continued to grow its sales force.

In conclusion, our results continued to improve in the second quarter of 2008. Our strategies and concrete actions are well focussed and targeted. Our three priorities, profitability, efficiency and human capital, are well understood by the staff and remain at the forefront of all decisions and actions. Our strategy is clear: improve our performance on a sustainable and long-term basis.

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.

OPERATOR: 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.

QUESTIONS AND ANSWERS

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

MICHAEL GOLDBERG: Thank you. Could you give us some idea of the impact of the high level of securitizations this quarter on earnings? And I'm also thinking forward, maybe a while forward to when we move to IFRS and that will end up being smoothed out. Could you give us some idea of what the impact would be on that basis?

RÉJEAN ROBITAILLE (President and CEO, Laurentian Bank): Okay, good afternoon. I will ask Bernard to answer the first part of your question in terms of the importance of the gain during the quarter. So, Bernard, if you want to answer that one.

BERNARD PICHÉ (Senior Executive Vice-President, Treasury, Capital Markets and Brokerage): Yes, of course, Michael. As you know, the gain is predicated on the interest on the mortgages that we securitized and we've had a reduction in market rates over the last several quarters and we've also had in the last few quarters a widening of the spread between the new mortgages that we were bringing on our books and the Canada. So that created circumstances where a significant profit was registered on the $400 million that we just securitized.

RÉJEAN ROBITAILLE: In terms of the IFRS, Robert, could you answer that one?

ROBERT CARDINAL (Senior Executive Vice-President, Finance, Administration and Strategic Development, and Chief Financial Officer, Laurentian Bank): Yes, it's a good question. In fact, for everyone to know, IFRS is coming into force in 2012. We already started to look at the major impacts on the bank and in fact, we have identified securitization as one of the sectors which could have an important impact. And as you said, it's possible that the treatment, the accounting treatment of securitization be different.

As you said, maybe spread out or not allowed any more to recognize the big gain when it was securitized. But it's really too early now. We will probably do most of the analysis next year to see more clearly about the new rules. And also the industry may evolve as to securitization vehicles. So I prefer to maybe just keep your question for 2009, please.

MICHAEL GOLDBERG: And one other question. Can you tell me how much your risk-weighted assets would have been under BASEL 1 definitions?

RÉJEAN ROBITAILLE: Well, in fact, we don't measure now the impact of what was the risk-weighted assets under BASEL 1. But the point that we could mention is when we change to BASEL 2, the overall impact, and we mentioned that in the first quarter, was 0.3 in terms of our tier-one capital ratio and 0.5 I think, Robert?

ROBERT CARDINAL: Yes.

RÉJEAN ROBITAILLE: Point five overall total capital ratio.

ROBERT CARDINAL: We didn't provide parallel numbers like some other banks provided because we didn't have to... and the impact was not that important for us. The impact was like Réjean just mentioned, 0.3 and 05.

MICHAEL GOLDBERG: Thank you.

OPERATOR: Thank you. La prochaine question est de Ian Deverteuil, from BMO Capital Markets. The next question is from Ian Deverteuil from BMO Capital Markets. Please go ahead. La parole est à vous.

IAN DEVERTEUIL: Hi. I have two questions. First of all, the $9.3 million of securitization income that shows up in the income statement, is that actually net of the $1.2 million interest rate swap adjustment or is that before the $1.2 million?

RÉJEAN ROBITAILLE: It's before...

UNIDENTIFIED MALE SPEAKER: It's net of.

RÉJEAN ROBITAILLE: It's net of. It's net of the $1.2 million charge.

IAN DEVERTEUIL: Right. So I guess following on Michael's comment, so the P&L impact, if I was to think about it, because you did forego interest income and any servicing revenues and either given up the loan, the PCL, the loan losses as well, but would it be safe to say that sort of $6 million of that pre-tax came down to the bottom line?

RÉJEAN ROBITAILLE: Bernard, would you answer that one?

BERNARD PICHÉ: Well, as you know, we realized a gain on the securitization itself. There were elements like reverse of service charges and then we had the adjustments for the swap devaluation; that created a P&L of 9.3 was reported.

IAN DEVERTEUIL: Right.

BERNARD PICHÉ: As you know, there is also a negative margin associated to securitization. So the net impact on our bottom line is not $9 million; it is a number that looks a lot like what you've just said.

IAN DEVERTEUIL: All right, okay. Okay. And the second question, and it might be quite silly, but this is a leap year. So this is not a shorter quarter as a normal Q2 is. And, you know, banks have told us over and over, you know, the impact from going from Q1 to Q2 of having less days, but you actually had one more day this quarter than you had in the same quarter of last year.
And I was just wondering, I mean, do you know how big an impact that had?

RÉJEAN ROBITAILLE: The one day?

ROBERT CARDINAL: Yes, we estimated roughly, that one day of net interest income is about $1 million and one day of salaries is about $300,000.

IAN DEVERTEUIL: So I'm trying to think that through, Robert, all other things being equal, if there was no change at all in the bank, you would have had, just having the extra day would be $1 million more. So it's actually 700 grand, $700,000 pre tax benefit from having the extra day.

RÉJEAN ROBITAILLE: That's right.

ROBERT CARDINAL: Yes, yes. Compared to last year.

IAN DEVERTEUIL: And that's pre-tax obviously.

RÉJEAN ROBITAILLE: Yes.

ROBERT CARDINAL: Yes.

IAN DEVERTEUIL: Thank you very much.

RÉJEAN ROBITAILLE: You're welcome.

OPERATOR: De nouveau, n'hésitez pas à appuyer sur * 1 maintenant pour poser une question. Once again, please press * 1 at this time if you have a question. La prochaine question est de Sumit Malhotra, de Merrill Lynch. The next question is from Sumit Malhotra, from Merrill Lynch. Please go ahead. La parole est à vous.

SUMIT MALHOTRA: Good afternoon.

RÉJEAN ROBITAILLE: Good afternoon, Sumit.

SUMIT MALHOTRA: Just staying a little bit with the securitization a bit more, still looking at the net interest margin, a few of your peers that have reported so far this quarter have talked about, or we've seen their commentary's been different but we've seen their net interest margin improve. Could you talk about how much of the decrease you had this quarter related to securitization or more of it I think in your press release, you referred to liquidity. Did securitization play a role in the NIM compression as well?

RÉJEAN ROBITAILLE: Bernard?

BERNARD PICHÉ: Not significantly from Q1 to Q2. The major impact on the margin for Q2 has been the higher level of liquidities that we have been holding. And also in Q2, on the cost of holding those liquidities, because in fact versus Q1 and Q2 of last year, we've increased for example the size of our T-Bills portfolio and as you remember for the last quarter, the cost of holding T-Bills has been humongous, up to 150 basis points the below BAs at one point.

SUMIT MALHOTRA: Yes, I look at this and the way that the comment is here in the press release, it says "higher level of liquidity maintained throughout the quarter". But looking at the balance sheet at the end, it looks like you're pretty flat against Q1. As market conditions seemed to improve, it certainly felt like they improved and rates suggest as well, in the back half of the quarter, did you start to reduce some of this new level of elevated liquidity?

BERNARD PICHÉ: No, I think what... It's always difficult, as you know, Sumit, to look at liquidity and trying to get... appreciate the liquidity levels of banks using the financial statements where you're at year-end, you've got repos, reverse reposits. And so what I'm telling you is that on an average balance basis, liquidities in Q2 were at least $400 million higher than they were in Q1. And so we had to carry that, the weight of those extra liquidities, get less of a carry-on on the quality ones we wanted to hold in this difficult period. And also, what I should mention is that we've improved also the profile of these liquidities, what we call the liquidity horizon. That is the availability of those liquidities under stress-test scenarios. And we've improved that to the point where we've reached the highest horizon we've had in the last two years. So we saw the turmoil that I think achieved a peak mid March and we wanted to make sure that the bank would be on the safe side of that turmoil. But that has had an impact on our margin for Q2.

SUMIT MALHOTRA: I guess what I'm trying to get at in a roundabout way is that if in the back half of the year, we see a lower level of securitization revenue relative to Q2, how confident are you that some of that drop-off will be made up from net interest income and specifically perhaps a better net interest margin?

RÉJEAN ROBITAILLE: It's difficult to talk about let's say the revenue going forward. But I could ask Bernard to answer it in terms of what the overall pipeline, our level of comfort that we have on that.

BERNARD PICHÉ: Yes. As you know, margin is effected by the stock of securitization we've done so far. So any change in one quarter will not make huge amounts of impact on the net interest margin. Going forward perhaps on the securitization level, I've mentioned that we are now at very high levels of liquidity. I think the worst in the markets is behind us, so going forward in the next few quarters, I would tend to reduce those levels and reduce the cost of them. I also foresee that we will continue to do the job we're doing on the retail deposit business and this is... the prime source of funding for the bank. So I'm expecting that we could have a reduction in the volume of securitization going forward in the area of $200 million or $300 million versus the $400 million we've (inaudible) in the last several quarters. This will allow us to move the liquidity levels at more reasonable levels.

SUMIT MALHOTRA: That's very helpful. Thanks very much.

BERNARD PICHÉ: A pleasure.

OPERATOR: Merci. Thank you. La prochaine question est de Michael Goldberg, de Desjardins Securities. The next question is from Michael Goldberg, from Desjardins Securities. Please go ahead. La parole est à vous.

MICHAEL GOLDBERG: Thank you. Can you remind us how accrual for bonuses varies with the level of profitability? Also, I'm thinking of the impact of the securitization and how it would have pushed up the profitability and how much extra bonuses would have been accrued as a result of the extra profitability on the securitizations. Could you give us some idea of what that impact would have been?

RÉJEAN ROBITAILLE: Robert, would you answer the question?

ROBERT CARDINAL: Yes. We have to make accruals for performance remuneration every quarter and we explain it in various documents, but we have... we have set a target of 10 per cent and in the quarter, we exceeded 10 per cent. We made in fact 11.2 per cent. So when we exceed, when our performance exceeds our targets, then we have a pay-out of bonuses which exceeds 100 per cent. In this case, it has effectively increased our provision for bonuses. By how much exactly, would you have...? About $1 million. So you make a relation between the strong gains on securitization and the higher bonuses, and you're right. Probably the $9.2 million generated additional bonuses by about $1 million.

MICHAEL GOLDBERG: Thank you.

ROBERT CARDINAL: You could take... It's a good... I think it's a good approach.

MICHAEL GOLDBERG: Okay, so I would... Another variable that I would think of in looking at this would be the impact of the bonuses at about $1 million pre tax.

ROBERT CARDINAL: Yes.

RÉJEAN ROBITAILLE: Yes. In other words, you could offset a portion of the securitization with an increase in bonuses by about $1 million to offset.

MICHAEL GOLDBERG: Okay. Thanks again.

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