



CONFERENCE CALL TRANSCRIPT  
THIRD QUARTER 2009  
SEPTEMBER 3, 2009

**OPERATOR:** Mesdames et messieurs, bienvenue à la conférence de la Banque laurentienne. Ladies and gentlemen, welcome to the Laurentian Bank conference call. Soyez avisés que cette conférence est enregistrée. Please be advised that this call is being recorded. Je cède maintenant la parole à Mme 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 Investors Relations, Laurentian Bank): Merci, bienvenue, good afternoon, everyone. Our press release was issued today on Canada Newswire and is posted on our website.

This afternoon's review of our third quarter results will be provided by our President and CEO, Réjean Robitaille, as well as by our CFO, Michel 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 19 of the presentation available on our website. 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 notes 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, Laurentian Bank):

Thank you, Gladys, and good afternoon, everyone. We are pleased with the progress and profitability achieved during the quarter.

As shown on Slide 3 of our PowerPoint presentation, for the third quarter of 2009, net income reached 28.7 million, or \$1.08 diluted per common share.

Results from third quarter of 2008 included the gain on sale of Montreal Exchange shares, partly offset by an increase in the general allowances for losses. Excluding these special items diluted earnings per share would have been \$0.94 in the third quarter of 2008. Therefore this quarter's results represent an increase of 15 per cent of diluted EPS over the third quarter of 2008.

These results were achieved due to the solid foundation on which we are building our growth, as well as our ability to efficiently execute our strategies. There are several elements that I would like to emphasize.

Firstly, the measures that we have been taking since the beginning of the year have yielded positive results with net interest margin recovering sharply.

Secondly, we continue experience loan and deposit growth in our business segments, reflecting the continued effectiveness of our distribution network and our marketing efforts, as well as the ability to develop our presence in our target markets.

And thirdly, we reported strong profitability despite the fact that earnings were impacted by higher loan losses and security write-downs.

Slide 4 shows how the Bank is tracking with regard to the 2009 financial objectives established at the beginning of the year. After nine months we are well positioned to reach our 2009 performance goals. Of note is the improvement in our Tier 1 capital ratio to 10.8 per cent. As for our tangible common ratio, it remains strong and testifies to the high quality of the Bank's capital. Michel will comment further on the Bank's capital later on.

That being said, the economic and credit conditions remain challenging. However, our strong capital position, the quality of our assets and our prudent approach have served us well to date and should continue to provide flexibility. This will allow us to take advantage of opportunities to pursue profitable growth.

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

**MICHEL C. LAUZON** (Executive Vice-President and Chief Financial Officer, Laurentian Bank): Thank you, Réjean.

Financial highlights of the third quarter of 2009 can be found on Slide 5. Total revenue rose by 3 per cent from a year earlier, which mainly reflected the positive impact of higher loan and deposit volumes on net interest income. This was partially offset by reduced other income which was essentially the result of significant gains on the sale of the Montreal Exchange shares being recorded in the third quarter of 2008.

Non-interest expenses rose 5 per cent from a year earlier driven by higher salaries and continued hiring in support of growth in selected priority areas.

I would now like to summarize, on Slide 6, the special items affecting results for the third quarter of 2008:

Firstly, a \$12.9 million gain, or \$0.46 per share gain on the sale of Montreal Exchange shares was recorded. Secondly, the general allowance for loan losses was increased by \$8 million, or \$0.23 per share.

The net impact of these special items increased third quarter 2008 EPS by \$0.23 per share. Excluding these special items recorded in the third quarter of 2008, EPS increased 15 per cent year over year, which highlights the strength of third quarter 2009 results and the underlying core earning power of the Bank.

One of the main drivers of the Bank's improving results is loan and deposit growth, as highlighted on Slide 7. Total loans and BAs rose by 10 per cent over the last 12 months. Excluding securitization activities, total loans and BAs increased by 11 per cent. Contributing to this growth were residential mortgages, which increased by 14 per cent, benefiting from a successful renewal period. Total deposits increased by 19 per cent over the last 12 months.

I will now discuss the main elements that led to the Bank's performance for the quarter.

Firstly, net interest income of a \$112.8 million in the third quarter of 2009 increased by 9.4 million from the third quarter of 2008. As highlighted on Slide 8, after having been under pressure in the past few quarters, margins improved significantly from 1.92 per cent in the second quarter of 2009 to 2.15 per cent in the third quarter of 2009.

Loan re-pricing measures introduced earlier this year and the gradual reduction in the introductory promotional pricing of B2B Trust high interest investment accounts contributed to this sharp recovery. When compared to the third quarter of 2008 net margin is 5 basis points lower, reflecting sustained competition for retail customers and a generally lower interest rate environment.

Margins improved quarter-over-quarter despite liquidity levels that remained elevated. At the end of July liquid assets stood at \$4.9 billion. This is an increase of 391 million from a year earlier and \$525 million from year end 2008. The high level of liquid assets provides additional flexibility in meeting funding requirements and preserves the Bank's ability to capitalize on growth opportunities as they arise.

Secondly, other income of \$63.9 million in the third quarter of 2009 fell by 3.8 million from the third quarter of 2008. Income from brokerage operations was particularly strong. A year-over-year improvement of \$6.4 million was mainly due to the continued strong performance of Laurentian Bank Securities, Institutional Fixed Income division and the positive impact on overall operations of recovering equity markets.

As well, fees and commissions on loans and deposits improved by 3.1 million over the same period a year ago, as a result of overall increase in business activity. Partially offsetting these increases was a 12.3 million decrease in income from treasury and financial market operations. Third quarter 2009 results were affected by a 4.7 million charge related to the write-down, certain available-for-

sale equity investments which continued to suffer from a prolonged decline in their fair value despite recent stronger equity markets.

Third quarter 2008 results were impacted by net gain of 7.6 million on the sale of securities. This gain consisted of the previously-mentioned \$12.9 million gain on the sale of Montreal Exchange shares being partially offset by \$5.3 million of losses on sales of other securities.

Revenues from securitization activities totaled \$9.8 million for the third quarter of 2009, approximating the 10.8 million earned in the third quarter of 2008. Included in the securitization revenue was a net \$5.2 million gain on the sale of residential mortgages in the third quarter 2009 compared to \$8.2 million in the same period a year earlier. The lower level of gains reflected the lower interest rate environment.

Thirdly, as highlighted on Slide 9, provision for loan losses amounted to 16 million in the third quarter of 2009 compared to 18.5 million a year ago.

The latter was composed of a \$10.5 million specific provision and an \$8 million general provision. The \$5.5 million year-over-year increase in specific provision reflects the current challenging credit environment, as well as higher loan volumes. Higher provisions mainly resulted in the deterioration in the consumer loan portfolios. Additional provisions are recorded particularly in small and medium enterprise lending and point-of-sale financing. You may recall that the size of the point-of-sale portfolio is progressively reducing, following a proactive decision to this affect by the management of the Bank two years ago.

Slide 10 highlights the stable credit quality of the loan portfolio. Gross impaired loans of 123.1 million at the end of third quarter 2009 have remained relatively unchanged throughout 2009. Net impaired loans stood at 8.4 million at July 31st, lower than the 12.5 million level as at April 30th, 2009. This reduction was partly due to higher commercial loan provisioning.

The increase in loan losses this year has been evident in all consumer loan portfolios and is in line with the increase in unemployment and bankruptcies. In the latest quarter we increased our provisions for commercial lending. This was primarily due to the deteriorating liquidation prospects of some accounts that were previously classified as impaired.

As a result our coverage ratio improved in the quarter. We started tightening our consumer and commercial credit underwriting well in advance of the current cycle. So we think the pressure of loan losses on consumer loans should start to decrease within the next few quarters. This should help to compensate for added pressure on the credit quality of the commercial and real estate loan portfolios.

As presented in Slide 11, the efficiency ratio for the nine months ending July 31st, 2009 was 70.5 per cent compared to 70.7 for fiscal 2008. Revenue growth resulting from strong loan and deposit generation was largely offset by lower margins and increase in non-interest expenses.

Salaries and employee benefits rose by 2.2 million, or 6 per cent, and other expenses driven by higher professional fees and adjustment to capital taxes rose by \$3 million, or 13 per cent. However, pension expenses were lower.



Now let's have a look at the performance of our business segments on Slide 12. All segments reported improved revenues in third quarter 2009 versus the same quarter of last year. Slide 13 shows that total revenue in retail and small and medium-sized enterprises, Quebec rose by 1.6 million, or 1.5 per cent over the same quarter last year, reaching \$109.1 million. This increase was largely a result of continued growth in loan and deposit volumes. Weaker credit conditions resulted in loan losses increasing by 12.4 million in the third quarter of 2009 compared to \$9.3 million in the third quarter of 2008.

Non-interest expenses rose by 2.3 per cent, or \$1.9 million to \$84.7 million, mainly as a result of increases in salaries and continued selective hiring. Earning a total of 9.7 million this segment accounted for 30 per cent of the Bank's overall profitability in the third quarter.

As shown on Slide 14, total revenue of the real estate and commercial segment rose by 37 per cent, or \$6.7 million to 25 million. Net interest income owing to strong growth in both loan volumes and margins, as well as higher fees, propelled revenues. While loan losses rose to 2.1 million from 1 million a year earlier, essentially in commercial lending, losses in real estate remained well under control considering the current economic conditions. With 11.1 million in net earnings this segment accounted for 34 per cent of the Bank's overall profitability this quarter.

The next slide shows that B2B Trust's net income totalled \$8.7 million in the third quarter of 2009 compared with \$9.2 million a year earlier. Revenues increased by 1.7 million, or 7 per cent, to 26.4 million.

Net interest income increased by \$2 million year-over-year, mainly as a result of higher loan and deposit volumes. The recent easing of funding conditions and the gradual reduction in introductory promotional pricing on B2B Trust high interest investment accounts have positively impacted margins. Deposits grew by \$334 million from the end of the second quarter 2009 and by \$2.5 billion from year end to reach \$8.7 billion at the end of the third quarter.

The high interest investment account was largely responsible for the growth. These deposits provide the Bank with additional flexibility in meeting funding requirements and support growth initiatives.

The deterioration in credit conditions resulted in loan losses increasing by \$1.5 million in the third quarter of 2009 compared to \$0.2 million in the third quarter of 2008. However, this level of loss remains low given the size of the portfolios. B2B Trust accounted for 26 per cent of the Bank's second quarter... third quarter net income.

As can be seen from Slide 16, the net income contribution of Laurentian Bank Securities rose to \$3.2 million in the third quarter of 2009 from \$1.1 million a year earlier and contributed 10 per cent of the Bank's profitability. The continued solid performance from the Institutional Fixed Income division, as well as the positive impact of recovering equity markets on other activities, contributed to the excellent quarter.

Higher variable compensation costs were largely responsible for non-interest expenses increasing by \$3.2 million to 11.5 million. The other sector, presented on Slide 17, posted a negative contribution net income of \$4 million in the third

quarter of 2009, compared with the positive contribution of 1.3 million in 2008. Lower margins from liquid assets, securitization activities and a lower overall level of interest rates contributed to the negative net interest income of \$7.9 million compared to negative \$10.6 million a year earlier.

Other income, which largely consisted of securitization income, totalled \$7.9 million. The contribution to other income from treasury and financial market operations in the third quarter of 2009 was negligible. Trading revenues were offset by a \$4.7 million write-down of certain available-for-sale equity investments. The third quarter of 2008 results included a \$12.9 million gain on the sale of the Montreal Exchange shares, partially offset by losses of 5.3 million on the sale of other securities, as well as the \$8 million general provision.

Lastly, as Réjean mentioned earlier, our Tier 1 capital ratio was 10.8 per cent at the end of the third quarter, while it stood at 10.0 per cent at the end of the second quarter and 10.1 per cent a year ago. During the third quarter we adopted the more sophisticated, comprehensive approach under the standardized Basel II framework. This enabled the \$900 million reduction in our risk-weighted assets, thereby increasing our overall capital ratios.

Our total capital ratio improved to 12.8 per cent during the quarter, from 12.1 per cent a year earlier, while our tangible common equity ratio stood at 8.8 per cent at the end of the third quarter of 2009, versus 8.1 per cent at the end of the corresponding quarter of 2008.

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

**RÉJEAN ROBITAILLE:** So thank you, Michel. In conclusion, while challenges presented by the economy markets linger, as does the unprecedented low interest rate environment, we're satisfied with the performance of all our business segments in the third quarter of 2009.

We were particularly pleased with the granting of the exclusive contract for operating all ATMs in the Montreal Metro. With a total of 70 machines, we will have a presence in almost each station of the network, thus ensuring high visibility with our target market in the retail segments.

For its part, B2B Trust maintains a leadership position in the financial advisory community, continuously improving its array of products. Growth in this business line over the past few years testifies to the relevance of B2B Trust's strategy.

Finally, the real estate and commercial segment, as well as Laurentian Bank Securities, achieved excellent performance during the quarter, maintaining high standards and effectively executing their business plan.

Several measures suggest that we are well positioned to meet our annual objectives. Our strong growth in loan and deposit volumes is a fundamental indicator of our ability to pursue a long-term profitability strategy through top-line growth and improved efficiency. While the rate of growth may slow in the final quarter of the year, we still believe that 2009 should be another record year for loan and deposit growth at Laurentian Bank.

Moreover, the fact that our credit quality has held up relatively well is encouraging for subsequent quarters as the impact of the recession continues to be felt.

Thirdly, measures aimed at reversing margin compression and restoring revenue growth yielded significant benefits.

And lastly, our strong capital base and high liquidity levels should allow us to selectively take advantage of opportunities that may arise in the coming months.

I will now turn the floor back to Gladys.

**GLADYS CARON:** Thank you, Réjean. 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:** At this time I would like to remind everyone that in order to ask a question please press \*, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

J'aimerais vous rappeler que vous pouvez poser une question ou faire un commentaire en composant l'étoile suivie du 1 de votre clavier téléphonique. Veuillez patienter un instant lorsque nous compilons les questions.

Your first question is, votre première question, comes from the line of Michael Goldberg, from Desjardins Securities. Your line is open. Votre ligne est ouverte.

**MICHAEL GOLDBERG:** Thank you. A couple of questions, first of all, if rates were to remain level over the coming quarter and even over the coming year, where would you expect your net increase margin to level off at?

**RÉJEAN ROBITAILLE:** Michael, I will ask Bernard Piché to answer that question.

**BERNARD PICHÉ** (Senior Executive Vice-President, Treasury, Capital Markets and Brokerage, Laurentian Bank): Michael, you've noticed the improvements we've had from last quarter. I think we've now reached a level that is sustainable going forward, but I don't expect the re-pricing effect on all of those are now factored in.

**MICHAEL GOLDBERG:** So you think the pricing is fully factored in now?

**BERNARD PICHÉ:** No, it's not totally factored in; but as you know, there are so many factors affecting margins that I think this factor now is going to be commingled with a lot of other factors. Going forward, so I would think the margin has achieved a level that is sustainable. Going forward, I think there will be pluses and minuses. I think the competition is stronger in the retail products. However, what will be positive for us is the sizeable liquidity that we have, that is reflected in the margin of this quarter. So if we put, and we will put this liquidity to use making loans, this will be a very good element to support the margin that we have achieved.

**MICHAEL GOLDBERG:** Okay. And also, can you tell me what happened to the level of balances of the high interest savings account in B2B?

**RÉJEAN ROBITAILLE:** Yes, so I'll ask François Desjardins, head of B2B Trust, to answer that question.

**FRANÇOIS DESJARDINS** (Executive Vice-President of the Bank and President and Chief Executive Officer of B2B Trust): Well, the level of balances has continued to increase since the day we launched it. And what we've seen up to date is only two days of net redemptions; so the volumes continue to come in quite nicely.

**MICHAEL GOLDBERG:** Where does it stand at the end of the third quarter?

**RÉJEAN ROBITAILLE:** At the end of the third quarter, it was around 2.5, 2.6 billion, I would say.

**MICHAEL GOLDBERG:** Okay. And finally, was the \$4.7 million write-down available for sale securities before or after tax?

**RÉJEAN ROBITAILLE:** I will ask Michael Lauzon.

**MICHEL C. LAUZON:** It was pre-tax, Michael.

**MICHAEL GOLDBERG:** It was pre-tax. Okay, great. Thank you.

**OPERATOR:** Your next question is, votre prochaine question, comes from the line of Gabriel Dechaine, from Genuity Capital Markets. Your line is open. Votre ligne est ouverte.

**GABRIEL DECHAINÉ:** Good afternoon. Just to follow up on that NIM comment, when you say sustainable, I guess should the take-away be that it's, you know, that's a stable level looking forward, or is there room for improvement? And I guess the message I'm getting is that re-pricing has kind of run its course, but you've still got room to bump up the margin through more effective use of your liquidity.

**BERNARD PICHÉ:** I think that's a fair statement, yes, Gabriel. The rest of it is up to what happens in the market. What I'm saying is, I think what has been achieved is sustainable. It could move up or lower depending of circumstances. What I'm saying is that I think one element that's going to be pushing toward improving that margin is the use of our liquidities.

**GABRIEL DECHAINÉ:** Okay, so that's the one you've got control over. Can you just specify some of the market... well, I guess I can figure that out myself, but if you want to talk about maybe the ones that are most impactful.

**BERNARD PICHÉ:** Macro, I don't have any specifics, but you've seen, for example, mortgages which are an important business for us, spreads have



moved in from the high levels they were versus the BA rate. They're still somewhat higher than pre-crisis level, I mean, pre-July 2007, but they've reduced quite a bit. So that's an element that the trend has not been our friend over the last few quarters on this.

**GABRIEL DECHAIINE:** Okay. Moving over to the PCLs, you talk about the point-of-sale financing as being a big source of specific provisions. What about SME, because that's included in your retail division and I see the provisions for commercial loans have gone up. And I'm wondering if that's capturing some of the SME business and what kind of details you could provide about that, if that's an issue at all.

**RÉJEAN ROBITAILLE:** Louis Marquis, head of Credit, will answer that question.

**LOUIS MARQUIS** (Senior Vice-President, Credit, Laurentian Bank): Certainly most of the losses in commercial lending this year have been, and what you say is commercial loans in the statements, and it's mostly in this quarter, as we mentioned, it's increased in the provision in loans that were previously impaired, that has been put impaired earlier this year or even last year.

**GABRIEL DECHAIINE:** Okay, so this is like some legacy-type stuff from... But it's not SME, because what I'm thinking of is restaurants or small shops, if there's any businesses like that that you're lending to that are experiencing difficulties, but maybe that's not as big of an issue.

**LOUIS MARQUIS:** There are, obviously, losses here and there, but that's run rate business and there's nothing out of the ordinary, no material deterioration there at all.

**GABRIEL DECHAINÉ:** Okay. The other one here, I guess two things; I'll bundle them together here. Sustainability of some of the, I guess revenue specifically to brokerage, if you can talk about that, that was a big spike. Also the loan growth at 5 per cent sequentially was very strong. And the last one I'll lump in here as well, with regards to the dividend you've got a 30-per-cent payout ratio this quarter, a 10.8-per-cent Tier 1 ratio. What's your outlook for dividend increases?

**RÉJEAN ROBITAILLE:** This is Réjean speaking. Gabriel, I will answer the loan growth and dividend and then ask Michel Trudeau to talk about the brokerage income.

As for the loan growth, yes 2009, as I said, is a very strong year. The quarter was also very strong. We think, as I said, that we should have another record year in 2009. As you know, we have invested a lot in the last few years in our business development, in our marketing and business capacities, and that's a main explanation. We think that there's still potential and opportunities for us, so we think that going forward that type of growth will continue.

As for the dividend, you're probably aware that we were the last institution to increase its dividend in the third quarter of 2008. We continued to manage our capital in a very prudent approach, conservative manner, and we review our

dividend on a quality basis, so we decided this quarter not to proceed with another increase for the moment and due to the current context. But as you said, now with Tier 1 capital at 10.8 per cent and the payout ratio around 30 per cent, we will review that situation on a quality basis.

As for the brokerage income, I will ask Michel Trudeau, head of Laurentian Bank Securities, to answer that.

**MICHEL TRUDEAU** (President and Chief Executive Officer of Laurentian Bank Securities): Hi, Gabriel. Indeed, we had good growth in our earnings (inaudible...). But we've made investments and we've made business development in our core lines which contributed to earnings for one. Our (inaudible) group did quite well, through our trading group, mainly due to the interest rate environment and the stable improvement in the credit market.

As well, there's been another significant factor, the improving stability we've had in the equity market has favoured our retail and our equity group. So it's a combination.

**GABRIEL DECHAIINE:** Okay, and then actually I lied, I just want to sneak one more in there, tying in the loan growth to the PCLs. When I see your loan growth over the last few quarters a lot of it's been coming from the commercial and the commercial mortgage segments. It's nice to see loan growth, but why shouldn't I be worried about potentially rising loan losses there as well and that you're not picking up business that some of your competitors might not be interested in?

**RÉJEAN ROBITAILLE:** Louis, head of Credit, will answer that one.

**LOUIS MARQUIS:** As you mentioned a lot of growth has come from commercial mortgages here. There's been a lot of change in that market over the past year as some players have exited the market and that has created a lot of opportunity for good, safe lending, and at quite good spreads. And that's where we are right now. I don't think we're increasing our risk profile in that regard.

**GABRIEL DECHAIINE:** Okay, thank you.

**RÉJEAN ROBITAILLE:** Thank you.

**OPERATOR:** Your next question is, votre prochaine question, comes from the line of John Reucassel, from BMO Capital Markets. Your line is open. Votre ligne est ouverte.

**JOHN REUCASSEL:** Thank you. Just could you just clarify the spread? I just want to make sure I'm clear. You feel it's stable at 215 because there's more... you have some liquidity and there's still some more room on the loan re-pricing, but there are other competitive forces out there. Is that what you mean to say?

**RÉJEAN ROBITAILLE:** Yes.

**JOHN REUCASSEL:** Okay. Okay. I just want to be clear on that. And then I did see that the loans past due 90 days were up significantly in the quarter versus Q2, and it was all in the residential mortgage area, it looked like. So is that, could we just see that number build here without seeing any impairment over the next few quarters as there's a lag effect here in the economy or is this something unique to your market that you service?

**RÉJEAN ROBITAILLE:** Louis Marquis, head of Credit, will answer that one.

**LOUIS MARQUIS:** There's been indeed increases, which is in line with... there's more unemployment, there's been some softness in the past 12 months in the real estate market, although it's been sound. We are coming out of very low levels in the past few years. I'm not very concerned about the movement right now, but I would expect, yes, to have more increases but something very manageable, not a strong deterioration. And yes, it should have a marginal impact on our impaired loans going forward, but I don't see anything material at this point.

**RÉJEAN ROBITAILLE:** And it's important also to notice that, well more than 50 per cent of those loans, all of the residential mortgage portfolio that we have, is CMHC insured. So...

**JOHN REUCASSEL:** Okay, so 50 per cent of the 33 or the...

(SPEAKERS OVERLAP)

**RÉJEAN ROBITAILLE:** Not necessarily.

**JOHN REUCASSEL:** ... is CMHC insured?

**RÉJEAN ROBITAILLE:** Of the overall portfolio, residential mortgage portfolio is insured, but there's some that are part of that, in that 90 days.

**JOHN REUCASSEL:** Okay. And were these mortgages originated through your retailer or through B2B?

**UNIDENTIFIED MALE SPEAKER:** All over.

**JOHN REUCASSEL:** All over, okay. Okay. Last question...

**RÉJEAN ROBITAILLE:** Maybe to add to that, all over, but if you looked at, well the balance that we have, it's mostly in the retail.

**JOHN REUCASSEL:** It's mostly in the retail.

**RÉJEAN ROBITAILLE:** And mostly in the retail through our branch network. We have, well, by heart I would say it's around \$6 billion in the retail and 1.5 in B2B. So that's...

**JOHN REUCASSEL:** But there's no disproportionate representation this 90 days past due that comes from the B2B network versus the retail network?

**LOUIS MARQUIS:** A little bit more so.

**JOHN REUCASSEL:** Last question and I apologize if you answered it in the past, but historically Laurentian has had the union contracts come up every three years. Where does that situation stand? Where are we in the contract, or is that resolved in the last couple of years?

**RÉJEAN ROBITAILLE:** No, at the end of 2007, we renewed contract in advance. In fact, for a four-year contract that will end at the end of December 31st, 2011, so still two and a half... well, two and a third years to go.

**JOHN REUCASSEL:** Two, two years, okay.

**RÉJEAN ROBITAILLE:** And just to mention also that we have a very, very good partnership with our union right now, so it's going very well.

**JOHN REUCASSEL:** Thank you.

**OPERATOR:** Your next question is, votre prochaine question, comes from the line of from Darko Mihelic from CIBC. Your line is open. Votre ligne est ouverte.

**DARKO MIHELIC:** Hi, good afternoon. I have three questions actually. Maybe I'll ask that interest margin question a little bit differently. Last quarter you were kind enough to give us the evolution of your NIM on a monthly basis, and you even went so far as to show us what the NIM was one month into the next quarter. Would you be kind enough to share that kind of information today for the third quarter and the first month into the Q4?

**RÉJEAN ROBITAILLE:** Well, I don't have that information in front of me. It continues, if we look at the overall situation, we hit the bottom last March around 180 something. And it continued to increase. So I would say that the month of July was a little bit higher than the month of June.

But that said, as Bernard mentioned, there's a lot of things that we have already done on this, so it will depend on the evolution of the re-pricing and other... well, the competition also.

**DARKO MIHELIC:** Maybe just what do you think; would the margin so far this quarter be higher than Q3?

**RÉJEAN ROBITAILLE:** Well, I would say it's too early to tell, Darko, on this. There are significant factors that might influence the net interest margin. We think that we're really close to the high level that we had in the past, around 220, and



there's still re-pricing to come, there are still liquidities, but on the other hand there is also the competition and the overall rate situation. So it's difficult to tell. But I think that level should remain for the next several quarters.

**DARKO MIHELIC:** Okay, fair enough. I'll drop the NIM questioning there. I'd like to ask a question as well. If I adjust the prior, or last year, I suppose, for the \$12.9 million gain on the Montreal Exchange shares, and that would sort of point to about 12 per cent year-over-year of growth in revenue. If I then look at the write-down that you took this quarter of 4.7 and adjust for that it would suggest revenue growth of somewhere close to 15 per cent. And your expense growth is 5 per cent year over year. Is there anything in the expenses that I should maybe be adjusting for? And if not, what would be a fair sort of operating leverage, way to think of this? I mean, obviously it looks like your operating leverage is, if I adjust for those items, 10 per cent. If I adjust for one item it's say 6 per cent. If I don't adjust, it's actually negative.

So do you view it in that context? Do you think about revenue growth versus expense growth? Maybe just give me a hand with that? How should I think about Laurentian Bank? Should it post another 10-per-cent revenue growth year? What should I expect from the expense side?

**RÉJEAN ROBITAILLE:** Well, we're not necessarily doing the same type of calculation that you do. We provided on a quality basis also our guidelines for growth in total revenues. As you are aware the guidelines were between 2 and 5

per cent of increase. Excluding or including the... it wasn't excluding the gain on the Montreal Stock Exchange and we are at 2.2-something, 2.2-per-cent increase since the beginning of the year.

So we don't necessarily have the same 10 per cent that you have. We think that going forward a positive leverage ratio is what we're looking at, and the overall target would be probably around 2 per cent, but not necessarily the 10 that you just mentioned.

**DARKO MIHELIC:** Okay, fair enough. My last question is just another housekeeping question. With respect to, what would be a fair, effective tax rate to assume for Laurentian Bank? Just because I noticed that this quarter bounced a little bit higher. In previous quarters it was lower. So I'm just... if you can give me a hand on what would be a proper tax rate to think about for Laurentian.

**RÉJEAN ROBITAILLE:** Okay, Michel Lauzon, our CFO, will answer that one.

**MICHEL C. LAUZON:** Yes, we're looking at a range of 25 to 28 per cent as our normal ongoing tax rate. This quarter's tax rate was a bit higher because of timing differences, which pushed some deferred tax assets further into lower tax years and we have to take a write-down on deferred tax assets. But other than that, we should be looking at a 25 to 28 per cent range.

**DARKO MIHELIC:** Okay, great. That's very helpful, thank you.

**RÉJEAN ROBITAILLE:** Thank you.

**OPERATOR:** Your next question is, votre prochaine question, comes from the line of Sumit Malhotra from Macquarie Capital Markets. Your line is open. Votre ligne est ouverte.

**SUMIT MALHOTRA:** Good afternoon.

**RÉJEAN ROBITAILLE:** Good afternoon, Sumit.

**SUMIT MALHOTRA:** I'll start with trends in credit, or more specifically trends in your home province of Quebec. Certainly the Bank has had strong loan growth outside of Quebec as well, but if I come back to the home market, you've talked about trends in real estate being more stable from a pricing perspective in the province. Also we've seen, for the most part, during the cycle, a better level of employment trends.

There was an abrupt increase in job losses in Quebec in the month of July, and I certainly don't want to make too much out of one month's data, but the one question I have is: is there perhaps a situation here where later in the cycle we're seeing an uptick in the province that had held in better? Is there anything specifically you can point us to as you think about trends at home?

**RÉJEAN ROBITAILLE:** Louis Marquis, head of Credit.

**LOUIS MARQUIS:** I'll comment on the credit side of your question. First, although the Quebec seemed to have a better economy from a retail lending perspective, we've had our share of bankruptcies through the year as there's been an increase in unemployment. And, yes, it seems a bit better than the rest of Canada, but I think we face the same issues, maybe to a lesser extent, but we do face the same credit issues in retail lending in Quebec as in other provinces as far as I'm concerned.

**SUMIT MALHOTRA:** So when I look at the increase in specific provisions formerly in quarter-over-quarter, one of the bigger increases we've seen from the Bank in quite some time, certainly your net write-offs, your net charge-offs had an elevated level as well. Is \$16 million just the starting point we should think about for specific provisions over the next several quarters? I mean, are we at a new plateau for LB as we think about provisions going forward?

**LOUIS MARQUIS:** There are obviously a lot of variables that will impact that going forward. Suffice it to say that in consumer lending we had tightened credit a lot and as we mentioned, I think, in the past, we've, especially in point-of-sale financing, we've tightened credit for the past two years and we're not doing much business in that for a while.

So I would expect the pressure that we've had in consumer loan lending, which has been the story of these past three quarters, to subside. Are we there, or is it

in the next couple of quarters? I just don't know. But I do expect it to lessen, those losses to lessen soon. I would, however, expect the pressure that we've seen in commercial lending and certainly some softness in real estate to stay there for a while. Nothing different than probably you've heard from other institutions.

**SUMIT MALHOTRA:** I appreciate that colour. Thanks for that. If I move over to another issue on the revenue side, that's securitization, and this may have come up on previous calls, but I just want to make sure I'm thinking about this correctly. I think I'm okay as far as the gain on securitization is concerned, as well as the servicing income, but we continue to see some bouncing around, if I can use that term, with respect to the change in fair value. Almost 5 million in revenue this quarter, or profit this quarter, versus a \$2 million decrease in Q2. Is there anything you can point us to that might help us think about how this line will move on a quarterly basis? What drives the changes here?

**RÉJEAN ROBITAILLE:** Michel Lauzon, our CFO, will answer that question.

**MICHEL C. LAUZON:** Well, you know, now that we have a fair amount of securitized loans on our books, at around \$2.4, \$2.5 billion, we have sophisticated modeling to hedge that book and to hedge the overall structures that support that securitization, which are very sensitive to market fluctuations.

Markets have been fluctuating rather markedly over the last few quarters, which have meant that even though we try to hedge those various components very tightly, it's been very difficult to get it precise.

In the quarter what's happened is we've had an increase in prepayment penalties which have been transferred to the conduit, which increased the fair market value of the overall structure, and that has increased the securitization line and other income this quarter. But it's a tough one to predict on a quarter-to-quarter basis.

**SUMIT MALHOTRA:** Okay, I'm going to have to follow up with you on that because I don't know, that goes to the changes in fair value or the prepayments or that goes through the other?

**MICHEL C. LAUZON:** It goes, the prepayment modeling has an impact on the fair valuation of the overall structure.

**SUMIT MALHOTRA:** So that drives that up and then you also have a larger negative. Maybe we should... I'll follow up with you on this later on.

**MICHEL C. LAUZON:** Yes. Okay.

**SUMIT MALHOTRA:** A couple of quick ones to wrap it up. Nobody can leave NIM alone, so one more on NIM. I think Michael started the call by asking about all things equal, what happens with NIM? What happens if the Bank of Canada

starts raising short-term interest rates and let's say they stay with what they've said and they start doing it in Q2-2010? I would assume that's positive on NIM. I just wanted you to confirm that. Why don't I start with that, then I'll close with two quick ones?

**MICHEL C. LAUZON:** Yes, a raise in absolute levels of interest rate is positive for us.

**SUMIT MALHOTRA:** So your comments on stability were based on the all-else equal provision?

**MICHEL C. LAUZON:** Yes.

**SUMIT MALHOTRA:** Okay.

**RÉJEAN ROBITAILLE:** Yes.

**SUMIT MALHOTRA:** I'll wrap with two questions. There was a question about the contracts before. If you can just remind us on the Industrial Alliance contract, is that 2014 that that expires or am I...?

**RÉJEAN ROBITAILLE:** Seven years from now, so 2016.

**SUMIT MALHOTRA:** Okay.

**RÉJEAN ROBITAILLE:** In 2016, but in terms of the balance of payment on the sales most of that will end this year or maybe next year, depending of the level that we will attain at the end of this year.

**SUMIT MALHOTRA:** So this is what we're talking about, the Q4 gain and discontinued operations that you've been booking?

**RÉJEAN ROBITAILLE:** That's right.

**SUMIT MALHOTRA:** Okay, so this year or next year.

**RÉJEAN ROBITAILLE:** That's right.

**SUMIT MALHOTRA:** And last one, just a quick one hopefully, the acceptances line on the balance sheet, usually not one we look at too much, but up almost \$90 million quarter-over-quarter, a pretty big move. Anything you can point us to that drove this number?

**BERNARD PICHÉ:** No. I'm sorry, I don't have an answer for that, but I can certainly check out, and it's technical. I can check out and call you back on this.



**SUMIT MALHOTRA:** Yes, I'd appreciate that. It's a bigger move than we've usually seen from this line.

**BERNARD PICHÉ:** Okay.

**SUMIT MALHOTRA:** Thanks, guys.

**BERNARD PICHÉ:** A pleasure.

**RÉJEAN ROBITAILLE:** Thank you, Sumit.

**OPERATOR:** Again, if you would like to ask a question, please press \*, then the number 1 on your telephone keypad. Encore si vous voulez poser une question, composez l'étoile suivie du 1 de votre clavier téléphonique.

There are no further questions at this time. Please continue. Il n'y a plus de questions en ce moment. Veuillez continuer.

**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:** Thanks and have a nice day.

**OPERATOR:** This concludes today's conference call. You may now disconnect.

Ceci conclut l'appel téléconférence. Vous pouvez tous raccrocher.

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