



CONFERENCE CALL TRANSCRIPT  
FOURTH QUARTER 2009  
DECEMBER 9, 2009

**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 fourth quarter 2009 results will be provided by our President and CEO, Réjean Robitaille, as well as by our CFO, Michel C. Lauzon.

Other members of our senior management team are also present on this call to answer any questions. You will find their names and titles on Slide 20 of the presentation available on our Web site. Réjean Robitaille and Michel Lauzon will refer to that presentation throughout their speeches.

During this conference call, forward-looking statements may be made, and it is possible that actual results may differ materially from those projected in such statements. For the complete cautionary note regarding forward-looking statements, please refer to our press release or to Slide 2 of the presentation.

I will now turn the floor over to Réjean Robitaille.

**RÉJEAN ROBITAILLE:** Thank you, Gladys. Good afternoon ladies and gentlemen.

2009 was another record year for Laurentian Bank and I am pleased with our results. I am particularly satisfied given the difficult economic and financial operating environment through which we had to navigate. Despite these challenges, we achieved record loan and deposit growth, maintained a solid financial position and generated improved performance in most of our business segments through increased core operating revenue and disciplined expense control.

As shown on Slide 3 of our PowerPoint presentation, for 2009, net income reached a record \$113.1 million or diluted earnings of \$4.23 per common share. This compares with \$102.5 million or diluted earnings of \$3.80 per common share in 2008. Return on equity reached 11.4% in 2009 compared with 11.0% a year earlier. Income from continuing operations, also a record high, was \$101.7 million in 2009 compared with \$98.1 million in 2008.

Turning to Slide 4, we are particularly pleased to have reached, and in one case, to have exceeded our objectives. This was accomplished despite pressure on margins as well as higher loan losses and losses on securities. Contributing to our strong performance was record growth in personal and commercial loan and deposit portfolios, as well as higher revenue from brokerage and real estate and commercial lending operations. Furthermore, our solid liquidity and capital levels, of which our tangible common equity ratio of 9.1% ranks among the highest in the

Canadian banking industry, enabled us to take advantage of certain market opportunities in an unsettled environment.

Efficiently executing our business strategies, maintaining a prudent approach to risk management and expense control as well as exploiting our strategic advantages, will allow us to capitalize on opportunities to pursue profitable growth as we embark upon a new year.

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

**MICHEL LAUZON:** Thank you Réjean.

I will start with a few comments highlighting the fourth quarter results. Financial highlights of the fourth quarter of 2009 can be found on Slide 5. Total revenue rose by \$ 25.7 M over Q4 of 2008, reflecting a 14% increase in net interest income and a 22% increase in other income. The provision for loan losses, at \$16 M, was flat sequentially but \$5.5 M higher than in the fourth quarter of 2008, which reflects the effect of deteriorating economic conditions on overall credit quality. Non-interest expenses rose 13%, compared to the fourth quarter of 2008, largely driven by higher variable compensation and other expenses. In the fourth quarter of 2009, diluted EPS and ROE reached \$1.47 per share and 15.3% respectively, compared with \$1.02 and 11.5% in the fourth quarter of 2008. The fourth quarter of 2009

includes income of \$11.5 million or \$0.48 per share, related to the Bank surpassing mutual fund sales targets set in fiscal 2005 with the sale of asset management activities. Net income in the fourth quarter of 2008 included income from discontinued operations of \$4.4 million or \$0.19 per share.

I will now discuss the main elements that led to the Bank's performance for the quarter. Firstly, net interest income of \$118.2 million in the fourth quarter of 2009 increased by \$14.9 million from the fourth quarter of 2008. As highlighted on Slide 6, the net interest margin continued to recover sharply from the second quarter trough of 1.92%, and reached 2.19% in the fourth quarter of 2009. This was mainly a result of improvements in the pricing of both commercial loans and B2B Trust's High Interest Investment Account in the third and fourth quarters of 2009. However, higher levels of lower yielding liquid assets, fuelled by record personal deposit growth and tight term deposit spreads, mitigated the extent of margin improvement. Given uncertain economic conditions, we kept additional liquidity on the balance sheet in order to be prudent. It serves to secure the Bank's funding requirements and enables it to take advantage of growth opportunities when they arise.

Secondly, other income rose by \$10.8 million from the fourth quarter of 2008. The continued solid performance of Laurentian Bank Securities' Institutional Fixed Income division was accompanied by fees and commissions on loans improving by \$2.3 million over the same period a year ago, as a result of increased business lending activity. Also of note, the Bank incurred \$3.5 million of net losses on

securities in the fourth quarter of 2009. This compares to net losses of \$8.3 million in the fourth quarter of 2008. Revenue from securitization activity totalled \$5.6 million for the fourth quarter of 2009, including a \$6.2 million net gain on the sale of \$269 million of residential mortgages, compared with a net gain of \$9.4 million for the fourth quarter of 2008.

Thirdly, as highlighted on Slide 7, the provision for loan losses amounted to \$16.0 million in the fourth quarter of 2009, compared to \$10.5 million a year ago. The year over year increase reflects the ongoing challenging credit environment resulting from weaker economic conditions and higher unemployment rates, as well as the growth in loan volumes. Higher provisions were allocated to all loan categories.

Slide 8 highlights the credit quality of the loan portfolio. Gross impaired loans of \$137.5 million at year-end 2009 increased by \$35.6 million from year-end 2008 and \$14.4 million from the end of the third quarter of 2009. While the quarter over quarter increase related to real estate and farm financing loans, the underlying collateral on these loans is strong. The credit quality of the personal loan portfolio improved marginally on a sequential basis. Net impaired loans stood at \$23.0 million at October 31, 2009, compared with negative \$10.6 million at October 31, 2008 and \$8.4 million at July 31, 2009. Despite the slight deterioration in overall credit quality, due to the sluggish economic environment, it should be noted that the ratio of gross impaired loans to total loans remains at a manageable 0.83 % level.

We started tightening our consumer and commercial credit underwriting well in advance of the current cycle, so we believe the pressure of loan losses on consumer loans should start to decrease within the next few quarters. This should help compensate for continued pressure on the credit quality of the commercial and real estate loan portfolio.

As presented in Slide 9, the efficiency ratio for all of 2009 was 70.8% compared to 70.7% for 2008. This ratio was 71.8% in the fourth quarter of 2009 compared with 74.0% in the fourth quarter of 2008.

As shown on Slide 10, net income from continuing operations for 2009 stood at a record \$101.7 million, up from \$98.1 million in 2008. Return on equity was 10.1% compared to 10.5% a year ago. Compared with 2008, total revenue increased by 6%, to \$667 million, propelled by strong loan and deposit growth in all of our business segments. While net interest margins narrowed by 14 basis points to 2.07% year-over-year, mainly from weakness experienced early in the year, net interest income increased by 5%, to \$424 million. Other income totalled \$243 million, representing an 8% increase. The provision for loan losses rose to \$56 million from \$48.5 million in 2008, reflecting the ongoing challenging credit environment. However, 2008 results included a general provision of \$8 million while no additions to general provisions were needed in 2009. Non interest expenses were up 6%, or \$26 million, to \$472 million, due to higher employee compensation and on-going investments in our sales force, marketing and infrastructure.

One of the main drivers of the Bank's improving results is loan and deposit growth, as highlighted on Slide 11. Total loans and BAs rose by \$1.6 billion over the last 12 months. Contributing to this growth were residential mortgages which increased by \$1 billion, benefiting from strong underwriting activity throughout the year. Personal loans decreased by 1% over the year. This reflected our decision to continue to reduce our point-of-sales financing portfolio which more than offset increases in home equity lines of credit and in B2B Trust's investment loan portfolio. Total deposits increased by close to \$3 billion over the last 12 months. Record growth in personal deposits allowed us to further diversify our funding sources during the year.

This growth was achieved despite challenging economic conditions and positions the Bank well for the future. I would also like to point out that, at year-end, our capital position was solid, with a Tier 1 capital ratio of 11.0% and a tangible common equity ratio of 9.1%.

In order to elaborate further, I will now have a look at the performance of our business segments on Slide 12. All segments reported improved revenues in both 2009 compared with 2008 as well as fourth quarter 2009 versus the same quarter last year. I will focus my remarks on annual results.



Slide 13 shows that total revenue in Retail and Small and Medium-sized Enterprises Quebec in 2009 rose by 3% compared to 2008, reaching \$425.9 million. This increase was largely a result of continued growth in loan and deposit volumes. Weaker credit conditions resulted in loan losses increasing to \$41.9 million in 2009, compared with \$33.6 million in 2008. Non-interest expense rose by a modest 2% in 2009, mainly as a result of increases in salaries and advertising expenses. Net income of \$51.1 million in 2009 includes \$11.5 million related to the sale of asset management activities in fiscal 2005. This compares to net income in 2008 of \$45.4 million which included income from discontinued operations of \$4.4 million.

As shown on Slide 14, total revenue of the Real Estate & Commercial segment rose by 27% to \$90.5 million in 2009. Net interest income, owing to strong growth in both loan volumes and initiatives to increase commercial deposits, increased by 23% or \$12.4 million in 2009 compared with 2008. Provisions on commercial loans were largely responsible for higher loan losses, which amounted to \$9.8 million in 2009 compared to \$5.4 million a year earlier. Non-interest expenses increased by 33% or \$7.7 million, to \$31 million in 2009, primarily due to provisioning for specific operational issues at year end.

The next slide shows that B2B Trust's net income totalled \$32.1 million in 2009 compared with \$34.9 million a year earlier. Revenues increased by \$2.4 million to \$100.3 million. Net interest income increased by \$3.4 million to \$90.7 million in 2009, as a result of higher loan and deposit volumes. In the wake of the financial

crisis, the launch of B2B Trust's High Interest Investment Account was strategically designed to expand the Bank's funding sources. As a result, net interest margin came under pressure early in the year, but rebounded in the latter half of the year due to improving funding conditions and the gradual reduction in our HIIA's introductory promotional pricing.

Deposits grew by \$3.0 billion during the year, reaching \$9.1 billion at year-end 2009. The new High Interest Investment Account was the primary reason for the increase. Loans also increased over the course of the year, with average loans totalling \$4.3 billion, \$410 million higher than a year earlier. B2B Trust posted record growth in mortgage loans in 2009.

The provision for loan losses climbed to \$4.3 million in 2009, compared with \$1.5 million in 2008, with higher provisions spread across most of B2B Trust's loan portfolios. However, considering the size of the underlying portfolios, the level of loan losses remains low. Non-interest expenses rose \$5.3 million in 2009 to \$49 million, resulting from the increase in business activity.

As can be seen from Slide 16, the net income contribution of Laurentian Bank Securities rose significantly to \$8.6 million in 2009 from \$1.7 million a year earlier. Its contribution to the overall profitability of the Bank was significant at 7%. Strong performance from the Institutional Fixed Income division, as well as improving results in institutional equity and retail brokerage activities, contributed mostly to

improved revenues of \$54.7 million in 2009, compared with \$32.4 million in 2008. Higher variable compensation costs were largely responsible for non-interest expenses increasing to \$41.6 million in 2009, up from \$29.7 million in 2008.

The Other sector, presented on Slide 17, posted a negative contribution to net income of \$12.7 million in 2009, compared with a negative contribution of \$8.0 million in 2008. In that year, revenues included a \$12.9 million gain on the sale of Montréal Exchange shares. As well, 2008 results included an addition to general provision for loan losses of \$8.0 million and a \$5.6 million income tax charge arising from a reduction of the federal income tax rate.

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

**RÉJEAN ROBITAILLE:** Thank you Michel.

Several accomplishments were achieved in 2009. While we had another year of record loan and deposit growth, our net income also reached a record level, both before and after discontinued operations. The successful launch of B2B Trust's High Interest Investment Account was another important milestone and constitutes additional proof of our ability to tap new funding sources. Moreover, the granting of the exclusive contract for operating our own ATMs in the Montreal subway system ensures high visibility with our target market in the important retail segment. With a

total of 72 machines, we now have a presence throughout the entire network, which serves over one million commuters daily. Finally, the credit quality of our portfolios remained satisfactory in the current economic context.

For 2010, as shown on Slide 18, we are raising our objectives above those established for 2009. I would like to highlight that we are targeting diluted net income per share of \$4.00 to \$4.70 as well as an efficiency ratio below 70%. These objectives take into account that we will no longer benefit from income from discontinued operations, and that securitization gains are expected to be lower. Therefore, these targets truly reflect the underlying strengths of the Bank.

As the Board and management are confident in the Bank's ability to maintain the current earnings momentum, the common share dividend is being increased to \$0.36 per share, up \$0.02 per share from last quarter.

While the challenge presented by the economy lingers, as does the unprecedented low interest rate environment, we are very satisfied with the performance of all our business segments in 2009. Going forward, we will continue to be committed to the pursuit of profitable growth. To do so, we firstly focus on our three major priorities of increasing profitability, improving efficiency and developing human capital. Secondly, we continue to invest in our businesses' top line growth to further enhance short to medium term profitability as well as the long-term development of the Bank. Thirdly, we strive to perpetuate a customer-focused culture, in

conjunction with a sales performance culture to remind us of our raison d'être. Lastly, we uphold a prudent approach to risk management and a conservative approach to capital and liquidity management to ensure a solid financial position from which to take advantage of opportunities. These guiding principles will continue to drive our decisions and actions and should result in sustainable growth and double-digit returns.

In conclusion, I would like to express my sincere gratitude to Bernard Piché, who has decided to take his retirement after 16 years at the Bank. Bernard has most recently held the position of Senior Executive Vice-President, Treasury, Capital Markets and Brokerage. Over the years, he has made a valuable and significant contribution to the growth and development of the Bank. I wish him a gratifying retirement. Bernard's departure has resulted in a few organizational changes, as was announced earlier in November.

I will now turn the floor back to Gladys.

**GLADYS CARON:** At this point, I would like to turn the call over to the conference operator for the question-and-answer session. Please feel free to ask your questions in English or in French.

**OPERATOR:** Merci. Thank you. Pour poser votre question, appuyer sur étoile 1. Si vous désirez annuler votre question, appuyez sur le dièse. If you wish to ask a question, please press star 1 on your telephone. To cancel your question,

please press the pound key. Vous pouvez maintenant procéder. You may now proceed.

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

**GABRIEL DECHaine:** Hi, good afternoon. I want to talk first about credit and I guess you made a little bit of a comment that answered by question partially there but what I'm seeing now is the impaired loans, or the GILs (phon) ratio in the personal loans, where most of your PCLs have been coming from; that's stabilizing but we're still seeing a, you know, increase in the commercial loan impairments. Is that, you know, somewhat, something we should expect to translate into a pick-up in the PCLs over the next few quarters?

**RÉJEAN ROBITAILLE:** Okay, Louis Marquis (unintelligible) will answer that question.

**LOUIS MARQUIS:** Well as you mentioned, we seem to have reached a plateau in the consumer loan lending. In this quarter, there is a few... the increase has been mostly related to real estate back loans, mostly residential loans and a... in the commercial lending, more specifically to be referring to your question, that

those were two agriculture loans and those are very well collateralized loans and there is no reason to expect any, other than minimal losses on those.

**GABRIEL DECHAIINE:** And that... sorry, the agricultural loans are the two big ones in your commercial loan portfolio?

**LOUIS MARQUIS:** Yeah.

**GABRIEL DECHAIINE:** And you mentioned the collateral. Just in general, because I see, you know, a similar – although it changes quarter-to-quarter – growth in terms of impairments in the mortgages versus the commercial loans but we're not seeing any PCLs in the mortgages. Is this a... Like, I guess, what I'm going to ask here is that you have security or collateral more often than not in the commercial mortgages, I guess always, but you... Like, how much of the commercial loans are secured?

**LOUIS MARQUIS:** Okay, and in the... The real estate market is very strong. Some of our borrowers have had liquidity issues and that has generated impaired loans but those loans... all the loans that were put impaired are deemed to be very well collateralized. In the commercial lending, it's a standard commercial lending portfolio have but those are not loans that have generated an increase in the impaired loan levels in the quarter.

**GABRIEL DECHAIINE:** But just I guess to answer my question more specifically, the commercial loans, how much of that is secured lending?

**LOUIS MARQUIS:** It's the bulk of it.

**GABRIEL DECHAIINE:** It is.

**LOUIS MARQUIS:** Most of it, yes, either by through the usual collateral of lines of credit or equipment or real estate.

**GABRIEL DECHAIINE:** All right. And just a quick one here. We noticed a pretty big sequential drop-off in the amount of gross commercial loans. Was there anything in there, like some big repayments? Or what was the issue there?

**RÉJEAN ROBITAILLE:** Well in terms of commercial loans, we continued to see strong growth sequentially. It's probably just a timing issue but we expect to continue to see strong growth in those portfolios going forward.

**GABRIEL DECHAIINE:** I guess sticking to the loan growth topic, your B2B Trust, is that where you're seeing most of the growth in the current quarter? You had a big promotion on for investment loans. Is that something you're pushing forward? And how should we look at this pushback into the investment loan?



Did you pull back a bit in the credit crisis and now you're getting back in? Is this kind of dollar cost averaging, so to speak, your portfolio?

**RÉJEAN ROBITAILLE:** Gabriel, well first of all, in terms of... and I think that in our assumptions, (inaudible) remember and I think it's on slide 18, we mentioned that we expect for next year the same type of asset growth that we had this year and we had a very successful year, another record year, mainly in the residential mortgage portfolio; also in the commercial mortgage portfolio. That said, on the investment loan side, yes, we have a campaign right now and I would like François Desjardins, CEO of B2B Trust, to answer that part of the question.

**FRANÇOIS DESJARDINS** (President and Chief Executive Officer, B2B Trust): Sure. I will just answer the comment about, you know, did we pull back or... during the year. The answer to that, no, we never pulled back on any of our strategies to grow the investment loan business. But, of course, with the markets being what they are, we did much better this year than we did, on mortgages, than we did on investment lending and that's just a demand issue, not an offer issue. As towards the current campaign that we launched a couple of months ago and just ended, up to this point, I can say that it went well but as for results of it, we'll have to wait until the end of Q1 to give some comments on the financial impact of that.

**GABRIEL DECHAINE :** Okay. On the capital front, you announced the dividend increase, which is a nice surprise there. Is this a signal that you're not concerned about the forthcoming capital rules? I wouldn't expect you to be, but I guess, I thought you might wait a couple of quarters before increasing the dividend. And also, your payout ratio, based on my most recent forecast, is still pretty low vis a vis your target payout. Are you going to be looking at the dividend increase more frequently than on an annual basis? Because before the, you know, the crisis, you had talked about the dividend being a big focus and targeting more frequent increases. Is this... Are we... You know, can we look forward to that?

**RÉJEAN ROBITAILLE:** Well first of all, the first part of your question, yes, we have a lot of concern. There is still a level of uncertainty on the regulatory basis and we follow that very prudently. But I think that on our side – and it's important to mention that – we're not necessarily in the same situation than the others. First of all, for the third year in a row, we had record profit and growth so there are probably just a few banks around the world who could say the same thing. Secondly, you see that we have a strong balance sheet and our intangible common equity is one of the highest in the industry and, therefore, that's why the Board and management decision reflect our confidence in the development of the Bank going forward.

But that being said and I think you mentioned that at the beginning of your questions, we know the importance of building strong capital ratios, and we will continue to have, I would say the same prudent approach that has characterized

the Bank over the last few years. So we will continue to manage that Bank very prudently. There was room to increase the dividend this time. Yes, the payout ratio is still below our targets but, that said, it's important to continue to build strong capital ratios but we wanted also to give to our shareholders a sign that we are very confident in the business development of the Bank going forward.

**GABRIEL DECHAIINE:** Oh what about the more... Like if we get a... you know, the new regime coming and it's no big surprise, are you, you know, more regular dividend increases? Is that something you're hoping to achieve?

**RÉJEAN ROBITAILLE:** I think that, going forward, we will have also to wait to, let's say know better what will be the change in the regulatory environment.

**GABRIEL DECHAIINE:** Okay. Thank you.

**OPERATOR :** Thank you. Merci. Notre prochaine question est de Robert Sedran de National Bank. Our next question is from Robert Sedran of National Bank. À vous la parole. Please go ahead.

**ROBERT SEDRAN (National Bank):** Hi there. I just have two questions. First off, on the objectives for next year, you know, the diluted EPS range seems to be pretty wide, even for uncertain times. I mean it just... It strikes me that \$4 and \$4.70 are two very different years so can you give me a sense of what you feel

the biggest uncertainties are here? Is it credit? Is it margin? Is it securitization revenues? I'm just trying to get a sense of what might drive you to one end of the range versus the other.

**RÉJEAN ROBITAILLE:** Well, that's probably a significant range, but I noticed also that most of our competitors have not provided any guidance so there's probably still uncertainty in this type of environment so... And those uncertainties are coming mainly from the economic environment, but it's coming also from the regulatory environment. There are still things that we don't know yet. In terms of margin, we are satisfied and I'd say that I think that you have seen the sharp recovery that we had in 2009, particularly in the last six months of the year, so there... that's not necessarily a concern on net interest margin going forward. But we also mentioned that we will... we anticipate a lower securitization gain in 2010 and note it's continued operations. But the main factor is the... still the uncertainty that we have on the economic environment.

**ROBERT SEDRAN :** Okay. And, Réjean, I didn't mean to suggest in any way that there was a problem. I just... It's because... we do appreciate the objectives and I agree with you that some of your larger peers have decided against it so the numbers are appreciated. I was just trying to get a sense for, you know, where you see the biggest levels of uncertainty so that is helpful.

**RÉJEAN ROBITAILLE:** Okay.

**ROBERT SEDRAN:** The second question is just coming back to the dividend issue for a second and this may be one that I, you know, I don't know if you can answer but I was under the impression that the regulator had to at least implicitly approve anything that would change a dividend or buybacks or anything capital related, even if you clearly have the capacity for a dividend increase. So I guess my first question is, is that correct in terms of the regulator? And second, can you give us a sense of the kind of things that they are looking for in terms of agreeing or allowing the dividend increase?

**RÉJEAN ROBITAILLE:** Well I think it's too early to say what they are looking for. They're still looking at different... There's still a lot of discussion with... well all of the new (inaudible) and so it's probably too early to say on this side. It's a fact that, I think that the regulators around the world want to see strong capital ratios for the banks and that's the case for us. He could also notify that a \$0.02 increase, it's not that significant and that the overall impact of that... of such an increase on our capital ratios are, as I said, not significant. And the other aspect also is our tangible common equity, which is above the 90 percent level, is still one of the highest in the industry.

**ROBERT SEDRAN:** Okay, just a follow-up quickly, and I will let you go after his one, but I just... I'm curious; am I correct in suggesting that the regulator does need to approve a dividend increase before you can do it?

**RÉJEAN ROBITAILLE:** It's not necessarily a requirement but they have to be aware of that.

**ROBERT SEDRAN :** Okay. Thank you.

**OPERATOR :** Merci. Thank you. Notre prochaine question est de Michael Goldberg de Desjardins Securities. Our next question is from Michael Goldberg of Desjardins Securities. À vous la parole. Please go ahead.

**MICHAEL GOLDBERG** (Desjardins Securities) : Thank you. First of all, for Bernard Piché, bravo on your career and all the best in your retirement. Now looking at the year, it seems to me like your biggest home run was the high interest saving product in B2B. Did the deposits continue to stick and did they even grow in the fourth quarter?

**RÉJEAN ROBITAILLE:** François Desjardins, head of B2B Trust, will answer.

**FRANÇOIS DESJARDINS** (President and Chief Executive Officer, B2B Trust): Yes to both questions but as I said in previous calls, the growth rate that we've seen in the last... in the first half of the year has slowed down because, at one point, we're trying to bring in deposits at a rate that is adequate to fund our loans and no more. And the portfolio has remained sticky, absolutely.

**MICHAEL GOLDBERG** (Desjardins Securities): Okay. And do you have anything planned for the next TFSA?

**RÉJEAN ROBITAILLE:** On B2B side or on the Bank side?

**MICHAEL GOLDBERG:** No, on B2B.

**RÉJEAN ROBITAILLE:** On B2B side.

**FRANÇOIS DESJARDINS:** We already launched the TFSA product, but we see the TFSA as a registered account, right? It's not an asset per se. We launched it last year, and we have not seen up to now a great demand from financial advisors, independent financial advisors for the product. Right now what we have seen is a great demand for the asset, the high interest investment account, which can be put in to a TFSA, RSP or any other type of registered or non-registered account.

**MICHAEL GOLDBERG:** So most of the deposits there are non-registered?

**FRANÇOIS DESJARDINS:** No, it's about half and half.

**MICHAEL GOLDBERG :** Okay. Turning to credit, you said on the commercial front there were two big, well secured agricultural loans. Can you just give us a rough idea... in total what those two loans would have amounted to?

**RÉJEAN ROBITAILLE:** Louis Marquis, (inaudible) Credit.

**LOUIS MARQUIS:** About \$8 million for the both of them.

**MICHAEL GOLDBERG (Desjardins Securities):** Okay. And I also notice that in an environment of rising house prices and low mortgage rates, you had about, what looks like about \$9 million of net new impaired residential mortgages so what's going on to account for that in this environment?

**LOUIS MARQUIS:** This is mostly related to a longer process than we have had in the past to realize on any residence that we take over. It just taken longer to resolve accounts and that would explain most of the increase in the second part of the year. The first part of the year would be explained by, it's just a market that was softer.

**MICHAEL GOLDBERG:** Okay, so these are loans that you'd been working on for a number of months?

**LOUIS MARQUIS :** Yes.



**MICHAEL GOLDBERG:** Okay. And finally, Réjean, can you talk about where you see your biggest opportunities now to generate growth for the future?

**RÉJEAN ROBITAILLE:** Well, we continue or we still have identified our three growth engines and particularly in terms of residential mortgages, commercial mortgages and investment loan portfolio, we think that those three main products will be the growth engines that we will have in 2010. And we have invested significantly over the last few years in business development of each of those growth engines, and we think that 2010 will be another good year for us on that side.

**MICHAEL GOLDBERG:** Thank you.

**OPERATOR:** Merci. Thank you. Notre prochaine question est de Sumit Malhotra de Macquarie Capital Markets. Our next question is from Sumit Malhotra of Macquarie Capital Markets. À vous la parole. Please go ahead.

**SUMIT MALHOTRA:** Good afternoon.

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

**SUMIT MALHOTRA:** Starting on the expense side, a couple of items here. Last quarter, you had mentioned that the uptick in the – I think it's the insurance and taxes line – was kind of a one-time item. We've seen that item continue to move higher this quarter. You have a comment in the press release about specific provisions that you had to take on the expense side as well that went through the other segment, specific operational issues. Can you give me a little bit of colour on those two line items?

**RÉJEAN ROBITAILLE:** May I ask Michel Lauzon to answer that question.

**MICHEL LAUZON:** Well, from a tax perspective, we did get a tax assessment on July 31st from the various tax authorities, which we quickly looked at and had made some provisions in that quarter for certain items which we felt needed to be provided for. Upon further audit of the tax assessment, we did a fully detailed assessment of what was required, and we decided to increase the provisioning at year end. So that explains the capital and sales tax part. In terms of operating issues, there are a couple of files that have come up in October which are still unresolved at this time, which we feel may generate losses, and we felt it prudent to provide for those, and we feel these are one-time items and were sufficiently provided as we speak.

**SUMIT MALHOTRA:** What are we talking about in the... I'm looking at that other category that's up from \$2.2 million or 7.1. What kind of issues are we talking about in the (inaudible)?

**MICHEL LAUZON:** These are related to client account operations and I don't want...

**SUMIT MALHOTRA:** So...

**MICHEL LAUZON:** I don't want to go into further details.

**SUMIT MALHOTRA:** Litigation provisions is what we're talking about?

**MICHEL LAUZON:** Could be.

**SUMIT MALHOTRA:** Okay. And this... on the taxes thing, just to make sure we're looking at the same line, taxes and insurance was about \$4 million a quarter for, I think two years, and this quarter, the lines at 6.6. Is this going back to that 4ish million run rate going forward?

**MICHEL LAUZON:** We hope so.

**SUMIT MALHOTRA :** Okay. Thanks for that. Number two, another kind of, for lack of a better term, one-timish item that you had recently is on the securities – I was going to say, gains – it's been losses. I think this goes through revenue from treasury and financial market ops. So last quarter you talked about \$4.7 million in AFS write-downs, another 3.5 or so. Certainly, you know, it's not like you guys are the only ones we've heard this from but equity and credit market conditions have been much better in the last eight months. We'll see where we're going but was this a clean-up at the end of the year? Or are you of the view that this line item is going to stay close to flat in 2010, or at least in the first half of 2010?

**RÉJEAN ROBITAILLE:** Michel?

**MICHEL LAUZON:** Yes, we feel that we've cleaned up the portfolio. In fact, our financial statements show that the overall portfolio... our available for sale portfolio is net positive \$10 million and we feel that we've cleaned up what had to be cleaned up and these were securities which did not recover with the markets, and we felt that after several months of being under water, we decided to bit the bullet and get rid of them.

**SUMIT MALHOTRA:** Okay, so hopefully we've had a... and, you know, the Bank has been, let's say less aggressive in using the items of note or items impacting earnings that you've been taking these through the normal course earnings so maybe we see a small gain start to come back to you in the first half of the year?

**MICHEL LAUZON:** Hopefully that will be the case.

**SUMIT MALHOTRA:** Okay, and two good possibilities there. Everyone wants to talk about the dividend. Let me jump in quickly and just ask this question. You know, I think we're used to you a few years ago having this payout ratio of 40 to 50 percent, and I think except for the quarter in which net interest margin really got impacted and driven down, you haven't been in that range for quite some time. As you talk about these new capital requirements that are coming, do you feel that paying out, you know, potentially half of your earnings in a given quarter is still the appropriate amount to be at, especially since you've been able to grow the loan portfolio so aggressively? So bottom line, is 40 to 50 still an appropriate payout ratio or are you thinking about it in a lower way?

**RÉJEAN ROBITAILLE:** Well that's a very good question. It's... as I mentioned earlier, that it is important to continue to build strong capital ratios. There will be requirements. We don't know yet all the rules concerning that but there will certainly be new requirements from the... on a regulatory perspective and it will be... and it is important also to continue to show strong capital ratios. I think that we have showed to the market that our prudent approach is the way to manage the Bank, even if, in those turmoil activities, we were able to have the last three years, as I said, record growth. So we will see, depending of what will be the new rules. I said in the previous call that it's hard to play the game when you

don't know the rules, but we want to play the game. We increased the dividend by \$0.02 but, that said, that gain is also to have strong capital ratios. So we will see, depending of how the regulatory requirements will evolve, how we will respond to that.

**SUMIT MALHOTRA:** And, yeah, I think that's fair. You're certainly in a situation, a lot of your larger competitors have to probably grow earnings for a few years in order to get back into their ranges so, you know, maybe the high ranges that we saw previously aren't going to be appropriate. So I think a lot of times we look at that old 40 to 50 which, I think, you know, we talk about a lot more than you do, and I don't know if that's really what you're managing to anymore, I guess is what I'm getting at.

**RÉJEAN ROBITAILLE:** And that's a good point and when there is probably a lot of banks around the world that are looking at their payout ratio right now.

**SUMIT MALHOTRA:** Okay, let's... I'll try and wrap this up. Just on net interest margin, I mean the Bank of Canada gave us another strong hint yesterday they're not in a hurry to start ticking rates up. You talked about liquidity earlier and the fact you've kept those liquidity ratios higher. If we're in a situation here where it looks like the improvement in NIM is coming more because of deposit or lower funding costs that it is your loan yields moving higher on the portfolio as a whole, first half of the year, all else equal here in terms of no short-term rate

increases, do you feel from the 219 level there's still upward room for the margin to grow higher? We're certainly seeing very good loan growth but does the... all else equal, do you... can you still take that NIM higher in the first half of the year without short-term rates increasing?

**RÉJEAN ROBITAILLE:** I'll ask Michel to answer that question.

**MICHEL LAUZON:** Yeah, we could see some upward drift but, overall, I think whatever pricing premium we had... or pricing power we had to put through the portfolios this year has run its course. There could be some lingering or pipeline effect into the first half but basically we expect NIM to stabilize around the current levels.

**SUMIT MALHOTRA:** How about deposits, you know, running off some of the stuff you put on late last year? If the loan... if the re-pricing on the loan side is done, do you still have some benefit on deposit?

**MICHEL LAUZON:** We tend to run a pretty tight short-term gap and so there could be some movement, but we don't expect any major shift.

**SUMIT MALHOTRA:** Lastly, ABCP in the headlines yesterday talking about a potential settlement coming up and, you know, maybe that goes to that expense file you didn't want to talk about. Is there anything you can offer me in terms of...

I know you had to take a few small charges on the paper that you hold. Anything you can offer me in terms of your potential role in any kind of OSC settlement relating to ABCP?

**RÉJEAN ROBITAILLE:** Can I ask Michel Trudeau, Head of Laurentian Bank Securities to answer that question?

**MICHEL TRUDEAU** (President and Chief Executive Officer, Laurentian Bank Securities): Well we generally don't comment on the situations that don't represent any material impact.

**SUMIT MALHOTRA:** That's good enough for me. Thanks for your time.

**OPERATOR:** Merci. Thank you. Notre prochaine question est de Darko Mihelic de CIBC. Our next question is from Darko Mihelic of CIBC. À vous la parole. Please go ahead.

**DARKO MIHELIC** (CIBC World Markets): Hi, good afternoon. Just a couple of quick questions. The first question; with respect to your objectives for 2010, what tax rate did you assume to get those numbers?

**RÉJEAN ROBITAILLE:** Okay, Michel Lauzon?



**MICHEL LAUZON:** We're expecting somewhere between 25 and 28 percent tax rate.

**DARKO MIHELIC:** Is that a TEB basis or just a... or non-TEB basis?

**MICHEL LAUZON:** Non-TEB.

**DARKO MIHELIC:** Non-TEB?

**MICHEL LAUZON:** Mm-hmm.

**DARKO MIHELIC:** Okay, great. Thank you. And my last question; with respect to... Maybe this is a question for Réjean, I'm not sure, but you have basically fulfilled your obligations with respect to the sales of mutual funds. You've received your payment, which is great. What now? Do we think... Is there any, anything strategically stopping you from thinking about other ideas there? Or what should we think about for Laurentian going forward on that front?

**RÉJEAN ROBITAILLE:** I think that we have shown that... and particularly our marketing team and our retail team that we could be very innovative. So what we'll, we will continue to do so. Yes, we, as you mentioned, we have with those results all the balance of the sale of the mutual funds (unintelligible) have now been paid, and you also could see that in our 2010 objectives that, in fact, we

increased quite considerably versus 2009 because those objectives do not take into consideration any discontinued operations. So we, we're still continuing to rise... to raise the bar and there will be other aspects to compensate the loss of those discontinued operations.

**DARKO MIHELIC:** Okay. Thank you.

**OPERATOR :** Merci. Thank you. Notre prochaine question est de Michael Goldberg de Desjardins Securities. We have a follow-up question from Michael Goldberg of Desjardins Securities. À vous la parole. Please go ahead.

**MICHAEL GOLDBERG :** Thank you. I just wanted to clarify one thing on the tax and operational issues, that the impact of the tax item is in the tax and insurance line and the operational issues is all in the other other expense line?

**MICHEL LAUZON:** That's the way we would account for it, yes.

**MICHAEL GOLDBERG:** Okay, so when I look at that other expense line, up about \$5 million sequentially, would that be a reasonable estimate of the size of the operational issues?

**MICHEL LAUZON:** I'd say it would be most of it, yes.

**MICHAEL GOLDBERG:** Thank you.

**OPERATOR:** Merci. Thank you. Notre prochaine question est de Sumit Malhotra de Macquarie Capital Markets. Our next question is from Sumit Malhotra of Macquarie Capital Markets. À vous la parole. Please go ahead.

**SUMIT MALHOTRA:** Sorry, one more. Just second half of the year, obviously brokerage operations line and other income much higher than we've seen in the past. Can you just... and, you know, very high level, not exact numbers; if we look at roughly \$30 million in revenue in the back half of the year, what is the breakdown of this line in between underwriting, institutional trading, and I guess any retail brokerage would go through here. If those are the big three components, could you just give me a, you know, a ballpark on percentages, what we're looking at here in the back half of the year, the key drivers in this 30, \$32 million number?

**RÉJEAN ROBITAILLE:** Okay, Michel Trudeau, Head of Laurentian Bank Securities.

**MICHEL TRUDEAU:** Hi, Sumit. I don't have the numbers in front of me, and I'd rather not go into perfect details of those numbers, but I'll just tell you the following: that the fixed income group had a good semester on the back of the yield curve and good underwriting revenues. What we do is treating for

(inaudible) that include the process; it did well, again through a stable credit environment. So that accounts for not a significant but a good portion of the increase, did well. The retail side did better in the second half and we're looking forward to see how they're going to continue to perform related to stable, again, equity markets. That can be said for the institutional equity side as well. So those are the main drivers. And you talked about before the trading and the underwriting. And our underwriting continues to increase as a ratio as we grow our business and as we invest in our core businesses and that we're very delighted with. Our trading revenues were slightly better and slightly offset from the first semester where credit markets were tough. If you take one in with the other, they probably balance each other out and just creating (inaudible) for liquidity for clients.

**SUMIT MALHOTRA:** As you think about your 2010 disclosure, that might be a line item since it's, you know, at least for now become more important to the Bank. It would be beneficial for us to get some more insight into what exactly goes in there, if you're willing to provide that in 2010. Thanks for your time.

**OPERATOR :** Merci. Thank you. Nous n'avons plus de questions pour le moment. There are no further questions registered at this time. J'aimerais maintenant redonner la parole à Madame Caron. I would now like to turn the meeting back over to Ms. Caron.

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

**RÉJEAN ROBITAILLE:** Have a nice day.

**OPERATOR :** Merci. Thank you. La conférence est maintenant terminée. The conference has now ended. Veuillez s'il vous plait, raccrocher votre ligne. Please disconnect your lines at this time. Merci à tous les participants qui se sont joints. Thank you for all, for your participation.

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