

TO OUR CUSTOMERS

**SERVICE**

**SERVICE**

**SERVICE**



Our priority...  
your satisfaction and  
continuous improvement  
of the quality of services  
offered to you.

### Quality Service

Because we have your future at heart...  
we constantly renew our expertise  
and our commitment to be there for  
you at all times, from managing your  
daily banking transactions to planning  
your financial security.

### Proximity

Because your needs evolve quickly...  
we have adopted an approach with  
a human dimension that centres  
on listening to your needs, all the  
time, everywhere.

### Simplicity

Because life is complicated enough...  
we constantly search for ways to  
simplify our products and services.

### Flexibility

We have one objective in mind:  
you... That is why we encourage our  
employees to consider themselves  
entrepreneurs, and to show initiative  
in increasing your satisfaction.

## REVIEW OF OPERATIONS

Throughout the 2003 fiscal year, the Bank faced formidable challenges in most of its sectors of activity. In a particularly gruelling economic context, all of our lines of business and corporate services had to multiply their efforts to maintain or enhance their profitability. In addition to having to substantially reduce costs during the past fiscal year, the Bank channelled all of its resources into the systematic evaluation of its operations, which culminated in the decision to carry out a major repositioning plan.

Fiscal 2003 was an opportunity for in-depth analysis and the starting point of a business plan intended to build a sound future and growth for Laurentian Bank.

### Retail Financial Services

The highlight of the year for Retail Financial Services was undoubtedly the sale of 57 branches outside Quebec to TD Bank. This transaction enables the Bank to concentrate its efforts in the markets it knows best, and to consolidate its reputation among the financial institutions that do business in Quebec.

Net revenue of Retail Financial Services decreased in 2003, compared with the previous fiscal year. The reduction in net interest margins, fuelled by particularly fierce competition among financial institutions, has had a significant negative impact on the results of this sector. In Quebec, however, our branches reported slight growth in most of its loan and deposit portfolios, which augurs well for the coming year.

The *Entrepreneurship* pilot project, launched at the start of the 2003 fiscal year in three local markets, was enthusiastically welcomed by the staff and clientele of more than 20 branches involved in the project. The objectives of the project were twofold: to improve customer service and boost income through local market management that stands out because of its autonomy, accountability and financial recognition. The success of this experiment has motivated the Bank to extend the characteristics of the *Entrepreneurship* project throughout the network in the coming months. By becoming more attuned to the merits of empowerment, the employees will make Laurentian Bank an institution known for its flexibility, service quality, proximity and simplicity: four fundamental values that will now represent a common thread throughout the network.

The *simplified mortgage*, which already differentiates Laurentian Bank from its competitors, clearly translates this commitment to bring the Bank closer to its customers and offer practical, easy to use products and services that are adapted to diverse needs. The new database, developed by the Bank's marketing and information technologies teams, is an extremely valuable instrument in this context: by grouping all the data related to a given customer, the Bank can propose solutions that correspond to its customers' specific needs, thus eliminating wasted time and excess paperwork. The branches will particularly appreciate this new marketing tool, which provides them with new means to enhance their service.

The Bank has hired Marketel, one of the most prominent advertising agencies in Montréal, to carry out all of its advertising mandates. This change is part of Laurentian Bank's quest to reinforce its identity and adopt a distinctive position on the competitive retail financial services market in Quebec. Selected because of its keen understanding of the challenges the Bank is currently facing and for its capacity to implement effective marketing and advertising strategies, Marketel will work in close collaboration with the Bank's marketing sector to deploy strategies that will support the business development plan for retail financial services.

Retail Financial Services launched several innovative products in 2003: the variable rate mortgage loan, the new RSP line of credit, the Distinction line of credit, the Passport Program and the CPGAction Trust Plus are just a few of the new financial tools that Laurentian Bank makes available to its customers to respond to the full spectrum of their needs. The Distinction line of credit, for example, lets customers benefit from sure and flexible borrowing power on an ongoing basis, without having to renegotiate new financing on each occasion, coupled with an advantageous interest rate. The Passport Program gives Laurentian Bank Visa Gold card cardholders the occasion to make their dreams come true by using their reward points for "out of the ordinary" activities or high end products from these four categories: "Techno Fun", "À la carte", "Outdoor passions" and "Travel Chic", via a highly advantageous credit instrument. Lastly, CPGAction Trust Plus boasts two original characteristics: its capital is fully covered and its performance is pegged to that of a private portfolio composed of trust units.

Retail Financial Services also reorganized their distribution channels to form two distinct networks: the direct network, made up of the branch network, electronic networks and the TeleBanking Centre; and the indirect network, which includes point-of-sale financing, mortgage loans distributed by brokers and distributed by agents.

Therefore, Retail Financial Services is now managing all of the Bank's indirect retail services throughout Canada. A key strength of the Bank, indirect financial services will spearhead Laurentian Bank's development outside Quebec.

### **Commercial Financial Services**

For Commercial Financial Services, 2003 was a year of transition and repositioning. After having identified and painstakingly analysed each of the aspects of its services offering, Commercial Financial Services set in motion a revitalization plan that will enable the sector to build its future on solid foundations. Notably, it reduced the maximum commitment that it may hold with the same commercial client from \$40 million to \$20 million. This repositioning effectively reduced Commercial Financial Services' commercial financing activities by roughly 10%. Nonetheless, the result was in keeping with the objective set, namely a significant decrease in the risk assumed by the Bank.

Given that Air Canada's financial problems significantly increased losses on loans, in the third quarter the Bank finalized the sale of the loan it had granted to Air Canada as part of a banking syndicate in which it held a minority interest of \$19 million. By selling this holding, the Bank posted a provision of \$10 million, equal to its total loss. The Bank thus ensured that the risk related to Air Canada would have no further impact on its results in subsequent fiscal years.

The increase in value of the Canadian dollar compared with the American dollar substantially eroded Canadian exports, compounded by the fact that the American economy, still fairly fragile, did little to invigorate the Canadian economy in 2003. There was a resulting constraint on demand for commercial financing in Canada, the effects of which were evidently felt by Commercial Financial Services.

Despite all of these factors, the contribution of Commercial Financial Services to the Bank's total revenues was once again highly impressive.

As for the future, Laurentian Bank aspires to become a leader in commercial financial services in Quebec in the small business and micro-entreprise niche. Its strategic partnerships with the Business Development Bank of Canada (BDC) and other lenders such as Farm Credit Canada will enable the Bank to expand its markets and demonstrate the exemplary accessibility of its teams to a larger number of clients, up to the highest levels of decision-making.



TO OUR EMPLOYEES

**LET'S DO  
BETTER**

We will make a genuine effort to...offer a stimulating work environment that is conducive to developing our employees' skills.

Furthermore, in a quest to adequately meet the ever changing needs of its clients, Commercial Financial Services created a distinct sector for agricultural financing and opened a new real estate financing office in Ottawa, as Ontario represents 52% of the Bank's real estate financing portfolio.

It is important to note that the sale of branches in Ontario and Western Canada affects neither the quality nor the diversity of services offered by Commercial Financial Services outside Quebec. In effect, Laurentian Bank is maintaining a strong and dynamic presence in the rest of Canada, not only through its indirect retail financial services but also through a vast array of commercial services. Through B2B Trust, commercial financing, commercial mortgages, brokerage, foreign exchange and wealth management, the Bank plans to maintain and develop its services in the rest of Canada. The concentration of its efforts and energies in the niches it knows best, where it excels, will enable the Bank to truly be attuned to its customers so that it can propose financial products and services that are best suited to their needs.

To summarize, Commercial Financial Services have pinpointed the sectors in which they can be most effective. They now plan to take every measure to ensure that actively growing companies choose Laurentian Bank as their principal financial institution.

#### **B2B Trust**

B2B Trust, a federally chartered subsidiary, supplies financial products and services to more than 13,000 independent financial advisors across Canada.

Despite unfavourable conditions in the investment mutual fund market, B2B Trust consolidated its position as a leading supplier of banking and financial products to financial advisors in 2003: its clients include five of the ten largest mutual fund companies in Canada.

The fiscal 2003 results were nonetheless disappointing: net income for the year decreased by 29% over that of fiscal 2002. Market stagnation pressed mortgage loan volume downward and hampered the growth of the investment loan portfolio, which effectively modified the asset mix and significantly reduced net interest margins of B2B Trust. The RRSP campaign was lacklustre, as a change in regulation prompted several financial intermediaries to buy back a number of self-directed plans.

In this context, B2B Trust chose to focus its attention on three elements: cost management, growth of revenues arising from its numerous distribution agreements, and diversification of its service offering. Accordingly, B2B Trust acquired private-label loan products of Canadian Tire Financial Services in December 2002. By finalizing this transaction, B2B Trust reduced concentration of its credit products in the financial services sector and increased its diversification.

This strategy proved to be a wise one: by expanding its line of services, B2B Trust partly compensated for the drop in revenues caused by weakness in its usual markets. Its new products, notably private-label lines of credit and Advisors' Choice™ generic products, are ushering in a new line of services that B2B Trust plans to offer large retailers, services that will most likely generate increasingly substantial income.

In fact, valuable synergies exist among the various business lines of the Bank and B2B Trust. The launching of the new Canadian Tire line of credit, for example, has been made possible with the close cooperation of the Bank's Control and Savings Centre, which energetically worked within very tight deadlines to meet this formidable challenge.

B2B Trust has also entered into new distribution alliances with Northwest Mutual Funds Inc., Canada Life Assurance Company, Franklin Templeton Investments Corp., SSQ Financial Group and Return on Innovation Management Ltd.

In addition, B2B Trust launched a normal course issuer bid in May 2003. Convinced that this was an advantageous transaction for all the shareholders, B2B Trust Management planned to buy back 1,240,000 common shares, equal to approximately 5% of its outstanding common shares, between June 3, 2003 and June 2, 2004. As of October 31, 2003, more than 900,000 shares had been redeemed.

Therefore, B2B Trust is in an excellent position to take full advantage of the investment market recovery, in particular that of mutual funds, as soon as it occurs.

#### **Wealth Management and Brokerage**

The Wealth Management and Brokerage line of business groups the joint venture BLC-Edmond de Rothschild Asset Management and Laurentian Bank Securities (LBS), two specialized entities that offer private and institutional investors a range of investment products.

Spiralling investor confidence in recent years sparked extreme prudence in most investors, which generally lead them to choose their investment products with great care. In this particularly demanding environment, the efforts deployed by the teams of managers and advisors propelled the line of business Wealth Management and Brokerage to a 20% increase in its assets under management, which rose from \$2.5 billion in 2002 to \$3.0 billion in 2003, coupled with growth of profitability: net income increased from \$0.9 million in 2002 to \$8.7 million in 2003, following the sale of TSX Group Inc. shares.

While most of the competitors reported more redemptions than sales in 2003, BLC-Edmond de Rothschild Asset Management posted net positive results for its R Investment Funds. This joint venture, created four years ago, groups together two areas of expertise in financial management: La Compagnie Financière Edmond de Rothschild in Paris specializes in international markets, and Laurentian Bank possesses a keen knowledge of Canadian markets. The R Fund family lets investors diversify their portfolios and harness the growth not only of Canadian markets, but also of foreign markets. These funds contain shares of companies that offer excellent growth outlooks.

The R Distinction portfolios launched earlier this year offer an optimal combination of the best mutual funds distributed by the largest companies. This line of 30 mutual funds was selected from the top five families of Canadian investment funds. The portfolios were well received since their inception. At The Summit Creative Awards 2003, held in May 2003, BLC-Edmond de Rothschild Asset Management won the Bronze Award for printed materials designed for its R Distinction Portfolio. This world-class event honours the best advertising creations from around the world.

The excellence of the Dividend Fund and the Canadian Small-Cap Equity Fund was crowned by the American financial analyst firm Morning Star, which gave it a five-star rating in 2003.

Laurentian Bank Securities, a full-service securities broker, has carved out an enviable place in the Canadian brokerage market, and efforts put in place in the past four years to develop and refine its distribution network should deliver very satisfactory results. Well known for its research service, trading desks and advanced technology, LBS has acquired exceptional, sought after expertise available to institutions, governments and to its retail clientele. By specializing in corporate financing, it has developed a full array of debt financing instruments for large companies. Moreover, its Financial Planning Service, offered throughout the branch network, is an extraordinary tool for all the Bank's customers.

TO OUR SHAREHOLDERS

**ONE  
WORD:  
PERFORMANCE**



We have put in place a three-year business plan that will...improve our performance and maintain a relationship based on transparency.

Laurentian Bank Securities has rationalized and optimized its operations, and has now attained the critical mass to accelerate its development and offer its clients complete solutions, which will fully satisfy them. Its five fundamental values: respect for individuals, integrity, primacy of the client, team spirit and accountability, are all strengths that endow Laurentian Bank Securities with solid foundations and make it an indispensable component of the branch network.

#### **Corporate sectors**

Since the announcement of the restructuring plan in June, the organizational structure of the Bank has included four corporate sectors: Treasury and Financial Markets; Finance, Administration and Strategic Development; Human Resources; and Corporate Affairs and Secretary's office. To meet the many challenges the Bank is facing, these four sectors deployed considerable effort in 2003 to orchestrate, within very tight deadlines, changes necessitated by the restructuring project and expense reduction program. They also made an invaluable contribution to the development of the new business plan.

#### *Treasury and Financial Markets*

The main role of the Treasury and Financial Markets sector is to optimally manage the Bank's capital, notably by matching assets and liabilities. With interest margins subject to pressure throughout the year owing to slumping interest rates, this challenge was quite daunting, yet the sector emerged unscathed, and continues to contribute significantly to the Bank's revenues.

Laurentian Bank is renowned for the exceptional quality of its treasury management, which compares favourably with that of its competitors despite its size. In response to the market volatility of 2003, the Treasury specialists turned to derivative products and developed index-based products to spur dynamic portfolio management inspired by models of their own design. This original development, which meets a market need, yielded excellent returns. Foreign exchange transactions also generated interesting revenues, demonstrating once again the quality and expertise of our specialists in this sector.

The Treasury and Financial Markets sector therefore cultivated the most profitable lines of development in 2003, and has adopted the means to track market trends more effectively, which concomitantly stimulates team spirit and heightens the motivation of the sector's entire staff.

#### *Finance, Administration and Strategic Development*

Since last September, the Finance, Administration and Strategic Development sector includes seven functions: strategic planning and control; mergers and acquisitions; taxation; investor relations and integrated risk management; information technologies; administrative services; and real estate management and purchasing. This grouping is intended to enhance efficiency at all levels, while improving reaction time and consequently boosting the already high satisfaction rate among all of the Bank's customers.

Finance, Administration and Strategic Development played a crucial role in the formulation of the three-year strategic repositioning plan. In addition, its Mergers and Acquisition function coordinated the negotiation of the sale of 57 branches in Ontario and Western Canada and facilitated the conversion of branches affected by the transaction.

The Investor Relations function is particularly crucial at this point in the Bank's history, as the Bank must ensure that analysts and investors fully grasp the strategic repositioning plan. It is more important than ever that each decision be clearly explained and that the consequences be well understood, particularly by Bank shareholders and investors as a whole.

To attain its objectives of efficiency and better risk control, the Bank restructured its integrated risk management function in September. It thus improved its methods and now measures up to best practices in the banking industry.

The Information Technologies function allocated considerable financial resources in 2003 to put in place the new data warehouse. Investments were also channelled into upgrading the entire information system infrastructure. A users committee was formed to analyze, in tandem with representatives of all of our lines of business, each of the projects submitted, and to measure user satisfaction.

Regarding Administrative Services, the centralization of operations, now completed, has generated substantial savings and synergies. The administrative centres make in-depth expertise in each of the products the Bank offers available to the branch network and other lines of business, while lightening the administrative workload of branch employees. They are evidently playing a crucial role in the conversion of branches sold to TD Bank, ensuring a seamless transition for the customers.

The Real Estate Management and Purchasing team made a noteworthy effort in 2003 to implement mechanisms that will improve the Bank's lease management. They also formed a high level committee that will optimize real estate management at the Bank and bring it in line with best practices in this area.

#### *Human Resources and Corporate Affairs*

Throughout the fiscal year, namely until October 31, 2003, Human Resources and Corporate Affairs reported to the same vice-president. Since November 1, however, these responsibilities have been shared by two distinct sectors, which include several multidisciplinary teams:

- Human Resources manages and develops human resources, including the negotiation and renewal of collective agreement; and
- Corporate Affairs coordinates public affairs, legal affairs and compliance, the secretary's office, corporate security and internal audit.

The highlight of 2003 for Human Resources was the unfolding of the process that is expected to culminate in a win-win agreement between the Bank and its unionized employees. Hearings of the arbitration committee began on September 16, the arbitration process is binding and a decision is expected by mid-year 2004. The Bank plans to achieve a positive partnership with its employees that will enable it to progress concertedly, while providing employees with advantageous work conditions.

Human Resources worked diligently in 2003 to re-evaluate positions in relation to the market. The *Employee Guide* was also reworked and updated, to take into account the evolution of the working conditions of the Bank's non-unionized employees.

The Corporate Affairs sector manages all functions related to legal affairs and the Bank's compliance with legislation, regulations and guidelines issued by governments and regulatory authorities. To this effect, it participates in all the Bank's strategic matters, such as preparing and negotiating the agreement with TD Bank. It also includes internal audit, a function that is controlled directly by the Audit Committee, and which plays a vital preventive role for all of the lines of business and services. It is also in charge of all aspects of security, notably the money laundering prevention program.

Moreover, through the Public Affairs and Communications Department, the Bank provides effective and rapid communication of information and messages to its various audiences, while enhancing Laurentian Bank's brand image within the financial services industry and among the general public. The Corporate Affairs sector plays an essential supporting role for the Boards of Directors by performing tasks related to the Secretariat of the Bank and its subsidiaries. One of the sector's concerns is the development and implementation of the bank's policies and practices in corporate governance.

The appointment of Mr. L. Denis Desautels as Chairman of the Board, at the start of the fiscal year, demonstrated once again the vital importance of corporate governance at the Bank. Renowned across Canada for the firmness of his positions on governance, Mr. Desautels was the ideal candidate to chair the Board of the Bank.

The Board has thoroughly evaluated all of its corporate governance processes, notably by means of an elaborate questionnaire, submitted to all the Directors. It also created a new pension plan management committee, in charge of effectively managing the various pension plans, along with their capacity to adequately meet current and future needs.

The financial results of each business line are presented in Note 23 of the consolidated financial statements, on page 94 of this Annual Report.

## **NEW OMBUDSMAN**

**Laurentian Bank and its subsidiaries appointed a new ombudsman on October 1, 2003. Ms. Chantal Béanger had previously held the position of Senior Vice-President, Retail Financial Services, Québec.**

**The role of ombudsman consists of serving as a mediator between customers and the Bank. The ombudsman's actions are intended to resolve complaints that are not settled to the customers' satisfaction as part of the Bank's complaint resolution process. The ombudsman therefore acts as a mediator, in a neutral and impartial fashion. She also plays a proactive role by advising the Bank of shortcomings and recommending changes that enable the Bank to better meet the needs of its customers and the general public.**

**Employed at Laurentian Bank since January 1986, Chantal Béanger is the first woman to assume the responsibilities of ombudsman at the Bank, and is one of the rare women to hold this position in a large Canadian bank. Holder of the professional titles of financial planner and CGA, Ms. Béanger was president of the Ordre des CGA in 2002-2003 and has served as the chairman of the board of directors of the Éluard-Montpetit College in Longueuil since June 2000.**

**Chantal Béanger succeeds Mr. Robert S. Robson, who had been the ombudsman of the Bank for 5 years.**