CORPORATE PARTICIPANTS

Gladys Caron
Vice President, Public Affairs and Communications, Laurentian Bank

Rejean Robitaille
President and Chief Executive Officer, Laurentian Bank

Michel Lauzon
Chief Financial Officer, Laurentian Bank

Pierre Minville
Chief Risk Officer, Laurentian Bank

Francois Desjardins
President and Chief Executive Officer, B2B Trust

Stéphane Therrien
Executive Vice-President, Commercial and Real Estate Financing, Laurentian Bank

CONFERENCE CALL PARTICIPANTS

John Reucassel
BMO Capital Markets

Sumit Malhotra
Macquarie Capital Markets

Michael Goldberg
Desjardins Securities

Nick Stogdill
Credit Suisse

PRESENTATION

Operator

All participants please stand by; your conference now is ready to begin. Good afternoon, ladies and gentlemen. Welcome to the Laurentian Bank Conference Call.

I would now like to turn the meeting over to Ms. Gladys Caron. Please go ahead, Ms. Caron.

Gladys Caron, Vice President, Public Affairs and Communications, Laurentian Bank

Merci. Bienvenue. Good afternoon, everyone. The press release for our Third Quarter 2012 Results was issued today on Canada newswire and on our website. This afternoon the review of our third quarter results will be provided by our President and CEO, Rejean 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 22 of the presentation available on our website. And Rejean Robitaille and Michel Lauzon will refer to the 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 Rejean Robitaille.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you, Gladys, and good afternoon, ladies and gentlemen. Our core profitability improved yet again in the third quarter of 2012 in what remains a challenging environment. Net income reached 30 million or $35.3 million excluding the Transaction and Integration Cost related to the acquisition of the MRS Companies and AGF Trust. Adjusted net income, net income increased 21 percent and adjusted earnings per share grew 18 percent over the last 12 months. We are continuing to reap the benefits of our development initiatives generating strong growth in fee-based income and good, good organic loan and positive growth across all business lines. As well, our proactive risk management and disciplined underwriting criteria are contributing to the excellent credit quality in all of our portfolios.

Given the persistent economic uncertainty as well as the historically low interest rate environment, we remain focused on closely managing expenses and are leveraging our strategic opportunities. The inclusion of MRS is already contributing to revenue growth and diversification. The conversion and integration of the MRS Companies is progressing according to plan. In fact, some synergies are already being achieved. We're also pleased with the smooth conversion of B2B Trust during the quarter to a bank under the B2B Bank banner.

Turning to slide 4, after nine months, management expects that the Bank is on track to meet all of its financial objectives as set out the beginning of the year. Contributing to our good performances: solid loan growth, renewed diversification through other income, sustained improvements in credit quality, good cost control and effective execution.

I will now call upon Michel to review the third quarter of 2012 financial results. Michel?

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Thank you, Rejean. Financial highlights of the third quarter of 2012 can be found on slide 5. Revenue growth of 4 percent year-over-year was driven by a 14 percent rise in other income, while net interest income was essentially unchanged. The provision for loan losses declined to 7.5 million in the third quarter of 2012 from 14.6 million in the third quarter of 2011. Non-interest expenses, excluding T&I Costs, rose to 141.8 million from 133.9 million a year earlier. T&I Costs were 7.2 million pretax, or $0.21 per share, in the third quarter of 2012, compared with 3.4 million or $0.10 per share, in the second quarter of 2012. While we continue to expect further synergies in 2013, some synergies have already been achieved and the integration of MRS is proceeding according to our plan.

In the third quarter of 2012, adjusted diluted EPS and adjusted return on equity reached one point—$1.27 per share and 12.2 percent, respectively, compared $1.08 and 11.2 percent in the third quarter of 2011.

I'll now discuss the main factors behind the Bank's performance during the third quarter of 2012. Firstly, net interest income of a hundred and nine—$129.7 million in the third quarter of 2012 increased by just over 0.2 million from the third quarter of 2011. Lower margins resulting from the compressed rate environment were offset by good loan and deposit growth year-over-year. As highlighted on slide 6, the net interest margin, at 1.66 percent, was 17 basis points lower than in the third quarter of 2011. Nine basis points of the decline reflected the continuing very low interest rate environment, a flatter yield curve, and competitive pricing; while 6 basis points was as a result of an increase in securitization assets of 1 billion over the past 12 months.

On a sequential basis, margins decreased 7 basis points, with more than half of which is due to higher levels of securities on the balance sheet, which tend to dampen NIM. In the third quarter of 2012, we securitized 163.7 million of residential mortgage loans, and sold an additional 161.8 million of mortgages as Replacement Assets.

Secondly, our other income of 64.2 million rose 7.8 million or 14 percent from the third quarter of 2011, as is shown on slide 7. This increase was fuelled by several revenue streams. First, the acquisition of the MRS Companies contributed 6.7 million to other income, largely related to revenues from investment accounts. Second, income from brokerage operations increased by 22 percent. Third, card service revenues grew by 10 percent year-over-year driven by business development efforts resulting in high transactional volumes and fees. These increases were partially offset by lower income from treasury and financial market operations and lower credit insurance income.

Thirdly, as highlighted on slide 8, the provision for loan losses amounted to 7.5 million in the third quarter of 2012, equal to last quarter and 7.1 million lower than the year earlier, reflecting the old (phon)—excellent overall credit quality of our loan portfolios and favorable credit conditions in Canada. The year-over-year increase in loan losses for personal loans results from increases in card receivables as well as from volume growth; while the increase in residential mortgage loans reflects the absence of one-time reductions which benefited the third quarter of 2011 under IFRS. Loan losses on commercial mortgages and commercial loans remain very low, mainly as a result of improvements in the credit quality of the overall portfolio as well as some small recoveries.

Slide 9 highlights our credit quality. While still being below last year's levels, gross impaired loans inched up a hundred fifty six point—to 156.4 million from 147.3 million at the end of the second quarter of 2012. And net impaired loans rose 24 million from 8 million. The slight increase in gross impaired loans is in line with the growth of the Bank's various loan portfolios and is not expected to generate significant losses. The modest rise in net impaired loans was mostly as a result of the reduction in the collective allowances. However, our credit quality remains very strong and we do not anticipate this change—this to change materially in the short term.

As presented on slide 10, the provision for loan losses stands at a very good ratio of 0.13 percent, of loans and acceptances. The Bank's rigorous risk management and underwriting standards continue to result in a low and relatively stable credit risk profile as expressed by the loss ratio, which compares very favourably to the banking industry.

Turning to slide 11, the efficiency ratio for the nine months of 2012 was 72.7 percent excluding Transaction and Integration Costs. Specifically, for the third quarter of 2012, the ratio was 73.2 percent on the same basis. Persistent margin pressure, constraining growth in net interest income is largely responsible for the efficiency ratio remaining at the higher end of our target range.

It should be noted that for the third quarter excluding T&I Costs of 7.2 million, as well as the addition of 6.6 million of operating expenses related to MRS, non-interest expenses total 135.2 or up by only 1 percent compared to a year ago. This demonstrates our sustained focus on cost control while pursuing initiatives to further grow the Bank through other income as well as through the balance sheet.

A more granular review of expenses shows that salaries and employee benefits increased by 6.8 million or 10 percent year-over-year, mainly due to the increased headcount from the acquisition of MRS and regular salary increases.

Premises and technology costs increased by 2.4 million compared to the third quarter of 2011. The increase was largely attributable to higher software and amortization expenses and increased rental costs due to the acquisition of MRS. The Bank's disciplined control over expenses given the slower revenue growth environment that we are operating in, was evidenced by the 1.3 million reduction in other non-interest expenses in the third quarter of 2012 compared to the third quarter of 2011.

Slide 12 highlights the continued growth in the balance sheet over the past 12 months. Loans and acceptances totalling 23.4 billion rose by a 1.8 billion or 8 percent over the last year. MRS accounted for 300 million of the increase, with the balance generated organically. Residential mortgages accounted for 975 million of the increase, also growing by 8 percent.

Personal loans, excluding point-of-sale financing, increased by 479 million, fuelled by investment loans largely acquired through MRS, home equity lines of credit, and personal loans granted under the Immigrant Investor Program. Commercial mortgages and commercial loans, and BAs increased by 436 million over the past year, despite a 77 million sale of commercial mortgage loans in the second quarter of 2012.

Total deposits increased by 2.2 billion over the last 12 months to reach 21.6 billion. This included 700 million from MRS, and 200 million of senior deposit notes raised last quarter to maintain liquidity at prudent levels. Retail deposits remain at a very stable source of funding for the Bank, with personal deposits representing 78 percent of total deposits at the end of the third quarter of 2012.

As at July 31st, 2012, our Tier 1 capital ratio was 10.1 percent, and our tangible common equity ratio was 8 percent. On a pro forma basis, including the full impact of IFRS, our Basel III common equity Tier 1 ratio, as at July 31st, 2012, would be 7 percent, which is in line with the future Basel III regulatory threshold. Furthermore, on a pro forma basis, factoring in the acquisition of AGF Trust, and the private placements which generated net proceeds of 115 million, the Basel III common equity Tier 1 ratio would be approximately 7.3 percent as at July 31st, 2012, well above the expected regulatory guidelines.

As there has been heightened interest surrounding the condominium construction market, I would like to take a few minutes to discuss the Bank's exposures and underwriting guidelines.

On slide 13, we highlight our condo exposure by geographic region by type of project. For the purpose of this discussion, we classify low-rise as having five or fewer floors, mid-rise six to 10 floors, and high-rise 11 floors or more. For all of Canada, our total portfolio of condo financing consists of 349 million outstanding and is very diversified geographically and by type of project.

More specifically, regarding high-rise condominium construction projects, in Canada, as at July 31st, 2012, loans outstanding to this segment totalled $145 million. Of this amount, the Bank's loan balance in the GTA was 121 million. The vast majority of these loans were generated through participating in loan syndications with other major Canadian banks. As indicated on slide 14, of the projects that the Bank financed in Ontario, 71 percent had sufficient presales to fully reimburse the loans. This speaks to the conservative nature of our portfolio.

Additional guidelines that we have in place to mitigate risk include a loan to value ratio of 65 percent to 70 percent and the requirement of a combination of presales and equity that provides a residual loan to value ratio of usually below 40 percent. We only deal with developers we consider to be financially strong and experienced.

Slide 15 presents our residential mortgage portfolio, of which 58 percent is insured. The average loan to value of the insured portfolio is 66 percent and 47 percent for the uninsured portfolio. Furthermore, the Bank has just under 1 billion of retail condominium financing or less than 4 percent of our overall loan portfolio. We have limited exposure to retail condo financing held for investment purposes which we estimate to be slightly below 100 million. We are highly selective in our underwriting criteria to finance condos for investment purposes, and do not have any programs to market that product. We consider our loan portfolio to be very manageable and high quality. We remain extremely comfortable with our exposure to these segments of the economy.

Turning now to the performance of our business segments. We were pleased that all of our business segments continued to generate year-over-year organic growth in loans and deposits. Once interest rates eventually begin to rise, this will be a good platform from which to lever revenue and earnings.

Slide 16 shows that Retail & SME-Quebec's contribution to net income was 13.5 million in the third quarter of 2012 compared to 14.7 million a year earlier. However, on a sequential basis, net income increased substantially, rising by 27 percent. The year-over-year decline was largely revenue-related, as expense growth was well-contained. Specifically, net interest income fell by 4 percent year-over-year as strong growth in loans and deposits of 8 percent and 4 percent, respectively, did not fully compensate for lower NIM owing to the lingering low interest rate environment.

Other income increased by 6 percent as higher card revenues and fees on deposits were partially offset by lower credit insurance income. Non-interest expense growth continued to be well contained with third quarter non-interest expenses falling 1 percent from a year earlier. Cost control initiatives more than offset higher regular salary expense, and operating cost associated with increased business activity. Provision for loan losses increased by 2.8 million year-over-year resulting from increased volumes.

Slide 17 highlights the Real Estate and Commercial segments' contribution to net income of $16 million in the third quarter of 2012 compared to $9.8 million earned a year earlier. Sequentially, net income fell by 1 million, partially due to a non-recurring 3.1 million gain on the sale of a commercial loan portfolio in the second quarter of 2012. On a year-over-year basis, net interest income declined by 1.2 million owing to margin compression, despite solid average growth year-over-year in loans and acceptances of 9 percent.

Loan loss provision fell sharply to 0.4 million from 10.5 million a year earlier. While reflecting the very good quality of the portfolio, it represents nonetheless an exceptionally low loss level reflecting low loan losses on commercial loans, reduced collective allowances associated with the improved risk profile of the portfolio and small miscellaneous recoveries. Non-interest expenses grew by 0.2 million year-over-year to 7.8 million resulting from increased salary costs related to additional headcount hired to support increased business activity.

As is shown on slide 18, B2B Bank's contribution to net income, excluding 5.3 million after tax of T&I Costs, was 12.5 million in the third quarter of 2012; 1.6 million higher than the year earlier. Total revenues increased by 8.3 million or 26 percent, driven by the MRS acquisition benefitting both other income and net interest income.

Loan losses increased marginally from 0.5 million in the third quarter of 2011 to 0.6 million in the third quarter of 2012, owing to increased volumes on investment loans.

Non-interest expenses rose by 6.4 million to twenty two point six—sorry, 22.9 million. This increase includes operating costs of 6.6 million related to MRS. Excluding the MRS component, expenses decreased 0.3 million or two—or by 2 percent year-over-year.

Lower other expenses more than compensated for the slight increase in salary expense. Acquisition related costs in the third quarter of 2012 totalled 7.2 million, resulting mainly from IT costs incurred for an additional headcount required to integrate MRS, as well as 0.6 million related to the acquisition of AGF Trust. With the closing of the AGF Trust acquisition on August 1st, this operation will be included in fourth quarter results along with the additional 2.87 million common shares of Laurentian Bank issued through a private placement.

As shown on slide 19, Laurentian Bank securities and capital markets' contribution to net income was 1.2 million in the third quarter of 2012 compared to 0.7 million a year ago.

Revenues of 13.3 million were 1.4 million higher than a year earlier, as underwriting and trading activities benefited from slightly improved market conditions compared to a year ago, while uncertainty surrounds the bond market, small cap equity markets remain quiet and retail brokerage activity is low. Non-interest expenses increased by 0.6 million, owing to the higher performance-based compensation linked to market driven income.

The Other sector, presented on slide 20, posted a negative contribution to net income of 7.9 million in the third quarter of 2012 compared with a negative contribution of 7.1 million a year earlier. Net interest income improved by 2.3 million year-over-year reflecting good market position and some transfer pricing adjustments; while other income fell by 1.2 million, owing to lower gains on treasury activities. Non-interest expenses increased by 2 million compared to a year ago, largely due to higher pension cost, regular salary increases and higher software and amortization expense.

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

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you, Michel. Agility, one of our competitive advantages is particularly valuable in helping us to make the required adjustments in the current economic context. Against the historically low interest rate backdrop that is exerting pressure on margins, we are emphasizing higher spread businesses. This includes further developing our commercial banking activities and expanding into selective niches that we have recently acquired.

We are also intensifying our efforts to generate non-interest income. Our acquisition of MRS is a good step in that direction; already providing significant fees from investment accounts. Similarly, the recent hiring of an experienced investment banking team in Winnipeg, a region with favourable growth prospects should also contribute to increasing other income over time. These actions are improving our diversification with our sources of revenues being increasingly diversified as well as the geographic distribution of our portfolios and profitably.

Despite the current challenging environment, I'm pleased with our progression. Our assets on a pro forma basis including the acquisition of AGF Trust now exceeds $35 billion. This is 22 percent higher than at year-end 2011 as loan and BAs grew by 20 percent from year-end 2011 with deposits increasing by 22 percent over the same period.

Our increased size, scale and diversification, in part owing to our strategic acquisitions, have also significantly improved our positioning. Specifically, B2B Bank has emerged as the clear leader in providing banking products and services through 27,000 financial advisors to 750,000 end clients across Canada.

Finally, the Bank's earnings per share have increased from the past—for the past seven consecutive years, a period which included the global financial crisis and ensuing economic downturn. This demonstrates the continued effectiveness of our business model, which, by keeping a clear focus on our capabilities and priorities, adding scale organically and through acquisitions, and executing well to control cost, generates sustainable profitability.

I will now turn the floor back to Gladys.

Gladys Caron, Vice President, Public Affairs and Communications, Laurentian Bank

Thank you, Rejean. At this point, I would like to turn the call over to the conference operator for the question-and-answer session.

QUESTION AND ANSWER SESSION

Operator

Thank you, Ms. Caron. We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press star, one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star, one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from John Reucassel from BMO Capital Markets. Please go ahead, sir.

John Reucassel, BMO Capital Markets

Thank you. I just want to go back to slide 13, and the 349 million of exposure to the condo, is that drawn or is that undrawn or what is your total exposure there?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

I'll ask Pierre Minville, Head of—Chief Risk Officer, to answer that question, John.

Pierre Minville, Chief Risk Officer, Laurentian Bank

Yeah, the 349 million is the drawn portion, so—and it represents usually an average 3, 5 percent of the commitment.

John Reucassel, BMO Capital Markets

Okay. Okay, thank you. And then just on the slide—thank you very much for this information, by the way. It's very helpful understanding your position. Just on slide 15, I know it doesn't include AGF Trust, but if we look at AGF Trust's portfolio presumably it would be more, you know, Ontario and the rest of Canada; and if you could just remind me how much of it is insured?

Pierre Minville, Chief Risk Officer, Laurentian Bank

Yeah, the—if we include the AGF portfolio the portion in Québec would go down to about 75 percent and the rest would bring Ontario up about the same amount.

John Reucassel, BMO Capital Markets

Okay. And what is the LTV on the uninsured portion at AGF Trust?

Pierre Minville, Chief Risk Officer, Laurentian Bank

The—I don't have the specific LTV on the portfolio but the overall impact on the Bank would bring the, let's say, the uninsured portion of 47 percent to 48 so that it's a small impact.

John Reucassel, BMO Capital Markets

Okay. Okay, that's helpful. And then just, Rejean, for you, the—I know it's early and you've just had AGF Trust 28 days or something, but it is a bit of a different market, the alte (phon), are you getting more comfortable with that market or do you still expect to pull back from there? And can you talk about the spreads, you know, is it worth selling mortgages with some of these spreads we're seeing out there?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Okay. If you don't mind I will ask Francois, Head of B2B Bank, to answer that question, John.

John Reucassel, BMO Capital Markets

That's great.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Well, you're right, it's only been 28 days and our first mandate of course in the acquisition is to implement governance and oversight, and that's what we're doing. At the same time looking at the credit and seeing what we are—what—if we're—what we expect is actually there and there is good news there. In terms of the alte market, we're nowhere near expanding at this point. We said that our first objective was to integrate the programs that were currently there. We are interested in that business. Regulations are changing as we speak so we have to maintain, you know, a good offer, but I won't be able to answer that until minimally the next quarter in a more specific sense.

John Reucassel, BMO Capital Markets

Okay. Thank you.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

You're welcome.

Operator

Thank you. The next question is from Sumit Malhotra from Macquarie Capital Markets. Please go ahead.

Sumit Malhotra, Macquarie Capital Markets

Good afternoon, guys.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Good afternoon, Sumit.

Sumit Malhotra, Macquarie Capital Markets

First question is around net interest margin and for probably back to Michel. Your comments on the 7 basis points decline, I think you mentioned a portion of it, I'm not sure if you specified how much was due to what sounded like higher liquidities in the quarter, at least on a end of quarter basis, the way I look at it, it didn't seem like things were too much different. So to maybe get into that a little bit more specifically, how much did the higher liquid securities on the balance sheet hurt the NIM in the quarter, and do you think that it was artificially low and we should see some improvement in Q4?

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Thanks for the question, Sumit. I—in my remarks I said it rose about half or slightly more than half of the decline was related to higher securities mostly related to higher levels of liquidity. Deposit growth has been outstripping loan growth in the last couple of quarters and until we rebalance that the NIM would be a bit under pressure as a result of that but, you know, no impact on net interest income, however. It's just a measurement quirk.

Sumit Malhotra, Macquarie Capital Markets

So if I follow that correctly, so I hear you on the, maybe not affecting NIIs much but from the 166 level it's not that liquidity will be reduced so we should see some improvement just because of that. You think that you're still likely to see some pressure in the margin level from...

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Yeah.

Sumit Malhotra, Macquarie Capital Markets

The $166 mark.

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Yes. We're working at it but obviously the deposits are coming in and so until we find appropriate good spread loans to invest in we're keeping it in liquidity.

Sumit Malhotra, Macquarie Capital Markets

That makes sense. And then secondly, the area that, at least from an income statement perspective, is helping you right now is on the provision line. Credit quality for the most part looks very good. So let me ask it in two parts.

Firstly, when we first saw the provision decline last quarter it was mentioned that it may stay like that in the short term but then we would likely see it revert to more normal levels towards the end of the year. First off, does that still hold true?

Number two, it doesn't seem like it in the numbers but I'm going to give you a shot to maybe give us some colour here. You know, we certainly hear a lot about Canadian consumer leverage and carrying more debt than ever before but it doesn't seem like we see anything overly concerning when it comes to consumer credit quality metrics. Maybe from a big picture perspective would like your thoughts on how on your outlook for Canadian consumer credit quality.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Okay. About first part of the question we'll ask Pierre maybe, our Chief Risk Officer, to answer that one, Sumit.

Pierre Minville, Chief Risk Officer, Laurentian Bank

Yeah, the first part, yes, the—their level is very, very low and then obviously not sustainable in the medium to long term so I would see this amount revert back to something that is a more normal rate in the short term.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, that said, the—in the coming months that could be probably the same trend level but going forward in 2013 we expect—we're, let's say, very, very low at this level even comparing to the others. So same trend in one that we mentioned a quarter ago; should be okay but going forward we could see an increase in that level.

As for the second part of the question, Pierre?

Pierre Minville, Chief Risk Officer, Laurentian Bank

Yeah, the second part, and in terms of personal loan and mortgages, we still don't see any issue in our own portfolio. We see the statistic and the economy with—in some part of the country being the—with higher debt but again when we look at our prudent set of—on the writing (phon) (inaudible) and we really don't see anything which is of any worry to us. The only maybe thing we saw in the credit card portfolio is a small increase in loan losses, nothing major. This is something that we will follow. For now we're not really concerned but for the rest of the portfolio, personal loans, line of credit and mortgages, everything seem to be holding very good.

Sumit Malhotra, Macquarie Capital Markets

Okay. Okay, thank you for that. Thirdly is on the loan trend. If I recall correctly last quarter, I think I have it my notes here, there was a portfolio sale, I think it was commercial mortgages that may be reported loan growth, it looked a little bit lower than the actual number, and it was mentioned on the call that this was going to be perhaps a recurring part of the business as you look to manage RWA. I apologize if I missed it in the documentation, was there anything similar this quarter or is the loan growth that we see, which I calculated at something like 1.4 percent quarter over quarter, is that what you would call normal course of business?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

I'll ask Stéphane Therrien, Head of our Commercial and Real Estate Team, to answer that question, Sumit.

Stéphane Therrien, Executive Vice-President, Commercial and Real Estate Financing, Laurentian Bank

Yeah, what we explained after Q2 was that we created last year a syndication desk for us to be able to proactively manage our risk weighted assets. So in Q2, yes, we sold the portfolio. We have not sold anything in Q3 but additional sales or loan syndication could occur depending on market condition in the upcoming quarters.

Sumit Malhotra, Macquarie Capital Markets

So if—thank you for that information. It looks like on that basis then, what I'll call your aggregate commercial loan growth in the quarter, looked to be a lot skinnier than we've seen. Is that anything you would attribute that to or is it just a pause quarter from a business lending perspective?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

It's probably a mix of both. But loan growth was at 9 percent and in terms of growth this quarter and credit quality continued to be really solid.

Sumit Malhotra, Macquarie Capital Markets

Sorry, my comment was more sequentially. Again, could be guilty of being too short term here. (Cross talking)

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Sequentially I think that you're right, Sumit. And main point concerning that also is, we, in the past have been very proactive in our credits management and there's some, say, loans are areas that we are not necessarily comfortable with and we have decided to let go some loans so that explained probably the fact that it was maybe on the low side. But that said, overall, what we're seeing on that activity is still very, very strong growth. I think, and correct me, Stéphane, if I'm wrong, but I think we're still expecting mid to high single-digit growth in this area.

Stéphane Therrien, Executive Vice-President, Commercial and Real Estate Financing, Laurentian Bank

Yes, you're correct, yeah.

Sumit Malhotra, Macquarie Capital Markets

Thanks for your time, guys.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you.

Operator

Thank you. The next question is from Michael Goldberg from Desjardins Securities. Please go ahead.

Michael Goldberg, Desjardins Securities

Thank you. I know that you talk about your loan quality being strong this quarter but when I look at your non-performing loan formations during the quarter it actually looks like it increased quite considerably to almost $23 million, and, you know, there's a significant increase in residential mortgages, and also commercial loan formations. So can you explain what's going on and what kind of risk is posed by these higher levels of formations?

Pierre Minville, Chief Risk Officer, Laurentian Bank

The formation is a bit lower than that so in our minds it's a lot less than $10 million so we don't—overall we don't see really a deterioration of the credit quality right now.

Michael Goldberg, Desjardins Securities

Well if, you know, your net non-performing loans are up $16 million and in addition you have a $7.5 million provision, so you have to have formations in the order of $23 million in the quarter.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Yes, and that's mainly based on the fact that with the collective provision that we have it's based mainly on the strong growth that we had in the last 12 months. So it's not based on the deterioration of the portfolio, it's just because we have very strong growth on the residential mortgage portfolio side and we're adding to the collective provision as well.

Michael Goldberg, Desjardins Securities

But your provision overall was just $7.5 million.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

That's right.

Michael Goldberg, Desjardins Securities

And your non-performing—your...

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

That's...

Michael Goldberg, Desjardins Securities

Your net NPLs were up $16 million.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

And that relates to the fact that, let's say that the guarantees are what we have are a very good quality. (Cross talking)

Michael Goldberg, Desjardins Securities

So why would residential mortgages be up?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

(Cross talking)

Michael Goldberg, Desjardins Securities

Why would residential mortgage formations be about $5 million in the quarter?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Michael maybe (cross talking)

Michael Goldberg, Desjardins Securities

What’s easily negligible.

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Michael, maybe I can add a little bit of colour here. I think on the residential side we had a couple of accounts on the small retail residential construction side which we classified as impaired which increased the residential mortgage line in terms of increasing gross NPLs. The—that's about $5 million; the rest is a decline in collective allowances because of the fact that the watchlist has gone down and our collective provisioning meant that we could reduce our overall allowances, and so on a net basis, you saw a slightly bigger increase. It wasn't because of higher formations, it's because of collective allowances being a bit lower.

Michael Goldberg, Desjardins Securities

Your collective goes through your provision so it had to be because of formations.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Oh, (cross talking)

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Michael, we'll take it offline and we'll...

Michael Goldberg, Desjardins Securities

Okay.

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Give you further colour and we'll clear up the math in the next few days.

Michael Goldberg, Desjardins Securities

Okay. Or maybe this afternoon.

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Yeah.

Michael Goldberg, Desjardins Securities

I have another question. Your tax rate appeared to be unusually low in the quarter at about just under 20 percent, can you explain why it's low?

Michel Lauzon, Chief Financial Officer, Laurentian Bank

It is a bit low because we had a couple of instances where we've had good results from insurance and dividends which happen to be taxed at a lower rate and so as the mix of income was a bit more favourable this year from a tax perspective, this quarter, than it what—it normally is.

Michael Goldberg, Desjardins Securities

So it's just the nature of the source of income.

Michel Lauzon, Chief Financial Officer, Laurentian Bank

(Inaudible), that's right.

Michael Goldberg, Desjardins Securities

Okay. And finally, can you just remind us about the profile of what the Transaction and Integration Cost will be going forward, you know, what we should expect on a quarterly basis because this quarter at least it was quite a bit less than I was forecasting?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Francois, Head of B2B Bank, to answer this question.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

I'm sorry, I sort of missed the first part of your question, sir.

Michael Goldberg, Desjardins Securities

I'm just wondering if you could give us an idea of what amount of Transaction and Integration Cost we should be expecting going forward on a quarterly basis as you continue the integration of MRS and also with AGF?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Sure. The estimate for T&I Cost for the MRS acquisition continues to be total; 25 million to be written off and 13 million to be amortized over five to seven years. That's still our estimation and after several months in we still feel that that's the correct number. One quarter over the next it's kind of lumpy, I agree. This quarter was a little lower but those are still the numbers that we're looking at.

For the acquisition of AGF...

Michael Goldberg, Desjardins Securities

Mm-hmm.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

We're still looking at similar numbers in the 30 to 35 million total range. We haven't yet defined what the split will be to the penny but that will be taken mostly in 2013 and maybe trailing off in '14.

Michael Goldberg, Desjardins Securities

So over the next few quarters the T&I expenses should be quite a bit higher than they were in the latest quarter?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Yes.

Michael Goldberg, Desjardins Securities

Can you give us, you know, some guidance as to what they would be?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Quarter on the quarter? I...

Michael Goldberg, Desjardins Securities

I think it's pretty much programmed (phon).

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

No, quarter on a quarter, Michael, we can't. It's just because we're—let's say, we have to integrate them, there's several aspect concerning that, there's people that we might—that we could reduce the count (phon) of that so we can't do that on a quarterly basis. Overall, depending of how well the integration will go, and as I said earlier, it's right now according to plan, I think that Francois refers to the overall numbers. We expect that coming quarters should be a little bit higher than the one that we have but it's very difficult on our side to give you a very precise number on this.

Michael Goldberg, Desjardins Securities

Okay. All right, thanks a lot.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

We'll get back to you about the formation.

Michael Goldberg, Desjardins Securities

Thanks.

Operator

Thank you. Once again, please press star, one on your telephone keypad if you have a question.

The next question is from Nick Stogdill from Credit Suisse. Please go ahead, sir.

Nick Stogdill, Credit Suisse

Hi, good afternoon. Just a quick question on MRS. The pretax contribution looks a bit stronger this quarter at 4.1 million, and I'm just wondering what to expect on a go-forward basis, if it's sort of trending ahead of your initial expectation?

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Francois, Head of B2B Bank.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Sure. We have been tracking ahead of schedule on the synergies and we are at this point remaining with our overall targets that we had set in the past. Right now we're about three quarters of the way there and excitedly so, I would say. We still have about a quarter of the synergies left to do but because of the integration of the AGF Trust business, it might be a little slower to get to the final synergies overall because we're going to be concentrate on—concentrating on integrating the AGF Trust business as well. So the numbers that you see are right.

Nick Stogdill, Credit Suisse

Okay. And so we should probably expect a level more similar to this going forward, maybe a bit higher once the synergies kick in.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Yeah.

Nick Stogdill Credit Suisse

(Inaudible)

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Yeah.

Nick Stogdill Credit Suisse

Thank you.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

You're welcome.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back over to Ms. Caron.

Gladys Caron, Vice President, Public Affairs and Communications, Laurentian Bank

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.

Rejean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you.

Michel Lauzon, Chief Financial Officer, Laurentian Bank

Thank you.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for you participation.
