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PRESENTATION

Operator

Please stand by, your conference 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, Moderator

Merci. Bienvenue. Good afternoon, everyone. Press releases for our first quarter 2012 results as well as for reporting our 2011 results under IFRS were issued today on Canada Newswire, and are posted on our website. This afternoon's overview 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 and will also answer any questions. You will find their names and titles on slide 28 of the presentation available on our website. Rejean and Michel 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

Thank you, Gladys, and good afternoon, everyone. The first quarter of 2012 was a solid start to the year, with net income of 31 million or 39—32.9 million, sorry, excluding the transaction and integration costs related to the acquisition of the MRS Companies.

We are pleased by the strong growth in loans and deposits of 10 percent and 9 percent respectively, despite a challenging economic and banking environment. We are also encouraged that all of our loan portfolios are in good shape, with credit quality that continued to improve during the quarter.

During the first quarter, some of the initiatives that we embarked upon in 2011 came to fruition. In mid-November, we closed the acquisition of the MRS Companies, and in January, we began the distribution of Mackenzie Funds in our branch network. MRS is already contributing to the growth of B2B Trust, and we are seeing some early positive signs that the distribution of Mackenzie Funds will, over time, contribute to the growth of the Retail & SME Quebec segment.

These strategic transactions strengthen our business segments and solidify our competitive position, providing a (inaudible) piece to gradually generate incremental revenues and earnings.

Our common share issue, which closed in early February, was equally noteworthy. It was the first time in 10 years that we came to market to raise common equity. We are extremely pleased that the issue was well received, with investors recognizing the potential of the Bank, and having confidence in our strategies going forward.

Turning to slide 4, in the first quarter of 2012, excluding transaction and integration costs related to the acquisition of the MRS Companies, earnings per share was $1.24, ROE was 12.4 percent, and our efficiency ratio was 72.4 percent, all in line with the financial objectives that we established for 2012.

Revenue growth of 4 percent was slightly below our targeted range. However, continued business development should further contribute to revenue growth, while we simultaneously focus on initiatives to control expenses as the year progresses.

I will now call upon Michel to review the first quarter of 2012 financial results, and then to highlight the major accounting adjustments in the transition from Canadian GAAP to IFRS. Michel?

Michel Lauzon, Chief Financial Officer

Thank you, Rejean. I will begin on slide 6, which presents the first quarter of 2012 results compared with the first quarter of 2011 under Canadian GAAP, and restated according to IFRS.

It should be noted that in the transition to IFRS, the return to the balance sheet of $3.6 billion of securitized loans and replacement assets resulted in net interest income increasing by 5.1 million in the first quarter of 2011, and other income declining by 8.9 million.

Another significant accounting adjustment was that the provision for loan losses decreased by 3.5 million due to the methodology to assess elective allowances, which was introduced last year under Canadian GAAP, and was retrospectively applied to all four quarters of 2011 under IFRS. As well, salaries and employee benefits declined by 3.6 million, mainly due to the treatment of the pension fund.

The bottom line is that the first quarter of 2011 EPS under GAAP was $1.27, transitions to $1.41 under IFRS. I should remind you that a comprehensive overview of 2011 results restated under IFRS was also released today. A condensed version of the financial highlights for the first three months of 2012 can be found on slide 7.

Revenue growth of 4 percent year-over-year was driven by a 3 percent increase in net interest income, and a 5 percent rise in other income. The provision for loan losses declined to $10 million in the first quarter of 2012 from 11.5 million in the first quarter of 2011. Non-interest expenses, excluding T&I costs, rose to 140.4 million from 127.1 million a year earlier.

In the first quarter of 2012, adjusted diluted EPS and ROE, excluding T&I costs, reached $1.24 per share, and 12.4 percent respectively compared with $1.41 and 15.2 percent in the first quarter of 2011.

I will now discuss the main factors behind the Bank's performance during the first quarter of 2012.

Firstly, net interest income of $130.6 million in the first quarter of 2011 increased $4 million from the first quarter of 2011. Strong loan and deposit growth more than offset lower margins. As highlighted on slide 8, the net interest margin at 1.75 percent was 11 basis points lower than in the first quarter of 2011. More specifically, the 11 basis points decline was largely owing to two factors. First, 7 basis points of the reduction was due to an increase over the 12 months of 2011 of securitization assets of 0.9 billion. This included 434 million in replacement assets to collateralize the related debt obligations. Second, 4 basis points of the decline reflected competitive pricing, the continuing low interest rate environment, and a flatter yield curve. On a sequential basis, margins decreased by only 1 basis point.

Slide 9 provides additional detail, and is useful to explain the progression—the progressively lower NIM in 2011. Under IFRS, the net interest margin is impacted by lower yielding assets related to securitization activities. Specifically, adding $3.6 billion of lower yielding assets relating to securitization in the first quarter of 2011 reduced the net income margin of 2.03 percent under GAAP by 17 basis points to 1.86 percent under IFRS. Over the course of 2011, these assets of 3.6 billion in the first quarter of 2011 increased to 4.5 billion in the fourth quarter of 2011, or by almost $0.9 billion. This resulted in the 7 basis point net interest margin contraction. In other words, the impact on NIM of securitization activities was a contraction of 17 basis points in the first quarter of 2011, rising to a contraction of 24 basis points in the fourth.

As well, margin compression also reflects pricing competition, particularly in the retail market, the continuing low interest rate environment, and the flatter yield curve, partially offset by good performance from corporate treasury.

Secondly, other income of 63.1 million rose by $2.9 million from the first quarter of 2011, as is shown on slide 10. As was expected, the acquisition of the MRS Companies improved the diversification of our business mix by increasing the proportion of other income to total revenue. With slightly less than one quarter's contribution from MRS, we're pleased that other income benefitted from higher fees from registered self-directed plans, increasing by 4.7 million year-over-year, or more than tripling from a year earlier.

As well, revenue from the sale of mutual funds increased by 0.2 million year-over-year. These increases were partially offset by lower credit insurance income, and lower income from financial market operations.

I'm sorry. Thirdly, as highlighted on slide 11, the provision from loan losses amounted to 10 million in the first quarter of 2011, 3 million—of 2012, sorry, 3 million lower than last quarter, and 1.5 million lower than a year earlier due to an overall improvement in credit quality. Specifically, the year-over-year reduction in the provision for losses on the personal loan portfolio partly results from the reduced exposure to the point of sale financing.

I would like to add that the investment and mortgage loan portfolios acquired from MRS are well secured and present a lower risk profile, and therefore are unlikely to have a significant impact on the provision for loan losses going forward.

Slide 12 highlights the improvement in credit quality. Gross impaired loans of $152.8 million at the end of the first quarter of 2012 decreased by 10.9 million from year end 2011. This positive trend was largely the result of continued improvement in the commercial loan portfolio.

Net impaired loans declined by 10.1 million from a year end—from year end to 10.5 million. As presented on slide 13, the provision for loan losses at 0.18 percent of loans and acceptances, the Bank continues to have a low and relatively stable credit risk profile, as expressed on the last ratio, which compares favourably to the banking industry.

Turning to slide 14, the efficiency ratio for the first quarter of 2012 was 72.4 percent, excluding T&I costs, compared 71.8 percent for all of 2011 on the same basis, and 68 percent in the first quarter of 2011.

Persistent margin pressure, constrained growth in net interest income is largely responsible for the deterioration in the efficiency ratio. Year-over-year growth in non-interest expenses, excluding integration costs, was 13.3 million or 10 percent. It should be noted that current operating expenses of MRS were $7.1 million for the quarter. Excluding the effect of MRS, core expenses increased 5 percent year-over-year. Going forward, we will continue to focus on cost control, while pursuing initiatives to further growth in other income.

A more granular view of expenses show that salaries and employee benefits increase by 8.3 million or 12 percent year-over-year, mainly due to increased headcount from the acquisition of MRS, and regular salary increases. As well, the Bank incurred higher employee benefit costs on certain group interest programs where it coinsures the risk.

Premises and technology costs increased by 2.6 million compared to the first quarter of 2011, due to higher rental costs in part related to MRS, as well as continued investments in the Bank's technology infrastructure, and the higher amortization expenses.

The 2.4 million year-over-year increase in other and non-interest expenses was also largely as a result of the MRS acquisition. T&I costs totalled 2.7 million for the first quarter of 2012. These costs, which are expected to continue to be incurred throughout 2012, had varying amounts, and should generate opportunities for meaningful synergies starting in 2013.

Slide 15 highlights the continued growth in the balance sheet over the past 12 months. Loans and BAs totalling $22.8 billion (inaudible) by 2 billion or 10 percent over the last year. MRS accounted for 0.3 billion of the increase. Residential mortgages contributed to the growth, increasing by 1.1 billion.

The strategy to reduce our exposure of point of sale financing led to this portfolio declining by 148 million over the past year. Personal loans, excluding point of sale financing, increased by 585 million, fuelled by investment loans and home equity lines of credit. Commercial mortgages and commercial loans and BAs increased by 517 million, continuing a trend of double digit growth that started a few years ago.

Total deposits increased by 1.8 billion over the last 12 months to reach $20.7 billion. Retail deposits remain a very stable source of funding for the Bank, with personal deposits representing 79 percent of total deposits at the end of the first quarter of 2012. After quarter end, we raised 200 million of three year fixed rate senior deposit notes, taking advantage of favourable market conditions to maintain solid liquidity.

I would like to spend a few minutes to provide a little more colour on our mortgage portfolio, given how topical the Canadian housing and mortgage market has recently become.

Slide 16 presents our residential mortgage portfolio, which, as of the end of the first quarter of 2012, totalled $12.1 billion or 53 percent of the overall loan book. Our (inaudible) portfolio, which is conservatively underwritten, represents approximately $800 million of this amount.

Commercial mortgages totalled 2.4 billion or 11 percent of the total portfolio. Credit quality is very strong, with the loss ratio on residential mortgages over the last five years never exceeding 6 basis points, and averaging 3 basis points, while the five year loss ratio on commercial mortgages averaged a meagre 19 basis points. We have insured 62 percent of our residential mortgage portfolio, and 95 of the insurance is with the CMHC. The average loan to value of our conventional and insured portfolios are 61 percent and 78 percent respectively, based on the valuation at origination.

As at January 31, 2012, our tier one capital ratio was 10.3 percent, and our tangible common equity ratio was 7.5 percent. The decline in the quarter reflects the impact of MRS, and one fifth the impact of IFRS on returned earnings.

Our capital base was increased in early February with the closing of our common share issue, which resulted in the issuance of 1.3 million common shares for a net proceeds of $60.5 million. On a pro forma basis, when including the new issue and the full impact of IFRS, our Basel III common equity tier one ratio as at January 31st, 2012, would be 7.2 percent, above the January 1st, 2013 threshold.

Turning now to the performance of our business segments, we were pleased that all of our business segments continued to generate year-over-year growth in loans and deposits. Retail & SME Quebec, real estate and commercial, and B2B Trust, when excluding T&I costs, demonstrate the good diversification of our business activities, with each segment accounting for about one third of the Bank's profitability.

Slide 17 shows that retail (inaudible) contribution to net income was $10.4 million in the first quarter of 2012, compared to $13 million a year earlier. The decline was largely revenue related, as expense growth was well contained. Specifically, net interest income fell by 2 percent year-over-year, largely as a result of the runoff in the higher margin but higher risk point of sale financing portfolio, as well as pricing pressures that moved from low interest rates, and the highly competitive retail banking environment. However, loan and deposit growth was strong at 8 percent and 6 percent respectively, which provided a solid base from which to generate over time increasing revenues. Other income declined by 1.5 million, mainly due to lower credit insurance income during the quarter.

Non-interest expenses growth slowed to 1.4 percent, with higher salaries due to regular annual increases being partially offset by recently implemented cost control initiatives. The overall good credit quality, particularly with improvement in the SME portfolio, and lower loan balances in the point of sale portfolio resulted in loan loss provision declining by 1.5 million in the first quarter of 2012 from a year earlier.

Slide 18 highlights the real estate and commercial segments' contribution to net income of 14.3 million in the first quarter of 2012, marginally lower than the 14.6 million earned a year earlier. Margin compression in commercial lending resulted in net interest income declining by 4 percent, despite very strong loan growth of 11 percent. Non-interest expenses grew by 0.4 million year-over-year to 7.8 million, resulting from increased salaries and benefits owing to regular salary increases, and additional headcount hired to support higher business activity. Loan losses further improved by 0.5 million, largely reflecting lower losses in the real estate financing portfolio.

As shown on slide 19, B2B Trust's contribution to net income of $10.8 million in the first quarter of 2012, excluding 1.9 million of after tax T&I costs, was equal to the net income from a year earlier. Total revenues increased by 7.8 million, virtually all related to the acquisition of MRS.

Despite solid loan growth of 12 percent, underlying core B2B Trust margins remain under pressure, owing to low interest rate and competitive banking environment.

We were particularly pleased that other income increased by 5.6 million to 8.1 million in the first quarter of 2012, mainly as a result of income from registered self-directed plans related to the acquisition of the MRS Companies.

Loan losses increased slightly to 0.9 million from 0.4 million, largely as a function of increase volumes of investment loans and residential mortgages. Non-interest expenses rose by 10.2 million to 26.1 million. This included 2.7 million of T&I costs, as well as 7.1 million of normal operating costs related to the acquisition of MRS.

Sorry. With only two and a half months of results of MRS included in the first quarter of 2012, this acquisition is already yielding excellent results, and contributing to improved revenue and diversification. The integration is proceeding according to plan, with the anticipated synergies expected to be realized gradually within the next 15 months.

As shown on slide 20, Laurentian Banks' securities and capital markets' contribution to net income was 1.9 million in the first quarter of 2012; 0.8 million lower than the year earlier, but 1.7 million higher than in the fourth quarter of 2011.

Revenues of 14.7 million, while 4.3 million higher than the prior period, continued to be challenged by low underwriting and trading activities. Non-interest expenses decreased by 0.3 million due to lower performance-based compensation.

The other sector, presented on slide 21, posted a negative contribution to net income of 4.5 million in the first quarter of 2012, compared with a negative contribution of 4.2 million in the first quarter of 2011. Net interest income improved by 4.7 million year-over-year, reflecting investments to asset liability management in the quarter. Non-interest expense has increased by 4.4 million, partly as a result of higher benefit charges on certain group of trust programs where we coinsure risk, and higher cost of share-based incentive programs.

I'll now turn to our results—2011 results under IFRS. The timing of our 1.3 million common share issue in January prevented us from releasing our 2011 results under IFRS at an earlier date, therefore, I'll now provide a high level overview of these results, with additional detail provided in our press release and supplementary information package that was issued earlier today.

As is highlighted on slide 23, quarterly results present certain fluctuations only to the transition from Canadian GAAP to IFRS. On an annual basis for 2011, these differences are relatively small, and may I remind you, are strictly accounting adjustments with no change in the fundamental economics of our business model.

Specifically, GAAP-adjusted EPS of $5.05, excluding one-time costs related to the acquisition of the MRS Companies and the mutual fund distribution agreement, compares to IFRS adjusted EPS of $4.93. Adjusted ROE on the same basis is 11.6 according to GAAP, 12.9 percent under IFRS.

Slide 23 shows that net income in 2011 according to IFRS was a modest 3.8 million lower than reported under GAAP. The two most significant adjustments relate to securitizations and employee benefits.

Slide 25 highlights the increase in net interest income and the decrease in other income owing to the transition to IFRS. With the return of almost 3.6 to $4.5 billion of securitized assets and replacement assets to the balance sheet over the year, net interest income increased by $15.8 million in 2011. Correspondingly, the gains arising from securitizations, which are not recognized under IFRS, result in other income declining by 34.2 million. The 2011 after tax impact is a decrease in net income of $13 million. It should be noted that over the life of the securitization, the impact on net income is neutral.

Now turning to the topic of provision for loan losses, the methodology under IFRS to determine provisions for loan losses differs from Canadian GAAP, and therefore impacts both provisions for loan losses and net interest income. Specifically, as part of the IFRS conversion, the bank reviewed its methodology to assess collective allowances. Allowances are established based on risk ratings, as well as parameters that assess probability of default and loss given default. This new methodology relies more heavily on the current status of the portfolios in accordance with IFRS requirements.

Under Canadian GAAP, the Bank had already reflected during the third quarter of 2011 a net cumulative 2.1 million reduction in general allowances as a result of the new methodology, including the effect of the adjustment as at the beginning of fiscal 2011.

The adjustments to the provision for loan losses presented on slide 26 reflect the quarterly variations. The adjustment for the third quarter therefore reflects the net increase in provision of 6.6 million, and eliminates the net 2.1 million cumulative reduction recorded under Canadian GAAP.

Furthermore, the accretion in value in a written down loan because of the passage of time meant that under IFRS, net interest income for 2011 increases by 4.1 million, while the provision for loan losses increases by the same amount.

With respect to our balance sheet, the two most significant items are the return to the balance sheet on November 10th—on November 1st, 2010, of $3.5 billion of securitized loans and replacement assets, and the reduction in retained earnings largely related to the pension fund, and, to a lesser extent, goodwill.

These adjustments resulted in our year end tier one ratio declining by 90 basis points under IFRS compared to GAAP. However, as there was an (inaudible) allowed five quarter phase-in of the adjustments to retained earnings for capital ratio calculation purposes, the full impact of the IFRS transition on the Bank's capital ratios will only be fully reflected as of January 31st, 2013.

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

Rejean Robitaille, President and Chief Executive Officer

Well, thank you, Michel. We continued to build on our (inaudible) foundation in the first quarter of 2012. Our business model delivers growth in the markets where we focus our development efforts. Within Retail and SME Quebec, we delivered strong organic loan growth, which will nurture future revenue growth, after achieving record sales in mutual funds in 2011. We are building on this momentum with our mutual fund distribution agreement with Mackenzie.

Simultaneously, we are intensifying our focus on cost control. Within B2B Trust, we are making good progress with respect to integrating MRS in order to realize revenue and cost synergies, in conjunction with furthering other initiatives to perpetuate our best-in-class status with the 22,000 financial advisors that we serve.

Within real estate and commercial, we continue to take advantage of our deep relationships to generate new and profitable business. Furthermore, Stéphane Therrien (phon) recently joined the Bank as Executive Vice President of Real Estate and Commercial Financing, and as a member of the Management Committee. This underscores the importance of this segment to the future growth and development of our Bank.

Laurentian Bank securities continues to round out our offering, while supporting the Bank in its role as a co-lead in the underwriting syndicate in our recent common share issue. Despite the competitive pricing environment or recent transactions, coupled with the initiatives that we have been putting into place, provide us with the platform to leverage our revenues and earnings over the coming years. We will continue to manage the bank prudently, and in this lower revenue growth environment intensify our focus on cost control. All the while, our continued attention to disciplined underwriting, sound capital management and strong execution will enable the Bank to gradually improve efficiency and increase profitability.

I will now turn the floor back to Gladys.

Gladys Caron, Moderator

Thank you, Rejean. 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.

QUESTION AND ANSWER SESSION

Operator

Thank you, Ms. Caron. We will now take questions from the telephone line. 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. There will be a brief pause while participants register for questions. Thank you for your patience.

Our first question is from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Good afternoon. My first question is related to MRS. The two and a half months that was given this quarter, it looks like the run rate as you previously guided to us is about 40 million revenue a year, and about 34/35 million in expenses. Did you think that net income was about a million this quarter? Looking at that same run rate and your previous guidance of $0.15 to $0.20 in EPS for fiscal 2013, which would imply 4 to 5 million per year, it seems as if without any cost and revenue synergies that the steady state currently right now that MRS is contributing would meet the expectations, or is there something else there that I'm missing?

Rejean Robitaille, President and Chief Executive Officer

I think that your numbers are quite right, Scott. Just to add on this also, the $0.15 to $0.20 that we mentioned in previous quarters, including—included the common share issue. But I will ask also Francois Desjardins out of B2B to comment on this.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Thanks, Rejean. That's right, it—the $0.15 to $0.20 is still the expectation for 2013, but this number is all-in, including the integration costs and the capital issue.

Scott Chan, Canaccord Genuity

Oh, it includes integration costs?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Yes.

Scott Chan, Canaccord Genuity

As well—okay. And can you just maybe just talk about the potential revenue synergies over the next one, two years with the acquisition, and how we think about that?

Rejean Robitaille, President and Chief Executive Officer

Francois, again?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

The revenue synergies that we—that we're looking forward to is largely based on a progressive rollout of some opportunities for cross-selling. I think that the first objective that we have this year and next year is really getting to the revenue—sorry, to the cost synergies, and get that in place.

Scott Chan, Canaccord Genuity

And have you—have you guided any cost synergies? I mean if (inaudible) as of Jan. 1 (phon) was 34 million, how much of that cost can actually be taken out over time, or is that kind of…?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

What we had said previously is always $0.15 to $0.20 was the expectation for going forward.

Scott Chan, Canaccord Genuity

Okay.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

(Cross talking) back.

Scott Chan, Canaccord Genuity

Okay. And just my last question just related to the Mackenzie issue that you launched 40 funds under the LD Mackenzie banner. How is that going to be incrementally different from the IA Clarington brand in terms of mutual fund sales growth?

Rejean Robitaille, President and Chief Executive Officer

Well, we're—in fact, in terms of additional revenues, we will share benefits with Mackenzie a little bit more than we had with Industrial Alliance, so that will be the more sales the more incremental order renew will be (phon).

Scott Chan, Canaccord Genuity

More share in terms of more of the fees?

Rejean Robitaille, President and Chief Executive Officer

That's right.

Scott Chan, Canaccord Genuity

Okay. Thank you very much.

Rejean Robitaille, President and Chief Executive Officer

Welcome.

Operator

Thank you. Our next question is from Gabriel Dechaine (phon) from Credit Suisse. Please go ahead.

Gabriel Dechaine, Credit Suisse

Hi, good afternoon. Just on the expenses, because you guys mentioned a few times how you're—you know—focusing on controlling expense growth. But I look at the organic growth rate of 5 percent. I'm wondering how you view that number—you know—how much lower you can drive that? And it looks like most of the increase was in the corporate segment. If you can clarify—you know—what was going on there, and if that's something that's one time-ish in nature that could be—you know—making your expense guidance a bit of a shoe-in to achieve?

Rejean Robitaille, President and Chief Executive Officer

Yeah, I'll ask Michel Lauzon, our CFO, to answer that question, Gabriel.

Michel Lauzon, Chief Financial Officer

Yeah, thank you, Gabriel. Our 5 percent growth rate—core growth rate this quarter is a bit below our historical average of about 6 percent. And as you pointed out, we have implemented cost controls. For example, revenue—expanded growth in retail has been only 1.4 percent year-over-year.

And what happened on the corporate side is I did mention we did have some suddenly higher employee benefit costs related to coinsurance on long-term disability, which hit us in the quarter and hopefully is not recurring, and so we had a small spike there and should resume more normal course over the next few quarters. We'll keep a close eye on that.

Also under IFRS, our hedging of our share-based compensation plans needed to be adjusted. And it's not as tight as it used to be, and there were a little bit of higher costs from employee share-based compensation as a result, but that will tend to fluctuate over time, and that should be seen as one time-ish.

Gabriel Dechaine, Credit Suisse

Okay. Then that just—the—sorry, the loan growth—sorry, deposit growth, that's what I want to talk about—deposit growth if I strip out MRS looked like it was pretty flat quarter-over-quarter. I look at deposit growth as being a pretty big—there's a pretty big impetus at Laurentian Bank to get that growing again. Just wondering what kind of strategies you have in place to get the retail deposits' growth rate up? What—you know—does this really amount to—you know—maybe giving us the margin in the sense that you're going to have to—you know—price your GICs up, or whatever?

Rejean Robitaille, President and Chief Executive Officer

Well, first of all, just to remind you that with the—well, deposit growth, excluding MRS, year-over-year that still represents 6 percent of growth. That said, MRS provided with the acquisition sufficient liquidities to adjust a little bit our strategy in this RSP campaign. Usually, spreads on deposits are tightening a bit, so we were a little bit more (inaudible) I would say on adding new deposits, so that's part of this.

Going forward, we're still seeing some pressure on deposit rate, but we still have the same—the same recipe in the retail network consequently here in Quebec, and the high interest investment accounts through B2B Trust did quite well for the last—over the last year.

Gabriel Dechaine, Credit Suisse

Okay. And then just more specifically on the margin, there was a basis point change sequentially, but it looked like the segments were down a lot more and most of the positive impact was in corporate. Was there a treasury gain there? I might've missed that.

Rejean Robitaille, President and Chief Executive Officer

Not necessarily. Michel, I think you mentioned during your comments that margin was down just 1 basis point sequentially, and there was no significant impacts on the treasury side during the quarter.

Gabriel Dechaine, Credit Suisse

The variance between the total bank and the segments, was there some (inaudible)?

Rejean Robitaille, President and Chief Executive Officer

Michel (inaudible) on this?

Michel Lauzon, Chief Financial Officer

Well, the—yes, some of the retail margins were down a bit simply because of the earnings on long-term zero rate or low rate deposits was affected by the flatter yield curve. At the—on the other side, the treasuries managed to hedge some of that away and actually made a little bit of profit through that, and we also do always some beginning of the year tweaking in our transfer pricing (inaudible) methodologies, which could've affected the business lines a little bit to reflect the behaviour of the various portfolios on a match funded basis.

Gabriel Dechaine, Credit Suisse

Sure. Thank you.

Rejean Robitaille, President and Chief Executive Officer

Thank you.

Operator

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

Our next question is from John Rewcastle (phon) from BMO Capital Markets. Please go ahead.

John Rewcastle, BMO Capital Markets

Thank you. Michel, just a question. At your Investor Day in January of last year, when asked about your ROE under IFRS I think you said something like 300 basis points higher. Could you talk about what changed between now and then that the ROE—what—kind of what happened—as quickly as possible?

Michel Lauzon, Chief Financial Officer

Okay, I think at the time I said between 200 and 300, if I remember correctly, and what happened is that the profits from securitization turned out to be a bit higher this year than we expected, and so when you reverse the (inaudible) impact (inaudible) we are a little bit lower, so the net impact turned out to be—we were expecting 1.5; it came out to 1.3 and 1.4, so that was the explanation.

John Rewcastle, BMO Capital Markets

Okay. And then on your assets to capital multiple, what is it net of the equity issue in the deposit notes if you include those two events?

Michel Lauzon, Chief Financial Officer

I believe it's around…

John Rewcastle, BMO Capital Markets

Because it's 18 at the end of the quarter.

Michel Lauzon, Chief Financial Officer

That's—yeah, it should be around—I'd have to get back to you specifically, but I don't want to…

John Rewcastle, BMO Capital Markets

Okay, but you don't feel…

Michel Lauzon, Chief Financial Officer

(Cross talking) off the top of my head, but…

Rejean Robitaille, President and Chief Executive Officer

I think it's around 17.4, but we will get back to you.

John Rewcastle, BMO Capital Markets

Okay, but you don't feel constrained by the ACM (phon) on poor loan growth?

Michel Lauzon, Chief Financial Officer

No, it's something we need to track obviously, but it's not something we feel is constraining at this time.

John Rewcastle, BMO Capital Markets

Okay. And are you allowed to go beyond 20 percent?

Michel Lauzon, Chief Financial Officer

That's something that is only discussed between us and (inaudible).

John Rewcastle, BMO Capital Markets

Got you. Sorry, okay. And I apologize if you answered this, but the provisioning of 18 basis points, is that a number you feel comfortable with going forward, or is this unusually strong credit?

Rejean Robitaille, President and Chief Executive Officer

(Inaudible) credit to insure this one.

Unidentified Male Speaker

And the great short-term—to be correct there of the credit quality, and in the second part of the year we might see an increase mostly in line with the portfolio growth.

John Rewcastle, BMO Capital Markets

Okay, so it could be a little higher than 18 for the full year?

Unidentified Male Speaker

It could be a stretch to go that far.

John Rewcastle, BMO Capital Markets

Okay. And then last question for Rejean, is the NIM pressure—or Michel, is it coming more from the asset side or the deposit side? Where is it more competitive in the quarter, and where do you see it now?

Rejean Robitaille, President and Chief Executive Officer

Well, at the end of the quarter it was coming mostly from the asset side. You've seen there was a price war starting—well, late January, but on the asset side we're seeing some—lots of competition. In late January, the beginning of February, we've seeing some competition on the deposit side. That said—well, that's the kind of environment that we—that we knew that will put pressure a little bit on net interest margin. That's why we have abated our plan. And the MRS acquisition and the Mackenzie distribution, they're always in line to compensate some of those pressures, because that will add fee-based revenues in the future.

The same thing, yes, we mentioned a lot of things that we have already put in place, but there's also several other measures on the way to have better cost control. So there's the two things that we are managing. The third aspect is we continue to put more emphasis on products that have higher margin opportunities, so we—we're going to change a little bit our business mix. So that's why we're putting a little bit more emphasis on the commercial loans, for instance, and that's why we have added to the number of account managers with this business segment.

John Rewcastle, BMO Capital Markets

Okay, thank you.

Rejean Robitaille, President and Chief Executive Officer

Welcome.

Operator

Thank you. Our next question is from Mihelic Darko (phon) from Cormark Securities. Please go ahead.

Mihelic Darko, Cormark Securities

Hi, good afternoon. Transaction and integration charges, is that a normalized run rate for the quarter, what should we expect on a quarterly basis going forward?

Rejean Robitaille, President and Chief Executive Officer

Michel?

Michel Lauzon, Chief Financial Officer

What we said is the—we expect the charges this year to be roughly $24 million, some of it being—will be amortized. So in fact the run rate is a little bit low in Q1, and we expect to pick up in Q2, in particular in Q3 when some of the big systems integrations are scheduled to occur, and then taper off as we go into late in the year and early next year. So it's a bit low right now.

Mihelic Darko, Cormark Securities

That's what I thought. And so getting back to MRS Trust, a couple of things still pop out at me, and I want to go back to the discussion on the costs and the revenues. So as I understand it, it's two and a half months, $7.8 million. Is that roughly the revenues that came in from MRS, and 7.1 million of costs? Is that roughly correct?

Rejean Robitaille, President and Chief Executive Officer

Well, in terms of—well, two and a half months, right, so we have—what we've mentioned in our press release, it's 8.3 million of revenues and 7.1 million of expenses, so a net of 1.2 million for the quarter.

Mihelic Darko, Cormark Securities

Okay, now with respect to…

Rejean Robitaille, President and Chief Executive Officer

That's before tax.

Mihelic Darko, Cormark Securities

Okay. And I'm still not quite sure that I understood the discussion regarding synergies on the cost side. Could you…?

Rejean Robitaille, President and Chief Executive Officer

Well, there's several synergies that we will implement on the cost side that will be mostly for 2013. Francois, do you want to comment on this where you're standing right now and how do you see things evolving?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Sure. Most of the integration work is being done this year, and we do have very, I would say, insignificant amounts of synergies on the cost side that happen this year. 2013 would be the year where we're looking at more significant synergies there.

Mihelic Darko, Cormark Securities

Okay.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

And going forward.

Mihelic Darko, Cormark Securities

Okay, so it sounds like you don't want to actually tell us what the synergies will be, which is fair. But just getting back to your comment earlier, for the first time I think I heard today that you suggested that the $0.15 to $0.20 would also—that accretion would include integration charges in 2013. Is that correct?

Rejean Robitaille, President and Chief Executive Officer

Not necessarily (inaudible), not necessarily. All the—sorry about that, but the integration costs and—are—we're going to put them aside, so the $0.15 to $0.20, it's on an operational basis.

Mihelic Darko, Cormark Securities

Okay. So I apologize then, I thought in your earlier…

Rejean Robitaille, President and Chief Executive Officer

But including the issue—the capital issue of common shares.

Mihelic Darko, Cormark Securities

Okay. I thought earlier that you had said that it actually was inclusive of the integration charges, but that's good. Okay, and then with respect to the credit insurance, what do you think is a normalized run rate there for those? (Inaudible) down to 3.77 (cross talking) lower?

Rejean Robitaille, President and Chief Executive Officer

Well, it's a bit on the low side, but, Michel, would you comment on this—on the credit insurance revenue for the quarter?

Michel Lauzon, Chief Financial Officer

Yeah, credit insurance in the quarter, since we coinsure on the credit insurance side, the—we had some slightly higher level of claims, which is probably a one-off, which impacted our earnings this year—this quarter by $800,000 to $1 million. Plus, we had done some reshuffling of reserve portfolios in the same quarter last year, which generated one-time gains of about 1.27 (phon). Net we're down 2.2, and both are one-time events, so that explains the drag on credit insurance in this quarter. Net of that, the actual trend is up.

Mihelic Darko, Cormark Securities

Okay, great. That's a helpful answer. Thanks very much.

Rejean Robitaille, President and Chief Executive Officer

Welcome.

Operator

Thank you. Our next question is from Sumit Malhotra (phon) from Macquarie Capital Markets. Please go ahead.

Sumit Malhotra, Macquarie Capital Markets

Good afternoon.

Rejean Robitaille, President and Chief Executive Officer

Afternoon, Sumit.

Sumit Malhotra, Macquarie Capital Markets

First question is on expenses, and specifically on the compensation expenses. I think we had talked about last quarter the fact that you usually have under the terms of the employee contract an increase in the salaries line that goes through in Q1. Was hoping you could help me out with what happened in the employee benefits line, which had a $3 million sequential increase? Does that also relate to some of that January 1st contract increase, or does this have to do with the comments that Michel had regarding hedging costs for stock-based comp?

Rejean Robitaille, President and Chief Executive Officer

Well, this has to do with the comments that Michel mentioned in terms of the hedge, and also in terms of the invalidity (phon). So the insurance costs that we have related to the employees, it was not related to a union contract.

Sumit Malhotra, Macquarie Capital Markets

So, I mean help me out a little bit on this hedging issue. Is that something that will be volatile consistently under IFRS, or is there something you can do that will result in this number returning to levels closer to what we saw for most of 2011 on the quarterly basis, which I think was closer to 14 than 17?

Michel Lauzon, Chief Financial Officer

The—in terms of the employee contract, there should be a little more volatility, because under IFRS, we have to hedge under our black (inaudible), so it works on an economic basis; it doesn't work as well on an accounting basis. So we could see some volatility since the hedge isn't perfect, and depending on how the stock fluctuates obviously, it will have an impact on results by—from a couple of hundred thousand to a million dollars a quarter depending on how volatile the environment is.

Rejean Robitaille, President and Chief Executive Officer

But most of the increase in the benefits was related to the insurance that Michel mentioned earlier.

Sumit Malhotra, Macquarie Capital Markets

On the—onto the balance sheet and loan growth. The—I think you rounded the number, you said the MRS portfolio added roughly 300 million in loans?

Rejean Robitaille, President and Chief Executive Officer

That's right, yes.

Sumit Malhotra, Macquarie Capital Markets

So your organic loan growth, if I have it right, is still pretty close to 2 percent on a (inaudible) quarter basis. Correct me if I'm wrong there, but it looks like one of the better results we've seen from the banks this quarter. So maybe your outlook on loan growth in the sense that we've heard a lot about consumer leverage, housing market, but if the number is still 2 percent in the quarter, it looks like you guys are continuing at a good pace. Maybe talk about your expectations on what kind of loan growth levels we're going to see for Laurentian Bank his year.

Rejean Robitaille, President and Chief Executive Officer

Well, we mentioned that during the fourth quarter results, and you're right, Sumit, I think it's still one of the highest growth in the industry. Over the last few years, we have invested massively in our business development capacity, and we are—we now should see the benefit of that.

When—what we mentioned earlier is that we expect the growth for 2012 to be as strong as the one that we had in 2011. So depending, it could be in the high—mid to high single digit for the whole Bank. If we exclude the MRS acquisition, the loan growth year-over-year was 8 percent, so it still did (inaudible) strong. And what we're seeing right now in the markets, still very significant growth in all of our portfolios. The loan—commercial loans and commercial mortgages were in the low double digit. There's still room to grow, and that's what we're doing right now.

Sumit Malhotra, Macquarie Capital Markets

Lastly, just want to clarify the comments that were made earlier on credit, because I wasn't sure I followed that completely. The provision was down; you also had a decent-sized decline in gross impaired loans, which indicates things are trending well there. So to go back to the number maybe on a basis point basis, so this quarter was about 18 basis points, and if I heard Louie (phon) correctly, that's probably too low to be seen as a run rate? Was that the suggestion you gave I think it was to John?

Unidentified Male Speaker

In the very short-term it appears sustainable, and the second part of the year it would be a stretch to—it appears that could be a low level.

Sumit Malhotra, Macquarie Capital Markets

What...?

Unidentified Male Speaker

(Cross talking) require that much to bring it up a little.

Sumit Malhotra, Macquarie Capital Markets

Is there any portion of the loan book that gives you some cause for concern that leads you to believe higher provisioning would be required later in the year?

Unidentified Male Speaker

Not at all. Not at all, but the economy out there is what it is.

Rejean Robitaille, President and Chief Executive Officer

And the other thing also, because of the strong growth that we have while those—the percentage will follow eventually the growth that we have in all our portfolios.

Sumit Malhotra, Macquarie Capital Markets

Thanks for your time.

Rejean Robitaille, President and Chief Executive Officer

Thank you, Sumit.

Operator

Thank you. We have no further questions at this time. I would now like to return the meeting over to Ms. Caron.

Gladys Caron, Moderator

Thank you all for joining us today. If you have any further questions (inaudible) to contact (inaudible). The numbers are listed in the presentation. Thank you.

Operator

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