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PRESENTATION

Operator

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, Communications and Invest Relations

Merci. Bienvenue. Good afternoon, everyone. Our press release was issued today on Canada NewsWire and is posted on our website. This afternoon, the review will be provided by our President and CEO, Réjean Robitaille, as well as by our CFO, Michel Lauzon. Other members of our senior management team are also present on this call to answer any questions. You will find their names and titles on Slide 20 of the presentation, available on our website. Réjean and Michel will refer to that presentation throughout their speeches.

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

I will now turn the floor over to Réjean Robitaille.

Réjean Robitaille, President and Chief Executive Officer

Thank you, Gladys, and good afternoon, everyone. First quarter of 2013 was a very good start to the year. Net income reached $34.1 million, or $40.4 million excluding the transaction integration costs related to the acquisition of the MRS Companies and AGF Trust. This is 23 percent higher than a year earlier. We are pleased that revenue growth was strong, fueled by last year's acquisitions. Furthermore, expense growth was well contained. Consequently, trailing (phon) leverage turns positive. Balance sheet growth continued over the past 12 months, with loans and deposits increasing by 18 percent and 15 percent, respectively. Excellent credit quality and recovering financial markets also contributed to our good performance. As well, we are very pleased that each of our business lines delivered improved earnings year-over-year.

The strategies that we have been deploying to adapt to the challenging operating environment have been paying off. Our focus on generating other income was demonstrated in the first quarter of 2013, with a broad-based improvement of 13 percent year-over-year. Our emphasis on high margin products is progressively making a difference. Net interest margins stabilized during the first quarter of 2013, despite the persistence of very low interest rates and slowing loan demand. Moreover, we are maintaining disciplined control over expenses throughout the Bank.

The integration of MRS is on plan and on budget and nearly complete. We are, therefore, gradually turning our efforts towards the integration of AGF Trust businesses. In this way, we will optimize the benefits for our clients and gradually realize the expected synergies of these two transactions. Also noteworthy was the successful launch of our dividend reinvestment and share purchase plan. This program accounted for $5 million of new common equity in the first quarter of the year.

Slide 4 compares our results for the first quarter of 2013, excluding transaction integration costs to our targets. After the first three months of the year, our performance is in line with the financial objectives that we established for 2013. While I would like to remind you that the second quarter, with lesser days, is seasonally lower, we believe that the Bank is on track to meet these objectives for the full year as well.

I will now call upon Michel to review the first quarter of 2013 financial results.

Michel Lauzon, Executive Vice President and Chief Financial Officer

Thank you, Réjean. I will begin on Slide 5, which presents the first quarter of 2013 results compared with the first quarter of 2012.

Total revenue reached $213.9 million, or 10 percent higher than a year ago, driven by increases of 9 percent in net interest income and 13 percent in other income. AGF Trust contribution of $19.8 million accounted for the revenue improvement. Excluding AGF Trust, the Bank recorded higher other income, benefiting from strategic initiatives, with lower net interest income resulting from low interest rate environment, which compressed margins over the past quarters. The provision for loan losses was $8 million in the first quarter of 2013, $2 million lower than the first quarter of 2012. Adjusted non-interest expenses, excluding T&I costs, but including $9 million of operating costs from AGF Trust, totalled $153.8 million, 10 percent higher than a year earlier.

In the first quarter of 2013, adjusted diluted EPS and adjusted ROE reached $1.34 and 12.2 percent, respectively, compared with $1.24 and 12.4 percent in the first quarter of 2012. AGF Trust contribution to net income totalled $5.6 million, $1.7 million lower than in the fourth quarter of 2012, a quarter which we have indicated benefited from lower expenses and taxes.

I will now discuss the main factors behind the Bank's performance during the first quarter of 2013. First, net interest income of $142.3 million in the first quarter of 2013 increased by $11.7 million from a year earlier. This largely reflected loan and deposit growth from the acquired portfolios of AGF Trust. Last quarter, we mentioned that we expected net interest margin to stabilize, and that is what has transpired.

As highlighted on Slide 6, NIM in the first quarter of 2013 was 1.63 percent, similar to the 1.62 percent reported in the fourth quarter of 2012. Compared to a year ago, NIM fell 12 basis points. Accounting for the decline were continuing very low interest rate environment, a flatter yield curve, and a competitive pricing, as well as higher liquidity level and mix. This was partially offset by AGF Trust's higher margin loans, which added 7 basis points to NIM.

Second, other income of $71.6 million rose 13 percent from the first quarter of 2012, as shown on Slide 7. The increase was broad based, reflecting improvements in most revenue streams. Specifically, income from brokerage operations rose by $3 million, to $16.5 million, as Laurentian Bank Securities took advantage of opportunities in the fixed income market and benefited from stronger equity markets compared to a year ago. Increased business activity resulted in higher fees and commissions on loans and deposits, card service revenues, and income from mutual funds. It should be noted that our mutual fund distribution agreement with Mackenzie Financial became exclusive mid-January. Income from investment accounts grew by $1.1 million. These increases were marginally offset by credit insurance income falling by $0.4 million due to higher claims.

Third, as highlighted on Slide 8, provision for loan losses amounted to $8 million in the first quarter of 2013, equal to the fourth quarter of 2012 and $2 million lower than a year earlier, reflecting continued good credit quality and favourable economic conditions in Canada. Specifically, the provision for personal loans and Visa cards increased by $1.9 million and the provision for residential mortgage loans rose by $1.1 million. Significant loan growth, largely owing to the addition of AGF Trust portfolios, was responsible for these increases. AGF Trust accounted for $3.2 million of loss provisions, offsetting the favourable impact of improving equity markets on B2B Bank's collateralized investment loan portfolio. Provisions for commercial mortgage loans increased by $0.2 million, while provisions for commercial loans resulted in a $2.6 million net credit due to favourable settlements and overall credit quality improvements.

Slide 9 highlights that gross impaired loans of $130.7 million at the end of the first quarter of 2013 grew slightly from year-end 2012. This $2.6 million increase was largely due to the acquired personal and residential mortgage loan portfolios and was mitigated by improvements in the commercial loan portfolios. Net impaired loans stood at $11.7 million, $1.3 million higher than at year-end. Owing to the growth in loan portfolios, we should still expect a gradual increase in impaired loans and loss provisions as the year progresses. Furthermore, the provision for loan losses as a percentage of loans and acceptances stood at 0.12 percent for the first quarter of 2013. Our low and relatively stable credit risk profile, as demonstrated by this loss ratio, should continue to compare favourably to the banking industry.

Turning to Slide 10, the efficiency ratio, excluding transaction and integration costs, for the first quarter of 2013 improved to 71.9 percent compared to 73.1 percent for all of 2012 and 72.4 percent in the first quarter of 2012. In addition, operating leverage was 3.5 percent quarter-over-quarter.

Slide 11 highlights the T&I costs in the first quarter of 2013 totaled $7.6 million compared with $8.8 million in the prior period. MRS accounted for $5.9 million of the T&I costs, which mainly related to IT systems conversions, severance costs, and other integration costs, while AGF Trust accounted for $1.7 million relating to salaries, professional fees, and other expenses for the integration of AGF Trust. The integrations of both AGF Trust and MRS are progressing according to plan and budget.

AGF Trust operating expenses totalled $9 million in the first quarter versus $8.3 million in the fourth quarter of 2012. Non-interest expenses, excluding AGF Trust and T&I costs, increased 3 percent year-over-year. Going forward, we continue to carefully manage our expenses.

Slide 12 highlights the continued growth in the balance sheet over the past 12 months. Loans and BAs totalling $26.8 billion rose by $4 billion or 18 percent over last year. AGF Trust accounted for $3.2 billion of the increase, with the balance generated organically. Excluding the impact of the AGF Trust transaction on the balance sheet, loans and BAs grew by 4 percent year-over-year. Residential mortgages contributed to the growth, increasing by $2.2 billion, of which AGF accounted for $1.2 billion. Personal loans, excluding point of sale financing, increased $1.7 billion, with AGF Trust adding $1.9 million, offset by a slight reduction in B2B Bank's investment loan portfolio. Commercial loans grew by $0.2 billion, and deposits totalled $23.8 billion, $3.1 billion higher than a year ago. AGF Trust accounted for $2.8 million of the increase.

On a sequential basis, loans and BAs were virtually unchanged, as seasonally weak demand and tightening of mortgage rules introduced in the second half of 2012 slowed residential mortgage lending. Commercial mortgage loans decreased slightly due to a higher level of reimbursements. Deposits declined 0.3 sequentially, with business and other deposits down $0.4 billion. The Bank reduced the level of higher priced wholesale deposits as part of its liquidity management. Retail deposits remain a very stable source of funding for the Bank, with personal deposits representing 82 percent of total deposits at the end of the first quarter of 2013.

As at January 31st, the Tier 1 common equity ratio was 7.5 percent. It should be noted that the Bank launched a successful dividend reinvestment and share purchase plan, with 117,178 new shares issued in the initial quarter. Furthermore, we announced that the Series 9 non-qualifying preferred shares will be repurchased on March 15, 2013. The Bank remains comfortably capitalized under the new Basel III regulations.

Turning now to the performance of our business segments, we were pleased that all of our business segments reported improved profitability year-over-year. With a sharp focus within each of their markets, Retail and SME Québec, Real Estate and Commercial, B2B Bank, and Laurentian Bank Securities, also demonstrate the benefit of good diversification of our business activities.

Slide 13 shows that Retail and SME Québec's contribution to net income rose 8 percent, to $11.2 million, in the first quarter of 2013 compared to a year earlier. Total revenue increased by $1.8 million from the first quarter of 2012, with an 11 percent increase in other income more than offsetting a 2 percent decline in net interest income.

Other income benefited from higher deposit fees and higher income from mutual funds, owing to increased sales as well as market appreciation. Higher revenues from card services also contributed to the increase. The benefit to net interest income of volume growth in average loans of 5 percent year-over-year and in deposits of 3 percent was insufficient to compensate for the impact of persistently low interest rate environment on margins. Loan losses were relatively stable, with improvements in the SME portfolio being partly offset by higher provisions acquired for the personal and residential mortgage portfolios. Non-interest expenses remained well contained, growing by less than 2 percent year-over-year.

Slide 14 highlights the Real Estate and Commercial segment's contribution to net income of $16.6 million in the first quarter of 2013, 16 percent higher than in the first quarter of 2012. Loan losses improved, with a net credit of $1.5 million in the first quarter of 2013 compared to a provision of $2.9 million in the first quarter of 2012. This was mainly the result of a favourable settlement on a single commercial loan exposure, as well as overall good credit conditions.

As shown on Slide 15, B2B Bank's contribution to net income was $15.5 million, excluding T&I costs, in the first quarter of 2013, a 43 percent improvement from the first quarter of 2012. The acquisitions are significantly enhancing revenues. Net interest income increased by 56 percent to $48.4 million, owing to higher loan and deposit volumes related to the AGF Trust. Other income rose 11 percent, helped by a full quarter of earning fees on investment accounts sourced from the MRS companies, now renamed B2B Bank Dealer Services, compared to 15 fewer days in the first quarter of 2012 as that transaction closed mid-November of 2011.

Loan loss provisions increased by $2.5 million. This was largely accounted for by $3.2 million of provisions related to AGF Trust's portfolio, partly offset by a favourable impact of loan losses in the collateralized investment loan portfolio resulting from improving equity margins (phon) . Non-interest expenses increased by $9.5 million in the first quarter of 2013 compared to a year earlier. This includes $9 million of costs related to AGF Trust. Excluding AGF Trust, non-interest expenses increased 2 percent year-over-year with the contribution of realized cost synergies.

As shown on Slide 16, Laurentian Bank Securities and Capital Markets' contribution to net income was $2.7 million in the first quarter of 2013, a 43 percent increase from the first quarter of 2012. Revenues increased by 17 percent, benefiting from improved underwriting and trading activities, while non-interest expenses increased by $1.3 million, reflecting higher performance-based compensation, commissions, and transaction fees.

The Other sector, presented on Slide 17, posted a negative contribution to net income of $5.6 million in the first quarter of 2013 compared to—with the negative contribution of $4.5 million in the first quarter of 2012. Total revenue declined $1.8 million to negative 2.6 in the first quarter of 2013, largely due to a higher level of lower yielding liquid assets, partly offset by higher income from realized gains on securities.

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

Réjean Robitaille, President and Chief Executive Officer

Thank you, Michel. Well, this quarter's results once again demonstrate the pertinence of the strategies that we have adopted. Notably our two acquisitions are already bringing value to the Bank even though we are only in the early stages of benefiting from their operations. It must not be forgotten that our commercial activities have become an increasingly important component of our performance. Through gradually expanding the teams and carefully selecting new niche markets to specialize in, commercial activities have grown to 44 percent of the Bank's profitability.

From a broader perspective, the approaches we are taking to develop all of our four business lines has allowed us, during the past few years, to significantly grow the Bank. For example, over the last five years, we have doubled the size of the Bank and our profitability has grown by more than 50 percent. Common equity is 50 percent higher than it was five years ago, and our dividends have increased by 59 percent. All of this has been achieved by continuously investing in our activities, whether it be in our retail network or business intelligence systems or our people.

We will continue to execute our strategies to enhance shareholder value. Maximizing synergies, generating additional growth in Other income, focusing on higher margin products, and maintaining a disciplined control over expenses throughout the Bank are key priorities to which we will continue to devote our attention.

I'll turn the floor back to Gladys, please.

Gladys Caron, Vice-President, Public Affairs, Communications and Investor Relations

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. If you have a question at this time, please press star, one.

And the first question is from Robert Sedran from CIBC. Please go ahead.

Robert Sedran, CIBC

Good afternoon. I just would like to start with the issue of loan losses, if I may. I guess this issue came up last quarter as well. Another quarter with net recoveries in one of the segments, albeit in a different segment this time. Can you talk a little bit about the visibility that you have into these recoveries as we look over the balance of the year, and how we should think about the $8 million that was reported this quarter?

Réjean Robitaille, President and Chief Executive Officer

Okay, I will ask Louis Marquis out of Credit to answer this question, Robert.

Louis Marquis, Senior Vice-President, Credit

Well, we're certainly in an excellent (phon) credit cycle. We had a one-off recovery on a single commercial loan this quarter, which kept us at a lower level in—exactly the same level as previous quarter. I certainly have nothing of (inaudible) for the second quarter, so things are looking very good right now. But as we go towards the end of the second part of the year, I would expect them to gradually increase.

Robert Sedran, CIBC

I didn't quite catch the answer on the second quarter, but I'm guessing it was something along the lines of we probably shouldn't count on these level of recoveries happening every quarter, is that fair?

Louis Marquis, Senior Vice-President, Credit

That's right.

Robert Sedran, CIBC

Okay. And just turning, Michel, to the issue of the margin, I noticed in the report a comment about a maturing high coupon securitization liability that helped the margin this quarter.

Michel Lauzon, Executive Vice President and Chief Financial Officer

Right.

Robert Sedran, CIBC

You guys did a lot of securitization in the recent past. Should we expect this kind of a benefit to be ongoing as other deals mature as well?

Michel Lauzon, Executive Vice President and Chief Financial Officer

It could be. What occurred—these were securitizations that were done five years ago, which are now coming due, and we just happen to have a high level of those in the quarter, about $800 million. We were less active in the following quarters, so the level of maturities should decline. But as the rates on the CMB coupons were coming down over time, the net benefit from those should wane over the following quarters. It also depends on what level of—rate of returns we could earn on replacement assets during the period, and that can have a favourable or unfavourable impact on NIM. But overall, we expect margins to remain pretty much in the current range for the foreseeable future, plus or minus 3 or 4 basis points.

Robert Sedran, CIBC

Okay, that's helpful. And last question for me is just, the 2 percent decline in average earning assets in the quarter, is that related in some way to the integration of MRS and AGF, or is there something else going on?

Michel Lauzon, Executive Vice President and Chief Financial Officer

As we mentioned in our comments that we did have some loans repaid during the quarter, there was some decline in B2B's investment loan portfolio, but—and there has been some softness in the AGF Trust portfolio. The MRS Trust portfolio was relatively small and so we're not tracking that anymore. So some of that is related to the integration, but some of it is also related to the current softness in loan demand and the economy in general.

Robert Sedran, CIBC

Great. Thank you very much.

Operator

Thank you. The next question is from Scott Chan from Canaccord. Please go ahead.

Scott Chan, Canaccord

Good afternoon. My first question's for Réjean or François, just on B2B Bank. I'm having a hard time looking at the numbers, and I guess the second quarter of AGF Trust, and you guys reported similar adjusted net income number of $15 million. If I annualize that, that's $60 million, but prior to the two transactions, B2B was running at over $40 million. And AGF looks to be contributing, you know, slightly—around your target of 28 to $30 million on a quarterly basis, and risk(phon) you don't disclose, but it looks to be reporting over $10 million in net income a year. So where's the variance to the annualized numbers? Is there more efficiencies that come out like we saw in some of the costs this quarter in terms of non-interest expenses, or is B2B Bank still lagging, or is it a combination of both? Maybe you can just help me kind of walk through that to get to 2014 (phon).

Réjean Robitaille, President and Chief Executive Officer

A good question, Scott. I will ask François Desjardins, Head of B2B Bank to answer it.

François Desjardins, President and Chief Executive Officer, B2B Bank

Sure. Well, for the MRS part, it contributed 7.5 in 2012, and you should expect that level of contribution going forward. Unfortunately, because the conversions are nearly complete, we're not going to continue to—we can't continue to separate the two, so that's for our MRS.

For AGF, it's a little different. If you look at the run rate that we had on the bottom line, pre-acquisition, it was running at around 22 or so. If you look at what we did in the first quarter and annualize it, it's basically the same thing. What we did say, though, is post synergy—post integration, we're looking at 28 to 30. That's a combination of our expectations that we already disclosed, that we will see some continued degradation in terms of the portfolio as we stabilize that. And we will see some extra loan losses from the portfolio, but that is more than offset by the cost synergies that we can get out of the Company in the last—in the next 12 months. So what we're really expecting is to see an upswing in the contribution of that, post-integration.

Scott Chan, Canaccord

Okay, but based on your comments, you know, just on the annualized AGF right now in the first quarter 22, to get to 28, 30 is probably a good variance based on the efficiencies and what you're talking about.

François Desjardins, President and Chief Executive Officer, B2B Bank

Absolutely. And this is just based on cost synergies. Once we're done with the integration, we'll have to double back and take a look at the 27,000 financial advisors that we now have versus what we had before and get into cross-selling and upselling to those advisors.

Scott Chan, Canaccord

Have you launched any new products at B2B Bank, then?

François Desjardins, President and Chief Executive Officer, B2B Bank

No, we have not. The most important thing that we can focus on is our current customers and our current product lines. These two acquisitions, we've made some choices in terms of what were the best products on the shelf, and helping our customers through the integration is our sole priority right now. When we get to the end of that, now it's a question of more cross-selling and getting to more markets. There's some good potential there.

Scott Chan, Canaccord

Can you talk about some of the cross-selling opportunities? Is it in mutual funds, mortgages, credit cards?

François Desjardins, President and Chief Executive Officer, B2B Bank

Well, B2B Bank is solely in banking products, so mortgages, loans, bank accounts, investment accounts, banking. No mutual funds are sold through B2B Bank. And it's really through the those products that we have cross-selling opportunities. The one thing that you should know is that most of the advisors that deal with us, deal with us for one or two products only and have chosen to do so for a while. Now it's a question of getting them more involved with other types of products, other categories and to sell more of our products through them to their customers. We're not at all fully penetrated there.

Scott Chan, Canaccord

Okay. And do you have—for B2B Bank, do you have a target efficiency ratio that you'd like to get to? I know pre-acquisitions, you guys were running just over 50 percent. It's starting to come down quarter-over-quarter. Is there a target that we should be looking at?

François Desjardins, President and Chief Executive Officer, B2B Bank

Well, definitely, the efficiency ratio during these integrations is way too high. I would be looking at somewhere between 50 and 60 at the highest, post-integration. That's where we should be, closer to the 50 mark.

Scott Chan, Canaccord

Okay, great. That's very helpful. Thanks a lot.

François Desjardins, President and Chief Executive Officer, B2B Bank

You're welcome.

Operator

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

Sumit Malhotra, Macquarie Capital

Good afternoon. My first question is on expenses and specifically looking at the salaries and employee benefits line, or the components of that. Seems like a decent uptick, even on a quarter-over-quarter basis, and a good portion of that was coming from employee benefits. Just looking at the trend in this line, it does seem like there's some seasonality that usually pushes it up in Q1, though that isn't always the case, so maybe if you could give us some colour on how we should think about the uptick in the employee benefits to start the year?

Réjean Robitaille, President and Chief Executive Officer

Okay, Michel, will you please answer this one, please?

Michel Lauzon, Executive Vice President and Chief Financial Officer

Okay, Sumit. It's made up of several components, but normally in the first quarter, and especially January 1st, you will see a couple of things kicking in. You'll see, first of all, higher salaries because of the base salary increases that kick in on January 1, both for unionized and professional employees. And also the—you reset the counter on all the government charges that the Bank has to pay on employee salaries; UIC premiums and old age security and stuff like that are all set to zero on

January 1, and because we pay bonuses in January, obviously, there's a higher charge on those in the first month of the year, which then tails off in the second quarter as we get a full quarter of salary increases but not as much of an uptick in the—in the government charges.

So there is seasonality because of that phenomenon. And then there's how we've provisioned incentive compensation in Q4 versus what we need to—what is actually paid in Q1 and how that (inaudible) sometimes there are recoveries and sometimes our charges that appear in the quarter which tend to create some volatility in the number.

Sumit Malhotra, Macquarie Capital

Well, you're combining a few things here, I think, to get to the total salaries and employee benefits. Let me make sure I get the different pieces. Salaries, I understand you've talked about in the past that the formulaic increase in salaries does kick in Q1, and we see that up at the start of the year. The performance-based compensation is, I'm guessing, where the bonus or the variable component would be included. That was actually down slightly. But let's talk specifically about the employee benefits. At $18.6 million this quarter, certainly a higher number than we've seen in the past, is that a run rate number in your opinion, or is there some seasonality that has made that unusually high to start the year?

Michel Lauzon, Executive Vice President and Chief Financial Officer

It is unusually high in the first quarter because of the government charges I mentioned.

Sumit Malhotra, Macquarie Capital

Okay, so that one should come down as well, but certainly there's some components that push the total salaries line—or total salaries and employee benefits line up to start the year.

Michel Lauzon, Executive Vice President and Chief Financial Officer

Yeah.

Sumit Malhotra, Macquarie Capital

And just may—sorry. (Inaudible).

Réjean Robitaille, President and Chief Executive Officer

I might add on this also, Sumit, we are also expecting that our pension fund costs for 2013 will be a little bit higher than what we had in 2012, so a portion of that is also included in these first quarter results.

Sumit Malhotra, Macquarie Capital

All right. What I want get clear – and it's probably from Michel – if I look at your supplement, when you report to us the number of full time equivalent employees, is that on a spot basis at the end of the quarter, or is it an average for the quarter?

Michel Lauzon, Executive Vice President and Chief Financial Officer

That's on a spot basis.

Sumit Malhotra, Macquarie Capital

Okay, that—as the CFO, that one with the CEO's getting his hands dirty in the supplement too, so that's good to see. The question I have there, and I understand there's some sensitivity, obviously, you know, after you closed the MRS, there was a quarter where we saw a decent size decline in the FTE number. Is it, you know, is it right to expect that there is going to be something similar as part of the synergies extraction as you work through AGF Trust?

Réjean Robitaille, President and Chief Executive Officer

I'll ask François to answer this one, Sumit.

François Desjardins, President and Chief Executive Officer, B2B Bank

For obvious reasons, we're not giving out numbers in terms of employees. It's more a question of right-sizing. If the question is, are we going to have synergies from the acquisition of AGF? Absolutely. What we've been stating all along is that we can go and get 28, 38—28 to $30 million out of this company which did 22 before. A combination of things. But, quite frankly, on the employee side, we're not expecting to have any layoffs. While there might be some employees that—total employee numbers might shrink over time.

Sumit Malhotra, Macquarie Capital

Am I correct to say though that there was a period—I'm looking back and, at least in my model here, I don't think you have 2011 in the supplement any more, but there was a period where there was a decent size decline in the FTE number as the MRS Trust integration worked its way through. Is that—that is an accurate statement, correct?

François Desjardins, President and Chief Executive Officer, B2B Bank

I would—I don't have the numbers in front of me, but I don't recall having anything sharp in terms of decline on the FTE side. It's—it really declined over time on the MRS side.

Sumit Malhotra, Macquarie Capital

Okay, let's move off of that. Just one point of clarification on the Basel III number. Most of your peers who reported this quarter flagged the fact that they had a benefit to the reported common equity position as a result of possibly delaying the implementation of the CVA risk weighted asset charge. I don't think conceptually that should be too much of a factor for Laurentian, but I was hoping you could confirm that, if it was (cross talking).

Réjean Robitaille, President and Chief Executive Officer

It is not a factor at all.

Sumit Malhotra, Macquarie Capital

Not a factor. Okay.

Réjean Robitaille, President and Chief Executive Officer

In fact, it's very marginal.

Sumit Malhotra, Macquarie Capital

So the 7.55 that you've given us is a—7.55 percent is a so-called clean run rate number.

Réjean Robitaille, President and Chief Executive Officer

That's right, and we are quite comfortable with this one also. I think that's a good opportunity for me to mention again that we are still using the standard, (inaudible) this one, and that we do not expect to be (inaudible), so we are quite comfortable right now at this level.

Sumit Malhotra, Macquarie Capital

Are you pushing—I mean, one of—you know, another one of your peers has talked more about the standard versus advanced approach. Are you also working towards migrating to the advanced approach?

Réjean Robitaille, President and Chief Executive Officer

The answer is yes, and, in fact, we have worked quite hard in the last few quarters about this; we're probably in advance on this, but I'd like to ask Pierre Minville to—Pierre is our Chief Risk Officer—to comment a little bit more on this please, Pierre.

Pierre Minville, Executive Vice-President and Chief Risk Officer

Yes, in fact, project is well under way now. We are aiming at a first phase of implementation in 2015.

Réjean Robitaille, President and Chief Executive Officer

At the end of 2015.

Pierre Minville, Executive Vice-President and Chief Risk Officer

At the end and a second phase somewhere at the end of 2017. So this is a major project, but a long-term project, but it's (inaudible).

Sumit Malhotra, Macquarie Capital

Are you in a position to ballpark for us how much higher your 7.55 percent number would be if you were under the advanced approach?

Pierre Minville, Executive Vice-President and Chief Risk Officer

It's—I can give some high level indicators because, as you know with us, you need to have approval of this, but in the first phase, we see an impact of 50 to 75 basis points overall on capital, and in the second phases, up to 200 basis points. This is on total capital. The flip between all the (inaudible) level of capital needs to be precise, more with us (phon).

Sumit Malhotra, Macquarie Capital

All right. Last one for me, on loan growth. Certainly, I think we understand you've said there's certain portions of the AGF Trust book that you're not going to look to grow, so we might see some softness in the personal loans number. But, Réjean, seeing an essentially flat number on gross or net loans quarter-over-quarter not something we're used to for this bank. As you think through some of the moving parts, with the changes to mortgage standards, with the runoff you're seeing in personal, what's your expectation on a full-year basis as to what kind of reported loan growth you can give us from where you ended 2012?

Réjean Robitaille, President and Chief Executive Officer

Well, it will depend of the products, let's say, but it's a fact that we have seen some softness in the demand, mainly because of the tightening in the mortgage rules, and the B-20, probably a little bit more than we thought at the beginning. So last quarter, we mentioned that we were expecting mid-single digit growth for the overall Bank. That would be more, much more now in terms of low single digit for the overall bank, but depending of the products. So, for instance, we still are looking at low double digit growth in the commercial areas. I think that François mentioned the fact that, on the personal loan side, because of the integration and the fact that the AGF Trust portfolio was decreasing a bit, that we are looking for, overall I would say, flat growth on the personal side. Mortgage loan would be probably in the low single digit right now.

So, it's always—and I think that we mentioned that in the past, we won't sacrifice, let's say, margin and profitability just to grow market share. And right now, our eyes are all on the bottom line and trying also to focus on our four steps plan that we mentioned earlier. So in this type of environment, we're focusing more and we're putting more emphasis on our fee-based revenues. You've seen that, year-over-year, we have an increase of 13 percent in this area, and that's something that we want to put more emphasis on in the coming quarters, definitely. Growing business with higher margins, that's meaning putting more emphasis on our commercial activities, and I was mentioning that we are expecting a low double digit growth in this area. And at the same time, we are focusing on productivity improvements and managing expenses.

In terms of the lower number, EBITDA (phon) also, you have to keep in mind that, on the Retail side, they have reduced quite considerably in the last three, four quarters the number of employees just to—because we have been able to increase our productivity and change the way that we were doing things.

So maybe a long answer, but I think that we are confident to be able to compensate the slowing demand by this four steps plan that we have put in place a few quarters ago.

Sumit Malhotra, Macquarie Capital

Okay, I hear you and I'll stop here. I hear you on all the other parts, but just thinking about the pure NII (phon) component, thinking about loan growth of, say, total bank basis 3 percent but with much a much tighter management of net interest margin in 2013, that sounds like a reasonable expectation to summarize at least the net interest income component of what you just talked about.

Réjean Robitaille, President and Chief Executive Officer

That's right.

Sumit Malhotra, Macquarie Capital

Thanks for your time, guys.

Réjean Robitaille, President and Chief Executive Officer

Thank you, Sumit.

Operator

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

Michael Goldberg, Desjardins Securities

Can you just remind me, over what time period will the AGF Trust integration costs be incurred, and are these still forecast to total 30 to 35? So I guess you've already expensed about $5 million in total. Will that be done in 2013?

And secondly, can you also remind me your payout ratio objective, and which earnings is it based on, reported or adjusted?

Réjean Robitaille, President and Chief Executive Officer

Okay, well, I'll let François answer the first part of your question, and Mike will answer the second part of it.

François Desjardins, President and Chief Executive Officer, B2B Bank

You're right on the—what was already expensed. No, in fiscal 2013, which ends October 31st, all the expenditures will not have gone through at this point because we're expecting the account integration to happen all the way to December of this year, and that will mean that all—you know, six months in to 2014, even if the account integration is done, we'll still have some costs to go through in part of next year.

Michael Goldberg, Desjardins Securities

(Cross talking) be complete by the first half of 2014?

François Desjardins, President and Chief Executive Officer, B2B Bank

Yeah, completely.

Michael Goldberg, Desjardins Securities

Okay.

Réjean Robitaille, President and Chief Executive Officer

Okay? As for the second part of your question, the payout ratio is between 40 and 50 percent, that's the policy. And we have been, let's say, prudent in the past, but as I said in my comments, we were able to increase our dividend by 59 percent over the last five years, and we have started a trend to increase our dividend more often. And we are looking to increase our dividend twice a year right now, depending of the environment and our results. So right now, we are looking a little bit more on the adjusted earnings, based on this, but we have also to keep in mind that reported earnings have an impact on capital and—because strong capital ratios is the first priority that we have. When we manage our capital, we will look at the overall trend. But that said, depending on the environmental results, we are looking to increase our dividend twice a year.

Michael Goldberg, Desjardins Securities

And—so you've still got, I guess, roughly $30 million to expense on AGF over the next five quarters, let's say. Will that be pretty steady on a quarter-by-quarter basis?

Michel Lauzon, Executive Vice President and Chief Financial Officer

I would say that quarters three and four of this year might be a little bit more heavy, but besides that, it's going to be pretty steady.

Michael Goldberg, Desjardins Securities

Thank you.

Operator

Thank you. The next question is from Darko Mihelic from Cormark Securities. Please go ahead.

Darko Mihelic, Cormark Securities

Hi, thank you. I wanted to just revisit the question on expenses at B2B Bank, and I want to make sure that I understand something. I'm looking at Slide 15, and during the presentation, you mentioned that the non-interest expenses, excluding T&I and excluding AGF, are up 2 percent year-over-year and that that included the contribution of realized synergies. Can you explain what you mean by that? And I guess, where I'm coming from, just to be perfectly clear, is I think if you had told me a year ago that you would spend a lot of money on integration, that one year later, my expenses would be up 2 percent while my revenues are down, I think I would have actually been disappointed. So I'm trying to understand why it's a victory to have non-interest expenses go up 2 percent year-over-year after you've completed an integration at MRS. And then to tie that into, François, into your commentary that you don't think the contribution from MRS is going to change, it sounds to me like we're done trying to extract costs from MRS. So can you just help me with that? Maybe I've misunderstood something.

Michel Lauzon, Executive Vice President and Chief Financial Officer

Well—this is Michel, Darko. The 2 percent growth does include MRS, and as you—as I mentioned, we have a full quarter of MRS expenses in there versus only, I guess 11/13ths of MRS in the first quarter of last year. There are some synergies that I have gone through. Some of them are actually in the base of when we started, and we purchased MRS because there were some expenses we did not pick up, day one, and so they would be in the base and so the synergies would not be reflected in the growth rate. These are not savings that were generated compared to Q1 but actually were there at the start of Q1 of last year. And the second part, there are more synergies that have been put through in this quarter but towards the end of the quarter, and so we should see some flowthrough in the second quarter.

Now, we're not done with the synergies on the MRS side, as François mentioned. We're going to be working a bit more on AGF for the next few quarters, and we'll be complete by the end of this year, early next year. The run rate of expenses within B2B Trust, because they are still expanding, would have been higher than 2 percent, you know, but offset by the factors I just mentioned and the fact that we did get some synergies in the books in the fourth and the first quarter.

Darko Mihelic, Cormark Securities

So just to be clear, Michel, revenues excluding AGF are actually down 4 percent year-over-year.

Michel Lauzon, Executive Vice President and Chief Financial Officer

Revenues excluding AGF were down 4 percent because we've had some attrition on the investment loan book within B2B. Also, they've also suffered from margin compression, as the rest of the Bank has.

Darko Mihelic, Cormark Securities

Right. But I guess that's the difficulty, right? I mean, we have—you have negative operating leverage of 6 percent after you've done all this integration. I just—I struggle to see why—how that can actually happen, but—and then I guess the follow-on question to that is, you know, prior to purchasing MRS, when I look historically at B2B Trust, as it was once called, and I see the efficiency ratio actually below 50 percent in many quarters, and I realize it was a different margin environment, but to get to a targeted efficiency ratio of 50 to 60 percent for this business, I think, is a reasonable goal. But the question is, is there a step function down in cost at some point in 2013, or 2014, after all this integration is done? And, François, I'm not sure if you want to take a stab at this, but when should we see real reduction in expenses here at B2B Bank?

François Desjardins, President and Chief Executive Officer, B2B Bank

Well, if you're willing to take a look at the—at your question of why is this a success, the environment is for everybody, right? So we have margin compression across the board, including with B2B Trust at the time, B2B Bank now, to a point where, if you look at the numbers on the MRS side, they weren't making a dime when we bought them. Just through synergies, we're right—we're now contributing $7.5 million after a year of synergies from that business alone. And we've said that we should expect the same, you know, consolidated in the year, yes, but we've also said that we're about 80, 85 percent done and that we needed to move on because these are higher hanging fruits, and we have to move on to the lower hanging fruit on the AGF side.

We believe that, on the AGF side, there's a lot of synergies to go and get there as well. So we're looking forward to the end of the year, and all of this year, quite frankly, is the integration year. We need a good 12 months to get through the integration. Why is it a success on the Bank, is that from day one, you have close to 5.2, $5.3 million that is added to the bottom line of the Bank from this acquisition in a market time where it's difficult to make money on margins. So we're adding customers, we're adding advisors, we're adding growth to the Bank from a non-organic base, while not forgetting our organic base. And then when we get to 2014, once everything is said and done, we'll have the synergies from the MRS side, plus the synergies on the AGF side, which will be the $20 million or so that the money—that the business contributed from day one, plus what we've said, which is, you know, 6 to $8 million more, and we haven't even started revenue synergies yet.

So yes, you know, to your question, is there—you know, why is this a success? Basically, we took three businesses, two of which are really handsome to enhancing our offer and strategically propelling our plan forward this number of years. And when we get to the end of the plan, properly done, it will contribute not only to B2B but to the Bank as a whole on the bottom line and continue to be a potential that we will go and harvest those revenue potentials and cost potentials. So, am I being overly conservative when I say 50 to 60? Maybe, but, you know, I've seen B2B at 42 and—you know, as an efficiency ratio, and I think that probably, in a growth organization, it was maybe too lean at the time. You know, closer to 50 is where I'm comfortable with because you have to reinvest in your business as well. And maybe I am being a little bit more conservative, but I'm looking at, you know, 2014 and such, where we're still at the end of the integration zone and not into completely being out of it yet.

Darko Mihelic, Cormark Securities

Okay, great. I appreciate the answer. Thank you.

François Desjardins, President and Chief Executive Officer, B2B Bank

You're welcome.

Operator

Thank you. The next question is from John Reucassel from BMO Capital Markets. Please go ahead.

John Reucassel, BMO Capital Markets

Thank you. Just a question, or just confirm that Mackenzie—like the funds have been rolled out through all their branches, and could you talk about the takeup on this, and has this kept pace with your previous provider, and how things are going?

Réjean Robitaille, President and Chief Executive Officer

Okay, I'll ask Luc Bernard of the Retail to answer this one, John.

Luc Bernard, Executive Vice President, Retail Financial Services and SME-Québec

As you mentioned, the integration is going according to plan. We're actually in an exclusive mode with Mackenzie since last January, and it's as far our best year ever in terms of growth.

John Reucassel, BMO Capital Markets

Okay. And—okay, and they're in all the branches, Luc?

Luc Bernard, Executive Vice President, Retail Financial Services and SME-Québec

Yes.

John Reucassel, BMO Capital Markets

Okay. And just to—François, just back to you. I'm not going to ask you about costs, but I'm going to ask you about cross-selling. Could you give us a sense of, you know, your cross-sell, how many of your clients you currently cross-sell more than one product? And—or where you were two years ago and where you are now with MRS and AGF, or where you hope to be, just remind us of those targets?

François Desjardins, President and Chief Executive Officer, B2B Bank

I've never actually spoken about any targets whatsoever on this. It's pretty strategic in terms of information, I got to admit. But just to give you a sense, we—with the two acquisitions, we doubled the number of advisors that we dealt with, and through the integration, what we noticed was that some advisors were coming to us for a product, some advisors were going to AGF or MRS, so we picked the best products on the shelf. And once we did that, we also noticed that there are some advisors that only deal with us for one product or two and not three, four, and five. We also noticed that a lot of advisors, if not the majority, only deal—only send us a portion of their customers, so there's a lot of potential there. I'd be uncomfortable giving you numbers, but keep your question for a year from now, (inaudible) maybe I'll answer more deliberatively then.

John Reucassel, BMO Capital Markets

Okay. And then, just—Réjean or Michel, just—I've gotten a little confused. So the $1.34 you've earned this quarter, you know, the tax rate looked a little low, you know, there's debate on costs, and credit was good. So if credit isn't going to be as good, you know, tax rate's a little more normalized, would say that $1.34 was a little higher than you expected or, you know, it's not a bad run rate, adjusting for, you know, Q2 seasonal factors?

Réjean Robitaille, President and Chief Executive Officer

Yeah, you're right, John. Accounting (phon) for Q2 obviously is going to be a shorter quarter and so we usually have a downtick in APS. But there were some positive and negative factors affecting the quarter. Some of the negative—positive factors are a bit more apparent in terms of loan losses or taxes, and so we could see a slightly lower number in Q2 just because the number of days and some of the other factors, but overall, it's pretty balanced.

John Reucassel, BMO Capital Markets

Okay. Okay, so $1.34 is not a bad place to start. Okay, thank you.

Operator

Thank you. Once again, please press star, one, if you have a question. And the next question is from Shubha Khan from National Bank Financial. Please go ahead.

Shubha Khan, National Bank Financial

Thanks, good afternoon. Just wanted to follow up on Michel's earlier comments about the NIM, and I think the comment was that we should expect that NIM to stabilize around current levels. When I look at the interest spread, or the net interest spread between loans and deposits, it's sort of narrowed 7 basis points sequentially. I assume that, you know, maturities of higher margin loans are still having an impact and that should probably continue. And then your liquid investments also declined to levels substantially lower than they, you know, than they have been in recent quarters, so just wondering what would help offset the pressure you continue to see from maturities of higher margin loans and a possible normalization in liquidity levels?

Michel Lauzon, Executive Vice President and Chief Financial Officer

Well, I think, as we mentioned, the addition of the AGF Trust higher margin business did help in the quarter and last quarter. We are looking to reducing excess liquidity, which helps. We had, as I mentioned, the maturity of $800 million of high cost CMB maturing in the quarter; there should be some of that in the following quarters. And we should see some of the pricing pressure abate going forward, as a lot of the loans have been re-priced at lower levels, and that should taper off. So there is still some pressure, albeit at a much lower rate than prior quarters. Also, the first quarter is seasonally weak in terms of prepayment penalties, which run into net interest income, and those should pick up seasonally in Q2 and Q3.

Shubha Khan, National Bank Financial

Okay, I appreciate that. And the second question is, on the decline in the loan portfolio in your Real Estate and Construction segment, is that just a reflection of the slowdown in construction activity, and are we talking mainly about the activity in the GTA? And if so, is it a seasonal thing, or do you expect further weakness there, and have you also observed any sort of tightening in the competitive environment?

Réjean Robitaille, President and Chief Executive Officer

I'll ask Stéphane Therrien, Head of our Commercial activities, to answer this question.

Stéphane Therrien, Executive Vice President of Real Estate and Commercial Financing

We're definitely seeing some slowness in the real estate sector. Globally, though, we expect that the commercial sector will grow more than the real estate portfolio, helping the line of business.

Shubha Khan, National Bank Financial

And could you comment about—on the competitive environment that you're seeing? Have you seen some of your larger competitors sort of step up in terms of pricing or terms or what have you?

Stéphane Therrien, Executive Vice President of Real Estate and Commercial Financing

Yeah, in terms of pricing, it's still competitive. That being said, our spreads have been quite stable in the last six months and we expect this to continue going forward. Our approach in terms of being a niche player and being specialized is paying off right now. I think we've found a couple of good spots to be, and we continue to go there.

Shubha Khan, National Bank Financial

Okay, appreciate it. Thank you.

Operator

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

Gladys Caron, Vice-President, Public Affairs, Communications and Investor Relations

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.

Operator

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

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