CORPORATE PARTICIPANTS

Gladys Caron
Moderator

CONFERENCE CALL PARTICIPANTS

Réjean Robitaille
CEO

Michel Lauzon
CFO

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

Merci. Bienvenue. Good afternoon, everyone.

Our press release was issued today on Canada NewsWire and is posted on our Web site.

This afternoon the review of our first quarter 2011 results 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 Robitaille and Michel Lauzon will refer to that presentation throughout their speeches.

During this conference call forward-looking statements may be made, and it is possible that actual results may differ materially from those projected in such statements. For a 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, CEO

Thank you, Gladys. Good afternoon, ladies and gentlemen.

So the first quarter of 2011 was one of the strongest quarters in the history of Laurentian Bank, and I am pleased with our results. The growth in revenue and net income is proof that we have an effective business model and the right strategies to propel us forward. We are very satisfied by the improvement in credit quality as impaired loans and provision for credit losses declined in the quarter. We are also encouraged by the growth and business activity across all business lines over the last year as ongoing targeted investments in resources and systems bear fruit.

It is our plan to continue to invest in development initiatives to maintain our top line growth. In doing so we will remain focused on our three priorities: Increasing profitability, improving efficiency, and investing in human capital.

As shown on slide 4 of our PowerPoint presentation for the first quarter of 2011, net income increased by 5-per-cent year over year, totalling $33.5 million or $1.27 per share. This compares with $32 million or earnings of $1.21 per share in the first quarter of 2010. Return on equity was 11.9 per cent compared with 12.3 per cent a year earlier. The solid results were achieved despite lower margins.

Turning to slide 5, while we only have one quarter under our belt, the results to date suggests that we are in line with all of the 2011 objectives. Our business plan and our gradually improving economic backdrop, in conjunction with our solid capital base provide the firm foundation, as well as the flexibility to continue to deliver sustainable growth.
I will now call upon Michel to provide you with a more in-depth analysis of our financial performance. Michel?

Michel Lauzon, CFO

Thank you, Réjean.

Financial highlights for the first three months of 2011 can be found on slide 6. Revenue growth of 5-per-cent year over year was driven by a 14-per-cent rise in other income, while net interest income increased modestly. The provision for loan losses declined to $15 million in the first quarter of 2011 from $16 million in the fourth quarter and the first quarter of 2010. Non-interest expenses rose to $131 million from $120 million in the first quarter of 2010.

In the first quarter of 2011 diluted EPS and ROE reached $1.27 per share and 11.9 per cent respectively compared to $1.21 and 12.3 per cent in the first quarter of 2010. Drilling deeper into the results, I'll discuss the main drivers of the Bank's performance during the first quarter of 2011.

Firstly, net interest income of $121.4 million in the first quarter of 2011 increased slightly from $120.7 million in the first quarter of 2010. As highlighted on slide 7, the net interest margin, at 2.03 per cent, was 10 basis points lower than in the first quarter of 2010. The lower yields on securities held as a result of shortening of portfolio duration in the continuing competitive retail and low interest rate environment contributed to margin compression in the quarter.

Secondly, other income of $68.1 million rose by $8.4 million from the first quarter of 2010. We were pleased that the increase was broad-based. Securitization income increased by $4.7 million compared to the same quarter a year ago owing to higher gains on $388 million of mortgage loan securitizations. During the quarter the Bank chose to fund most of its loan growth through securitization as it continued to be an attractively priced funding source.

The $1.2 million year-over-year improvement in fees and commissions on loans and deposits was largely owing to higher revenue from card services, reflecting the significant increases in transaction volumes. Income from treasury and financial market operations and brokerage operations improved by $0.9 million as a result of continued business development at Laurentian Bank Securities, as well as favourable market conditions. Revenues from credit insurance and the sale of mutual funds, activities that we are actively developing because we consider them to be core, rose by 27 per cent and 16 per cent respectively.

Thirdly, as highlighted on slide 8, the provision for loan losses amounted to $15 million in the first quarter of 2011, $1 million lower than last quarter and a year earlier due to an overall improvement in credit quality. The $2.8 million year-over-year reduction in the provision from personal loans and Visa was largely a result of improving employment conditions in Canada and a lower exposure to the point of sale financing business. During the quarter higher loan loss provisions in the commercial mortgage portfolio were offset by reduced loan loss provisions in the commercial loan portfolio. We consider the overall credit quality of the commercial portfolios to be good and improving.

We are particularly pleased by the improvement in credit quality as highlighted on slide 9. Gross impaired loans of $168.7 million at the end of the first quarter of 2011 decreased by $19.4 million from yearend 2010. This positive trend was largely a result of improvement in the commercial loan portfolio. The retail portfolios continued to perform well in the current environment. Net impaired loans declined by $27.9 million from yearend to $22.1 million, aided by specific provisions increasing by $8.4 million to $73.3 million, which now represent 43 per cent of gross impaired loans.

As presented on slide 10, the efficiency ratio for the first quarter of 2011 was 69.1 per cent compared to 66.7 per cent in the first quarter of 2010 and 68.4 per cent for all of 2010. The lower ratio in the first quarter of last year had been positively impacted by $2.1 million favourable adjustment resulting from the partial resolution of certain operational issues. Margin compression in the quarter and higher expenses also affected the efficiency ratio.

I would like to take a moment to discuss $10.6 million higher non-interest expenses in the first quarter of 2011 compared to a year earlier. Salaries and employee benefits rose by $7.1 million. Contributing to this was an increase in our investment and human capital to support growth and service quality initiatives. Our headcount over the past 12 months increased by 86 to reach 3,715 equivalent full-time employees. As well, performance-based compensation rose by $1.3 million, and benefits, largely owing to higher pension costs and payroll taxes, increased by $3 million. In addition, premises and technology costs rose by $2.3 million year over year, which reflected higher technology costs as new systems aimed at supporting business growth came on stream and resulted in higher amortization expenses. Rental costs were higher as the Bank expanded in a few new areas. Overall, we keep a close eye on our expenses, and believe that the investments that we are making will help fuel future revenue growth.

Slide 11 highlights the continued growth in the balance sheet over the past 12 months. Loans and BAs totalling $17.7 billion rose by $1.2 billion over the last year. Loans and BAs before securitization increased by $1.5 billion. Contributing to this growth were residential mortgages before securitizations, which increased by $1.1 billion. The strategy to reduce our exposure to point of sale financing led to this portfolio declining by $221 million over the past year. Personal home equity lines… personal loans, excluding point of sale financing, increased by $143 million fuelled by investment loans and home equity lines of credit. Commercial mortgages and commercial loans increased by $432 million as we continue to capitalize on growth opportunities in the Canadian market.

Total deposits increased $562 million over the past 12 months. Retail deposits remain a very stable source of funding for the Bank with personal deposits representing 81 per cent of total deposits at the end of the first quarter of 2011.

A well-diversified and conservative loan portfolio, prudently managed liquidity, and a solid base of personal retail deposits remain the foundation of the Bank's balance sheet.

I would also like to point out that our capital position strengthened further from yearend. At the end of the first quarter of 2011 our tier one capital ratio stood at 11.1 per cent, and our tangible common equity ratio reached 9.2 per cent.

Furthermore, considering the Bank's strong capital position and the nature of its operations, and based on available information, management believes that the Bank is well positioned to meet upcoming capital requirements of the Basel Committee on Banking Supervision and OSFI.

While some uncertainties remain regarding OSFI's positioning on certain elements, based on our assumptions we estimate that our tier one common ratio could decrease by approximately 150 basis points as of October 31st, 2012. Pro forma calculations as of January 31st, 2011 showed that we would likely have met the 2010 minimum threshold.

Turning now to the performance of our business segments on slide 12, we were pleased that all of our business segments generated year-over-year revenue growth. Our three major engines of growth, as shown on slide 13, continue to demonstrate the good diversification of our business activities with each segment accounting for about 30 per cent of the Bank's profitability.

Slide 14 shows that retail and SEM Quebec's contribution to net income of $11.6 million in the first quarter of 2011 was 8 per cent lower than a year earlier. Loans and deposits both increased by 5 per cent over the past 12 months. Despite volume increases, competitive retail market conditions, and low interest rates resulted in tighter spreads, and consequently a slight decrease in net interest income. This was more than offset by an increase in other income owing to higher card service revenues, credit insurance income, and income from sale of mutual funds, three high contribution business activities.

Total revenue increased to $113 million in the first quarter of 2011 from $112.5 million a year earlier. Loan loss provisions declined by 25 per cent to $7.4 million in the first quarter of 2011 largely due to a lower level of losses on the point of sale portfolio. Annual salary increases, higher payroll taxes, and higher pension costs contributed to a 6 per cent year-over-year increase in non-interest expenses.

Slide 15 highlights the real estate and commercial segments' contribution to net income of $11.3 million in the first quarter of 2011. While this is 11 per cent lower than in the first quarter of 2010, there are two items that should be noted. First, in the first quarter of 2010 there was a favourable adjustment resulting from the resolution of certain operational issues. This had the effect of understating non-interest expenses in that period. Second, in the first quarter of 2011 there was a reallocation of technology expenses from the corporate sector to the business units to more closely align revenues with expenses. Excluding these two adjustments, the real estate and commercial segment would have reported a slight increase in net income year over year.

Total revenue grew by 11 per cent year-over-year mainly as a result of higher net interest income due to growth in loan volumes. Loans and BAs rose by 11 per cent to $295 million over the past 12 months. Loan loss provisions rose by $2.1 million in the first quarter of 2011 to $7.3 million, reflecting increased provisions on the limited number of accounts. Nonetheless, losses remain acceptable, and the overall credit quality of the portfolio remains satisfactory. For the reasons previously mentioned, non-interest expenses increased to $7.6 million or by $3.3 million year over year.

As shown on slide 16, B2B Trust contribution to net income of $10.5 million in the first quarter of 2011 was 5 per cent lower than in the first quarter of 2010. Total revenue increased by 5 per cent to $31.2 million year over year. This was driven by a 5 per cent increase in net interest income, which benefited from volume growth and mortgage loans, and favourable margins on high interest investment accounts and term deposits, which was partially offset by tighter margins on investment loans.

Loans grew by 10 per cent or $465 million. The provision from loan losses, which includes losses on investment blending activities, remained low at $377,000 in the first quarter of 2011, compared with $1.1 million a year earlier. Non-interest expenses in the first quarter of 2011 increased by $3.6 million from the first quarter of 2010 to $16.2 million. This was a result of annual salary increases and higher staffing levels to support increased business activity and enhanced service levels, as well as the previously mentioned higher allocated costs pertaining to technology investments.

As shown on slide 17, Laurentian Bank Securities and Capital Markets' contribution to net income of $2.7 million in the first quarter of 2011 was 48- per-cent higher than in the first quarter of 2010. All three major business lines: fixed income, institutional equities, and retail brokerage operations contributed to this improved performance. Total revenue of $16.2 million in the first quarter of 2011 was 12 per cent higher than a year earlier, driven by business development initiatives and favourable market conditions. Non-interest expenses increased in the first quarter of 2011 by $800,000 year over year to $12.5 million.

The other sector presented on slide 18 posted a negative contribution to net income of $2.6 million in the first quarter of 2011 compared with a negative contribution of $6.1 million in the first quarter of 2010. This was a result of an increase in other income for the first quarter of 2011 to $8.8 million from $4.9 million a year earlier, mainly due to higher securitization income, as well as the reallocation of technology costs to the business units. The latter was largely responsible for the improvement in non-interest expenses to $3.2 million for the first quarter of 2011 from $5.4 million a year earlier.

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

Réjean Robitaille, CEO

Well, thank you, Michel.

We continue to build on our solid foundation in the first quarter of 2011. Our business model delivers growth in the markets where we focus our development efforts. To this end, our focus on our Quebec-based clients has for the third consecutive year resulted in Laurentian Bank being recognized as the second most admired banking institution in Quebec, and may I add that we ranked higher than our two largest Quebec-based competitors. This positive reception in the eyes of our clientele should help the Bank to generate sustainable earnings momentum in the coming years.

Furthermore, thanks to our agile growth strategy we have generated quite a buzz with the recent launch of a career station. The innovative job store created to attract new talent and offer a complete range of banking services and advice is located in Montreal's busiest subway station. It is highly visible and helps enhance the Bank's employer branding. This is yet another way in which we are able to take advantage of our collaboration with the Montreal Transit Society.

As well, our strict adherence to excellence in execution is resulting in process optimization throughout the organization. For example, within B2B Trust, to renew and re-engineer to processes, significant progress is being made toward enabling advisors to devote more time to servicing clients.

Similarly, the branch network continues to re-engineer processes, which contribute to increasing revenue and improving efficiency. This quarter both disbursement mortgage processes were re-engineered to further improve service quality levels at the branch.

Execution is also a critical link between the Bank's strategies and our commercial clientele. Using a judicious balance between proactive risk management and growth, commercial loan portfolios, including the real estate commercial and SEM Quebec groups, continued to grow over the last few months. And furthermore, our pipeline in this segment remains quite good.

To conclude, our focus, agile growth and execution constitute competitive advantages, and our growth and development will continue to be supported by these three strong and distinctive pillars.

I will now turn the floor back to Gladys.

Gladys Caron

At this point I would like to turn the floor 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. Once again, please press *1 at this time if you have a question. There will be a brief pause while the participants register. Thank you for your patience.

The first question is from Robert Sedran of CIBC. Please go ahead.

Robert Sedran

Hi. Good afternoon. Just a couple of questions on the top line actually. First off, Réjean I guess, on the decline in the margin quarter on quarter, you mentioned shortening portfolio duration, and you mentioned competition. First off I guess can you separate those two in terms of the impact? And then perhaps more importantly, I'm trying to understand if there was something specific to the quarter that would have reduced the margin as a one-timish effect of shortening the duration or if this is more of a run rate kind of margin looking forward?

Réjean Robitaille, CEO

Thanks for the question, Rob. I'll ask Michel Lauzon, our CFO, to answer that question.

Michel Lauzon

Well thanks. As we said before, the retail banking market for both loans and deposits has been very competitive, and the overall interest rate environment remains really low, which has maintained pressure on margins. However, in the quarter and specific to the quarter we did change our approach in terms of hedging some off-balance-sheet activities related to securitization, which had the impact of us selling off some longer-dated securities, and booking some shorter duration swaps. So it has reduced our duration of our securities portfolio as a result.

So even though this was specific to the quarter, depending on the interest rate environment and our ALM positioning going forward, we'd expect this to be sort of the new normal in terms of where we see things happening in terms of net interest margin.

Réjean Robitaille, CEO

So we could expect let's say in the coming quarters that net interest margins should remain at the current level.

But also because the fact that we changed, as Michel mentioned, some of our assumptions and hedging aspects, particularly based on the new IFRS rules on securitization, we might have a higher level of income on securitization gain… on securitization in the coming quarters with a level of net interest margin at the current level.

Robert Sedran

Okay. And that's where I was going next because the securitization revenue that you booked this quarter was more again to what we saw back when there were some pretty high levels, back in '09. And I'm wondering should we expect I guess similar – I hate to keep asking the run rate question, but is this a level at which we would expect this number to settle in again or was there again some kind of one-timish effect in the quarter that was particularly attractive?

Réjean Robitaille, CEO

Again, Michel?

Michel Lauzon

Yes. Okay, thank you, Réjean. Well we view securitization as a funding source, not necessarily as a revenue-generating source, albeit there are some externalities in terms of revenue generation, until IFRS kicks in at the end of the year. So the run rate we're seeing right now is above $300 to $400 million of securitization each quarter. That should add between $200 and $250 million net funding to the balance sheet as we go forward.

In terms of income from securitization, based on the model changes that Réjean mentioned, other income should be a bit higher than what we expected before. Also more stable compared to what we expected before. However, it would depend on credit spreads between mortgages and CMBs in future quarters. We would view the current quarter level as rather high-ish in terms of range.

Robert Sedran

Okay, that's helpful. Thank you.

Operator

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

John Reucassel

Thank you. Just Michel, I want to make sure I understand. It was the new hedging strategy that… or the new… I'm just trying to make sure how these two are related, the securitization and the hedging strategy.

Michel Lauzon

Okay. It's rather arcane, but when we securitize we book off-balance sheet assets called seller swaps and retained interests, which are valued… used to be valued off a government of Canada curve. To manage the fluctuations in the valuation of that off-balance sheet assets, which would have hit income statement, we used to hold a government of Canada securities portfolio, which would behave in a similar pattern. That was an imperfect hedge, and what we've decided to do is replace that with swaps which happen to mimic the exact duration of the assets which are off-balance sheet to minimize fluctuations. That has the impact of shortening the duration of that specific portfolio.

John Reucassel

Okay. I think I get it. But I still… Réjean or… two or three… or the last couple of quarters you say securitization gains would decline in 2011 versus 2010.

So I'm just trying to understand what happened between then and now. Was it this new hedging strategy that came out or…? I'm just trying to understand what happened.

Réjean Robitaille, CEO

First of all I'll start and I'll ask Michel to continue on this. We mentioned that's true in 2010. We expected in 2010 because we had a very strong level of liquidity… of excess liquidities, that the need of other type of securitization was not needed.

Now, as Michel mentioned earlier, we expect, because we use securitization mostly as funding purposes, we expect to have needs of level of $300 to $400 million per quarter. Why's that? Because there's still strong growth that we're seeing in each of our business lines.

As for the overall impact on the income, I'll let Michel continue on this.

Michel Lauzon

Okay. Well, you're partly right, the new model will create a slightly higher run rate in terms of actually a smaller drag on the securitization income line from the model evaluation as times goes by. So yes, there is a slight positive impact. But the reason why we think there could be slightly more securitization gains this year is if you remember late last year the long end of the yield curve was flattening, and long rates were coming down, and spreads on securitized mortgages were much tighter. Since November spreads have increased, our long rates have increased, and so the margins on securitized loans has been a bit better in the current quarter.

John Reucassel

Okay. But under IFRS you're going to end up unwinding all these gains…

Michel Lauzon

And booking them back into net interest income.

John Reucassel

Yes. So that… so the decision to securitize is independent of the accounting treatment strictly a funding decision.

Michel Lauzon

Precisely.

Réjean Robitaille, CEO

François, head of B2B, on your side?

John Reucassel

Okay. So are you going to identify the previously booked income and net interest income next year?

Michel Lauzon

Can you repeat the question?

John Reucassel

Well I'll take it offline. I'll ask that separately. Last question.

Michel Lauzon

Maybe I can… As part of IFRS conversion, all prior securitization gains and securitized assets come back on balance sheet and back into net interest income as at November 1st, 2011. And that retroactive to November 1st, 2010. So yes, at this time next year you will see a revised Q1 2011, which will see the securitization gains reversed out, and a normalized net interest margin.

John Reucassel

Okay. So I think this is where it's confusing because then when we look at the segmented numbers, are we going to see the NII numbers in the segmented better or are we still going to see the segment... this earnings come through from the other?

Michel Lauzon

All of this accounting to and fro is all in the other sector. The business segments, the operating business segments are isolated from these accounting variations.

John Reucassel

Okay. Thank you for that. Sorry to belabour it. Just the last question, on the $130 million in expenses, is this the base we should be working from? Is it going to have to grow from here to meet your growth initiatives and others?

Michel Lauzon

I'd say yes. Last few we had a few special items. This year the $9 million growth we've had year over year, let's say $3 million would be considered core based on salary increases, rents and higher taxes and so forth. $3 million would be special items and another $3 million would be ongoing run rate of initiatives expenses.

John Reucassel

Thank you.

Operator

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

Michael Goldberg

Thank you. I'd also like to follow up on the margin question. You have an economic outlook that looks for interest rates to start increasing in the summer quite a bit, which presumably I guess would lead to some margin expansion. Just wondering where you are in terms of this realignment of the duration of your asset portfolio? Is margin compression likely to get worse before it gets better under the interest rate scenario that you foresee? And should we expect offsetting available for sale gains to continue from shortening of your asset duration?

Michel Lauzon

No, not necessarily. And no, we don't expect further worsening. Given the current outlook and based on certain assumptions, obviously these can change with market events. We feel that we should be neutral to slightly positive in terms of our positioning, and that should offset any further pressure from the retail environment in terms of margin pressure, which is why I feel we should be at a current run rate plus or minus 5 basis points, let's say, barring any unforeseen special events.

Michael Goldberg

Okay. And as you're saying the margin compression offset for 2011, probably by higher securitization revenue.

Michel Lauzon

Partly higher securitization revenues, but as I said it's typical to predict because we don't know. We have to look at the specific pools that we have available for securitization and the current interest rate environment at the time we securitize.

Michel Golberg

Great. Also it looks like you had significant declassifications of commercial loans from impaired during the quarter. Was there any significant interest recapture, and if so, how much?

Réjean Robitaille

I'll ask Louis Marquis to answer that question, Michael.

Louis Marquis

There were some, but I would not call them significant.

Michael Goldberg

Would it have been as much as $1 or $2 million?

Louis Marquis

Probably something south of the first number of $1 million, around $1 million. Also overall in a few loans…

Michel Lauzon

It's not a material amount.

Réjean Robitaille, CEO

Maybe also Louis, you can add a little bit more further on… your thoughts on the credit quality of the portfolio right now.

Louis Marquis

Well the credit quality has certainly improved in the past quarter, and everything seems to point to further improvements for the remainder of the year. So as opposed to last year's results we certainly think the positive trend will continue as opposed to the past two quarters' results. I think the loan losses will continue to provide some favourable leverage to the Bank's results in the next few quarters till the end of the year.

Michael Goldberg

Okay. And as net impaired loans go down, should we also expect that provisions will go down as well?

Louis Marquis

It's a possibility. It certainly reduces a risk of an increase. And the way I see things right now, we should have positive leverage from our loan losses to our results. So that could mean stable to slightly improving from hereon.

Michael Goldberg

Okay. I just want to go back to the question about securitization for a minute, and the switch to IFRS when these loans will move back onto your balance sheet. Could you give us some idea or do you have an idea yet of what the balance sheet and earnings impact next year will be according to your modelling? Will it… You won't have the upfront gains, but you will be re-earning the interest on all of the loans that are now off the balance sheet. Where does that work out to on a net basis? Does it increase, decrease or leave earnings roughly the same?

Réjean Robitaille, CEO

Well we don't necessarily provide information quarter over quarter concerning that. But as Michel mentioned, we will have to put those mortgages on our balance sheet. So nutshell, that could represent something like $3 to $4 billion more of balance sheet, or assets. As for the overall impact for income, we think that it won't be that significant. Though as we said earlier, ROE might improve a little bit based on other aspects that we will have to do.

Michel Lauzon

It should be negative on equity because we'd be running off prior gains. And it should be slight negative on other income, but more positive on net interest income, so a slight net positive on EPS for that factor alone. Obviously there are other factors that are hitting the income statement and balance sheet upon IFRS, which will have varying degrees of impact going forward.

Michael Goldberg

And what do you estimate the impact on equity to be?

Michel Lauzon

I don't have the figure in front of me, Michael. I'm sorry.

Micheal Goldberg

Okay. Last question. I understand that there were some one-time securities gains in offshore insurance. Can you give us some idea of how much those amounted to?

Michel Lauzon

Well we did record some securities gains on both domestic and offshore portfolios, which helped reduce our tax rate in the quarter. And it was around $1 million, Michael.

Micheal Goldberg

That's just on the insurance?

Michel Lauzon

Yes, that's the securities gains on the insurance portfolios.

Michael Goldberg

Okay. Thank you very much.

Operator

Thank you. Once again, please press *1 at this time if you have a question.

The following question is from Shubha Khan of National Bank Financial. Please go ahead.

Shubha Khan

Hi. Thanks. Good afternoon. I was wondering whether I could shift gears a little bit and ask about the sequential move in your salaries and benefits expense this quarter. It doesn't look like your headcount moved all that much, so could you just walk me through what specifically drove the increase in pension costs and payroll taxes?

Michel Lauzon

Well those are two different items. In Quebec the government introduced higher payroll taxes in its last budget. So on a year-over-year basis it did have an incremental increase impact, albeit quarter over quarter it was only related to the higher salary base that it had an impact.

The bigger impact was pension costs. We evaluate our pension liabilities on an October 31st basis. And the long-term rates, which we use to discount those liabilities, were much lower. And that resulted in a higher pension expense going forward.

Again, because of IFRS this pension expense increase is temporary because depending on how we treat the pension asset and liabilities upon IFRS, the actual pension costs going forward could be substantially reduced after conversion.

Shubha Khan

Understood. And with regards to loan growth then, if I look at the development of personal loans in the quarter, so the run off of your POS portfolio weighed on loan growth again. And the first part to my question is what would the growth have been, excluding the impact of the POS portfolio? And the second part is then whether you're seeing any upward momentum in the personal loan portfolio or whether you expect it to be fairly muted going forward?

Réjean Robitaille, CEO

In terms of personal loans, the growth that we have, we're mainly in investment… the investment loan portfolio through B2B and also in the e-locks and credit card in the retail network. Could maybe ask… well, the head of each of those business lines to talk a little bit about what they're seeing in terms of growth, Luc Bernard, Head of Retail.

Luc Bernard

Yes, thanks, Réjean. Despite we noticed the slowdown in the credit demand, we're still benefiting from past investment in our business development, notably the mortgage mobile sales force, our improvement in processes, and lately or recently the launching of our CRM. So we're expecting overall growth in the range of the mid-single to high-single digit overall with different products varying in the degree of growth.

Réjean Robitaille, CEO

And more for B2B Trust

François Desjardins

Yes, I would have to echo Luc's comments. On the mortgage side we've been doing a little bit less business than last year, but certainly more than the years past. On the personal loan side, we've continued to have some growth in investment lending and RSP loans through the year and through the economic cycle that has been more hesitant, I would say.

Réjean Robitaille, CEO

And I already mentioned during… well the conference call that in terms... on the commercial side our pipeline still remains quite good. So based on what we're seeing right now in terms of growth, we feel very positive for the year. You probably have seen the latest housing numbers. The Quebec economy and housing market is still quite strong. So that's why… and you have that on slide 11 of the PowerPoint presentation. The growth was good in the first quarter. We expect that it should remain. But in certain areas we have seen some softening in demand. But let's say overall we remain positive. Very positive.

Shubha Khan

Okay. And it sounds like you're comfortable with giving it sort of mid-single digit growth rate for the personal loan side. I'm wondering whether… when the POS portfolio will stop weighing on that… on the growth on that portfolio?

Réjean Robitaille, CEO

Well I think that the point of sales… we have initiated the strategy to retract from that market. And probably that that will impact the overall portfolio for the next two years. So there's still a balance sheet on this.

Shubha Khan

Okay. If I could ask one last question specifically on the tax rate. So the effective rate was fairly low this quarter, and I understand the dynamics underlying it. But if I think about the tax rate going forward, do you see it going higher or lower from the Q4 rate? After you factor in a full quarter impact of the lower statutory rate?

Michel Lauzon

It should be about the same than the fourth quarter. I'm trying to remember what was special in the fourth quarter. Overall we expect the marginal tax rate to hover in the 23 to 26-per-cent range over the next three quarters. So a midpoint is 24.5. But again, it depends on where we source our income. But overall that's what we're seeing right now.

Operator

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

Sumit Malhotra

Just thinking about some of the moving parts you've talked about. I want to go back to your objectives that you gave us for 2011 three months ago. When you laid out the EPS objective range of 480 to 540, at that time were you contemplating this change to your hedging process and what that would do or the negative impact it would have on net interest margin?

Réjean Robitaille, CEO

Not necessarily. We were looking at the overall situation. We were comfortable with the range, and as I said earlier, even if there's only one quarter under our belt, results suggest that we're in line with the 2011 objectives. And as Michel and I said earlier, while maybe yes, lower net interest income, but it might be compensated by other aspects such as a lower tax level. Probably depending how the market will evolve, but on the credit side it's looking good. And securitization might be a little bit higher.

Sumit Malhotra

So I think that's the rub, at least from my seat that, okay, we've got to take 10 to 12 basis points off because of this. And we see that in your interest income on securities. Looks like that had a significant decline. But securitization revenue may be not the level of this quarter, but certainly better than we saw in 2010. You talked that we had a $1 million decline in provision for credit losses, and certainly it looks like you've got more room there given how your allowance keeps growing.
And then taxes, I think you just said, Michel, 23 to 26. A quarter ago I think you gave us 25 to 28. So that is a change from what we heard on the last call, but…

Michel Lauzon

That was before the federal income tax decline.

Sumit Malhotra

Okay. And I think you specifically laid out that's 1.4 per cent…

Michel Lauzon

Yes.

Sumit Malhotra

And is there… you'll have to refresh me here, I'm sorry. So you'll have a lower rate in 2011 because of the declines. But the declines have been built in to continue for the next couple of years as well, right? Like for example, your 2000...

Michel Lauzon

Declines in tax rates?

Sumit Malhotra

Yes, sir.

Michel Lauzon

Based on what's been legislated so far. Unless governments change their minds. We have that built into, going forward, based on what we expect. Without major shifts in business between provinces and so forth, all things being equal, it should gradually edge lower as the corporate income tax rate combined federal and provincial edges lower.

Sumit Malhotra

And the references to securities gains that you've taken this quarter or that may arise from some of the shall we say repositioning of your securities portfolio, does that run through the line that you call revenue from treasury and financial market operations?

Michel Lauzon

Some of it would be there and some of it we actually run in the line called credit insurance. Because it's related to offshore credit insurance operations.

Sumit Malhotra

And we see those don't look too much different this quarter from the run rate we've seen in the past. So it is incorrect to think that there's going to be an additional level of gains as you reposition this…?

Michel Lauzon
Maybe not gains, but premium income… net premium income, yes. On the insurance side. In terms of the markets, we don't manage the crystallization of our gains. We aim to generate a good level of securities income in terms of carry. And depending on opportunities we'll take gains when we feel it's time to take gains. So I wouldn't view it as a material impact from the change of outlook.

Sumit Malhotra

Okay. Lastly, if I just look at the components of your securitization, the way you present it to us, the line that's called change in fair value of retained interest, seller swaps, and financial instruments held as economic hedges…
It takes a while to say that line just to begin with.

Michel Lauzon
It takes longer to calculate it.

Sumit Malhotra

I'm sure. That line in particular seem to be the one that prevented the same level of securitization revenue in the last year because there were some large negatives that flowed through. When you talk about some of the changes that you've made, is this a line that's going to have less of an impact on you going forward?

Michel Lauzon

Precisely.

Sumit Malhotra

Okay. So you're going to securitize between 300 and 400, your servicing income, we can see what that is pretty consistently. So more of the gross gains, so to speak, should make its way to the revenue line.

Michel Lauzon
Which is why we feel a bit more confident on our level of securitization income this year. But as I've stressed a couple of times, we don't manage it to regenerate the income. We manage it to generate funding.

Réjean Robitaille

And that's why I mentioned also, if I may add, Sumit, we think that we're in line for 2011 objectives, even if though – and you all know that – that the second quarter, because of a shorter quarter usually net interest income's a bit lower. But net interest margin, as we mentioned, it should remain at roughly the same level.

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

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