CORPORATE PARTICIPANTS

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

Réjean Robitaille
President and Chief Executive Officer, Laurentian Bank

Michel C. Lauzon
Executive Vice-President and Chief Financial Officer, Laurentian Bank

François Desjardins
President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

CONFERENCE CALL PARTICIPANTS

Scott Chan
Canaccord Genuity

Michale Goldberg
Desjardins Securities

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.

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

Merci de vous. Good afternoon, everyone. Our press release was issued today on Canada Newswire and it's posted on our website; as well, our 2013 financial statements, MD&A and annual report can be found on our website.

This afternoon the review of our results for 2013 and for the fourth quarter will be provided by our President and CEO, Réjean Robitaille; our CFO, Michel Lauzon; and our President and CEO of B2B Bank, François Desjardins. Other members of our Senior Management Team are also present on this call to answer any questions. You will find a (inaudible) from Slide 22 of the presentation available on our website. Our presenters will refer to that presentation throughout their feature (phon).

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, Laurentian Bank

And thank you, Gladys. Good afternoon, ladies and gentlemen. 2013 was another great year for Laurentian Bank and I am proud of the many accomplishments that we achieved during the year, as well as with our results. I'm particularly pleased that despite an environment characterized by low interest rates, slowing consumer demand and a rapidly evolving regulatory environment, we were able to, for the seventh consecutive year, achieve record adjusted net income.

Our profitability increased year-over-year with adjusted net income of $156 million, up 11 percent, while reported net income totaled $124.7 million. In the fourth quarter of 2013, adjusted net income of $35.2 million was 3 percent lower than a year earlier, impacted by the decision to proactively take measures to improve our efficiency going forward. It's resulted in special restructuring charges of $6.3 million, or $0.16 per share. We carefully reviewed our activities, processes and teams. We centralized some activities to benefit prime economies of scale (phon). In doing this, we optimized many areas of our operation so that we become even more agile and gradually more efficient.

We have successfully been adapting our strategies. As a result of emphasizing fee-based income, other income rose by 12 percent in 2013 compared to 2012, and contributed to record total revenue. Similarly, our focus on higher margin products resulted in commercial loan growth of 17 percent over the year.

Our strong credit risk management, supported by our specialized approach to lending in a generally favourable environment, contributed to our excellent credit quality and very low loan losses. Moreover, we are leveraging our acquisitions to expand our client base and further diversify geographically. In fact, 40 percent of our loan portfolio, and 55 percent of our profitability now come from outside of Québec.

We are committed to delivering profitable growth by maximizing operating leverage in each of our business segments, and realizing the synergies related to our acquired businesses. Similarly, we are confident in our future and remain steadfast in our commitment to enhance shareholder value. This has resulted in the Board of Directors approving a $0.01 per share increase in the dividend to a quarterly rate of $0.51 per share. In 2013, we increased the dividend by 8 percent compared to 2012.

Turning to Slide 4; I am very pleased that, again in 2013, the Bank met its financial objectives. Only the adjusted efficiency ratio was marginally higher than the target, in part owing to the one-time restructuring charge. Excluding this amount, the ratio stood at 71.9 percent, falling within the targeted range.

I will now call upon Michel to provide you with a more in-depth analysis of our financial performance. Michel?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Thank you, Réjean. Turning to Slide 5, adjusted EPS for 2013 reached $5.09, compared to $4.98 in 2012, and ROE was 11.6 percent. On a reported basis, EPS was $3.99 and ROE was 9.1 percent.

Before discussing some of the major drivers of profitability for 2013, I would like to mention that the acquisition of AGF Trust impacted the Bank's financial results for all of 2013 compared to only the fourth quarter of 2012, and is largely responsible for the increase in core earnings. Results of AGF Trust are now core to B2B Bank's activities.

Total revenue reached $865.3 million in 2013, up 9 percent from 2012. The increase mainly results from the additional contribution of AGF Trust, along with strong growth in other income. Furthermore, net interest income in 2013 totaled $568.8 million, 7 percent higher than in 2012. This was largely due to higher loan and deposit volumes resulting from AGF Trust, which more than offset the impact of compressed margins.

The net interest margin as shown on Slide 6, fell by three basis points during the year to 1.66 percent. The continuing low interest rate environment and competitive pricing accounted for seven basis points of the decline, and the lower loan prepayment penalties accounted for an additional two basis points of compression. The acquisition of AGF Trust's higher margin loans positively impacted NIM, adding an estimated five basis points. For the fourth quarter of 2013, compared to the fourth quarter of 2012, net interest margin rose by four basis points to 1.66 percent. Lower liquidities added nine basis points, while the low interest rate environment compressed margins by five basis points.

Slide 7 highlights the 12 percent growth in other income in 2013 compared to 2012. We are particularly pleased at the increase of broad-based and that we are gaining traction on our wealth management activities. This was evidenced by revenues from the sales of mutual funds growing by 25 percent.

The provision for loan losses for 2013 rose to $36 million compared to $33 million in 2012, as shown on Slide 8. Loan losses in AGF Trust portfolios for the full year were partly offset by favourable settlements and overall improvement in the commercial loan and commercial real estate portfolios. The continued low level of loan losses reflects the quality of the Bank's loan portfolios and the prolonged favourable credit conditions.

The following slide highlights the excellent credit quality of our loan portfolios. Gross impaired loans declined by $29 million year-over-year largely owing to improvements in the commercial book, and increased by $1 million sequentially in the fourth quarter. The loss ratio for 2013 was a very low 13 basis points and continues to compare favourably to the Canadian banking industry.

As presented on Slide 10, the adjusted efficiency ratio for 2013 was 72.7 percent and 74.7 percent in the fourth quarter of 2013. Excluded from the efficiency ratio are T&I costs which are presented on our next slide; they totaled $38.2 million in 2013 and mainly related to IT systems conversion costs, employee relocation costs, salaries, professional fees and other expenses for the integration of AGF Trust and the MRS companies. T&I costs were $10 million for the fourth quarter of 2013.

Turning to Slide 12; isolating T&I costs, estimations for AGF Trust operating expenses and special restructuring charges show that core expenses rose 3 percent in 2013 compared to a year earlier, and only 1 percent in the fourth quarter of 2013 compared to the fourth quarter of 2012. This demonstrates that core expenses at the Bank are being tightly contained.

Shifting to the balance sheet on Slide 13; total loans and BAs reached $27.2 billion, up 2 percent from a year earlier. Residential mortgages increased by 4 percent, while consumer deleveraging contributed to the decline in personal loans, which include investment loans. Our specialized approach to commercial lending is gaining traction as commercial loans grew by 17 percent. Commercial mortgages increased by 2 percent, however, excluding the impact of a $95 million loan sale in the second quarter of 2013, the portfolio would have grown by 6 percent.

Deposits remain relatively stable given the slow growth environment for loans, with funding being provided by securitizations and redeployment of excess liquidity. As of October 31st, 2013, the common equity tier 1 ratio stood at 7.6 percent. It should be noted that on November 1st, 2013, the impact of adopting an amended version of IAS 19 is expected to reduce this ratio on a pro forma basis by approximately 0.2 percent, still well above the regulatory thresholds. Furthermore, under these new guidelines, 2013 adjusted net income will be reduced by approximately $5.3 million, or $0.19 per share, and 2014 results should be impacted in a similar fashion.

I will now briefly review the performance of our business segments. Turning to Slide 15, the Retail and SME-Québec business segments' contribution to net income was $40.7 million in 2013, compared to $43.9 million in 2012. Total revenue increased by 3 percent year-over-year as lower net interest income was more than offset by 14 percent growth in other income. This results from the success of our efforts to replace interest sensitive income by fee income. Loan losses increased by $3 million, consistent with the higher loan volume and driven by additional collected provisions on medium-sized residential real estate properties and projects.

Non-interest expenses increased by 4 percent, reflecting higher pension costs, restructuring charges and higher premises (phon) and technology costs. Excluding $4.3 million of restructuring charges incurred by this segment, core expense growth was 3 percent. The loan portfolio grew by more than 3 percent despite the ongoing runoff in the point of sale portfolio.

The Real Estate and Commercial segments contribution to net income, as shown on Slide 16, improved 5 percent to $67.1 million in 2013.

Total revenue was relatively stable as improvement in other income due to ongoing underwriting activity and one-time prepayments on commercial mortgage loans were offset by the impact of some margin compression on net interest income.

Loan losses improved significantly, generating a net credit of $5.5 million in 2013, resulting from the overall improvements in both commercial mortgage and commercial loan portfolios.

Non-interest expenses increased by $4.4 million compared to a year earlier, mainly due to higher salaries and benefits from additional hiring to support growth. This business segment also incurs the restructuring charges relating to the optimization of certain processes and activities which added $1.1 million to the fourth quarter's expenses.

Laurentian Bank's Securities and Capital Markets business segment's contribution to net income, shown on Slide 17, increased by 27 percent to $10.9 million in 2013, compared to 2012. Total revenue increased by 13 percent in 2013 as a result of improved market conditions for trading and retail brokerage activities compared to a year ago and capitalize on growth opportunities and fixed income and small cap equity markets. Non-interest expenses increased by $5 million due to higher headcount, performance-based compensation, commissions and transaction fees.

Turning to Slide 18; the B2B Bank business segment's contribution to adjusted net income was $62.2 million in 2013, up 25 percent from 2012. The inclusion of AGF Trust for the full year instead of only the fourth quarter of 2012 largely accounts for this increase, as well as other increases in the individual line items. Total revenue increased to $227.6 million, or by 28 percent compared to 2012. The provision for loan losses rose by $8.5 million in 2013 from a year earlier, and non-interest expenses grew by $22 million year-over-year.

I would now like to turn the floor over to François to provide a little more colour on B2B Bank.

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

Thank you, Michel for the opportunity to elaborate on the financial and strategic outlook of our two acquisitions. The MRF acquisition resulted in about $7.5 million in cost synergies, and the AGF Trust acquisition has delivered over $22 million in revenue right from day one.

The AGF Trust integration is very complex from a synergy perspective, because when we made this acquisition we knew that the assets and revenues were in decline and loan losses were going to be higher. We also knew that cost synergies would more than compensate for these factors. The combination of all these items is expected to result in an additional 6 to $8 million in synergies on an annualized basis which will be realized after the integration is complete in the third quarter of 2014. Moreover, given that market-driven forces have put pressure on revenues through softer loan demand and decrease in margins, we compensated for these factors through the MRF acquisition and I can say the same about the AGF Trust acquisition as well.

B2B Bank has generated very positive revenue growth of 80 percent since 2011, leading to an increase in adjusted net income of 48 percent over the same period. In fact, we have attained our highest level of net income ever when excluding T&I costs. Furthermore, we have amalgamated two of B2B Bank's main competitors and positioned ourselves to be able to lever all of our resources to generate organic growth in 2015.

We still have another year of hard work ahead of us. 2014 will be a transition year in which we must finish the integration and generate cost synergies, at which point all of our resources will be redirecting their efforts toward organic growth. The focus will be on cross-sales and the launch of alternative mortgage lending. This will result in a further improvement in B2B Bank's efficiency ratio, which has already begun to trend in the right direction.

All things being equal, 2015 should be positive on two important fronts. First, it will be a year when full cost synergies are realized, and second, it will be the start of generation for revenue synergies. All that to say that we are extremely pleased with our progress to date and are very positive about what B2B Bank will be able to deliver in the future.

That concludes my comments, and now Réjean will offer some closing remarks.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, thank you, François. 2013 was another strong year with numerous accomplishments across all of our business segments. Retail services improved its positioning in wealth management, helped by a 54 percent increase in net sales of mutual funds, as well as strategy of forging partnerships to access new pools of potential clients was pursued and a new transactional website with increased functionality was rolled out.

The commercial segment's specialized focus sharpened with the addition of experienced account managers in new niches such as manufacturing. Organic growth was generated as exemplified by the energy (phon) in infrastructure growth—group, which completed new financing totaling $150 million, contributing to the 17 percent increase in commercial loans.

As well, business development opportunities were pursued with the launch of the leasing activity. An experienced team is already in place to serve and expand the client base. In fact, we are the first Québec-based institution to offer a leasing solution in the province.

B2B Bank almost completed the integration of the MRS companies, began the integration of AGF Trust, and completed its first year of operation as a chartered Bank. The consolidation of B2B Bank's operations reached another milestone as employees recently moved to a single new office in the heart of Toronto's financial district for doing the process of building and strengthening one unified team.

Finally, Laurentian Bank Securities positioned themselves to be able to take advantage of the growing mortgage-backed securities market, expanded its offering to include structured products and increased its penetration among Toronto institutional investors.

I would now like to turn to Slide 20 where our financial objectives for 2014 are presented, along with the underlying key assumptions. We expect good organic growth in 2014 which will be fuelled by higher margin products, including leasing solutions now offered to commercial clients, and all fee (phon) mortgages distributed by B2B Bank.

However, there is likely to be some attrition in the investment loan portfolios. Margins are anticipated to be relatively stable from the year-end level, and loan loss provisions should, in the second half of 2014, progressively return to normalized levels. As well, expenses will be tightly controlled despite the anticipated increase in pension costs from changes in accounting standards.

While 2014 is expected to be a year in which we consolidate our operations and position ourselves for the next leg of our growth, beyond 2014 we anticipate to increasingly benefit from our strategies and our competitive advantages. As such, on Slide 21 we provide our outlook for the medium term beyond 2014. First, we will leverage B2B Bank's position as the dominant Bank to Canada's financial advisory committee. Second, we will increase our footprint in commercial banking with targeted offerings such as lease financing and other banking solutions to niche segments. Third, we will pursue the development of our virtual offering to meet the evolving needs and expectations of both our existing and future clients. All of these initiatives will significantly advance the Bank's pan-Canadian growth.

Finally, we are working towards implementing the AIRB approach and optimize the Bank's regulatory capital. However, as there is growing uncertainty and discussions around the world about a more risk-sensitive, simple and comparable methodology to measure capital adequacy, Management has decided to review the speed of the AIRB implementation and complete the project with one single delivery in 2018. Pursuing these strategies will allow us to take advantage of the business development opportunities throughout the Bank so that beyond 2014 over the medium-term we expect to be able to meet the following financial objectives: grow EPS by five to 10 percent annually; gradually bring the efficiency ratio below 68 percent; generate positive operating leverage, and maintain strong capital ratios that exceed regulatory requirements.

To conclude, we are committed to building a stronger, more efficient, as well as increasingly diversified and profitable Bank and we are very positive about our future.

Gladys?

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

Thank you, Réjean. 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. Questions will now be taken from the telephone lines. If you wish to ask a question at this time and you are using a speakerphone, please ensure you lift the handset before you make your selection. If you wish to ask a question, please press star, one on your telephone keypad. You may also cancel your question at any time by pressing the pound sign. Once again, please press star, one if you have any questions. There will be a brief pause while participants register. Thank you for your patience.

Once again, please press star, one if you have any questions.

I have no questions registered on the telephone lines at this time.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Could you try it again?

Operator

Once again, please press star, one if you have any questions. Once again, there will be a brief pause while participants register.

First question is from Scott Chan with Canaccord Genuity. Your line is now open, please go ahead.

Scott Chan, Canaccord Genuity

Oh, thanks.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Hello there, Scott, I was just a bit afraid, last time we weren't able to have some questions so…

Scott Chan, Canaccord Genuity

I thought the same thing happened this time.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

(Inaudible) to receive questions now. So go ahead, Scott.

Scott Chan, Canaccord Genuity

I pressed star, one many times, so I don't know what happened there. My first question is for François, and I appreciate the update on B2B Bank. Just your comments on post-Q3, you talk about six $8 million more in synergies. Can you just elaborate that, you know, whether that comes from the cost—between the cost and revenue side?

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

Sure, thank you very much. It—you know, the six to eight that we've been disclosing from the start is a combination of a decrease in revenue from margin and growth decreases that were already in AGF Trust at the time, plus our evaluation that loan losses would go up, and of course more than that compensated for—by cost synergies. We have never gone above that level of detail and we're still holding fast to that, but it's a combination of the three.

As far as going into 2015, there will be—and we have never disclosed any numbers about it, but of course we're looking forward to progress on the organic sales side, which will be, of course, part and parcel linked to revenue synergies from the two acquisitions that we've made.

Scott Chan, Canaccord Genuity

Do you still maintain your net income accretion guidance of 30 to $32 million from the past file (phon)?

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

Can you repeat that?

Scott Chan, Canaccord Genuity

I think last quarter you talked about the net income accretion guidance of 30 to $32 million. Does that still hold true, post-Q3, on an annual basis?

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

Yes, it does.

Scott Chan, Canaccord Genuity

Yes? Okay.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Just—this is Réjean speaking, Scott. Taking (inaudible) into consideration with all the other things that François was just mentioning.

Scott Chan, Canaccord Genuity

Right, right, on the cost and revenue side. Okay.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Yes.

Scott Chan, Canaccord Genuity

And just looking at your supplemental, I saw that your full-time employees decreased 7 percent quarter-over-quarter and I imagine that has a lot to do with the restructuring on the retail side with the $4.2 million cost. Was it broad-based, or was any of the employee reductions regarding anything at B2B Bank and the integration?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

That was part of, let's say, two of those things when comparing to the previous quarter, it's roughly 300 people less. I would say half of that would be from the restructuring charges that we announced during the fourth quarter and the rest of that would be the integration at B2B Bank.

Scott Chan, Canaccord Genuity

Integration at B2B Bank, okay. And, technology costs, or IT costs are pretty high in 2013 for obvious reasons. You know, looking into 2014, do you suspect the cost to be elevated or do you expect it to be more of a moderate growth?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

I would say that—well, you're looking at numbers excluding or including integration costs?

Scott Chan, Canaccord Genuity

Excluding.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Excluding integration costs. We do not expect, going forward, a significant increase in IT costs. And, well, in our assumptions for 2014, we also put a line mentioning that we expect the expenses to be tightly controlled below the anticipation rate level, so that's for total expenses including those IT costs.

Scott Chan, Canaccord Genuity

But the changes in pension expenses, the reduction of employees should more than offset the pension expense for 2014?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

That's what we expect. That's a roughly—and that's what we have in our assumptions, yes.

Scott Chan, Canaccord Genuity

Okay. And just a last question, maybe for Michel, just on the tax rate. It was a low again this quarter and it stated lower revenue from foreign insurance operations. Can you just provide a bit more detail on that?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

The—it wasn't lower revenues on foreign operations.

Scott Chan, Canaccord Genuity

No?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

In fact it's higher expenses domestically because of integration and the restructuring charges which lowered the domestic net income.

Scott Chan, Canaccord Genuity

Okay. That's great, thanks guys.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you, Scott.

Operator

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

Michale Goldberg, Desjardins Securities

Thank you. Réjean, given your medium-term objective of bringing your expense to revenue ratio to below 68 percent, can you do this without having to take additional restructuring charges, like the $6.3 million this quarter?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, we—as you know, we will have to work very diligently on both sides, revenue side and the expense side. I mentioned during the call that we will continue to put more emphasis on the distribution of higher margin products, mainly through our commercial activities, you've seen a 17 percent increase in 2013 but we also announced the launching of our leasing capacities and also the fact that we could do a (inaudible) mortgage through the B2B Bank corporation, so those three things altogether will certainly help to fuel the revenue going forward and that's part of the strategy, but at the same time, it is important—and I think that we—while we could show to the market that yes, we can control, have very tight control of our expenses at Laurentian, and that should be also part of our operation.

In terms of going forward, it's not, let's say, in the near plan to have other restructuring charges, but if need be, it is also always important to look at the way that we do things, how—and look at our processes, and that's what we did in Q4 of this year.

Michale Goldberg, Desjardins Securities

Do you feel that you have adequate flexibility to do that?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

The answer is yes.

Michale Goldberg, Desjardins Securities

Okay.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We did it.

Michale Goldberg, Desjardins Securities

And also, just as a suggestion. You know, the question of your tax rate and the impact came up, and it's come up before. You're the only one of the Banks that doesn't provide information on a taxable equivalent basis. That would be helpful.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We'll take that into consideration. Usually, the number is relatively the same, so that's one reason why.

Michale Goldberg, Desjardins Securities

I know, but you did refer to the impact of dividends on your tax rate.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We'll look at that, Michale.

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

It's usually not a material reason for fluctuations, but we'll look at it.

Michale Goldberg, Desjardins Securities

Thank you.

Operator

Thank you. Once again, please press star, one if you have any further questions.

There are no further questions registered at this time. I'd now 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. The conference call has now ended. Please disconnect your lines at this time. We thank you for your participation.
