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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.

Gladys Caron, Vice-President, Public Affairs, Communications and Investor 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 of our results for 2012 and for the fourth quarter will be provided by our President and CEO, Réjean Robitaille, and 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 24 of the presentation available on our website. Our presenters 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.

Now I will turn the floor over to Réjean Robitaille.

Réjean Robitaille, President and Chief Executive Officer

Thank you, Gladys, and good afternoon, everyone. 2012 was another record year for Laurentian Bank, and I am pleased with the many accomplishments that we achieved during the year, as well as with our results. I am particularly satisfied that despite an environment that was challenging and characterized by low interest rates we were able to, for the sixth consecutive year, improve our operating earnings.

Our profitability increased year-over-year, on both a reported and un-adjusted (phon) basis. Reported net income totaled $140.5 million, a 14 percent increase while adjusted net income, which looks through these non-core items reached $140.7 million, an 8 percent increase.

In the fourth quarter of 2012, adjusted net income improved by 8 percent, compared to a year earlier. Loans and deposits rose by 21 percent and 20 percent, respectively, from organic growth and acquisitions. Also contributing to our good performance was the excellent credit quality of our loan portfolios, resulting from the proactive approach to credit risk that we deployed.

An uncertain economic environment and lingering low interest rates create challenging retail banking conditions. This called for us to adapt our strategies and this is exactly what we have been doing by pursuing higher margin businesses, continuing to emphasize fee-based reviews, and even more carefully about the way we do things to further improve efficiency. Moreover, we are continuing to diversify, geographically, something that our positions (phon) are contributing to. In fact, 39 percent of our loan portfolio is outside of Quebec, and 53 percent of our profitability now comes from elsewhere in Canada.

Our solid capital base and the confidence that we hold in the future, resulted in the Board of Directors approving a $0.02 per share increase in the dividend to a quality rate of $0.49 per share. We increased the dividend by 14 percent year-over-year.

Turning to Slide 4, I'm, very pleased that again in 2012 the Bank met its revenue growth, adjusted return on common shareholder's equity, and adjusted other earnings per share objectives.

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

Michel Lauzon, Chief Financial Officer

Thank you, Réjean. I would like to begin with a brief explanation of the adjusting items that impacted the fourth quarter and full year financial results presented on Slides 5 and 6. These will help in understanding some of the unusual factors affecting our reported results in the adjusted or core financial performance of the Bank in 2012.

The largest adjusting item shown on Slide 6 relates to the gain on the acquisition of AGF Trust. On August 1st, B2B Bank acquired 100 percent AGF Trust for $246 million, and a contingent consideration of $20 million. Under the new IFRS Guidelines, the preliminary allocation of the purchase price, or simply put, the difference between the purchase price and the fair value of assets and liabilities of AGF Trust, resulted in a premium of $30.2 million, as the estimated fair value of the net assets acquired on that date exceeded the purchase price. This gain was reduced by the estimated fair value of the $20 million contingent consideration valued at $5.9 million for an overall impact of a $16.4 million after-tax gain. The premium will have to be amortized and net income on the estimating remaining term of the purchase financial instruments as the Bank collects at the contractual coupon rate over time.

Slide 5 also highlights the expected impact of the amortization which will decrease net income over the next several years. Both the gain on acquisition and the unwinding of the premium over time are considered to be non-core.

As shown on Slide 6, the second adjusting item relates to the transaction and integration costs of our acquisitions which, while significant, are of a non-recurring nature. In the fourth quarter of 2012, after tax T&I (phon) costs related to the MRS Companies totaled $4.7 million, and those related to AGF Trust totaled $1.7 million.

For all of 2012, T&I cost related to MRS and AGF were $13.9 million and $2.2 million, respectively. In 2012 on a reported basis, the T&I costs essentially offset the gain on the acquisition. You will recall that in 2011, there was an adjusting item that related to compensation for the termination of a previous mutual fund distribution agreement. This negatively impacted the fourth quarter of 2011 by $5.5 million. As well, MRS related T&I costs of $1.2 million were recorded in that quarter.

Turning to Slide 7, the 14 percent increase in reported net income for 2012 resulted in EPS of $4.98, compared to $4.65 in 2011; an ROE of 12.1 percent. On an adjusted basis, the 8 percent increase in net income resulted in EPS of $4.98, as well, compared to $4.93 in 2011 and an ROE of 12 percent.

I will now discuss some of the major drivers of profitability for 2012. First net interest income in 2012 reached $531 million, 5 percent higher than in 2011, helped by a significant increase in loans and deposits. The net interest margin, as shown on Slide 8, fell by 13 basis points during the year to 1.69 percent. The continuing low interest rate environment, flatter yield curve, and competitive pricing accounted for 10 basis points of the decline; and the higher level of liquidity and mix of balance sheet growth accounted for a further 6 basis point compression.

The acquisition of MRS and AGF Trust had a positive impact on NIMB adding 3 basis points. On a sequential basis, net interest margin fell by 4 basis points to 1.62 percent in the fourth quarter of 2012. Tighter re-pricing caused a two basis point decrease, seasonally lower prepayment penalties and a higher level of liquidity caused a further negative impact of five and three basis points, respectively. This was partially offset by AGF Trust's contribution, which increased margin by six basis points in the quarter.

Slide 9 highlights the 14 percent increase in other income in 2012 compared to 2011. This was largely driven by the $26.2 million contribution from MRS, mainly from fees related to investment accounts. Most other source of noninterest income also increased during the year. Total revenue for MRS and AGF Trust in 2012 amounted to $40.1 million and $20 million, respectively.

Loan loss provision for the fourth quarter of 2012, shown on Slide 10, decreased to $8 million from $13 million a year earlier. Included in the fourth quarter total was a $3.1 million provision related to the AGF Trust portfolio, as well as favourable settlements and overall improvements that led to a net credit of $2 million in loan losses in the commercial mortgage loan portfolios.

The following slide highlights the continued improvement—improving trend in the credit quality of our loan portfolios. Gross and impaired loans declined by $36 million and $11 million, respectively, over the year and by $28 million and $13 million sequentially, largely owing to improvement in the commercial book.

The loss ratio for 2012 of 14 basis points is shown on Slide 12. While we expect that this ratio should continue to compare favourably to the Canadian banking industry in 2013, the addition of the AGF Trust portfolio and a gradual return to more normal provisioning level is expected to result in our provisions, and consequently, at a higher loss ratio.

As presented on Slide 13, the adjusted efficiency ratio for all of 2012 was 73.1 percent. This ratio was higher than a year earlier, as the very low interest rate environment slowed the growth in net interest income.

Slide 14 highlights the impact of MRS and AGF Trust's operating expenses on the Bank's overall non-interest expense. Total Bank operating expenses on a reported basis jumped 14 percent year-over-year to $604.5 million. Transaction and integration costs represented 2.5 percent of the increase. A full year of MRS operating expenses and a full basis quarter of AGF Trust expenses represented another $38.4 million, or 7 percent, when combined.

On a quarter-over-quarter basis noninterest expenses excluding T&I costs totaled $156.6 million, a 10 percent increase. MRS expenses increased from $6.6 million in the third quarter to $8.8 million in the fourth quarter, as year-end accrual adjustment and non-recurring HST and capital tax charges temporarily increased the cost base. The consolidation of AGF Trust in the fourth quarter added a further $8.3 million of expenses. Net of these factors, the Bank's expense base rose $4.3 million, or 3 percent.

Slide 15 highlights some of the increases in noninterest expenses, excluding T&I costs and acquisitions. Of the $4.3 million sequential variance in expenses in the fourth quarter of 2012, $4 million is considered to be nonrecurring. These include severance costs, advertising costs relating to B2B Bank and HST and capital taxes. In comparing the fourth quarter of 2012 with the fourth quarter of 2011, nonrecurring items accounted for $3.9 million of the expense variance. This demonstrated that our core expense growth is quite low, reflecting our disciplined approach to cost management. One of the main drivers of the Bank's improving results is loan and deposit growth highlighted on Slide 16.

Total loans and BAs reached $26.8 billion at year-end 2012 up 21 percent from a year earlier. Contributing to this $4.7 billion increase was organic growth of $1.2 billion, MRS contributed $0.3 billion, and AGF Trust contributed $3.2 billion. Residential mortgages increased by $2.3 billion, with $1.2 billion resulting from AGF Trust, and $1 billion generated organically. Personal loans grew by $2 billion, largely owing to the acquisitions while the run-off and point-of-sale financing continued.

Commercial mortgages, commercial loans and BAs rode by—rose by 8 percent. Deposits increased by 20 percent over the past 12 months. Contributing to this $4 billion increase was $0.7 from MRS, $2.8 billion from AGF, and $0.5 billion generated organically. To prudently manage capital in light of balance sheet growth and in preparation for increased regulatory capital requirements, almost $482 million of new capital was raised in 2012.

In the fourth quarter of 2012, we completed a $100 million preferred share issue and issued $200 million unsubordinated debt. As at October 31, 2012, our Tier 1 Basel II ratio was 10.9 percent. The pull from our common equity Tier 1 ratio at year-end 2012 stood at 7.4 percent when applying the Basel III rules now applicable in 2013. We were pleased that in October, DBRS changed the trend to positive from stable on all the long term ratings of the Bank. The Board of Directors approved today the launch of our shareholder dividend and share purchase plan with an initial discount of 2 percent when common or preferred shares are reinvested in treasury issued common shares.

I will now briefly review the performance of our five business segments. Turning to Slide 17, the Retail and SME Québec business segments' contribution to net income was $43.9 million in 2012, compared to $51.9 million in 2011. Total revenue declined by 2 percent year-over-year as lower net interest income more than offset growth in other income.

Loan losses were relatively stable year-over-year. The increase in noninterest expense was contained to less than 1 percent as we continued to focus on tight cost control. The loan portfolio grew by 6 percent in a very competitive market, despite the ongoing run-off in the point-of-sale portfolio. The Real Estate and Commercial segments' contribution to net income as shown on Slide 18 improved by 25 percent to $64 million in 2012. Total revenue declined by less than 2 percent, as strong growth in loans did not fully offset the margin compression. Other income increased by 2 percent as a $3.2 million gain on the sale of an $85.2 million commercial mortgage loan portfolio was partially offset by lower foreign exchange revenues. Loan losses improved significantly, declining by more than 80 percent to $3 million, reflected in the very solid health of the loan portfolio.

B2B Bank business segment's contribution to adjusted net income was $49.6 million in 2012, up 18 percent from 2011. Total revenue increased to $178.2 million, or by 41 percent, compared to 2011, largely owing to our recent business acquisitions. The provision for loan losses increased by $1.7 million in 2012 from a year earlier, including a $3.1 million of loan losses associated with the AGF Trust's loan portfolios.

Non-interest expenses rose by $42 million year-over-year, but excluding the acquisitions, non-interest expense is increased by 6 percent mainly due to additional employees required to support non-acquisition related business activity. Loans and deposits grew by 66 percent and 39 percent, respectively. It should be noted that AGF Trust's contribution to B2B Bank in the fourth quarter was larger than what we expect will be the run-rate in 2013, as we anticipate higher loan loss provisions and a modest decline in portfolios.

Laurentian Bank's Securities and Capital Markets business segments' contribution to net income shown on Slide 20 increased by 36 percent to $8.5 million in 2012 compared to 2011. Total revenue increased by 6 percent in 2012 as a result of higher underwriting fees, partly offset by reduced retail brokerage income. Non-interest expenses increased by only 1 percent as performance-based compensation accruals were offset by continued cost controlled initiatives.

The other segment posted a negative contribution to net income of $25.3 million in 2012, compared to a negative contribution of $20.9 million in 2011, including the compensation for the termination of our previous mutual fund distribution agreement.

Net interest income improved to negative $14.4 million from negative $28.7 million a year earlier, reflecting good market positioning and some adjustments to transfer pricing.

Non-interest expenses increased by $14.2 million largely due to higher unallocated pension costs and group insurance program claims, as well as higher professional fees related to the ongoing project to adopt the internal rating based approach under Basel II and other regulatory compliance projects.

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

Réjean Robitaille, President and Chief Executive Officer

Thank you, Michel. Well, 2012 was another strong year in which we earned record net income even though the environment was challenging. In fact, our well-entrenched trend of improving performance continued, as highlighted on Slide 22.

Over the past four years, net income has grown by 37 percent, loans and expenses by 16 (phon) percent, and deposits by 57 percent. Underpinning this growth is a 41 percent increase in common shareholders equity. Our progress is in large measure due to our business plan, which is grounded in our foundation of clear focus, agile growth, and effective execution.

While we expect headwinds such as persistent low interest rates, elevated costs from heightened regulatory requirements, and a slowing hosing market to continue to impact in 2013 operating environment, we remain committed to achieving yet another year of good performance. With this in mind, our objectives for 2013 are presented on Slide 23. Targets exclude expected integration costs and the unwinding of the acquisition-related net premium. We anticipate good organic growth to continue particularly in our commercial businesses. Compressed margins should stabilize during 2013, and our strategies to grow and diversify other income will be maintained.

Loan loss provision is expected to rise from the very low 2012 level, in part due to the acquisition of the AGF Trust portfolios. Expenses will continue to be tightly controlled, and these underlying assumptions are expected to result in net income of $145 to $165 million, an REO of 10.5 to

12.5 percent, when including the impact of the common liquidity issued in 2012.

Now, what are our plans for next year to achieve these objectives? First of all, one of our main priorities for next year is to successfully complete the integration of the MRS Companies and of AGF Trust by late 2013. The integration of MRS is progressing well, and we will begin to integrating AGF in the spring. We expect full synergies to be realized for both acquisitions in 2014. The two acquisitions have already positively impacted the Bank's profitability and we are confident that we will prove to be strong—that they will prove to be strong additions and contribute significant value to the Bank in the coming years. Our positioning amongst financial advisors and brokers already benefits from these acquisitions, as we have reached a critical mass that provides us with advantages in the market.

Second, we will continue to manage the Bank for the long term by constantly improving the products we offer, the accessibility of our services, and the quality of the advice we give to our clients, all of which in the end improves their satisfaction. We firmly believe that we are on the right track, as evidenced by the level of satisfaction among our retail branch customers, which has reached 95 percent.

Improving our business mix by adding higher margin products is a third area of focus for 2013. Commercial activities will be our priority on this front. Our approach to the SME Quebec market, where we implemented a niche strategy, has proven to be successful. This portfolio has doubled over the last five years. As well, our teams in the Real Estate and Commercial sector have generated sustained growth over the same period. Now with loans of approximately $4.8 billion, our commercial portfolios significantly contribute to our profitability, and we will continue to focus on their growth. Of note, the CRM system we implemented a few years ago in the retail sector should soon be deployed among our commercial teams leveraging its important strategic system.

Increasing revenues from other income will also be a priority. We will continue to focus on generating increased fee income through cross-selling opportunities in the retail sector. Laurentian Bank Securities, building on a solid foundation, will work on accelerating growth and assets under management, whether it be in fixed income, equity or retail groups. We will also look to grow our footprint in Western Canada, mainly through the new office we opened in Winnipeg. This will help to leverage the platform of the institutional equity group.

Finally, controlling our costs will continue to be a tough priority for next year. To conclude, we will maintain our focus on generating profitable growth and optimizing the deployment of shareholder's equity, while insuring that we're responsibly managing our expenses, our investments, and our risks.

We truly believe in the future of Laurentian Bank and we are committed to continuing to build a stronger Bank.

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.

QUESTION AND ANSWER SESSION

Operator

Thank you. We'll now take questions from the telephone lines. If you have a question, please press star, one on your telephone keypad.

The first question is from Gabriel Dechaine from Credit Suisse. Please go ahead.

Gabriel Dechaine, Credit Suisse

Hi, good afternoon. The first question's on the margins; and quarter-over-quarter you said that the AGF had a 6 basis point positive impact. I'm just wondering how, you know, that's going to evolve over the next year or so as you run off the Portfolio, or parts of the AGF portfolio?

Réjean Robitaille, President and Chief Executive Officer

Thanks, Gabriel. We'll ask Michel to answer this question.

Michel Lauzon, Chief Financial Officer

For the time being, we expect that the impact is pretty much going to be around the six basis point range. With, you know, fluctuations around that level.

Gabriel Dechaine, Credit Suisse

Okay. So what's that? Not a significant run-off of the higher you spread loan?

Michel Lauzon, Chief Financial Officer

The spread should remain constant. It's just the side of the Portfolio which should be slightly lower.

Gabriel Dechaine, Credit Suisse

Okay. Then your PCL outlook, including the AGF impact, I guess, of your more conservative reserving methodology that's going to be implemented; so you have 14 basis points of a PCL ratio in—well this year. I'm wondering, are we talking about a move from the low teens to the high teens?

Réjean Robitaille, President and Chief Executive Officer

I'll ask Louis Marquis of credit to answer this one Gabriel.

Louis Marquis, Senior Vice-President, Credit

First I'd like to say that there's nothing untoward in our portfolio. Everything's performed very well, but we do indeed expect the gradual increase in the loan losses during 2013. The first part of the year the increase should be probably in line of toward 18 percent, around that; going to the low 20 basis points as we go towards the later part of the year.

Gabriel Dechaine, Credit Suisse

Thanks for that. And my last one is on the adjusted net income target for next year. The range based off of the $140.7 million base there is 3 to 17 percent. Just wondering, you know, what gets you to the lower end versus the higher end of that range and it looks like the mix ratio's a big component of that, you give a three-point spread between, you know, your target range, is it really all expense related?

Réjean Robitaille, President and Chief Executive Officer

No not necessarily, in fact, and we decided this year to publish just the net income target for 2013. We mentioned, also, several factors that we—that's on the line for these outlooks. In terms of efficiency ratio, as you could see, we expect an improvement, we expect—still expecting significant revenue growth. We expect operating leverage to be positive in 2013; so mainly, as we refer, we are also expecting at the same time a high level of loan losses. That's mainly the fact for having the range of $145 to $165 next year.

Gabriel Dechaine, Credit Suisse

But the range and the efficiency ratio, you know, contemplating any, you know, acceleration of synergies at all?

Réjean Robitaille, President and Chief Executive Officer

In terms of synergies, we will continue to have that expenses will be tightly controlled. You've seen that in the retail, for instance, this year. Their expenses increased less than 1 percent. So we will continue that and we expect in the year to—the years to come to continue to improve our efficiency ratio, and thanks to the operating leverage that we expect. On the cost synergy side based on the integration, I will ask François to give you a little bit more colour on this.

François Desjardins, Vice-President, Direct Financial Services

Sure. Thank you. We had already announced that based on where we were when we announced the acquisition of AGF that the lift after synergies would be in the $20 to $30 million range for 2014; and then a question about 2013, how much lift can we expect? Just generally based on adjusted—on the adjusted basis, we're looking at—if you look at Q4 results, of this year, MRS results seem to be a little bit low, AGF a little bit too high, and we are expecting to have more loan losses than we did in Q4; so based on the Q4 basis, adjusted basis, that's what we would run at in 2013, and gradually get to our $20 to $30 in 2014.

Gabriel Dechaine, Credit Suisse

Sorry, can you—I'm not following you. The Q4 adjusted basis is what you expect to run at in 2013?

François Desjardins, Vice-President, Direct Financial Services

Correct.

Gabriel Dechaine, Credit Suisse

So (cross talking). MRS a little light, AGF a little toppy, so between the two they kind of net off? Is that it?

François Desjardins, Vice-President, Direct Financial Services

With the increased loan losses—loan losses in the quarter—in the fourth quarter were especially low. We're expecting to have more loan losses all through the year this year.

Gabriel Dechaine, Credit Suisse

Okay. So lower contribution, MRS and AGF in 2013?

François Desjardins, Vice-President, Direct Financial Services

Correct.

Gabriel Dechaine, Credit Suisse

Got 'ya. Thanks.

Operator

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

John Reucassel, BMO Capital Markets

Thank you. Michele, just hoping you could clarify something. On Slide 9 on the Other Income, what in 2012 or 2011, what would have Other Income grown excluding acquisition?

Michel Lauzon, Chief Financial Officer

Hold on a second, the—probably about half that rate, so about 7 percent.

John Reucassel, BMO Capital Markets

Okay. So then do you Michel, or—I know in your guidance you talk about you've gone from EPS to net earnings, correct?

Michel Lauzon, Chief Financial Officer

Yes.

John Reucassel, BMO Capital Markets

And I think from that $145 to $165 million we have to deduct preferred share dividend, is that right?

Michel Lauzon, Chief Financial Officer

It's already included in that—no it's not included in that, you're right.

John Reucassel, BMO Capital Markets

Okay, so the EPS number, if I—somewhere between $4.70 and $5.40, is that what you agree that's about the range?

Réjean Robitaille, President and Chief Executive Officer

If you do the math based on the number of common shares that we have, which is 28 to 117 numbers are correct, yes.

John Reucassel, BMO Capital Markets

Okay. So, obviously, the—you know the one that's keeping you at the lower end of that range, is that—that's obviously credits going higher, but how much do spreads play into that? Like if you talk about less spread pressure, but is it just credit that going to put you into the bottom of that range, or do you need some help from spreads?

Réjean Robitaille, President and Chief Executive Officer

Most of it will be credit, but I'll ask Michel to give a little bit more flavour on this.

Michel Lauzon, Chief Financial Officer

Yeah, in terms of spread, John, all—the NIMB all year was 169 and in the fourth quarter one was 162. We think that's about where it should hover for most of 2013, plus or minus two or three basis points per quarter. So obviously on a year-over-year basis there was—you know, the spread compression will hurt; however, going forward we feel that we've—it's gone as low as it could get. So that's—as we grow organically, it should help the top line revenue plus what Réjean talked about in terms of other income initiatives that we have in store.

John Reucassel, BMO Capital Markets

Okay, so ask it a different way then. To get to the high end of that range, do you need some help from spreads or are there other income initiatives and cost initiatives that could get you the upper in that range?

Michel Lauzon, Chief Financial Officer

Partly help from spreads, but also help from more favourable loan losses if the credit environment turns out to be better than the 22 basis points by year end. That's correct.

John Reucassel, BMO Capital Markets

Okay. Thank you very much.

Operator

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

Michael Goldberg, Desjardins Securities

Thanks. How much will T&I costs for MRS and AGF be for fiscal '13 and fiscal '14? And when will these costs go away?

Réjean Robitaille, President and Chief Executive Officer

Michel will you answer this question?

Michel Lauzon, Chief Financial Officer

Yes, we're finishing up on MRS, and we should see some gradually lower cost through Q3; Q3 being mostly a cleanup quarter from a cost perspective on the MRS integration. But we were, as Francois mentioned, we will be ramping up the AGF integration, and so we expect costs each quarter to be in the $8 to $12 million range but they can tend to be lumpy. So that's what we have planned and it could move around from that, but that's what we have pretty much all of next year.

Réjean Robitaille, President and Chief Executive Officer

And we should have completed the integration by the end of calendar year of next year, let's say by the end of December 2013.

Michael Goldberg, Desjardins Securities

Okay, so $8 to $12, and that's for the total for both of them?

Réjean Robitaille, President and Chief Executive Officer

That's right.

Michael Goldberg, Desjardins Securities

Okay. And I'm just wondering, you know, because these costs are essentially programmed, you know how they're going to be expensed, can you actually give us a schedule of what the expenses will be on a quarterly basis?

Réjean Robitaille, President and Chief Executive Officer

I'll ask Francois to answer this question Mike.

François Desjardins, Vice-President, Direct Financial Services

Thanks Michael. I—we do know what needs to get done, what the difficulty is when it needs to get done, and that's why we can't really give you a quarter-over-quarter expense planning. Integrations are very fluid in terms of calendar. Things move around, and we have to book those expenses when they actually happen not when we want them to.

Michael Goldberg, Desjardins Securities

Okay. Moving on, how much higher is AGF's margin expected to be versus the Legacy business?

François Desjardins, Vice-President, Direct Financial Services

Well, what we mentioned earlier is that the overall impact of AGF adds six basis points to the Bank's NIMB, and in the coming year we expect that the six basis points should remain relatively the same. So not necessarily a decrease in NIMB, but as Michel mentioned earlier, decrease in the portfolios.

Michael Goldberg, Desjardins Securities

So that's six basis points on, say, for the fourth quarter, the full $34.9 billion of average assets?

François Desjardins, Vice-President, Direct Financial Services

That's correct.

Michael Goldberg, Desjardins Securities

Okay.

François Desjardins, Vice-President, Direct Financial Services

And that's the reason also why we mentioned that we expect that margins should stabilize in 2013 including the six basis points, so you could say that's the same plus or minus three basis points as Michel mentioned, but it could be related to six basis points less than the Bank plus six basis points more on AGF which would be relatively flat versus the level that we have in Q4 of this year.

Michael Goldberg, Desjardins Securities

Okay, and, I'm trying to find something. You showed in one of your slides the impact of the acquisition. Did you have the addition of total assets from AGF?

Michel Lauzon, Chief Financial Officer

I think there's a slide on asset growth has the impact portfolio by portfolio.

François Desjardins, Vice-President, Direct Financial Services

We have that on Slide 16, Michael.

Michael Goldberg, Desjardins Securities

Okay so I—all right, so you've got total loans but—and total deposits, but not total assets?

Michel Lauzon, Chief Financial Officer

There's probably roughly another $500 million of liquidity portfolios, investment portfolios, and other type assets that you can add to that.

Michael Goldberg, Desjardins Securities

So on top of the $3.2 billion of total loans?

Michel Lauzon, Chief Financial Officer

Yeah, note 29 to the audited financial statements, which you should have received, highlights the purchase equation and the actual balance sheet and so you should see the total assets purchased on August 1st, which total $4.0 billion.

Michael Goldberg, Desjardins Securities

Okay, what I'm really trying to get at, again, you said that there's a higher loss ratio for AGF; so just in terms of your planning, what is the actual margin on the AGF business that you built in and the actual loss ratio that you built in?

You know, I'm asking this so that going forward we can actually monitor what's happening to see if there are any positive or negative variances.

Réjean Robitaille, President and Chief Executive Officer

Michel?

Michel Lauzon, Chief Financial Officer

Michael it will become very difficult to track the original AGF portfolio, for example, all of the liquidity portfolios have been transferred to Laurentian Bank Treasury, there's re-pricing happening during the year, you know, we are going to be seeing some attrition in the loan book and obviously the funding strategy behind AGF is now blended in within the Bank's overall strategy. So it will become, and we're going to integrate portfolios during the year. So all that told, it's going to be very difficult to track specifically what the Legacy AGF portfolios contribution or spread would have been.

All I can say is what we see right now in our planning is that we expect on a marginally basis, the bank without AGF would have NIMB six basis points lower at around 156, compared to the 162 we printed in Q4 and—and AGF, if AGF is one-tenth of the Bank, you can do the extrapolation of what that means in terms of the overall spread. But as I said, it's going to be a moving target and I wouldn't want to try to track it next year.

Réjean Robitaille, President and Chief Executive Officer

And that said, also in 2012 we provided on a quality basis the impact that we—that MRS had on total revenue and expenses, we won't be able to do this in 2013 because MRS will be totally integrated into B2B Bank, but that said, on the AGF Trust numbers, though, we will publish on a quality basis the impact of total revenues and expenses, and also loan losses to give you also better clarification of the overall impact of AGF in 2013.

Michael Goldberg, Desjardins Securities

I just want to make sure that I'm doing this correctly. So your total average assets in the quarter were about $34.9 billion, and based on the, say, $500 million of liquidity and other assets, and the $3.2 billion of loans, so let's say that's $3.7 billion, you owned it right throughout the quarter. So could I look at it by taking $3.7 billion off the $34.9, and then looking at the 156 on the Legacy and the remainder on AGF?

Michel Lauzon, Chief Financial Officer

You could do that Michael, but you can do it for this quarter. Going forward it's going to become more difficult to segregate the assets, the Legacy assets from B2B Bank's overall portfolios.

Réjean Robitaille, President and Chief Executive Officer

Okay, you could repel that by being an overall impact of six basis points to the overall Bank, then the AGF's NIMB was much more higher.

Michael Goldberg, Desjardins Securities

Higher. Okay. And just one last question following up on John Reucassel's question, so when I take the 2013 earnings objective of $145 to $165, and take off the likely preferred dividend, which I guess would be about $16 million, that points to me to about $4.60 to $5.30 per share, which is lower than what your objective was in fiscal ’12. What should we conclude; you know, first of all, am I making a mistake? And if not what should we conclude from the lower earnings per share objective range for fiscal ’13 than the objective was for fiscal ’12?

Réjean Robitaille, President and Chief Executive Officer

Well, different aspect also and I think that you mentioned that in the third quarter report. In 2013 we’re going to have a full year dilution impact of the common share issue that we did and completed last August, first of all. So that’s an impact.

In terms of the overall bottom line total revenue and expenses, as I said, we also mentioned that it should bring—we should add lots of other revenues and less expenses, and that’s why we think we’re going to have an operating leverage next year. So mainly it’s two things that we have. We think that we might have a higher level of loan losses. That said, we said in the last—I’d say four quarters of the level was unusually low, but those levels were there for the last four quarters, so we might be wrong, but that, once again, but I think that we wanted to be conservative based on the—on adding the AGF portfolio, so higher loan losses, a full year dilution impact and the overall impact that you have for the pref shares that Michel made may be on the high side.

Michel Lauzon, Chief Financial Officer

Yes, you can be a bit on the high side in terms of the pref dividends.

Michael Goldberg, Desjardins Securities

It was, I think, $11.8 million from the two series that you had through the year, so I’m just adding the Series 11 $4 million dividend on that.

Réjean Robitaille, President and Chief Executive Officer

But we might complete other capital activities in the coming months so it might be a little bit high on the—on the high side.

Michael Goldberg, Desjardins Securities

Okay, thanks very much.

Operator

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

Darko Mihelic, Cormark Securities

Hi, thank you. A question for Michel first on Page 15 you talked about the noninterest expense. You mentioned the $4.3 million here is largely nonrecurring. So first can you confirm that? Secondly, what I note here is B2B Bank advertising a billion, but can you help me out with the other $3.3 million. In what segment would the rest of that have fallen into in the quarter?

Michel Lauzon, Chief Financial Officer

Okay, some of it was in MRS, we talked about it and looked not from that Slide we also had some in the other segment we had some items. In retail we also had some severance costs due to restructuring, and we did have year-end tax adjustments and incentive compensation adjustments. And those would be throughout the Bank.

Darko Mihelic, Cormark Securities

Okay, would it be fair to say that maybe half of this fell into B2B Trust? Or sorry, B2B Bank for the quarter?

Michel Lauzon, Chief Financial Officer

No that would give it too high in terms of our assumption.

Darko Mihelic, Cormark Securities

Okay, maybe a question for Francois then. If I back out AGF’s results this quarter out of the B2B Bank segment, there’s a very big increase in your expenses quarter-over-quarter. Can you help me understand why that is? That would be $27 million off of $23, so it would be basically about $4 million quarter-over-quarter increase in expenses.

François Desjardins, Vice-President, Direct Financial Services

The Bank's expenses in the last quarter were impacted by several non-recurring expenses, one is mentioned here, the other was an adjustment for a variable compensation and that's about it.

You should refer to Q3 as our run-rate for B2B Bank with the exception of AGF Trust in it as being the correct run-rate.

Michel Lauzon, Chief Financial Officer

And Darko you mentioned you were excluding AGF, this is Michel here. You're excluding AGF but there are also some nonrecurring items in MRS.

Darko Mihelic, Cormark Securities

Okay.

Michel Lauzon, Chief Financial Officer

So if you're backing out only AGF then there's another million, million and a quarter of non-recurring or lumpy expense growth in MRS that is in your residual number.

Darko Mihelic, Cormark Securities

Okay, and maybe perhaps—maybe just cutting to the bottom line the, if I've done the math correctly, here's a B2B Bank, ex-AGF, only produced $8.4 million of earnings in the quarter?

Michel Lauzon, Chief Financial Officer

We've had multiple versions, but I don't think we have that one specifically Darko, so maybe we can get back to you and provide you the information if—but you should have most of the information in the press release and back it out. What we have is excluding both MRS and AGF. So I wouldn't want to doodle-ize (phon) the math of adding back the MRS and so forth. So.

Darko Mihelic, Cormark Securities

Was it AGF—was AGF not $7.3 million?

Michel Lauzon, Chief Financial Officer

Net contribution in the quarter, bottom line, that would include, as Francois mentioned, it is a bit high because there were some tax—favourable tax adjustments that helped the AGF contribution in the quarter.

Darko Mihelic, Cormark Securities

Okay, but, so if I take out $7.3 from…

Michel Lauzon, Chief Financial Officer

Yep.

Darko Mihelic, Cormark Securities

$15.7 I still get $8.4.

Michel Lauzon, Chief Financial Officer

Yeah.

Darko Mihelic, Cormark Securities

Okay so I did the math right?

Michel Lauzon, Chief Financial Officer

Yeah.

Darko Mihelic, Cormark Securities

Okay. And then I guess another way to think of this quarter is if I assume the $4.3 million of expenses you outline is largely nonrecurring, and I tax-effect that, that's about $0.11 per share.

Michel Lauzon, Chief Financial Officer

Right.

Darko Mihelic, Cormark Securities

Which would mean about $1.28, let's say, of earnings per share on an adjusted basis…

Michel Lauzon, Chief Financial Officer

That's correct

Darko Mihelic, Cormark Securities

So, right, so that's a yearly number of $5.10 per share. So I still—I suppose I'm just like the other analyst, I'm struggling with understanding how the low end of the range is even possible for next year, understanding that AGF is for full year in 2013, and I guess that brings me to my last question. I didn't quite understand your answer to Gabriel's earlier question about what your expectation is for AGF in 2013. I didn't quite understand the number that you spoke to. If it was $7.3 million this quarter with the favourable tax impact, what is it per quarter for 2013?

Réjean Robitaille, President and Chief Executive Officer

Let's say that to be a little bit more precise; if we exclude this tax impact that would roughly $6 million per quarter, so times $424 million from AGF. We think that also on the loan losses side that was a little bit too low in Q4, and that we could have a higher level of low losses in 2013; that said, and I think that Francois also alluded to that, he mentioned that after the integration and bringing with all the cost synergies that we expected, we still expect that AGF will provide $28 to $30 million more a year versus what we had before.

So in terms of the Q4 impact, that's why Francois mentioned that it was maybe a little bit high, and we could have a higher level of loan losses; and on the MRS side as Michel mentioned also, that was nonrecurring items, so on the MRS side was a little bit too low for this quarter, and maybe a good way to look at MRS was the impact of MRS in Q3; that would be a more normal rate for the year to come.

Darko Mihelic, Cormark Securities

Okay, and Réjean, it's difficult to understand given your press release, your materials for this quarter, but are you actually happy with the fourth quarter result?

Réjean Robitaille, President and Chief Executive Officer

Of course I am. It's—and I think that you, and I mentioned that, and you also mentioned there's—let's say there's adjusted reports and then results, and they're also the one that we reported but as mentioned, as Michel mentioned, also, there was some, a lot of nonrecurring expenses in 2000—in the fourth quarter of this year. So if we included that, the results are quite good, and for six consecutive years another record year.

So yes I am satisfied with this. I'm satisfied with the fourth quarter results, on the credit side still quite good and in the coming year—the coming few quarters, we expect positive operating leverage—which was not the case in the last few quarters. We expect efficiency to improve, we expect revenue growth to continue to improve, we expect good organic growth to continue, but the main point is there's going to be—the overall impact of the dilution as I mentioned earlier, the—and that's hypothesis, but we think that, let's say the level of loan losses that we had in 2012 was maybe on the low side, but we said that in the last four quarters. So we might be wrong again, but based on the information that we have on the portfolio that we looked at with AGF, we expect that loan losses could be at—let's say the high teens or low 20s, but gradually, very gradually, because you've seen that in Q4 the pref quality portfolio of all—the pref quality of the Portfolio is still very strong and that might be the same thing for Q1 or the next two quarters to go; but that said, our expectation in the coming quarters we expect that we could have higher level of loan losses there.

So if we're wrong, well we might be at a higher level in terms of expectation for next year, much more higher than the $145, and usually when we get trends like this it could be say in the middle of it which—what's the target that we have internally.

Darko Mihelic, Cormark Securities

Okay. All right, thanks very much.

Operator

Thank you. As a reminder, you may press star, one at if you have any questions.

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

Sumit Malhotra, Macquarie Capital Markets

Good afternoon, guys. First off, probably for Michel, just on the items in the quarter. When you talk about the expenses, was the number you talked about as being unusual—just to clarify—it was $4.3 million in Q4?

Michel Lauzon, Chief Financial Officer

It was $4 million in Q4.

Sumit Malhotra, Macquarie Capital Markets

Four million, so in your view on “core number”, and I realize there’s things that move around…

Michel Lauzon, Chief Financial Officer

Yep.

Sumit Malhotra, Macquarie Capital Markets

All the time, expenses actually on a core basis would have been down, sequentially. Is that right?

Michel Lauzon, Chief Financial Officer

They could have been down, that’s right.

Sumit Malhotra, Macquarie Capital Markets

Actually, AGF, obviously.

Michel Lauzon, Chief Financial Officer

Yep.

Sumit Malhotra, Macquarie Capital Markets

And secondly, the comment on the prepayment fees that hurt that interest margin by five basis points; now, if I’m not mistaken, usually Q3 is a quarter in which prepayment fees are elevated. Correct me if I’m wrong there, but is this something that you would normally see…

Michel Lauzon, Chief Financial Officer

Yes.

Sumit Malhotra, Macquarie Capital Markets

In a fourth quarter?

Michel Lauzon, Chief Financial Officer

Yes. So Q2 and Q3 would tend to be elevated and would drop off sharply in Q4. And we’ve seen that in the last three years.

Sumit Malhotra, Macquarie Capital Markets

Okay, so that is something that we normally have occur for the Bank in the fourth quarter?

Michel Lauzon, Chief Financial Officer

That’s right.

Sumit Malhotra, Macquarie Capital Markets

Okay. Let’s move over to something else. We’ve talked a lot about the two big acquisitions. One more of that was announced a year ago was the mutual fund partnership transfer over to Mackenzie. And this quarter, or this year when I look at your revenue from the sale of mutual funds—up about 4 percent, but if I remember correctly from my notes, the distribution agreement will have you as a principal distributor to start 2013. Can you give me an update on what's happening there, and whether you feel this will be meaningful to your—to that revenue line in 2013?

Réjean Robitaille, President and Chief Executive Officer

Yes I'll ask Luc Gingras, head of retail, to answer this question.

Luc Gingras, Vice-President, Retail Financial Services, Indirect Sales Network

Thank you Réjean. As you mentioned exactly where we have finished the roll-out of the component of the agreement and there we'll pick up principal partner of Mackenzie early next January, we expect to see gradually impact of the agreement on 2013, but in the marginal (phon) side.

Réjean Robitaille, President and Chief Executive Officer

The point is that there are several thresholds that we have to…

Unidentified Male Speaker

To achieve.

Réjean Robitaille, President and Chief Executive Officer

To touch and depending on if those thresholds that will bring—that's a significant other income eventually, but that will start gradually.

Sumit Malhotra, Macquarie Capital Markets

So the revenue growth trend shouldn't necessarily be much greater than we saw this year just from the transfer over?

Michel Lauzon, Chief Financial Officer

This is Michel. Depending on the level of markets—remember there are trailer fees involved and depending on where markets are next year could be higher, could be lower. We think it could be higher, but this year was overall mutual fund revenues were hampered by the fact that we had a very slow start in the markets in the year.

Sumit Malhotra, Macquarie Capital Markets

Over to capital for a second. The Basel III ratio at 7.4 percent this quarter, and you've communicated the commencement of what I'm going to call it drip, you can correct me if that—maybe that's not the right wording to use. How do you feel this is going to—or what annual impact do you envision or estimate this will have on the capital position of the Bank?

Réjean Robitaille, President and Chief Executive Officer

In terms of the drip?

Sumit Malhotra, Macquarie Capital Markets

Yes sir.

Réjean Robitaille, President and Chief Executive Officer

That should be marginal I would say at the beginning. I think that we were the only Bank, Canadian Bank that didn't have a drip, and we thought that was appropriate in the fact that we want to continue to build strong capital ratios, but based on, let's say, what we've seen in the market, that could be, well a few bps.

Sumit Malhotra, Macquarie Capital Markets

A few bps. And lastly around loans and tying it into your revenue target. If I take the—I think it was Slide 16 you pointed us to that showed the addition of AGF Trust added, call it, $3.2 billion of loans to the balance sheet in Q4. If I—loans and acceptances—if I subtract that from your total, on a quarter-over-quarter basis, it looks like the loan book was up 0.7 percent, and you know three months might not be the best way to look at it, so you can correct me if that number is incorrect; it does look a little bit skinny in terms of loan growth just on that measure from and organic perspective. Can you help us think about—'cause you're giving us some good hints here with all the moving parts, what are you envisioning as loan growth trend for Laurentian next year, keeping in mind that there might be some run-off proportions of the AGF portfolio you're not interested in?

Réjean Robitaille, President and Chief Executive Officer

And you're absolutely right on that side. I mentioned…

Sumit Malhotra, Macquarie Capital Markets

Right on the number, sorry, on the 0.7? Or…

Réjean Robitaille, President and Chief Executive Officer

No on the facts that we might see…

Sumit Malhotra, Macquarie Capital Markets

Some run-off.

Michel Lauzon, Chief Financial Officer

Some run-off in the acquired portfolios. We—I mentioned that in terms of based on the assumptions that we took, we continue to see good organic growth to continue in 2013. If you recall on Slide 16, excluding the two acquisitions loan and (inaudible) loan, (inaudible) loans would have grown by $1.2 billion. So that's roughly the type of thing that we're seeing.

I might also ask the head of business lines to give you a little bit more flavour and as you mentioned based on the acquired portfolios, let's start with Francois on B2B trust side. Francois?

François Desjardins, Vice-President, Direct Financial Services

Sure. The—this of course takes into account that the portfolios on the AGF Trust side was trending negatively when we bought it, but we are expecting that over time that trend would decelerate in the first couple of years of the purchase.

Generally, for this year only, so 2013, we are expecting as a combined MRS, AGF B2B entity to have mortgage loans at a positive single-digit growth, personal loans at a negative single-digit growth, and deposits including (inaudible) accounts to be relatively flat.

Réjean Robitaille, President and Chief Executive Officer

On the commercial side, Stéphane Therrien.

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

For real estate and our commercial sector, we expect a high single digit loan growth combined with low single digit for real estate and low double digit for commercial loans.

Réjean Robitaille, President and Chief Executive Officer

And you may recall that in 2012 we also sold a portion of our, let's say, what's close to $100 million of real estate and we might, going forward, continue to do this because of the syndicated debt that we implemented late in 2011; so that's also part of our strategy and that's including the numbers that Stéphane just mentioned.

Luc on your side, on the Retail side?

Luc Gingras, Vice-President, Retail Financial Services, Indirect Sales Network

On my side, all our origination channels are performing very well and we're expecting for the Retail side, a growth of the mid-single digits, and for the SME side, low double digits.

Réjean Robitaille, President and Chief Executive Officer

So overall for the Bank that's a long answer, but that would be a mid-single digit in terms of growth for next year.

Sumit Malhotra, Macquarie Capital Markets

I guess the thing is, and I'll leave it here. Like when I look at your 2013 objective, I guess you say greater than 5 percent for revenue, but when you're looking at this on a full year basis, obviously your average loan growth is going to have the benefit of these acquisitions even on a year-over-year basis, even if your organic number from Q4 is going to be more like middle-single digits. You're going to end up with pretty big loan growth on an average basis, your NIMB, you think you can hold it not too differently on the Q4 level, and you talked about some of the fee income initiatives. I mean, unless something goes drastically wrong with margin, it seems like 5 percent is pretty light for a revenue.

Réjean Robitaille, President and Chief Executive Officer

Agree with you. I think that one aspect that has characterized Laurentian Bank over the last few years were our conservative or prudent approach. This is prudent objectives for 2012 we're trying to play, and I totally agree with you. The 5 percent increase in terms of revenue growth it's definitely a very low minimum.

Sumit Malhotra, Macquarie Capital Markets

All right. Thanks, thanks guys.

Réjean Robitaille, President and Chief Executive Officer

You're welcome.

Operator

Thank you. We have no further questions at this time. I would 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 has now ended. Please disconnect your lines at this time and we thank you for your participation.