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PRESENTATION

Operator

All participants thank you for standing by, your conference is ready to begin. Good afternoon, ladies and gentlemen. Welcome to the Laurentian Bank Conference Call.

I would now like to turn the meeting over to Ms. Gladys Caron. Please go ahead, Ms. Caron.

Gladys Caron, Moderator

Merci. Bienvenue. Good afternoon, everyone. The press releases for our second quarter 2012 results and for our acquisition of AGF Trust were issued today on Canada Newswire, and are posted on our website. This afternoon's overview will be provided by our President and CEO, Rejean Robitaille; our CFO, Michel Lauzon; and the President and CEO of B2B Trust, Francois Desjardins. Other members of our Senior Management Team are also on this call to answer any questions. You will find their names and titles on slide 29 of the presentation available on our website. Rejean Robitaille and Michel Lauzon will refer to the presentation throughout their speeches.

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

I will now turn the floor over to Rejean Robitaille

Rejean Robitaille, President and Chief Executive Officer

Thank you, Gladys, and good afternoon, ladies and gentlemen. I am delighted to be able to announce today's solid second quarter earnings, as well as an agreement of Laurentian and AGF Management Limited (inaudible) under which B2B Trust will acquire 100 percent of AGF Trust Company, a further building block for our future. In a few moments, we will discuss the many ways in which this transaction will contribute to our strategic development and our long-term profitability. But first, I would like to review our second quarter results.

Our momentum continued into the second quarter of 2012, resulting in strong performance with net income reaching 33.9 million, 9 percent higher than a year ago, or $36.3 million, excluding the transaction and integration costs related to the acquisition of the MRS Companies. Adjusted net income increased 17 percent and adjusted EPS grew 12 percent, making this our best second quarter in the history of the bank.

The bank reached another milestone with balance sheet assets exceeding $3 billion, as well as best (phon) balance sheet assets exceeding 33 billion. We are pleased by the strong organic growth across all business lines, and long-term deposits of 9 percent and 8 percent respectively, despite the lingering challenges presented by the economy and the banking environment.

We were also very satisfied by the excellent credit quality of all of our loan portfolios, which continued to perform well during the quarter. Furthermore, our strategic initiatives are progressing nicely. Integration of the MRS Companies is proceeding according to plan, as we remain focused on delivering on the expected synergies in 2013, and the Mackenzie Mutual Funds offering is being well received in our branches.

I was also pleased to have announced in mid-May that the employees at the bank who are unionized recently voted in favour of an agreement in principle for the renewal of the collective agreement, effective January 1st, 2012, for a six year term. This is a win-win agreement, as it provides competitive working conditions for unionized employees, and allows the bank to pursue its strategic development. It also underscores the excellent relationship and mutual respect between the bank and our union.

Our ongoing growth and development initiatives, combined with our solid balance sheet and earnings, as well as the confidence that we hold in our future enabled us to once again increase our quarterly dividend by $0.02 per share to a quarterly rate of $0.47.

Turning to slide 4, our fist six month, management expects that the bank is on track to meet all of its financial objectives as set out at the beginning of the year. This should be perpetuated (phon) by loan growth, the contribution from MRS, and good credit quality, as well as (inaudible) focus on cost controls and effective execution.

I will now call upon Michel to review the second quarter of 2012 financial results. Michel?

Michel Lauzon, Chief Financial Officer

Thank you, Rejean. Financial highlights of the second quarter of 2012 can be found on slide 6. Revenue growth of 8 percent year-over-year was driven by a 5 percent increase in net interest income, and a 15 percent rise in other income. Provision for loan losses declined to $7.5 million in the second quarter of 2012 from 12 million in the second quarter of 2011. Loan interest expenses, excluding T&I costs, rose to 143.8 million from 132 million a year earlier. T&I costs were 3.4 million or $0.10 per share in the second quarter of 2012 compared with 2.7 million or $0.08 per share in the first quarter of 2012. These costs are expected to be continued to be incurred throughout 2012 at varying amounts, and should generate opportunities for meaningful synergies starting in 2013.

In the second quarter of 2012, adjusted diluted EPS and adjusted ROE reached $1.31 per share and 13 percent respectively, compared with $1.17 and 12.7 percent in the second quarter of 2011.

I'll now discuss the main factors behind the Bank's performance during the second quarter of 2012. Firstly, net interest income of 128.3 million in the second quarter of 2012 increased 6.3 million from the second quarter of 2011. Strong loan and deposit growth more than offset lower margins, as highlighted on slide 7. The net interest margin, at 1.73 percent, has been relatively stable for the past three quarters. It was 10 basis points lower than in the second quarter of 2011, with 4 basis points of the reduction due to an increase over the past 12 months of securitization assets of $1 billion, and 6 basis points of the decline due to competitive pricing, the continuing low interest rate environment, and a flatter yield curve.

On a sequential basis, margins decreased by only 2 basis points. In the second quarter of 2012, we securitized 303.8 million of the residential mortgage loans, and sold an additional 230.7 million of mortgages as replacement assets.

Secondly, other income of 70.3 million rose 9.2 million or 15 percent from the second quarter of 2011, as is shown on slide 8. This increase was fuelled by several revenue streams. First, the acquisition of the MRS Companies contributed 7 million to other income, largely related to revenues from registered self-directed plans. Second, revenues from card services increased 25 percent year-over-year, driven by business developments efforts resulting in higher conventional volumes and fees. Third, income and treasuries and (inaudible) market operations rose 47 percent from a year earlier.

Finally, during the second quarter, the bank completed a sale of $77 million of commercial mortgage loans, resulting in a $3.1 million gain recorded in other income. This transaction dovetails with our syndication strategy, and helps to proactively manage our risk-weighted assets and credit risk. These increases were partially offset by higher credit insurance claims, and lower income from brokerage operations.

Thirdly, as highlighted on slide 9, the provision for loan losses amounted to $7.5 million in the second quarter of 2012, 2.5 million lower than last quarter, and 4.5 million lower than a year earlier, reflecting the good overall quality of our loan portfolios and excellent credit conditions in Canada, specifically the year-over-year reduction in provision for losses on the commercial loan portfolio to reflect (inaudible) known losses, a reduction in collective allowances due to the specific provisioning on a single real estate account, an overall improvement to the profile of the portfolio, and small miscellaneous recoveries.

Slide 10 highlights the further improving credit quality. Gross impaired loans of 147.3 million at the end of the second quarter of 2012 decreased by $5.4 million from the end of the first quarter of 2012. This positive trend was largely the result of continued improvement in the commercial loan portfolio, with write-offs exceeding (inaudible) and continued good performance in the retail portfolios despite the strong loan growth over the past few years.

Net impaired loans declined by 2 million from the prior period to 10.5 million. As presented on slide 11, the provision for loan losses stand at 0.13 percent of loans and acceptances.

The bank's reduced risk management and underwriting standards continued to result in a low and relatively stable credit risk profile as expressed by the loss ratio, which compares very favourably to the banking industry.

Turning to slide 12, the efficiency ratio for the second quarter of 2012 was 72.4 percent excluding T&I costs, relatively unchanged from a year earlier. Persistent margin pressure, constraining growth in net interest income is largely responsible for the efficiency ratio remaining at the higher end of our target range. Year-over-year growth in non-interest expenses, excluding integration costs, was 11.8 million or 9 percent.

It should be noted that non-interest expenses increased by only 4.2 million or 3 percent in the second quarter of 2012 compared to a year earlier, when excluding both the T&I costs and MRS operating expenses of $7.6 million. This demonstrates our sustained focus on cost control while pursuing initiatives to further growth—to further grow other income.

Sequentially, non-interest expenses rose by $4.1 million, reflecting a full quarter of regular salary increases, and 13 extra days of MRS operating expenses.

Excluding T&I costs, the Bank's operating leverage during the quarter turned slightly positive.

A more granular review of expenses shows that salaries and employee benefits increased by 6.1 million or 8 percent year-over-year, mainly due to increased headcount from the acquisition of MRS, and regular salary increases.

Premises and technology costs increased by 3 million compared to the second quarter of 2011. The increase was attributable to higher rental costs, in part related to MRS, as well as accounting for organic growth and new IT projects, continued investments in the Bank's technology infrastructure, and higher amortization expenses.

The 2.6 million year-over-year increase in other non-interest expenses was also largely as a result of the MRS acquisition and other professional services.

Slide 13 highlights the continued growth in the balance sheet over the past 12 months. Loans and acceptances totalling $23.1 billion rose by 2 billion or 9 percent over the last year. MRS accounted for 0.3 billion of the increase, with the balance generated organically.

Residential mortgages represented half the growth, increasing by $1 billion. Personal loans, excluding point-of-sale financing, increased by 575 million, fuelled by investment loans largely acquired through MRS, home equity lines of credit, and personal loans rented under the Immigrant Investor Program. Commercial mortgages and commercial loans, MBAs (phon), increased by $501 million, despite a $77 million sales of 100 percent risk-weighted commercial mortgage loans during the quarter.

Total deposits increased by 1.5 billion over the past 12 months to reach 21.1 billion. This included 200 million of three-year senior deposit notes raised during the second quarter to maintain liquidity at prudent levels. Retail deposits remain a very stable source of funding for the Bank, with personal deposits representing 78 percent of total deposits at the end of the second quarter of 2012.

As at April 30th, 2012, our tier one capital ratio was 10.4 percent compared to 10.3 as at January 31, 2012, and our tangible common equity ratio was 8 percent compared to 7.5 percent at the end of January. Our capital (inaudible) was bolstered by the issuance in February of 1.3 million common shares, for an (inaudible) of $60.9 million. On a pro forma basis, including the full impact of IFRS, our Basel III common equity tier one ratio, as at April 30th, 2012, it reached 7.1 percent, which is about the future Basel III (inaudible) threshold.

Turning now to the performance of our business segments. We were pleased that all of our business segments continued to generate new (inaudible) organic growth in loans and deposits. As interest rates begin to rise, this will be a good platform from which to lever revenue and earnings. Slide 14 shows that Retail & SME Quebec's contribution to net income was $10.7 million in the second quarter of 2012 compared to 11.5 million a year earlier. The decline was largely revenue-related, as expense growth was well-contained, increasing by only 1 percent year-over-year. Provision for loan losses declined by more than 25 percent to $4.9 million from 6.6 million a year earlier.

Slide 15 highlights the real estate and commercial segments' contribution to net income of $17 million in the second quarter of 2012 compared to 13.2 million earned a year earlier. Other income benefitted from the sale of 77 million of commercial mortgage loans, resulting in a 3.1 million gain. Net interest income declined by 2 percent, owing to margin compression, despite solid growth year-over-year in loan acceptances of 10 percent. Non-interest expenses grew by 0.5 million year-over-year and loan losses further improved by 3.1 million.

As shown in slide 16, B2B Trust's contribution to net income of 10.6 million in the second quarter of 2012, when excluding 2.4 million of after tax T&I costs, was marginally higher than a year earlier. Total revenues increased by $9 million, largely reflected—related to the acquisition of MRS.

Other income, driven by fees related to MRS registered self-directed plans, nearly tripled from the second quarter of 2011.

Net income rose 8 percent from a year ago, and loan losses increased by 0.3 million to 0.9 million. Non-interest expenses rose 8.8 million to 24.5 million, including 7.6 million of operating costs relating to MRS. The MRS acquisition continues to yield excellent results. The integration is proceeding according to plan. (Inaudible) anticipated synergy is expected to be realized gradually over the next nine months. The MRS operations are running in track, tripling our marginal contribution to EPS in 2012, and rising to approximately $0.15 to $0.20 per share based on the original number of shares outstanding.

As shown on slide 17, Laurentian Bank securities and capital markets' contribution to net income was $2.8 million in the second quarter of 2012, marginally higher than a year earlier, but 0.9 million higher than the in the first quarter of 2012.

Revenues of 16.3 million were 1.6 million lower than a year ago, as they continued to be challenged by low underwriting and trading activity. Non-interest expenses decreased by 1.6 million, due to lower performance-based competition and cost reduction measures.

The other sector, presented on slide 18, posted a negative contribution to net income of 4.7 million in the second quarter of 2012 compared with a negative contribution of 6.9 million in the second quarter of 2011.

I'd now invite Rejean to further discuss our acquisition of AGF Trust.

Rejean Robitaille, President and Chief Executive Officer

Thank you, Michel. So turning to slide 20, I would now like to discuss the significant value and opportunity that we see in B2B Trust acquiring AGF Trust, a company that specializes in the financial advisor market. AGF Trust employs about 300 people, and its balance sheet consists of more than $3 billion of loans, and almost $3 billion of deposits.

We firmly believe that by acquiring AGF Trust, we are putting in place yet another building block to solidify Laurentian Bank's future. We're going to spend a few minutes on slide 21 to outline the multiple benefits that we expect.

First, AGF Trust will be beneficial to the Bank's performance, as it increases our scale of operations, and it optimizes our efficiency, increases our net interest income and margins, and thereby contributes to improving our profitability on a sustainable basis.

Second, this acquisition will be favourable to B2B Trust's existing operations, as it leverages B2B Trust's solid base of business, lifts its already strong scale and efficiency to an even higher level, and in one fell swoop, expands B2B Trust's distribution network. Also, AGF Trust geographically diversifies the Bank's portfolio and profitability.

Lastly, this acquisition is consistent with our strategy. It is an excellent fit with our business development strategy, and prioritizes investing in our growth engine. Furthermore, it develops B2B Trust's competitive advantages and positioning.

So the main thing is solid capitalization as is highlighted on slide 22. We entered into subscription agreements relating to a private placement for $120 million of subscription receipts, exchangeable into new common shares of the Bank at 41.85 upon closing of the transactions. The Caisse de dépôt et placement du

Quebec is investing 100 million to acquire 2.39 million shares, and Fonds de solidarité FTQ (phon) is investing 20 million to acquire 0.48 million shares.

I would now like to call upon Francois to discuss how this acquisition can reinforce B2B Trust's business.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Thank you, Rejean. I, too, am delighted to be able to add AGF Trust's operations, which are highlighted on slide 23, to those of B2B Trust. Doing so further proves that B2B Trust is and always will be 100 percent committed to meeting the needs of the financial advisory community. It is clear that this acquisition reinforces B2B Trust's business.

Slide 24 demonstrates that by combining these two entities on a pro forma basis, investment loans increase by 54 percent, and mortgages increase by 45 percent. Total loans and acceptances and deposits rise by 51 and 29 percent respectively.

Turning to slide 25, the rationale underpinning this acquisition was really quite simple: AGF Trust serves as a vehicle to improve the profitability of B2B Trust, and consequently, that of the Bank. First, we expect to achieve improved profitability from lower operating costs. AGF Trust loans and deposits will be integrated into our systems, which we anticipate to be a relatively easy process due to AGF Trust's size and similar product suite. Furthermore, we expect to realize economies of scale from increased business volumes.

Second, AGF Trust's business profile provides higher net interest margins, and further geographic diversification.

And finally, B2B Trust will gain new sources of product distribution. The number of advisors who distribute B2B Trust products increased by 17 percent, from 23,000 to 27,000.

With the inclusion of AGF Trust's quality products and services, B2B Trust will be well-positioned to continue developing industry-leading solutions, and further enhancing its best-in-class status.

I will now return the floor to Michel to outline details of the transaction and its expected financial impact. Michel?

Michel Lauzon, Chief Financial Officer

Thank you, Francois. Turning to slide 26, B2B Trust will purchase 100 percent of AGF Trust for cash consideration, corresponding to the net book value of the company at closing of approximately 242 million. The agreement also includes the repayment of subordinated indebtedness owed to and redemption of preferred shares held by AGF Management Limited for a total consideration of 173.5 million. Furthermore, there is a contingent consideration of a maximum of $20 million over five years should credit quality reach certain criteria. Closing is expected in August, 2012.

Turning to slide 27, we are expecting the transaction to have a positive impact on profitability. Net income of the Bank is projected to increase by approximately 28 to 30 million annually as of 2014 once integration is complete. Our estimates also factor in adjustments for the (inaudible) the underwriting practices with those of the Bank, as well as the expected synergies.

We anticipate integration costs of about 30 to 35 million pre-tax to be incurred in 2013 once the integration of the MRS Companies is complete.

Our pro forma tier one capital ratio, without transition arrangement and taking into account the expected proceeds of the private placement and the acquisition, would be approximately 10.3 percent, and the tier one common ratio under Basel III on the same basis would be approximately 7.3 percent.

Rejean will now offer some closing remarks.

Rejean Robitaille, President and Chief Executive Officer

Thank you, Michel. So we have delivered solid second quarter earnings, increased our dividend, and we are making an attractive acquisition at an attractive price. AGF Trust is a building block that further enhances the bank and its B2B Trust business segment. The benefits are numerous, and include advancing the competitive advantages and positioning of B2B Trust, accelerating growth, increasing geographic diversification, and improving profitability. This compelling transaction is a further step towards the creation of a long-term shareholder value.

I will now turn the floor over to Gladys.

Gladys Caron, Moderator

Thank you, Rejean. We will now start the question and answer session. Please feel free to ask a question in English or in French. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone line. Please lift your handset before making your selection. You may press star, one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

And now our first question is from Michael Goldberg of Desjardins Securities. Please go ahead.

Michael Goldberg, Desjardins Securities

Thank you. First of all, what should we be expecting in terms of the trends in margin in the third quarter, further compression, or will margins stabilize? And what will be the margin impact of AGF? How much expense synergy should we expect, and over what time period?

Rejean Robitaille, President and Chief Executive Officer

Okay, I'll ask Michel to answer that question, Mike.

Michel Lauzon, Chief Financial Officer

Well, Michael, in terms of new trends, there is—you know—as you well realize, interest rates are remaining low. The yield curve is flat and flattening, and so we are—and the competitive environment is still quite severe, so we are expecting to achieve moderate compression over the next few quarters, roughly at the same pace as we've seen over the last few quarters.

Rejean Robitaille, President and Chief Executive Officer

That's for the first part of the question. As for the second part of the question…?

Michel Lauzon, Chief Financial Officer

The impact on NIM, AGF Trust's net interest margin is roughly the same as B2B Trust. We expect some expansion early on, but it should recover, and it is slightly higher than the Bank's overall margin, so it should have a slight beneficial impact on the Bank's overall margin.

Michael Goldberg, Desjardins Securities

And what's the amount of expense synergies?

Rejean Robitaille, President and Chief Executive Officer

Francois to answer that question—Francois Desjardins, Head of B2B Trust.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

As the—the best way to answer that question is to look at the big picture, because there's a couple of moving parts. First of all, the top line will continue to gradually decline and slow over the next little while, partially due to slight volume decrease and then stabilization, and also compression in the margin that has been happening.

The—we do think that we will have a higher provision for loan losses than we did in the last year, and we do expect to have some pretty significant cost synergies. And the assumption that we have in our plan right now is that the impacts on the bottom line of the Bank ongoing will be in the order of 28 to 30 million once the integration is complete.

Now, of course, in those different moving parts there's still some variability in the numbers, so we're not giving details on the different parts, but we're fairly certain that we can deliver that quite significant impact on the bottom line.

Michael Goldberg, Desjardins Securities

Okay, and my last question, with the acquisition of MRS and now AGF Trust, it's quite a significant business realignment for Laurentian Bank. So in broad terms can you explain why the realignment, and should we expect any other changes in your mix of businesses?

Rejean Robitaille, President and Chief Executive Officer

Well, I think that—and we've mentioned that in the last few years, we have identified three growth engines, and each of them were representing let's say a third of the Bank's profitability in the last few years. There was some opportunity with MRS and AGF that we see, and based on this, we will continue to grow the three growth engines relatively at the same pace. So right now, let's say, if you look at commercial and real estate, which represented the business lines that showed more profitability, that will add with this acquisition on B2B Trust, but on the Retail & SME segment there's still ways and things that we're doing to relatively have and readjust the mix profile of the Bank over the next few quarters and years.

So in a nutshell, we see those opportunities right now, but there is other opportunities in the other growth engines.

Michael Goldberg, Desjardins Securities

Thank you.

Operator

Thank you. Our next question is from Scott Chan of Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Hi, good afternoon. The 2012 guidance of 480 to 540, does that exclude the 120 million share issue as well?

Rejean Robitaille, President and Chief Executive Officer

That's right. That's right.

Scott Chan, Canaccord Genuity

Okay. And my second question, and I think it was—been brought up before, but I'm still a bit confused on the Mackenzie distribution agreement. I think in past comments you had said that—you know—that the Mackenzie sale agreement could be more significant than the MRS Trust agreement. When I look at your other income this quarter, it was kind of flattish year-over-year. Maybe—you know—give me a sense of—you know—where I may be missing the upside, and just the progression I guess (cross talking)?

Rejean Robitaille, President and Chief Executive Officer

Well (cross talking), it's just a matter of time, and it's more in terms of—and that will be progressive. We mentioned that in 2012 we expected that distribution agreement, the overall profitability would be, let's say, marginal. But as soon as we're building the volume, it's kind of a profit share basis that we have, so more volume more profit. So in three to five years from now, that would represent quite an impact on the retail side, too, but not in the coming quarters and years.

Scott Chan, Canaccord Genuity

Oh, okay. Okay, that makes sense now.

Rejean Robitaille, President and Chief Executive Officer

That will be progressive.

Scott Chan, Canaccord Genuity

Okay, perfect. Thanks.

Operator

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

John Reucassel, BMO Capital Markets

Thank you. Just a—I just want to go back and just talk about the AGF Trust, and for financial (inaudible), Rejean. Just it looks like the forecasts for AGF Trust you have are maybe a little lower than where they're currently running. So what—is it really just that the loan growth isn't coming back or the spreads are tighter, or what do your forecasts include?

Rejean Robitaille, President and Chief Executive Officer

Well, and I'll start and I'll ask Francois to add on this. But I think that we have built this bank over the last few years to be conservative, and this business case might be a little bit on the conservative way. And as Francois mentioned, there is a lot of things that, let's say, regarding the loan losses, regarding NIM that we have to take into consideration, including also are synergies on costs. So we are very confident that the 28 to 30 million that we mentioned that we will get to that, and for us, it could be also slightly better than that.

Francois, do you want to add on this?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Yeah, the—like I just said before—you know—we had a pretty significant look at the business case, and there is variability in the market, there is variability in the rates, there is variability in loan loss provisioning due to the economic outlook. So for right now we're—you know—we took a big picture approach, so we are expecting to have continued volume decrease for the next little while, because that's what the portfolio is doing, but it's slowly stabilizing. We aim to stabilize that over the next little while.

We are going to see compression in the—in the NIM; slight compression. We are going to see probably higher loan losses than we did last year in AGF, but significantly lower than what AGF Trust has—had through the 2008/2010 period. And we're expecting the costs to go down quite a bit.

But all in all, it's not a wash, because right now AGF Trust is running at about 24 on the bottom line, and we're looking at 28 to 30 on the bottom line for a book of business that we're purchasing for—at book. So we feel that in all the moving parts it's maybe a little bit too soon to give numbers with confidence, except for our extreme confidence of being able to deliver, regardless of the moving parts, that bottom line.

John Reucassel, BMO Capital Markets

Okay, that's helpful. And what adjustments, and I'm sorry if I missed this, what adjustments to the underwriting practices are you going to make?

Rejean Robitaille, President and Chief Executive Officer

Ask Louis, first of all, Louis Marquis (phon), Head of Credit, to answer that question.

Louis Marquis, Head of Credit

The business we're purchasing has a riskier profile than what we have in our books, so certainly we are going to adjust it to (inaudible) management process we're going to adjust it to our own process.

John Reucassel, BMO Capital Markets

Okay, so is that on the RSP loans, is that on the investment loans or mortgages, or where is it riskier?

Louis Marquis, Head of Credit

All their book of business are slightly to more riskier than ours, so they—we can serve the same market, but certainly there is more of the risky profile on the lower side of the board than what our book of business shows. We're more in the prime, and they're a little bit more on the less prime business.

John Reucassel, BMO Capital Markets

Okay, thank you, and this is the last question. Just on the new contract with the union, does it preserve the flexibility you've had, Rejean, with—in the previous contract, or does it build on that flexibility, or how would you—is there anything you can give us an update on that on the contract?

Rejean Robitaille, President and Chief Executive Officer

Well, I think that—I mentioned that in my comments, mutual respect was a key point, and we are quite glad to have that partnership with the union. In terms of flexibility, that will be relatively the same, I would say; no change. The one key point is—well now we have a six year term contract, and, well, that's—the longer one that we had since we were unionized, so flexibility would be relatively the same. And as you know, that—in the past we were able to do a lot of things, including the (inaudible) opening during every night during the RSP season. And we are still the only bank to do that, given if you are a unionized bank. So the flexibility is still there.

John Reucassel, BMO Capital Markets

Okay, thank you.

Operator

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

Sumit Malhotra, Macquarie Capital Markets

Good afternoon. First question is around capital. And prior to the announcement of this morning's acquisition, you tell us that the Basel III common equity ratio is 7.1 percent. And if my numbers are correct, that's down slightly from last quarter. Is that factually correct, first of all?

Rejean Robitaille, President and Chief Executive Officer

Well, we were at—we published at the end of the first quarter at 7.2, so it's slightly a little bit below. That's right.

Sumit Malhotra, Macquarie Capital Markets

So I think I saw a 2 percent increase in Basel II risk-weighted assets. Was there anything else that would've resulted in the ratio declining, or is it just the increase in RWA?

Rejean Robitaille, President and Chief Executive Officer

It was mostly the increase in the RWA instrument.

Sumit Malhotra, Macquarie Capital Markets

Okay, so let me ask you this, some of your larger counterparts have talked about 7 percent being the Basel floor, and then on top of that (inaudible) may require some type of a buffer, whether you want to call it a national SIFI buffer or whatever the terminology may be. Is there anything in that regard that Laurentian is thinking about or managing to, or as far as you're concerned, is 7 percent the floor that you have to manage to?

Rejean Robitaille, President and Chief Executive Officer

Well, the 7 percent is the floor that we have to manage to. And that said, we definitely want to have a buffer on this, and could be, let's say, up to 50 basis points. As Michel mentioned also, with the new issue, the new private issue and including AGF, the numbers would be 7.3 instead of 7.1, and we are working, let's say, to continue to have this buffer in the coming quarters.

Another area where—well, still not fair, but it is the way that we're comparing ourself versus the others, we are still on the standard methodology, as you know, and we're not using that, and we're—we're working on this. That will take a few years. But let's say when we looked at the overall impacts of moving to the advancement methodology from the standard one, we expect that that might represent significant capital release. But that said, that will take a few years, and for now we're aiming to having a buffer to the 7 percent.

Sumit Malhotra, Macquarie Capital Markets

Well, and my—and I realize that conversion to the advanced approach would certainly give you some relief, but as you say, it sounds like that would probably be 2014 at the earliest, I think is something we've talked about before. My questions is if a 2 percent increase in RWA is sufficient to result in the common equity ratio declining, did you consider perhaps increasing the size of the subscription receipts to give you a little bit more breathing room, so to speak, as far as capital is concerned?

Rejean Robitaille, President and Chief Executive Officer

Well, as I said earlier, we moved from 7.1 to 7.3, so we already—and our assumptions are that we are comfortable to have a certain level of buffer by the end of this year.

Sumit Malhotra, Macquarie Capital Markets

Okay, a couple of quick ones hopefully on the acquisition. First off, the 173 million outlay that's required for the preferred shares and the repayment of the sub-debt, is that an outlay being made by Laurentian Bank, or is that coming out of the cash holdings of AGF Trust prior to close?

Rejean Robitaille, President and Chief Executive Officer

Michel?

Michel Lauzon, Chief Financial Officer

Well, it's either/or. On a combined basis, the Bank has more than enough liquidity to cover the cash outflow from those repayments, and from a capital perspective it's not an issue. So whether it comes out of AGF Trust's liquidity or the Bank's liquidity, or B2B Trust's liquidity, it's a non-issue.

Sumit Malhotra, Macquarie Capital Markets

All right, fair enough. And then probably for you as well, Michel. And on the—staying with capital, on the close of this transaction, what will it add to the Bank's risk-weighted assets and goodwill and intangibles?

Michel Lauzon, Chief Financial Officer

In terms of risk-weighted assets, I think (inaudible) has the answer. I think it's 1.3 billion roughly, but it's an estimate. We—I have to do the detail—1.6—and we'd have to do detailed calculations, so once we get all the documentation beyond what we saw in the due diligence. And in terms of capital, the 120 million subscription receipt has been calibrated, so we've added some of the buffer that Rejean was talking about.

Sumit Malhotra, Macquarie Capital Markets

So if heard that correctly, 1.6 billion on RWA. Did you have a goodwill and intangibles, or not yet?

Michel Lauzon, Chief Financial Officer

The purchase equation isn't finalized yet, but it could be flat (phon).

Sumit Malhotra, Macquarie Capital Markets

Sorry, could be…?

Michel Lauzon, Chief Financial Officer

Flat. This could be flat. It could be zero.

Sumit Malhotra, Macquarie Capital Markets

Okay, that's fair enough. Now moving on to the—moving on to the deal itself. You talked about 2014. I think you mean an incremental 28 to 30 million would be the earnings addition. I'm guessing that's on top of any opportunity costs from the cash. What about 2013, because I think the number we're given is a full year out and this transaction is going to be closed by Q4?

Michel Lauzon, Chief Financial Officer

It's going to be closed by Q4, but the integration is going to occur over the course of the next four quarters. So it's hard to time exactly when synergies might be generated and how quickly the portfolios and declines can be stopped, and what's going to happen to margins. Also, the loan loss that will occur is pretty low. We expect—we modeled it to be a bit—conservatively a bit higher. So—and we don't know when and where the integration costs are going to be incurred. So we know it's going to because '13—2013, but we don't know which quarter. So that's why we were very cautious about giving any guidance for 2013, but with integration costs it's going to be pretty much a wash in 2013 when—including the integration costs, but there are no synergies expected yet.

Sumit Malhotra, Macquarie Capital Markets

And then this one's probably for Rejean on the transaction. If I look at your—or if anyone looks at your portfolio on the loan side and we see that your book of business is roughly 80 percent consumer as it stands right now, I think we all see the headlines every day in regards to the housing market and consumer leverage. What would you say to the notion that we've got the most consumer-sensitive portfolio, and we just added another 3 billion of essentially almost all consumer-oriented loans? Do you think this—you know—how sensitive are you to the notion that you're adding a book of business in a market that seems to clearly be slowing?

Rejean Robitaille, President and Chief Executive Officer

Well, not necessarily, and I think that we don't have to look at the numbers here, but look at the way that we were doing our underwriting processes in the past, and you've probably noticed that even this quarter the level of loan losses is very low. So, first of all, it was very conservative. We're adding a portfolio that is a little bit more, I wouldn't say aggressive, but it's very manageable, and it's also on the other side; more profitable. So the risk reward of that portfolio is well balanced. And in this type of environment, I also mentioned that we're putting also a little bit more emphasis on the commercial side to eventually (inaudible) recalibrate, thank you, the portfolio—the balance sheet and portfolio mix.

Sumit Malhotra, Macquarie Capital Markets

Was the loan loss ratio of AGF Trust this quarter, was it in the 20 to 25 basis points range?

Rejean Robitaille, President and Chief Executive Officer

It was relatively low. I think it was—I think you're right, it was—well, what I recall it was mid-20s.

Sumit Malhotra, Macquarie Capital Markets

So your sensitivity around the credit quality of that book it actually seems to have improved quite significantly over the last couple of years. Is there any portion of that book that has you particularly worried, or is this, as you said, the conservative management that you've employed in running this bank?

Rejean Robitaille, President and Chief Executive Officer

I'll ask Louis, Head of Credit, to answer this one.

Louis Marquis, Head of Credit

It is a riskier profile, and we've modeled and we expect losses to be a bit higher than what they've recently been. It's a reflection of the—what we've seen.

Rejean Robitaille, President and Chief Executive Officer

But not that much.

Sumit Malhotra, Macquarie Capital Markets

Will—I'll stop here. Will—and many times in acquisitions we see the acquired book marked down on close to levels that the acquiree—or sorry, the acquirer feels are more appropriate. Is that something you're planning to do, because it doesn't sound like it if you're expecting losses to be higher once you add the portfolio?

Rejean Robitaille, President and Chief Executive Officer

No, we expect losses. As Francois mentioned earlier, we expect losses to be at a higher level than the one that they have in 2011, and that will be mainly because of—we'll apply some of our—to look at the way that we were doing the business and the way that they were doing the business. So we will adjust and adapt some of their processes to ours, and same things from ours to them.

Sumit Malhotra, Macquarie Capital Markets

Thanks very much.

Rejean Robitaille, President and Chief Executive Officer

Thank you.

Operator

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

Darko Mihelic, Cormark Securities

Hi. Thank you. Three questions. The first one is really quick. The $3.1 million gain on the sale of commercial mortgages, what was that after tax?

Rejean Robitaille, President and Chief Executive Officer

I'll ask (inaudible) of the commercial to answer that question, Darko.

Unidentified Male Speaker

Thanks. We created a syndication desk (phon) last year, mainly (inaudible) to be able to proactively manage our risk-weighted assets as well as our credit risk. And we feel that selling these loans in Q2 pays (phon) well into our approach to manage capital and credit risk. And we do not consider this to be a one-time item. Additional sales or loan syndication could occur depending on market conditions.

Michel Lauzon, Chief Financial Officer

And the after tax gain was 2.3, Darko.

Darko Mihelic, Cormark Securities

2.3? Okay, thank you. And the next question is if I've done my math right, I think you've taken the total of $7.4 million of integration costs so far versus I think you were willing to take 25 million for the expense. That's about—we're about 30 percent done. And your commentary earlier was that you were going to get a more sustained sort of expense synergy coming over the course of the next few quarters; I guess the next three. Can you talk about what it is that you're doing there with these costs; what they're mainly for, and if there's going to be a change in the next three quarters with respect—I mean it looks like the next three quarters are going to have a higher run rate of these T&I costs, and it sounds like we're finally going to get some expense synergies. Can you just flush out what it is that you're doing at this stage with MRS?

Rejean Robitaille, President and Chief Executive Officer

Okay. I'll ask Francois, Head of B2B, to answer that question.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Sure. You're absolutely right that when you start an integration the costs come when you actually not plan things but actually do things. So you're absolutely right that the—that what we've given as guidance is what we're sticking to, and we're fairly confident that that's what we're going to get. You know, from the start of the project we had said from the 12 to 18 months to complete it.

What we are—we're actually doing with these costs is—there's a couple of things. Right now we're in the process of merging MRS Trust into B2B Trust, so there's all kinds of costs in terms of HR costs, project costs, technical IT costs that have to be done to either modify systems, shut down some other systems, and so on. It's not part of the integration costs, but as you might know, there are some—we're pausing the integration for a couple of days to launch B2B Bank and B2B Mortgage in the summer—you know—on July 7th, and from that point on it's all about the dealer integration. So the three dealers that we bought, we're moving accounts from B2B Trust to the dealers, and then rebranding the dealers to a correctly branded B2B name, which is still outstanding. So once that is all concluded, from an advisor and client perspective that will be the end.

Underneath that, of course, is that we're—we bought a system from—we bought an asset management system in the deal that we're currently integrating into our system, and we expect that to be completed around September, which is a big part of the cost as well. It's not apparent to the customer or to advisors, but it is a significant asset, and it currently lies on the other side of the fence, and we're bringing it onto our side of the fence.

Darko Mihelic, Cormark Securities

Okay, so...

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Does that help?

Darko Mihelic, Cormark Securities

It does. It sounds to me like the main risk of the integration is still to come. Would that be a fair summary?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

I don't think so. I think that the—what we're starting to see, or what would be fair is that the tangible deliveries are still to come and are starting to come as the project is going forward. But the risk is actually diminishing, because when you start the project you have a whole bunch of hypotheses that you have to validate, and that gets resolved in the first couple of months to six months. And we're—that's where we are currently, right? We're now—you know—with a much tighter plan where we have validated a lot of hypotheses, and now it's more of an execution risk than a hypotheses risk.

So I would say that at least no more risk, I think maybe just—you know—fairly down from where we were in the beginning.

Darko Mihelic, Cormark Securities

Okay, and then I guess my final question, which is what I was leading to, is if I take the information that you provided with respect to MRS for the first six months and back out MRS Trust from B2B Trust, it looks as though revenues are actually down for the first half of the year about 4 percent, and net income is down about 13 percent for the underlying B2B business. So I wonder if you can talk to or provide a flavour for why that would be? It sounds like it would be margin compression and costs, but I'd like to get more commentary, please.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

It's absolutely that. Without the acquisition of MRS, B2B Trust revenues would be down, and it's almost entirely due to margin compression. There are some costs—you know—regular costs going up to keep service levels at the levels that they should be, and we are still in growth mode in our portfolios, but the margin compression is—has—which has hampered the growth of the top line, that does have a negative impact and you calculated it well.

What's—what I could say additionally, though, is that what we've seen in the past is actually a drop in volumes when it comes to post economic downturns. We're not seeing that. We're still seeing growth, and our strategy here is to continue to grow at maybe a slightly lower (inaudible), but—NIM—but still growing customers. And as you know, eventually with interest rates rising it will be a great position for us to be in.

Darko Mihelic, Cormark Securities

Okay, so ultimately then we're not going to point to MRS as a possible reason for you taking your eye off the ball or anything like that as the impact of what's happening to B2B Trust? Is that a fair summary as well?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

That is more than fair, it's absolutely right.

Darko Mihelic, Cormark Securities

Okay, thank you.

Operator

Thank you. Our next question is from Andre Hardy of RBC Capital Markets. Please go ahead.

Andre Hardy, RBC Capital Markets

Thank you. I also have questions on the AGF Trust transaction. If you look at page 23 where you have your loan mix, can you quickly run us through the duration of the five asset categories that you have there? And I'm a little curious as to why you expect the decline in the loan book to abate over the year given that you expect to re-price, by the sounds of it, all these loans?

Rejean Robitaille, President and Chief Executive Officer

Francois?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

I'll—well, first of all, we're not expecting to re-price all these loans, we're just cognizant that there is margin compression. But all of these loans are priced at a certain level, and we're not expecting that to change.

In terms of—you know—the history of the portfolio, why there is a decline over the course of—you know—2008, 2012—you know—I think those books are pretty much public, but there was a significant amount of reduction in the books of business and AGF Trust reorganized its portfolio, for lack of a better word.

What we're buying today is a portfolio that is to our liking in terms of risk versus reward. The investment loan I think duration on average is between three and six years, but it fluctuates. RSP loans, as you know, is quite short. These RSP loans are usually a little longer and more in size than they are us. Mortgage loans have been a little shorter than the traditional trend because of mortgage rates. Regularly we would see somewhere along the lines of 4.3 or 4.6 years duration in the terms, and that's maybe cut by about a year lately. And HELOCs have no end.

Did I answer your question properly?

Andre Hardy, RBC Capital Markets

Yes, no that's helpful. You know, you were saying you like the risk reward, but at the same time you said that AGF Trust was more aggressive than you were on the underwriting. I guess the right way to have asked the question would have been—you know—how much of these loans do you think the spread doesn't compensate for the risk, and you'd be happy to see run off (phon)?

Rejean Robitaille, President and Chief Executive Officer

I think that when we looked at all those loans, they are all compensating in terms of pricing for the risk. Investment loans and RSP loans definitely are. The same thing with mortgages. So—and that's why Michel mentioned that their NIM were a little bit higher than the Bank's NIM. But most of them are compensating from, let's say, the risk as we looked at the overall portfolios.

Andre Hardy, RBC Capital Markets

Okay, that's helpful. And then lastly, I want to reconcile some of the statements made earlier. I'm also confused as to why you expect loan losses to go up. And that's for two reasons. You know, one, employment trends have been good, so what is it that you seeing those books that would drive higher loan losses? And the second one is—you know—related to what somebody else asked. If you're expecting losses to go up, how come you're not taking provisions at close as the accounting normally would have you do?

Rejean Robitaille, President and Chief Executive Officer

Well, because the deal's not closed yet, first of all. The deal is—we expect to close the deal by August 1st, 2012; second part of your question. As to your to your first part of the question I'll ask Louis Marquis, Head of Credit, to answer it.

Louis Marquis, Head of Credit

We've taken a hard look at those—at all those loans, and we've entered it in our models and we've looked at how we expect them to perform in—their work in our book of business—in the Bank as they were managed in the Bank, and we came up with higher figures than what's been the recent run rate. So if we end up being happily surprised then that'll be it, but for the time being, we—that's how we would expect them to perform within our portfolios.

Andre Hardy, RBC Capital Markets

Okay, thank you.

Operator

Thank you. We have a follow-up question from Michael Goldberg of Desjardins Securities. Please go ahead.

Michael Goldberg, Desjardins Securities.

Thank you. You know, one thing I'm wondering, why are you converting B2B Trust into a bank?

Rejean Robitaille, President and Chief Executive Officer

Francois, do you want to go ahead on this one?

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Of course. Listen, we started this project about two years ago, and we feel that being a bank more accurately reflects the breadth of B2B's product and services lineup. You know, trusts traditionally are in the fiduciary or account management, and that's where B2B Trust was. You know, even before B2B Trust there was Sun Life Trust, North American. They were more in the investment management side of the business.

If you look at the book of business that we've put together over the last decade, it's—we're really strong in deposits and loans, and for many a reason, it's better to be a bank than to be a trust, because it actually reflects what we do now. There will be—we did put together a trust company, which was called B2B Trust Co., which will continue to do trustee services, and also be our trustee for RSP services, but the books of business will now move to a bank hopefully starting July 7th.

Michael Goldberg, Desjardins Securities

Can you explain, though, what the advantages are? You've said that there are some advantages.

Francois Desjardins, President and Chief Executive Officer, B2B Trust

Sure. There's mainly two. One is from a process perspective. Even though trust companies are federal, they are provincially regulated, and therefore different rules sometimes apply to different provinces and territories. And that with different rules applies also to different forms, trainings materials. And B2B is a national provider. So we're a national provider, and many of our distribution is national, so when you have provincial differences, it does increase the cost of doing business in different provinces. A bank has one regulator, it's one process, so we do have to abide with some provincial rules, but it makes it a lot simpler to do so.

The second is that from a marketing and a perception perspective, there is a positive connotation to a bank versus a trust. And it's lighter in terms of the advantages, but the first being the big one. This one is a little smaller, and customers like doing business with a bank, and so do advisors and brokers.

Michael Goldberg, Desjardins Securities

Okay, and my other question is looking at your provision for loan losses in the quarter of 7.5 million, you have the negative provision in commercial and other. I presume that that's sort of an anomaly versus the prior period and that the provision is likely to move back to higher levels in coming quarters. Is that a fair way to look at it?

Rejean Robitaille, President and Chief Executive Officer

Louis Marquis, Head of Credit?

Louis Marquis, Head of Credit

In the very short-term we could see loan losses below what I would call a normal run rate, but obviously a recovery is not a normal run rate for commercial loan expense. And we (inaudible) that in this quarter (inaudible) of a two small recoveries there was no loan losses to speak of; nothing material on any loans, and we had a small reduction in our collective reserve (inaudible) improvement in the portfolio. So, of course, that happened in this quarter. We may see that in the very short-term, but going forward to year end and next year we should revert back to the—what levels we were at in the earlier part of the year or late in 2011.

Michael Goldberg, Desjardins Securities

So you're saying that for the remainder of the year it could stay near the current level?

Rejean Robitaille, President and Chief Executive Officer

Everything's being (inaudible), but say with (inaudible) of the environment, but right now it's going well.

Louis Marquis, Head of Credit

Very next—very short-term means this quarter, the quarter we're in right now, which has started. Toward year end we should see an increase going back to probably the levels of Q1.

Michael Goldberg, Desjardins Securities

Okay, because I did notice that in terms of your net formation, you had gone actually from a net declassifications in the first quarter in commercial to where you had positive formations in commercial in the latest quarter.

Louis Marquis, Head of Credit

I would call those immaterial—immaterial movement. Really we're at a good place and the trends are good right now.

Michael Goldberg, Desjardins Securities

Okay, thank you.

Operator

Thank you. And our next question is from Sumit Malhotra of Macquarie Capital Markets. Please go ahead.

Sumit Malhotra, Macquarie Capital Markets

Sorry, guys, just a very quick follow-up here on expenses. Last quarter we had talked about looking at your salaries and employee benefits expenses, and there had been some commentary in regards to both the group insurance and hedging for stock-based compensation under IFRS. It doesn't look like—it sounded to me like they were one-offish type issues that pushed up the comp number in Q1, but didn't really change much this quarter. Are we at a run rate here in terms of what level that looks like, or do you still think there's some unusuals in the compensation expense level?

Rejean Robitaille, President and Chief Executive Officer

Well, there was not necessarily any unusuals in the second quarter of that, but you have to take into consideration also that we have a salary increase every year starting January 1st. So I'd say the overall impact was for the full quarter, and—which was not the case in the first quarter, because there was just one moth of that. And that's roughly what the two items that you mentioned that happened in the first quarter.

Sumit Malhotra, Macquarie Capital Markets

Yeah, it looks like the absolute salaries number is pretty flat, it was more—it was the—I don't know, maybe this was—maybe it comes through both lines, but it was the—I think the employee benefits number is the one that went up 3 million sequentially, and that didn't seem to change very much. I thought that was what drove the increase in Q1.

Rejean Robitaille, President and Chief Executive Officer

I'll submit it to Michel here.

Michel Lauzon, Chief Financial Officer

Yeah, we did have a run-up in employee benefits last quarter and it was related to group insurance. We were hoping for some relief a little bit this quarter. Didn't happen yet. We're managing it closely, and we expect that there could be some improvement over the next few quarters, but it's something that has sort of stubbornly stuck up there.

In terms of stock-based compensation, it tends to fluctuate given under IFRS we can't hedge the exposure exactly the same way as before, so there is a little more volatility, and we did get a little bit of a benefit this quarter from that—from that area.

In terms of salaries, some of the things that we've done both in terms of—in LBS and in retail have helped to contain the increase in costs, despite the fact that we had a full quarter of salary increases in the quarter.

Sumit Malhotra, Macquarie Capital Markets

Thanks, guys.

Operator

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

Gladys Caron, Moderator

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 second page. Thank you.

Operator

Thank you.

Rejean Robitaille, President and Chief Executive Officer

Thank you.

Operator

This conference has now ended. Please disconnect your lines at this time, and we thank you for you participation.
