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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Laurentian Bank Conference Call. I would now like to turn the meeting over to Ms. Gladys Caron. Please go ahead, Ms. Caron.

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

Merci. Good afternoon, everyone. Our press release was issued today on Canada NewsWire and it's posted on our website. This afternoon, the review of our results for 2011 in the fourth quarter will be provided by our President and CEO, Réjean Robitaille, as well as by our CFO, Michel Lauzon. Other members of our senior management team are also present on this call to answer any questions. You will find their names and titles on slide 23 of the presentation available on our website. Réjean et Michel will refer to that presentation throughout their speeches.

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

I will now turn the floor over to Réjean Robitaille.

Réjean Robitaille, President and Chief Executive Officer

Thank you, Gladys, and good afternoon, everyone. 2011 was another record year for Laurentian Bank and I am pleased with our results. I am particularly satisfied that despite uncertainties worldwide and fierce competition in most retail banking segments here at home, as well as historically low interest rates, we surpassed last year's results. This is true even when including one-time costs related to our recent acquisition of the MRS Companies and the Mutual Fund agreement.

Our profitability increased year-over-year, with adjusted earnings per share rising by 9 percent despite interest margins being under pressure throughout the year. This was, in part, a result of continued growth in our balance sheet across all of our business lines. Total loans and acceptances, including securitized loans, increased by 8 percent, demonstrating strong organic growth. As well, other income rose significantly, partly due to higher income from securitization but also from cards services, credit insurance and the sale of Mutual Funds. This validates that the strategies we are putting in place to diversify our sources of revenue are bearing fruit.

Lastly, credit quality improved in all portfolios, demonstrating the effectiveness of our approach to risk management. While no financial institution is immune to global financial instability, our Canadian-based loan portfolio is very sound. Moreover, we do not have any exposure to Euro Zone sovereign debt. With net impaired loans as a percentage of loans and BAs of 8 basis points, our portfolio is among the healthiest of the Canadian banks and our risk profile among the lowest.

Our net income reached 127.5 million, or $4.81 per share, as is highlighted on slide 4, for a return on equity of 11 percent. Excluding one-time costs, adjusted net income totaled $133.3 million, an 8 percent increase when compared to 2010 net income, representing record profitability. Adjusted earnings per share stood at $5.05 and adjusted return on equity reached 11.6% in 2011.

Thanks to our solid capital base, we were able to make the necessary investments in order to solidify our competitive position and effectively execute our business plan. This included the strategic acquisition of the MRS Companies, which will accelerate B2B Trust's business plan, as well as our agreement to become the principal distributor of the family of Mackenzie mutual funds, which, over time, will benefit the Retail segment.

Turning to slide 6, we are pleased to have met our profitability objectives for 2011, both before and after taking one-time transaction and integration costs into consideration. However, our revenue growth and efficiency objectives were not achieved, in part owing to external factors exerting pressure on net interest income, as well as high regulatory and pension costs. Our improving profitability and the confidence that we hold in our growth strategy has resulted in the Bank increasing its dividend by $0.03 per share or 7 percent to a quality rate of $0.45 per share. However, we will continue to prudently manage our capital, particularly in light of tighter regulatory capital requirements and continue to invest in our businesses in order to support the sustainable growth and development of Laurentian Bank.

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 will start with a few comments highlighting the fourth quarter results, which can be found on slide 7.

Total revenue was relatively stable year-over-year, reflecting a 5 percent decrease in net interest income and a 5 percent increase in other income. The provision for loan losses of $12 million declined by 4 million from the fourth quarter of 2010. Expenses rose by 6 percent. However, excluding the one-time 8.2 million of transaction and integration costs, expenses fell by $0.4 million, reflecting disciplined expense management and strategies to improve efficiency. On a sequential basis, adjusted operating leverage was a positive 1.5%. Reported diluted EPS and ROE were 1.06 and 9.4%, respectively, and on an adjusted basis, EPS and ROE and $1.31 and 11.6% in the fourth quarter of 2011. This compared with diluted EPS and ROE of $1.24 and 11.8%, respectively, a year earlier.

Now we'll discuss the main drivers of the Bank's performance during the fourth quarter. Firstly, net interest income of 122.4 million in the fourth quarter of 2011 fell by 5.8 million from the fourth quarter of 2010. Solid year-over-year growth in loans and deposits was not sufficient to compensate for margin compression. As shown on slide 8, at 2 percent in the fourth quarter of 2011, the margin was 15 basis points lower than the year earlier. Competitor pricing, continuing low interest rate environment and a flatter yield curve, as well as the change in hedging strategies related to securitization activities initiated in the first quarter of 2011 accounted for this compression. However, despite the challenging—this challenging backdrop, effective margin management resulted in spreads remaining relatively stable throughout the year.

Secondly, other income rose by $3.2 million from the fourth quarter of 2010. This was largely due to securitization income being $8.3 million higher than a year earlier, owing to higher gains on $350 million of new mortgage loan securitizations during the quarter as securitization continued to be a favourably priced funding source. In the first quarter of 2012, we expect that the level of securitization will be lower than in the fourth quarter of 2011, owing to the liquidity acquired through MRS. However, in subsequent periods, the level of securitization will likely more closely approximate that of recent quarters. Also contributing to higher other income in the fourth quarter were cards service revenues resulting from higher transaction volumes and higher income from credit insurance and from the sale of Mutual Funds. However, this was partially offset by lower income from brokerage operations, which were negatively impacted by difficult financial market conditions.

Thirdly, as highlighted on slide 9, the provision for loan losses amounted to $12 million in the fourth quarter of 2011, $4 million lower than a year earlier. During the year, there were significant improvements in the commercial loan and personal loan portfolios, with the latter benefiting from the runoff of the point-of-sale portfolio. In the fourth quarter of 2011, specific provisions totaled $9.6 million and general provisions totaled $2.4 million. The increase in general provisions prudently reflects the current deterioration in overall economic conditions. As the Bank now assesses provisions according to a model which responds more rapidly to evolving economic and business conditions, general provisions may be more volatile going forward than they have been in the past.

Slide 10 highlights the credit quality of the loan portfolio. Gross impaired loans fell by $8 million sequentially and $24 million during 2011, with improvement being broadly based. Net impaired loans that totaled $50 million at the end of 2010 declined to only $14 million at year end 2011. This overall good credit quality of the loan portfolio reflects a judicious approach to risk management and disciplined underwriting standards. This is further demonstrated on slide 11, where loss provisions as a percent of loans and acceptances have, over time, remained relatively stable and low compared favourably to the industry.

As presented on slide 12, the adjusted efficiency ratio for all of 2011 was 71 percent. This ratio was 70.5 percent for the fourth quarter of 2011, marginally higher than in the fourth quarter of 2010. Management is exercising a disciplined approach to expense management and implementing $0.4 million lower level in non-interest expenses, excluding transaction and integration costs in the fourth quarter of 2011 compared to a year earlier. Nonetheless, going forward, as our revenues grow, we will continue to invest in our businesses and in technology to improve our products, service and distribution, as well as our processes, while also having to absorb additional costs related to new regulatory requirements.

One of the main drivers of the Bank's improving results is loan and deposit growth, as highlighted on slide 13. Total loans and BAs, including securitized loans, rose by 1.6 billion (inaudible) percent over the last 12 months. Contributing to this growth were residential mortgages, including securitized loans, which increased by $1 billion or 9 percent, benefiting from our business development initiatives and our ability to meet customer needs, as well as the low interest rate environment and the continued favourable housing market conditions. Commercial mortgages increased by $174 million or 11 percent, and commercial loans grew by 12 percent, while upholding prudent and disciplined underwriting standards. Personal loans increased by $138 million as year-over-year growth in investment loans and home equity lines of credit were partially offset by ongoing runoffs in point-of-sale financing, down 162 million over the past 12 months. Total deposits increased by 0.4 billion or 2 percent over the last 12 months. With sustained competition for retail deposits, we have been diversifying our deposit base by growing commercial deposits and occasionally tapping into the institutional money market, while gradually reducing excess liquid assets.

Our solid capital base enabled us to support this strong organic balance sheet growth. At year end 2011, our Tier 1 capital ratio and tangible common equity ratio stood at 11 percent and 9.2 percent, respectively. Considering the Bank's capital position and the nature of its operations and based on current—on our current understanding of the Basel III rules, the common equity Tier 1 ratio as of October 31st, 2011, would be approximately 7.3 percent when applying the full Basel III rules applicable in 2019 without transition arrangements. On a similar basis, including the anticipated effect of the adoption of IFRS and the MRS acquisition, the Bank should meet the minimum 70 percent requirement by January 1st, 2013. As indicated last quarter, in order to maintain strong capital ratios and prudently manage capital, the Bank continues to consider a common share issue of approximately $50 million by the end of 2012, depending on evolving regulatory requirements and market conditions. The Bank has finalized its preliminary opening IFRS balance sheet as of November 1st, 2010, which is presented in the annual MD&A. We are planning to release the restated statement of income under IFRS for 2011 late in January. Slide 14 summarizes several key adjustments.

I will now turn to the performance of our business segments. Slide 15 shows that net income in Retail and Small and Medium-sized Enterprises Québec declined by 5 percent in 2011 compared to 2010. Despite average loan growth of 6 percent and average (phon) deposit growth of 7 percent, the low and competitive interest rate environment exerted pressure on net interest income. However, initiatives to diversify our sources of income met with success. Credit insurance revenues, income from the sale of Mutual Funds and cards service revenues all improved year-over-year. Aided by our CRN system, the Bank will continue to focus on these business activities in order to generate further growth in other income. Provision for loan losses decreased substantially to $26.2 million from $40.9 million in 2010, owing to improved credit quality, particularly in the point-of-sale and SME loan portfolios. Non-interest expenses rose by $18.6 million in 2011, mainly as a result of higher salaries expense resulting from regular salary increases, the hiring of new commercial account managers and higher employee benefits, mostly from higher pension costs. These increases were partially offset by various cost control initiatives launched during the year. I would like to add that over the past few years, we have invested heavily in our Retail and SME operations. We are now deploying where these major investments are behind us, and going forward, we can pursue our strategies to optimize revenues.

As shown on slide 16, net income of the Real Estate and Commercial segment rose by 5 percent in 2011 when compared to 2010. This was fueled by higher net interest income as a result of strong growth in loans and BAs of 9 percent and average deposits of 6 percent. Loan loss provisions declined by 5.4 million year-over-year to $18.7 million, reflecting the significant improvement in the Ontario commercial loan portfolio. Non-interest expenses increased by 5.4 million to 30.2 million in 2011, mainly due to a 3.3 million recovery in 2010 related to a specific operational issue.

Slide 17 shows that B2B Trust's net income in 2011 was $41.9 million compared to 46.4 million in 2010. Net interest income increased by 3 percent year-over-year. Wider margins on the high interest investment account and term deposits, as well as growth in both the loan and deposit books, were partially offset by narrower margins on loans. Average deposits which totaled 9.2 billion at year end 2011 represented an important source of funding for the Bank. Loan loss provisions declined to $1.8 billion from 3 million—sorry, $1.8 million from $3 million in 2010, reflecting the continuing high quality of B2B Trust's loan portfolio, which includes investment loans. Non-interest expenses rose by $11.7 million during the year due to additional employees required to support increased business activity and enhance service levels, higher rental costs and increased professional service costs, as well as a $0.5 million of integration costs related to the acquisition of the MRS Companies incurred in the fourth quarter in preparation for closing and systems integration.

As can be seen from slide 18, the net income contribution from Laurentian Bank Securities decreased by $3.7 million to 6.3 million in 2011. Difficult market conditions, particularly in the latter half of the year, contributed to revenues declining by $4.8 million as underwriting fees and trading income were lower. Retail brokerage income was also lower as fees and commissions related to loans granted under the immigrant investor program declined. Non-interest expenses increased slightly as costs resulting from the growth in clientele and new advisors were not fully offset by lower performance-based compensation.

The Other sector, presented on slide 19, posted a negative contribution to net income of $16.9 million in 2011 compared with a negative contribution of 29.5 million in 2010. Excluding one-time net after-tax costs related to the compensation for early termination of the existing distribution agreement of Clarington Funds of $5.5 million, the negative contribution to net income was $11.4 million. Net interest income decreased significantly in 2011 due to the higher volume of securitizations with its ensuing higher amount of net interest income reversals and the lower level in yield on securities held to hedge securitization activities. Other income increased sharply due to higher gains on new securitizations and better performance on our hedging activities.

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

Réjean Robitaille, President and Chief Executive Officer

Thank you, Michel. Well, our solid performance resulted in 2011 being the fifth consecutive record year of our increasing net income and the seventh consecutive year of rising earnings per share. Slide 20 demonstrates our well-entrenched trend of increasing performance. Over the past five years, earnings per share have grown by 45 percent; loans and acceptances, including securitized loans, by 46 percents; and deposits by 45 percent also. This is in large measure due to the many growth and development initiatives that we put in place, which, over time, contribute to our accomplishments and drive the Bank forward.

I would like to highlight a few of these recent accomplishments. In 2011, within Retail and SME Québec, we deployed the Bank's Customer Relationship Management system across the entire branch network and began to reap the benefits from its effective use. We reached $1 billion milestone in SME Québec loans and launched our banking application for mobile devices. Last but not least, we concluded an agreement to become a principal distributor of Mackenzie Mutual Funds. Within Real Estate and Commercial, we started to develop new commercial lending niches, including green banking, renewable energy and infrastructure. As well, we maintained rigorous and disciplined underwriting standards, while providing industry-leading turnaround time and service. This contributed to average loans and acceptances exceeding the $3 billion mark.

Within B2B Trust, we implemented key operational process changes, resulting in better service to the Bank's advisors, signed new distribution alliances which now total 70 and, of course, acquired the MRS Companies. Within Laurentian Bank Securities and Capital Markets, we built new relationships and strengthened existing ones with institutional fixed income clients, and we further set LBS apart as a brokerage firm specializing in small cap companies.

Lastly, we successfully issued $250 million of subordinated debentures and opened the Career Station, which is a unique recruitment centre in a high traffic Montreal subway station.

I cannot review the accomplishments of 2011 without mentioning that our Bank ranked second best among banks in client satisfaction in a recent JD Power survey and was selected as the winner of the 2011 Canada's Most Admired Corporate Culture in Québec and Atlantic regions, presented by Waterstone Human Capital; all this to say that we have much to show for 2011. What's more, we are energized and engaged and well positioned to meet the challenges and opportunities of 2012.

Our objectives for 2012 can be found on slide 22. They are presented on an IFRS basis and exclude one-time integration costs related to the acquisition of the MRS Companies. We expect that uncertainty in the Canadian economy and financial instability in the international arena may linger. However, our revenue growth should accelerate with ongoing pressure on margins, partially offset by the addition of MRS revenues and higher other income. We anticipate loan and deposit growth to be as strong as it was in 2011. After absorbing MRS costs, we expect expense growth to slow in 2012. I would like to highlight that we are targeting diluted earnings per share of $4.80 to $5.40, as well as an ROE of between 11 and 13.5 percent. These ranges reflect the prevailing uncertainties regarding the economy, interest rates, the progression of the MRS integration and the transition to IFRS.

At Laurentian Bank, we just celebrated our 165th anniversary and completed our five best years ever. In 2012, we will continue to build our Bank as we integrate MRS into B2B Trust, position ourselves to take advantage of opportunities available through our new mutual fund distribution agreement and further advance the numerous growth and development initiatives put into place over the past few years. We will do all this while ensuring that we responsibly manage our expenses, our investments, our risk and our capital.

At this point, I would like to turn the mike to Gladys.

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

Thank you, Réjean. I would now like to turn the call over to the conference Operator for the question and answer session. Please feel free to ask your questions in English or in French.

QUESTION AND ANSWER SESSION

Operator

Thank you, Ms. Caron. We will now take questions from the telephone lines. If you have a question, please press star, one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. There will be a brief pause while participants register for questions. Thank you for your patience.

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

Robert Sedran, CIBC World Markets

Hello, good afternoon. Just two questions; the first one is on the salaries and benefits line. In each of the past several years, I guess, there's been a reasonably large 7 or 8 percent, I guess, on the salaries line sequential increase in Q1. Should—is that something that we should expect to persist? I mean, is this something that was collectively bargained with your employees and so we should see going forward? And is there anything you can do to mitigate that increase in what looks to be perhaps a bit of a slower revenue growth year next year?

And then, the second question relates to the guidance on—or the objectives, excuse me, on slide 22. Is—am I to—I guess the diluted EPS expected 2011 under IFRS; that means that we haven't yet finalized what IFRS will do to the numbers? Is that correct?

Réjean Robitaille, President and Chief Executive Officer

Okay, well thanks a lot, Rob. First of all, in terms of salaries, yes, you are right that you noticed that every first quarter, there is an increase in salaries. And why is that? Because the increase in salaries for both—for all employees at Laurentian Bank, we do that January 1st, so that explains the increase that you've seen in the previous years. We might expect the same kind of increases on this for 2012.

In terms of the guidance, yes, you are right. We will publish our 2011 results under IFRS. That will be for the old year and also on a quality basis at the end of January. So, what you've seen on slide 22 is kind of preliminary figures that we anticipate, and that's why there is a range for 2011. Those are under IFRS and, as

I said earlier, the 2012 objectives are also under IFRS but excluding the integration and transaction costs.

Robert Sedran, CIBC World Markets

And does that—thank you, Réjean. Those are both helpful. And does that range—is part of the reason for the range in 2012 also that you are contemplating a share issuance, and obviously that would be a little—slightly dilutive, and so is that embedded in the 4.80 to 5.40, or should we consider that separately?

Réjean Robitaille, President and Chief Executive Officer

No, I think you could consider that is embedded in the—in those numbers.

Robert Sedran, CIBC World Markets

Okay. Thank you.

Réjean Robitaille, President and Chief Executive Officer

You're welcome.

Operator

Thank you. Our next question is from Shubha Khan from National Bank Financial. Please go ahead.

Shubha Khan, National Bank Financial

Yes, thanks. Good afternoon. Just a couple of questions. First, on the margin, this quarter your peers saw more pronounced margin pressure and it looks like there may have been intense pricing pressure, particularly in commercial lending. I just want to confirm whether that's what you're seeing in the marketplace as well, and would I be right in assuming that spread pressure in your consumer portfolios was comparatively muted then?

Réjean Robitaille, President and Chief Executive Officer

I'll ask Michel Lauzon to answer this question, Shubha.

Michel Lauzon, Chief Financial Officer

Good afternoon, Shubha. We're seeing pricing pressure on both the retail and the commercial side. I can't comment on other banks' margin trends, but in terms of our own, we said early in the year that there was constant pressure on margins but we would manage around that and we would maintain margins around 2 percent, which we—is what we have achieved. So, yes, there was continuing pressure on retail, on both the deposit and on the loan side, and there is also pressure on the commercial side as well. But, as we mentioned in the prior call, we're picking our spots and making sure that we're not giving away profitability for volume.

Réjean Robitaille, President and Chief Executive Officer

And maybe I could add on this also; and we've seen that, particularly at the end of the fourth quarter, in certain areas, spreads have started to widen, particularly in the real estate side, everything related to fixed term loans have widened a bit, not that much, because credit—the competition is still very fierce. We've seen also the same thing on the mortgage side and given the current rate environment, well I think that that's something that we could expect in the coming months. But that said, and as Michel mentioned, there is still a lot of competition in the market. We mentioned earlier in the previous call that we won't sacrifice margins all over volume, and we will continue to do so.

Shubha Khan, National Bank Financial

Okay, that's actually pretty helpful. Second question then is on non-interest expenses; a fairly significant decline there quarter-over-quarter in other expenses, especially when you exclude the termination fee and the integration costs. To me, it looks like you might have some room to trim certain discretionary expenses, which might help offset, you know, your planned IT investments and the regulatory cost that Michel referenced earlier. So, when I look at your 2012 efficiency ratio objective, you know, 70 to 73 percent, is the bias toward the high end or the low end of that range, because it is a pretty wide range?

Réjean Robitaille, President and Chief Executive Officer

It is a wide range and, in fact, all those objectives and guidelines are wide range. I think that we are one of the few banks that publish guidance for 2011—2012 under IFRS. That said – and I mentioned that in my comments – lots of uncertainties in the economy, in interest rates. The progression also of the MRS integration, you know, that could influence it and we think that we will have a lot of synergies with that but mainly in 2013. So, the acquisition of the MRS, it's—let's say the MRS operations revenue versus income are—expenses are more higher than the 70, the $0.70 to 73 percent, so that reflects also the fact that the operations of MRS are included in that target.

Shubha Khan, National Bank Financial

Perfect, thanks.

Operator

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

Darko Mihelic, Cormark Securities

Hi, good afternoon. A couple of questions. First, with respect to MRS, can we first talk about what assets did they have or were they holding that were revalued that made the purchase price go up? Are these earning assets?

And my second question is with respect to your targets that include MRS, if we excluded MRS, would you actually have any revenue growth in your objectives for 2012?

Réjean Robitaille, President and Chief Executive Officer

Okay. First of all, in terms of the higher price, I could ask Pierre Minville to ask this—to answer this question.

Pierre Minville, Chief Risk Officer

In fact, and it's true; at the end of the negotiation, the—some liabilities were stated favouring the net balance sheet, the balance sheet of the company, so in fact, this provided us with additional net assets, so that's the main explanation for the increase of price.

Réjean Robitaille, President and Chief Executive Officer

Is that okay for that—for the first part of your question, Darko?

Darko Mihelic, Cormark Securities

Sorry, so the liabilities were understated? Is that what I'm hearing? And…

Pierre Minville, Chief Risk Officer

The liabilities were overstated. That's on—what's on the outcome (phon). There was some litigation that were resolved prior to closing and this have translated into a higher net balance sheet.

Darko Mihelic, Cormark Securities

Okay.

Pierre Minville, Chief Risk Officer

So, for the rest of the balance sheet, it's mainly loan and deposits.

Darko Mihelic, Cormark Securities

Okay, and this shouldn't have any impact on capital, should it?

Pierre Minville, Chief Risk Officer

No. No impact on capital.

Darko Mihelic, Cormark Securities

Okay. And—sorry, and can you talk about the revenue impact of MRS and what would your objectives look like without MRS?

Réjean Robitaille, President and Chief Executive Officer

Okay. And in terms of, as I said earlier, the—what we have in our objectives for 2012, it's the operational aspect of MRS, so both in terms of revenues and expenses. They are roughly, before any synergies, roughly the same, a little bit more on the income side, but we could say something around 40 million—up to 40 million on the income side, up to, say, 35, 36 million on the expenses side. And the range—the revenue growth that we published for next year higher than 5 percent is including the revenue, the operational revenue of MRS. But excluding this, we're still—believe that we will face a higher level of growth revenue than the one that we had in 2011.

Darko Mihelic, Cormark Securities

Okay, but just to pin that down, if I say 5 percent growth in revenue on 2011, that would be $38 million or thereabouts, so MR—it's basically all of the revenue growth in your 2012 objective is coming from MRS, is that…

Réjean Robitaille, President and Chief Executive Officer

No. We expect, as I said, excluding MRS, revenue growth much higher than the one that we had in 2011, excluding MRS.

Darko Mihelic, Cormark Securities

Excluding MRS, okay. And so, when you said 40 million of income from MRS or—should I think of that as 40 million of revenue? Is that…

Réjean Robitaille, President and Chief Executive Officer

That's right. It's up to 40 million of revenue, yeah.

Darko Mihelic, Cormark Securities

Oh, up to 40—oh, I apologize, okay. And…

Réjean Robitaille, President and Chief Executive Officer

Okay.

Darko Mihelic, Cormark Securities

And the expense side is 35, 36 millionish?

Réjean Robitaille, President and Chief Executive Officer

That's correct.

Darko Mihelic, Cormark Securities

That's great. Okay, that's actually very helpful. Thanks very much.

Réjean Robitaille, President and Chief Executive Officer

Pleasure.

Operator

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

Michael Goldberg, Desjardins Securities

Thanks. My question's about MRS also. Can you just remind us, is the expected integration charge still $25 million?

Réjean Robitaille, President and Chief Executive Officer

I'll ask Michel Lauzon to answer this question.

Michel Lauzon, Chief Financial Officer

Yeah, the one-time charges are expected to be still around $25 million. As we proceed with the integration analysis, we'll keep you updated whether or not there's a material change over that, but so far, we said $38 million overall, of which 13 would be capitalized and 25 million would be expensed, excluding the 7.7 million compensation payment paid to Industrial Alliance.

Michael Goldberg, Desjardins Securities

Okay. And, so you just said about 40 million of revenue, 35 to $36 million of operating expenses, which sounds like somewhere in the neighbourhood of 4 to 5 million pre-tax contribution. Is that correct?

Michel Lauzon, Chief Financial Officer

That was the run rate and acquisition. As Réjean mentioned, we still—are still integrating so it's unclear how much synergies we're going to get. But any meaningful synergies will be accruing in 2013.

Michael Goldberg, Desjardins Securities

But you had originally indicated about $7 million of pre-tax contribution in 2012. Is that still a reasonable number?

Réjean Robitaille, President and Chief Executive Officer

For that, I don't recall that number, Michael. We—when we released our third quarter results and explained that, we mentioned that we anticipate that this transaction will bring 15 to $0.20 starting in 2013, with all the synergies, and we're still—and that would be after any potential capital issue, common capital issue, and we're still on the same level for that.

Michael Goldberg, Desjardins Securities

Okay. Thank you very much.

Réjean Robitaille, President and Chief Executive Officer

Pleasure.

Operator

Thank you. Once again, please press star, one at this time if you have any questions. Our next question is from Sumit Malhotra from BMO Capital Markets. Please go ahead.

Sumit Malhotra, Macquarie Capital Markets

Thanks. I don't know if I changed my employer there, but we'll go on with the questions anyway. Firstly around capital, am I right to say that—I think you've told us actually under Basel II, the impact of the MRS transaction is about 60 basis points. Is 50 to 60 still a right number for—or is it roughly the right number for Basel III as well?

Michel Lauzon, Chief Financial Officer

Probably closer to 60, Sumit. It's Michel.

Sumit Malhotra, Macquarie Capital Markets

So, closer to 60 basis points, so about 6.7 pro forma and you're confident over the next four quarters you could add 30 basis points or so organically to get to the 7 percent?

Michel Lauzon, Chief Financial Officer

Yeah. With that and with some proactive balance sheet management to reduce our APR—our risk weighted assets.

Sumit Malhotra, Macquarie Capital Markets

Okay, so let me ask this question then about the—well, I don't know if it's a proposed equity raise, but the equity raise you've talked about. What's the trigger that makes the Bank decide yea or nay in terms of going forward with the $50 million issuance? Has OSFI weighed in on this?

Réjean Robitaille, President and Chief Executive Officer

Well, we—well, the transaction has already closed so OSFI has agreed with the transaction, first of all. That said, in terms of managing our capital – and I think that I mentioned that earlier – but we have three priorities and in given this current market environment, it's important to remain prudent. The first priority is to get and have high capital ratios. You've seen other countries in the late days that have increased their minimum requirements and we don't know what could—what might happen in the future. So, having high capital ratios is the thing to do. And then also, depending of the market tones and market conditions, so we'll see if it's necessary or not in 2012. But, first of all, is having sufficient cushion, I would say, to also be able to continue to reinvest in our business development; might eventually have other potential acquisitions; or even continue to—also, that's the third priority, continue to increase our dividend. So that's how we manage our capital; the first priority – and they are in order – is to have very strong capital ratios.

Sumit Malhotra, Macquarie Capital Markets

So staying on that, I think both in your prepared remarks and in the MD&A, you made some reference to prudence around capital. It's—you've certainly been more consistent than your larger peers since OSFI gave the go ahead in terms of raising the dividend. Is it—you know, are you signaling to us here that perhaps we shouldn't get too complacent in thinking that increases in the dividend every other quarter are going to be a recurring theme, or do you feel you still have enough flexibility to continue along that path in 2012?

Réjean Robitaille, President and Chief Executive Officer

Well, that's always the same answer on this, Sumit. The dividend will—we'll look at the dividend on a quarterly basis. And then based on, well, the environment—and we discuss that at the Board level, so we will do it in the coming quarters also, depending of how the environment might evolve.

Sumit Malhotra, Macquarie Capital Markets

Where do you want the payout ratio to be?

Réjean Robitaille, President and Chief Executive Officer

Pardon me?

Sumit Malhotra, Macquarie Capital Markets

Where would you—what's your—in your mind, what is the proper payout ratio for Laurentian Bank?

Réjean Robitaille, President and Chief Executive Officer

Well, the one that we publish is between 40 to 50. You probably have noticed that in the last few quarters, we were a little bit more on the prudent side, so we were more around, let's say, 32 to 37 percent. And then I think that this time, again, with this increase, that reflects roughly the 30-something threshold, but that's something that we will, as I said earlier, continue to manage prudently.

Sumit Malhotra, Macquarie Capital Markets

Last question is on margin again, so it's probably for Michel. So, from the drop you had in Q4 to Q1 when you—I think you changed your asset liability management process, after that time, you were remarkably consistent throughout the year and you mentioned some changes in liquidity and brokerage asset management. I know these numbers are going to change when you come back to us in January, but if we were looking at the level we've seen in the last couple of quarters, which is just a 3 basis point range, you know, I think you talked about some spreads are widening, but obviously the interest rate environment not conducive to NIM as a whole. If you were to have us think about where NIM could go, at least off of this level, what would be your outlook for 2012?

Michel Lauzon, Chief Financial Officer

Well, Sumit, first of all, as you can imagine, under IFRS, NIM will drop by several basis points as we add back lower margined insured loans, insured mortgages on the balance sheet, so that's one phenomenon you'll see in Q1. And, as I mentioned, there is continued pressure on margins because of the low interest rate environment. So far, we've managed to offset that by shrewd balance sheet management. Hopefully, we will be able to pursue that next year, but there is ongoing pressure.

Sumit Malhotra, Macquarie Capital Markets

So, I mean apples-to-apples here, from 2 percent today and, you know, forgetting about IFRS for a second, would you say 5 to 10 basis points decline is reasonable, or is that too much given the way you can manage the balance sheet?

Michel Lauzon, Chief Financial Officer

Unsure as to whether or not we'll be successful in terms of managing the balance sheet, so I'll have to refrain of giving you more specific guidance on that, because there is still ongoing pressure and we'll have to see how it plays out.

Sumit Malhotra, Macquarie Capital Markets

All right. Thanks for your time.

Operator

Thank you. We have no further questions at this time. I would now like to return the meeting 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.

Réjean Robitaille, President and Chief Executive Officer

Thank you very much.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
