Conference Call Fourth Quarter and Fiscal 2018 Financial Results

December 5, 2018

LAURENTIAN BANK
FINANCIAL GROUP

Caution Regarding Forward-Looking Statements

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2018 Annual Report under the heading “Outlook”. The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that these expectations will prove to be correct. Certain important assumptions by us in making forward-looking statements include, but are not limited to, our estimates and statements regarding our business plan and financial objectives including statements contained in our 2018 Annual Report under the heading “Outlook”.

We caution readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include: changes in capital market conditions, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, changes in competition, modifications to credit ratings, scarcity of human resources, developments with respect to labour relations, as well as developments in the technological environment. Furthermore, these factors include the ability to execute our plan and in particular the successful reorganization of retail branches, the modernization of the core banking system and the adoption of the Advanced Internal Ratings-Based approach to credit risk (the AIRB approach).

We further caution that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the “Risk Appetite and Risk Management Framework” section of our 2018 Annual Report, as well as to other public filings available at www.sedar.com.

We do not undertake to update any forward-looking statements, whether oral or written, made by us or on our behalf, except to the extent required by securities regulations.

NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and non-GAAP measures to assess the Bank's performance. Results prepared in accordance with GAAP are referred to as "reported" results. Non-GAAP measures presented throughout this document are referred to as "adjusted" measures and exclude the effect of certain amounts designated as adjusting items. Adjusting items are related to restructuring plans and to business combinations and have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers.

Operator

Welcome to the Laurentian Bank Financial Group conference call. Please note that this call is being recorded. I would now like to turn the meeting over to Ms. Susan Cohen. Please go ahead, Ms. Cohen.

Susan Cohen, Director, Investor Relations

Good morning and thank you for joining us.

Today's review of fourth quarter and fiscal 2018 results will be presented by François Desjardins, President and CEO, and François Laurin, Executive Vice President & CFO. All documents pertaining to the quarter, including the Press Release and Investor Presentation, as well as the 2018 Annual Report can be found on our website in the Investor Center.

Following our formal comments, the senior management team will be available to answer questions after which François Desjardins will offer some closing remarks.

Before we begin, let me remind you that 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.

It is now my pleasure to turn the call over to François Desjardins.

Francois Desjardins, President and Chief Executive Officer

Thank you, Susan and good afternoon everyone.

Three years ago, we launched a 7-year plan focused on making Laurentian Bank Financial Group a renewed financial institution.

Customer behaviours have shifted and continue to evolve at a rapid pace, sparked by advancements in technology and the globalization of banking. In response, you can find on slide 5, the mission statement we crafted which guides us in our journey to renew our organization and sets the tone for every decision and action we take: "We help customers improve their financial health."

On slide 6, we outline our 3 strategic objectives. Putting words in motion, as a team, we are building a more robust foundation, growing our business strategically in niches where we can win, and focusing on improving our financial performance.

Building on a long track record of disciplined management and conservative credit quality, in 2018, we invested in our foundation: people, processes and technology as seen on slide 7:

- The new core banking platform implementation is nearly 75% completed and we migrated all B2B Bank GICs at the end of the year. As we speak, we are in the final stages of preparation for the completion of phase 1, which will move all B2B Bank and most of Business Services products to the new platform.

- Moreover, this new core banking platform has opened opportunities for a better transition to a digital environment and sets the stage for digital product launches in 2019 and a renewed customer experience.
- We completed the integration of the Canadian Operations of CIT, now renamed LBC Capital, and implemented a new best-in-class technology platform to support growth in leasing and equipment finance.
- We joined THE EXCHANGE Network to allow customers greater access to their accounts through a vast network of more than 3,600 ABMs from coast to coast.
- We made an important investment in our people by completing the build of a new corporate office in Montreal and moving teams from nine separate locations across the city to one central hub. With our new Montreal office now fully operational, a strong presence in Toronto and offices across the country, we are seeing the vision of who we are becoming, come to life - an investment that is already paying dividends in supporting better teamwork and a culture of performance.
- We improved IT Governance, IT Security and Business Continuity programs.
- We upgraded our Liquidity Management software and refined processes and practices that are the backbone of a growing organisation.
- And lastly, we emerged from the mortgage loan portfolio review as a stronger organization, as we built enhanced mortgage processes, implemented new controls and refined our oversight and governance.

We are now more ready than ever to focus on profitable growth.

You can find on slide 8 that since 2016, we have been evolving the bank mix by increasing loans to business customers. We saw positive results in higher-margin commercial loans, including equipment and inventory financing through LBC Capital and Northpoint Commercial Finance and we fully intend to continue to grow these portfolios.

We have also been expanding our geographic footprint. Growth is being generated across Canada and since 2017, in the U.S.

Over the past year, competition in the mortgage market intensified and housing prices softened in part due to changes in regulations – including B-20. These factors contributed to slower growth in residential mortgages, as we had expected. This is aligned with our strategy to evolve towards higher-margin commercial loans and confirms that is the right approach for us.

We recently took a step toward our advice-focussed approach for our retail branch customers by opening our first advice lounge in Montreal. So far, a few weeks after our grand opening, feedback from our customers has been very positive. We are confident that our new model will be successful and we are eager to expand it, which we expect will result in an increase in total deposits from clients as well as in assets under administration.

In 2018, market volatility, combined with a commitment to pursue our plan, motivated us to maintain healthy capital and liquidity levels which strengthened the financial position of our organization. In fact, as you can see on slide 9, with a CET1 of 9% and a healthy liquidity profile, this organization has never been in as good a position as it is now. This puts pressure on short-term performance, but ensures the financial strength of this organization and in the current environment, it is the right thing to do.

Revenue grew, and for the first time, Laurentian Bank Financial Group reached one billion dollars - a milestone.

With the progress, we are making towards reaching our strategic objectives, the Board has reaffirmed its confidence and has approved an increase in the quarterly common share dividend of $0.01 to $0.65 per share.

Three years ago, we said that we would accomplish 10 critical elements and as you can see on slide 10, we are making great progress on many fronts.

We said we would invest in core banking: we did and the implementation is almost 75% complete.

We said that we would move the balance sheet towards Business Services: we did, with organic growth and acquisitions – and by slowing our residential mortgage loan originations.

We said that we would develop a competitive product offering: we are, by reducing the number of products, by making bold decisions to exit products or markets where we do not see value and by focussing, in 2019, on launching digital banking products across Canada, opening new direct to customer opportunities and increasing funding diversification.

We said we would build best-in-class advisor and account manager teams: we are, specializing work in Business Services and launching the “Advice lounge” concept in Retail Services.

We said that we would improve capital management: we are, with continued work towards the AIRB certification at the end of 2020 with benefits expected gradually beginning in 2021.

We also said that the road would be bumpy and that short-term performance would not follow a straight line: well the road is bumpy and 2018 results reflect our investments in people, processes and technology; combined with the strengthening of the Bank’s financial foundation.

“Nothing that is worthwhile come easily” as the saying goes, and the team here at Laurentian is very much looking forward to seeing, in a not too distant future, our work create growth, performance and ultimately value for our shareholders.

As you can see on slide 12, 2019 will continue to be a year of investment and looking forward, one where we are putting a lot behind us. Consequently, it will be a year where we will see the delivery of improved technology and better processes to drive future customer, loan and deposit growth.

It will be a year where our customers will see the first tangible benefits of our new digital offer, which will be gradually launched across Canada under two of our brands: Laurentian Bank and B2B Bank. This new customer base will provide a new source of funding, and will represent added value for our customers including independent financial advisors and brokers.

Of course, we have said that we need more clarity on the labour relations front before making any more real estate and technology investments in Retail Services.

But, you will find on slide 13, that the Laurentian Bank Financial Group is much more than just branches. In all other parts of the Group, the plan marches on.

In Retail Services, we will continue to right size the product line and improve processes which will decrease the need for administrative work and allow us to increase the number of advice team members. It will also be a year where we will continue moving forward with the conversion of our traditional branches to advice centres and become 100% advice-only in 2019.

With portfolio sales being behind us, 2019 should be a year of positive net loan growth and position us well to achieve our-mid term targets, as set out on slide 14.

You will also find on slide 15 our updated mid term performance targets and Francois Laurin will say more on our results and targets in his prepared remarks.

We conclude on slide 16, that executing this plan will continue to require discipline, as we look forward to profitable growth and reaping the benefits of investments in business opportunities. In short, we are investing in the right places to support future growth and build a renewed financial institution, not for the next quarter, but for the next decade.

And now, I would like to turn the floor over to François to provide a more in depth review of our fourth quarter and 2018 financial results.

François….

Francois Desjardins, President and Chief Executive Officer

Thank you, François.

Good morning everyone.

I would like to begin by turning to slide 19 which highlights the Bank's financial performance. Adjusted EPS in the fourth quarter and 2018 were $1.22 and $5.51, compared to $1.63 and $6.09 a year earlier and adjusted ROE over the same periods were 9.0% and 10.5% compared to 12.7% and 12.3%. For most of 2018, the Bank operated with higher capital levels which strengthened our balance sheet but impacted profitability. As outlined on slide 20, reported earnings for the fourth quarter included adjusting items totalling $3.5 million after tax or $0.08 per share, largely related to business combinations.

Turning to slide 21, total revenue for the fourth quarter of 2018 reached $255.9 million, 5% lower than a year earlier. Net interest income declined by 2% due to lower loan volumes and higher liquid assets. Other income declined by 10% year-over year. In the fourth quarter of 2017, other income included a $5.9 million gain on the sale of the Bank's investment in Verico. For 2018, revenue grew by 5% and for the first time in the Bank's history, exceeded $1.0 billion, reflecting the full-year contribution to net interest income of the acquisition of NCF.

Net interest margin, shown on slide 22, was 1.77% in the fourth quarter of 2018. This was two basis points higher than a year earlier due to the greater proportion of higher-margin loans to business customers and increases in the prime rate that were partly offset by the higher level of liquid assets. Net interest margin for the full year was 1.78%, ten basis points higher than in 2017, with a full year's impact of NCF being partially offset by higher liquidity.

Average earning assets were $39.7 billion in 2018 or 4% higher than in 2017, reflecting the full-year impact of the NCF acquisition. However, on a quarterly basis, there was a slight downward trend. This is due to managing asset growth more tightly to optimize the profitability of the product mix and the related risk-weighted exposures and included certain commercial loan sales.

Slide 23 shows the evolution of our loan portfolio over the year. Specifically, residential mortgage loans were down by 8% year-over-year. This was impacted by our decision last November to no longer accept referrals from the broker network into the branch network. As well, mortgages through independent brokers and advisors were down by 10%, largely due to changes in regulations, including B-20, and our decision to focus on loans to business customers. Personal loans declined by 3% over the same period, mainly due to lower investment loan balances, reflecting consumer behavior to accelerate repayment following strong capital market performance. Furthermore, we rebalanced the commercial loan portfolio, selling certain portfolios so we can focus on specialized niches. Specifically, in the second quarter of 2018, we divested the $380 million agricultural loan portfolio and in the second half of the year we sold $328 million of loans, mainly in the non-strategic Renewable Energy and Infrastructure portfolio. These transactions offset organic growth, particularly in inventory financing. Excluding these loans sales, the commercial loan portfolio grew by 5% in 2018 compared to 2017. By optimizing our portfolio, we are well positioned to profitably redeploy capital in the coming months.

A year ago, we indicated that we were going to review all of our portfolios to determine which ones we should maintain, grow, fix or exit. In November, we sold an additional $100 million of commercial loans and now will have completed the exit portion of our review in the first quarter of 2019. We will now focus on resuming growth.

Looking ahead, we expect margins to trend higher in 2019. This is because we expect net loan growth to resume, the shift in the Bank's loan portfolio mix towards higher margin commercial loans to continue, and the recent increases in interest rates to have a positive impact. In 2019, we expect low-single digit growth in residential mortgages and double digit growth in commercial loans.

Other income, as presented on Slide 24, totaled $82.7 million in the fourth quarter of 2018 and decreased by $9.0 million year-over-year, mainly as the fourth quarter of 2017 included a $5.9 million gain on the sale of the Bank's investment in Verico. In addition, income from brokerage activities was lower reflecting less activity. Fees and commissions were impacted by clients continuing to modify their banking behavior and by the Bank simplifying its products. These items were partially offset by $3.2 million higher treasury and financial market income mainly due to net securities gains.

Slide 25 presents adjusted non-interest expenses that in the fourth quarter were relatively unchanged from a year earlier. Lower performance-based compensation and lower headcount were partly offset by higher technology costs resulting from operating concurrent core-banking platforms, as well as higher regulatory expenses. For 2018, adjusted non-interest expense growth was 6% while reported non-interest expenses growth was 4%.

The adjusted efficiency ratio of 66.7% for 2018 is 60 basis points above the 2017 level and trended higher in the second half of the year given additional operating costs and lower revenue. As we continue investing in our foundation in 2019, this ratio can remain variable, but as the impact of resuming our growth and leveraging our investments and acquisitions take hold, we expect that efficiency will improve towards our target.

Slide 26 presents our well diversified sources of funding. Deposits declined by 3% year-over-year and was relatively in line with the level of loans and acceptances. Attrition in branch deposits continues to be in line with expectations given our branch mergers. Personal deposits sourced through independent brokers and advisors were relatively stable from a year earlier, although down 6% sequentially. As well, debt related to securitization activities decreased by 5% compared with a year earlier and stood at $7.8 billion. The decrease mostly stems from the maturity of liabilities, the repurchase of identified mortgage loans inadvertently insured and sold, as well as normal repayments, and was partially offset by $1.2 billion of residential mortgage loans that were securitized during the year.

Turning to Slide 27, the CET1 ratio of 9.0% is presented under the Standardized approach and highlights our strong capital position.

Our diversified loan portfolio is shown on Slide 29. Loans to business customers have increased to 35% of the portfolio from 33% a year ago and residential mortgages stand at 49% compared to 50%. Within the residential mortgage portfolio, Alt-A mortgages total $1.4 billion and represent 8% of the total mortgage book and 4% of the total loan portfolio. As well, mortgages in the GTA represent about 20% of the portfolio and the GVA accounts for 4%. LTV's remain low and credit scores remain high.

Turning to slide 32, in the fourth quarter of 2018, the provision for credit losses was $17.6 million and included a loss of $10.0 million related to a single syndicated commercial loan, in which we are a small participant. The loss ratio for the fourth quarter and for the full year was 20 basis points and 12 basis points respectively. On an annual basis, we continue to expect the loss ratio to trend higher as the loan portfolio mix evolves. However, we expect increases to be more than offset by higher net interest income.

Slide 33 highlights that net and gross impaired loan ratios increased sequentially and year over year, mostly due to the identified syndicated commercial loan. Overall, we continue to believe that the underlying credit quality of the portfolios remains good and that the Bank remains comfortably provisioned considering that the loan portfolio is well collateralized.

This quarter, as presented on slide 34, we are providing an initial view of the impact of IFRS 9 and IFRS 15, which are being implemented effective November 1, 2018. Based on current estimates, the negative impact on shareholders' equity of transitioning for both standards is not expected to exceed $20 million or 10 basis points on the CET1 ratio.

Finally, I would like to return to our updated mid-term objectives that François mentioned earlier that can be found of Slide 14 and 15. We are focusing on the three growth drivers that are the most meaningful and reflect our global corporate view.

Business Services has been and will continue to be a growth engine for the Bank. With the resumption of profitable growth in 2019 as we redeploy capital, we expect loans to business customers to reach $16.0 billion in 2021. This reflects our decision to evolve the portfolio towards higher margin commercial loans as we leverage our investments. Furthermore, as we are managing the Bank more holistically, we are introducing a target for growth in total residential mortgage loans at $19.0 billion. Lastly, we are increasing our objective for growth in deposits from clients to $28.0 billion. We will no longer track assets under administration for Laurentian Bank Securities and Retail Services, as we put more emphasis on growing our deposits from clients and focusing on our key strategies.

Our 2021 ROE objective is to narrow the gap with the major Canadian banks to 250 basis points. As we plan to adopt the AIRB approach to credit risk in late 2020, this gap reflects the initial benefit as we gradually redeploy capital. We are also targeting an efficiency ratio of below 63% and positive operating leverage. Lastly, we continue to work towards an adjusted EPS growth rate of 5 to 10% annually over the medium-term.

We remain as committed as ever to execute our strategic plan and work towards our ultimate goal - to improve the Bank's performance and achieve a profitability level similar to that of the other Canadian banks in 2022, as we reap increasing benefits from the adoption of the AIRB approach.

Thank you for your attention and I will now turn the call back to Susan.

Susan Cohen, Director, Investor Relations

At this point, I would like to turn the call over to the conference call operator for the question and answer session. Ron?

Operator

Thank you. Ladies and gentlemen, if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. And we'll take the first question from the line of Richard Roth with TD Securities – or pardon me, we'll take the first question from Sohrab Movahedi with BMO Capital Markets. Please go ahead.

Sohrab Movahedi, BMO Capital Markets

Hi, a couple of questions. Maybe François, I could start off with you. I'm just a little bit confused with the medium-term objectives and the 2021 timeline. Are you saying that, for example, 5-10% annual EPS growth starting from 2021, you have a medium-term objective of 5% to 10%. Is that how we should be thinking about it?

Francois Desjardins, President and Chief Executive Officer

I'll let François Laurin answer that question. And then I'll come back and give you some comments on the objectives as a whole.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Our intent is to have an annual target up to 2021 of 5-10% a year on an annual basis over that period of time, knowing that 2019 – as we mentioned, would be a softer year in terms of EPS growth, given our level of expenses and investments that we have undertaken to be implemented in 2019.

Sohrab Movahedi, BMO Capital Markets

Okay. So, François just to clarify, I guess, just to interpret that 2021 dates you have out there, I guess, you're saying these will be the performance targets until 2021, and then maybe you'll revisit them then? Is that maybe the fair way to think about it?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

That is fair. So between today and 2021, we expect, on an annual basis, to grow the EPS by 5-10% a year over that period of time, knowing that 2019 is a softer year.

Sohrab Movahedi, BMO Capital Markets

Thank you for that.

Francois Desjardins, President and Chief Executive Officer

It's François Desjardins here again. We're trying to follow the industry's guidance here in terms of mid-term objectives. The banks have all kind of settled on mid-term objectives that are three years out. I think it's useful for you to get what we're working towards on that same basis. You'll notice, obviously, that compared to last year's mid-term objectives that were for 2020, growth targets are increasing after 2021, and performance slightly as well. We're confident that we will be able to achieve those targets in the next three years.

Before you asked where do I think we would land in 2020? Well, from a growth perspective, we believe that loans-to-business customers and assets under administration from LBS, would be surpassed based on last year's three-year guidance. Deposit growth from customers would be as expected. Mortgages from independent advisors and brokers would be slightly below but not by much. And assets under admin in Retail Services would be a miss.

From a performance perspective, the ROE gap target would be slightly lower than expected, based on current analysts' expectation of the market for 2020. So the ROE gap would be slightly lower than the 300 basis points that we had indicated, by maybe 50 or maybe a little more in terms of gap. Of course, the EPS would follow that. But that's mostly driven by the higher levels of capital that we're having and liquidity levels.

But the efficiency ratio would be as expected, below 65 for 2020.

Sohrab Movahedi, BMO Capital Markets

Okay, thank you. Can I just ask very quickly on the one-off syndicated commercial credit that you called out? What was the – which geography was that in?

Francois Desjardins, President and Chief Executive Officer

I'll let Liam Mason, our CRO, answer that question.

William Mason, Executive Vice President, and Chief Risk Officer

Good morning, and thanks for your question, Sohrab. In terms of geography, it's a Canadian-based customer of – syndicated loan customer that's about $27 million in size. We've been involved in the syndicate for the past six years, relatively small player for us. This is somewhat of a new news to us in that we were advised earlier this week that the syndicate agent-lead bank had uncovered, or been advised by the borrower that there were irregularities in their accounts related to the validity of some of the collateral underpinning the borrowing base.

So in looking at this and the initial assessment of the revised value of that borrowing base in the collateral, we therefore booked a provision, based on the best information that we have at this point from this lead bank agent.

Sohrab Movahedi, BMO Capital Markets

Thanks, Liam. And Liam, would you have a ballpark indication of what percentage of your commercial loan book would be in syndicated type credits?

William Mason, Executive Vice President, and Chief Risk Officer

Sure. Why don't I get to Stéphane to just talk about the syndicated loan business?

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

Yeah, the syndicated debt in commercial represents roughly 10-12% of our overall business services portfolio. So it's a small portfolio for us but they're performing very well. Obviously, like other banks, it allows us to participate in strong deals with major banks, where our participation is lower, i.e. in line with our size. It is a very diversified portfolio in terms of industry, and it's across Canada.

Sohrab Movahedi, BMO Capital Markets

And Stéphane, is like a $27 million size at the upper end, at the lower end or about an average for that size, for your syndicate portfolio?

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

That would be at the upper end.

Sohrab Movahedi, BMO Capital Markets

Thank you.

Operator

We'll now take the next question from the line of Richard Roth with TD Securities. Please go ahead.

Richard Roth, TD Securities

Hi. Looking at your NIE line, we saw a pretty big sequential drop. Am I correct in assuming that a large factor for that drop is capitalisation of some of those incremental expenses?

Francois Desjardins, President and Chief Executive Officer

I'll ask François Laurin to answer that question, Richard.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Thank you, Richard. Clearly, quarter over quarter sequentially, because of the massive investments we have, we have a bit more capitalization of labour between Q4 and Q3. The other one would be in Q3 we had a one-time charge because of the cancellation of insurance on mortgages with the CMHC, following the review, of over $1.5 million. So that was a Q3 event that does not happen in Q4. So those would be the two major items from Q3 to Q4.

Richard Roth, TD Securities

Okay. And so I guess it's one of the big pieces that fell was on the comp lines. So are these the same employees but instead of running them through their cost to the P&L, they're being capitalised because you can argue or justify that a higher percentage of their time or whatever is being allocated towards capitalisable activities?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Obviously, with our two major projects, being Core Banking and IRB, there's a higher proportion of the employees that efforts are being put and capitalised into the projects. But as we move forward, we should have the efficiency in the processes and also in the reduction of maintenance costs from the lower number of platforms to maintain. And as well, improve our efficiency ratio going forward, once that period is over.

Richard Roth, TD Securities

Okay. And on that note, when I look in your financial statements and I look at the intangibles note, you have an other intangibles line. And there was $82 million – $81.6 million of additions. Is that where those employee costs are going on your balance sheet?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

That other intangible represents – the bulk of it are the two major projects, you're right. And the capitalisation of labour would fit into that line, yes.

Richard Roth, TD Securities

And am I correct in understanding that the amortisation of that will occur as these systems come online?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

You're right.

Richard Roth, TD Securities

And what sort of the amortisation rate, like what I'm trying to get at is, a lot of these expenses have moved into the balance sheet, but if amortisation is maybe elevated in the next few years that's clearly going to offset a bit. So how should I look at that?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Basically, the major project like core banking, you could assume a 20-year period amortisation. So once we're done, the cost accumulated would be amortised over 15, but most likely 20 years, in the case of core banking. So once we're done and we're 75% through it, so once we do the next step of the phase one with the B2B products and some of the business services, then the bulk of the amortisation would start. So basically, we could assume somewhere in 2019.

Richard Roth, TD Securities

Okay, and last question on this front. So on the run rate basis, thinking over the next few quarters maybe the entirety of 2019, do you expect to change the proportion or allocation of employee costs that are now capitalised? Or is what you're currently at as of 31st October the numbers you booked this quarter, a reasonable expectation? Because we saw it – we did see a move from Q3 to Q4. And I'm wondering, are we going to see a move back or move further in the same direction or higher run rate?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Overall in 2019, non-interest expenses will stay relatively in line with what we have at the moment because we still have part of the AIRB project that keeps going. And the one thing that reduced this year in terms of year over year was the variable-based compensation, Richard.

Richard Roth, TD Securities

Yeah, I'm looking at that.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Going forward, you don't see the gross – you just see the net in salary expenses of what's capitalised. Some of these employees or people or resources come with the projects. And once the projects are gone, they don't stay necessarily as employees of the bank. So you wouldn't necessarily see a major shift in the salary expenses because of the stopping the capitalisation moving forward.

Richard Roth, TD Securities

Okay, yeah, understand. Thank you.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

You're welcome.

Francois Desjardins, President and Chief Executive Officer

If I may add to that, this is François Desjardins speaking. Just for clarity sake, when you're doing core banking investments and we have said this before, people from Temenos that are working on this, people from Deloitte that are working on this, and some of our own people that would normally be in operations jobs, but not that many that are dedicated to this. Then we have a slew of people that have been hired specifically for the project that are released once the projects are done. That gives you an overall of the workforce.

Of course, everything that is done for the project gets put on the balance sheet and then gets amortised, as François indicated before. That answers, Richard? Operator?

Operator

We'll now take the next question from Sumit Malhotra from Scotia Capital. Please go ahead.

Sumit Malhotra, Scotia Capital

Thanks, and good morning. Just a couple of clarification questions here maybe starting with the quarter and then going a little bigger picture. So the two items that really seem to help in the quarter were expenses, which we'll get back to, and then the tax rate. You guys had indicated earlier this year that, if anything, the tax rate would be moving higher as we go forward. I don't want to spend too much time on this but versus the 18-ish percent level we see today, like what is the run rate? I thought it was supposed to be materially higher, and maybe just quickly, like what's causing this move below 20%?

Francois Desjardins, President and Chief Executive Officer

I'll ask François Laurin to answer.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Yes, in Q4, it's clearly the business – the current business mix of the results of Q4. Going forward, we had explained that because of some of the government new budget measures, our taxes would be higher going forward. That's 2019 and beyond. So from 2019 on, we should see a roughly 21-22% based on our projections.

Sumit Malhotra, Scotia Capital

Sorry, 21-22% or I heard it higher – I thought it was 21-24%?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Yeah, but I'm giving you a bit of tighter range now.

Sumit Malhotra, Scotia Capital

Okay, that's good. And sorry, I said I won't go too long on this. But when you say business mix, the bulk of your – I know you have some operations in the US now, but the bulk of your operation is under the Canadian statutory rate, I would think. When you say business mix, what specifically are you referring to?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Well, clearly, from a lower rate perspective, you have the US businesses that we acquired last year. You also have the – what we call insurance – we have a bit of insurance, reinsurance business that's taxed outside Canada. And then we also have, depending on our investment income, dividend component of our revenues, which is not taxed at the high rate, not taxed at all.

When you take this, plus the lower volume; proportionately our Canadian business has been lower in this quarter compared to previous quarter. So hence a lower tax rate.

Sumit Malhotra, Scotia Capital

All right, thanks for that. And then maybe on expenses, I'll stay away from the capitalisation versus expense, and just kind of think about this more broadly since you've indicated you expect your efficiency ratio to improve next year. You did – you do some reference in the release to some severance charges that were taken in the quarter, and we do see your headcount has moved lower by about 3% sequentially. Is whatever was reflected in severance this quarter indicative of where the headcount is going to be going forward, or is this severance charge still making its way through?

And I think this question is more broadly for François Desjardins. You've indicated that there's more investments to come. So when we look, in aggregate, at the Q4 expense base, do you see this is as more reflective of what the run rate is, or was this a particularly good quarter, from a cost perspective for Laurentian?

Francois Desjardins, President and Chief Executive Officer

I think it was a fair quarter. But I'm hesitant to give you guidance a little bit on this because of more the labour situation. All along, since 2015-16 now, our goal is to convert, retrain administrative workers into more advice jobs. We've done some of that when people have applied but not on the large-scale proportion, like we would have wanted. So we also – we have the option to reduce the number of administrative workers as we implement a better processes and automation. So that's what we're doing.

When we're talking about going to 100% advice-only in our branches that means that there's no tellers by the end of the year. So, of course, the headcount is going down. I think the unfortunate part is, I think, that some of these folks could have made it to advice jobs. And right now, we're not yet where we need to be on the labour front to be able to move forward as planned. So how that's going to pan out in headcount is a little bit hard to say at this point.

But I would not say that the headcount is heading north. I would say that the headcount is heading south.

Sumit Malhotra, Scotia Capital

All right, thank you for that. Last one for me –

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Sumit?

Sumit Malhotra, Scotia Capital

Yeah.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Sumit, can I just clarify something?

Sumit Malhotra, Scotia Capital

Sure.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

I think I understood that you think the efficiency ratio will be improving next year. I just want to clarify, in 2019, we still believe the efficiency ratio was to be variable and we'll start to improve past 2019.

Sumit Malhotra, Scotia Capital

Past 2019, okay. Thanks. Thank you for that clarification. Last one for me and I'll pass it off. I appreciate the disclosure on IFRS 9 and the day one impact, if you will. I also want to think about the impact on your provisioning levels more on a go-forward basis. So in the last three years, if my numbers are right here in the model, your provisioning ratio has been around 11 basis points; as you point out, lowest in the industry. Of course, your gross impaired loans trend and the overall credit quality has been very good. But as your portfolio shifts to products that historically have had higher loss rates than residential mortgages, under the expected loss methodology, what do you think your loan loss ratio or your provisioning ratio will look like under IFRS 9, just given the changes in the mix of your book?

Francois Desjardins, President and Chief Executive Officer

I'll ask Liam Mason to comment on that.

William Mason, Executive Vice President, and Chief Risk Officer

Sumit, thank you for your question. I mean, as we're all familiar, the IFRS 9 methodology depends not only on the current year's forecast but how responsive the out-years are over the life of the exposure. So to some extent, it depends on the macroeconomic environment. As you rightly point out, we've been averaging 11 basis points. I think we've indicated to the marketplace that we expect that to trend up to about 20. But we believe that as we change our business mix, any increase in our loan loss run rate will be more than offset with higher net interest income and margin.

So we remain, in terms of our forecast, consistent with what we've released. That said, as you know, the IFRS 9 methodology has been released by many other banks, is a little bit more volatile, and we do expect potential higher impact from the mix.

Sumit Malhotra, Scotia Capital

Liam, is that 20 basis points as soon as 2019, or is it more gradual, depending on changes in the economic environment?

William Mason, Executive Vice President, and Chief Risk Officer

No, that's a more gradual impact over – as we grow it and, obviously, we're going to be tracking it closely with the business growth. It's not a step function.

Sumit Malhotra, Scotia Capital

Thanks for your time.

Operator

We'll now take the question from Marco Giurleo with CIBC. Please go ahead.

Marco Giurleo, CIBC Capital Markets

Hi, good morning.

Francois Desjardins, President and Chief Executive Officer

Good morning.

Marco Giurleo, CIBC Capital Markets

My first question is for François Laurin. I just want to touch again on expenses and just get a clarification. I think, François, you said you expect adjusted expenses to be flat to 2018 levels? So that implies about a quarterly run rate of about $174 million. So not far off from where we were this quarter. So I just want to make sure that's the – is that indeed what you foresee going forward 0% growth of these levels?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

All things considered, that's a fair assumption.

Marco Giurleo, CIBC Capital Markets

Okay, thank you for that. And then, François Desjardins, you mentioned a 100% advice-only branches by the end of 2019. Just wondering, where are you right now in that process, and could the union negotiations that are currently underway be an impediment to achieving that goal?

Francois Desjardins, President and Chief Executive Officer

I'll answer and then I'll ask Stéphane Therrien to give you a little bit more colour on the progress that we're making. So your question is, where are we now? I think we're at about a third of the branches of the network that are advice-only. And what that means is that the four basic transactions that are already available at the ATM – withdrawal, deposit, pay bills and have your account balance – you can't go to a cashier anymore to do that. And so the human service inside the branch is all about advice. That's what the model is. We're about a third of the way there.

From a perspective of the union, no. The current collective agreement allows us to reduce the services that are offered in the branches and focus our service on advice. The issue we've been having is that trying to train and redeploy some of these people. And what we've been doing is, as people are leaving, just not replacing them. And there is about 40-50% turnover rate in cashiers, so that process is relatively fast. And that's how we've been working all along.

To give you a little bit more excitement about what's happening in retail services, let me turn it over to Stéphane Therrien.

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

I think, François did a good job at explaining exactly where we were and where we are right now. The excitement part is that we feel that a lot of our other employees are really excited to move to 100% advice-only in the branches. So that's one thing. And the customer feedback that we're receiving so far is very positive. This change in model is in line with their new behaviour. Remind everyone that 95% of the transaction that we're doing with our customer in retail are already done electronically. So they're really excited about the new model.

And obviously, we follow the progress of the branches that are already 100% advice, and they're performing better than the others right now.

Marco Giurleo, CIBC Capital Markets

All right, great. Thank you. And just one last question on loan growth. We saw a further contraction in both mortgages and personal loans this quarter. And on the slides, you speak to a gradual decrease in mortgage originations as you focus on higher margin commercial. So just curious, what do you see is driving the inflection in residential?

Francois Desjardins, President and Chief Executive Officer

Well, it's a little bit voluntary and a little bit involuntary – François Desjardins here. Our comment on volume growth, as a whole, of course, loans-to-business customers was higher than expected at Northpoint and LBC Capital and really good in real estate financing. But that didn't show up in the net growth numbers this year because we did some portfolio repositioning. We had said last year that we would review our portfolio to decide what to maintain, grow, fix and exit. And that's exactly what we did.

So we sold about the equivalent amount of loans, the agriculture business as a whole and some non-strategic low margin loans in other areas and optimised the balance sheet. So one offset the other.

But now that those sales are behind us, growth in business services should be well-positioned for double-digit growth in 2019. That's really the focus of our growth and it's a strategic objective of ours.

Growth in mortgages was lower, and we expected a large part of it. Two of the objectives that we had was to shift away towards the business mix, which I just talked about. But the second one was to reposition the branch network towards advice. So we made the decision to stop accepting referrals from brokers directly into the branches. We only accept mortgage broker referrals to B2B Bank now. And retail services is really focusing on financial advice, investments and deposits.

In parallel, as you know, changes in regulation, including the impact of B-20, had some effects on market events during the 2018, as well as the competitive backdrop, all contributed to no-growth in mortgages through the year at B2B Bank.

However, we're seeing a pipeline return. We're focusing both on prime mortgages on the insured side and on Alt-A. And we do expect to be able to meet our 2019 targets of $19 billion overall. It is one of the reasons why we're giving you our target for mortgages for the bank overall because we do expect B2B Bank mortgages to be very positive. But from a mortgage growth perspective, retail services to be still negative, as some of the customers that were mono-line exit.

So giving you a better representation of the whole mortgage book was important to us. But still we continue to believe we're going to see single-digit growth in mortgages starting this year. And if there's any indication, the pipeline is saying that this is underway.

Marco Giurleo, CIBC Capital Markets

All right, perfect, thanks. That's all for me.

Operator

We'll take the next question from the line of Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine, National Bank Financial

Good morning. I've got a couple of quick ones here. We're running out of time. The $100 million commercial portfolio sale, you said that that's going to hit in Q1?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Yes.

Francois Desjardins, President and Chief Executive Officer

Correct. That was the last part of our sales.

Gabriel Dechaine, National Bank Financial

Okay. You mentioned the $27 million commercial loan that became impaired this quarter and you took a provision. What is your single-name limit, anyhow?

Francois Desjardins, President and Chief Executive Officer

I'll ask Liam to answer that.

William Mason, Executive Vice President, and Chief Risk Officer

Sure. Gabriel, thank you for your question. In the commercial space, our average – our single-name limit is 40, but our typical average is in and around – as Stéphane said, in and around $20-25 million.

Gabriel Dechaine, National Bank Financial

Okay. And the syndicate, was that – are there other banks that I would know in that syndicate?

William Mason, Executive Vice President, and Chief Risk Officer

Yes, absolutely you would know.

Gabriel Dechaine, National Bank Financial

All right. Then, I guess, the shift to the commercial growth emphasis now. Let's talk about the drivers here I guess. If I look at your gross loans and the growth that you had during the year, pretty much entirely – and if I exclude the portfolio sale, it looks like it was all driven by inventory finance, so Northpoint. Everything else was kind of flat or down quite substantially. What – that double-digit growth that you want to get next year is, where is that coming from? Is it still going to be Northpoint driving the growth? What Canadian categories could be maybe reversing some of the negative trend?

Francois Desjardins, President and Chief Executive Officer

I'll ask Stéphane to answer that.

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

Well, first, Northpoint will be our leader in terms of growth for sure. LBC Capital will also experience double-digit growth. The same in real estate for construction lending. So these will be the three growth drivers driving the entire portfolio by double-digit. Just a reminder that the three years before 2018, our overall growth was all in the double-digit for business services. So we feel very good about the rebalancing of our portfolio that we did, and basically all teams right now in the business services have a mandate for growth. And with the mix, we will be at double-digit growth.

Francois Desjardins, President and Chief Executive Officer

If I can add to that we forget that LBC Capital, the acquisition of the Canadian operations of CIT, we just ended mid-to-end this year the integration process, and that the sales pre-purchase were on the negative trend. We turned that around, flattened that out. But we still have to do integration work and that's why, in my comments, I was talking about the implementation of new software. We needed to get our loans off the CIT platform and that was completed Q3/Q4 this year.

So there was quite a bit of effort from management on making sure that that integration was successful, and it is. And of course, next year we don't have that to worry about and we can focus completely on growth.

Gabriel Dechaine, National Bank Financial

What are the concentration limits by industry here? So if I look at this picture and, let's say, well, you gained – inventory finance picked up 600 basis point of the total percentage of your commercial book, like how big do you want that to get? How are you managing that growth to balance the growth in the risk management aspects of it? Because if we're seeing growth driven by one or two categories, that can be worrisome potentially.

Francois Desjardins, President and Chief Executive Officer

I'd ask Liam Mason to answer that.

William Mason, Executive Vice President, and Chief Risk Officer

Gabriel, I don't find it worrisome. We have a disciplined process around our risk appetite. We look at our aggregate concentration limits. We talked about single-name limit. We talked about limit – we have limits by industry and sector. I'm not worried about it and it's within our risk appetite. We don't necessarily disclose the specifics on it. But overall not uncomfortable with the mix at this time.

Gabriel Dechaine, National Bank Financial

Okay, thank you for taking the questions.

Francois Desjardins, President and Chief Executive Officer

Thank you.

Operator

We'll now take the next question from line of Meny Grauman with Cormark Securities. Please go ahead.

Meny Grauman, Cormark Securities

Hi, good afternoon. Question on the impact of union negotiations. So it sounds like the union negotiations are not really impacting the change in the rollout of the new branch model, and that's a good thing. But what is it impacting? Because I know there's still reference to that as being an issue but it doesn't sound like it's having – it's not preventing you from the branch rollout. I'm trying to understand what it is going to – what impact it is going to have?

Francois Desjardins, President and Chief Executive Officer

Thank you for the question. Under the current share collector agreement, we can reduce headcount. But really what we cannot do is move administrative work out and retrain those employees. So it doesn't stop us from removing and becoming 100% advice in the branches but it doesn't take us 100% of the way there.

I'll ask Stéphane to give you more colour. But the true model that we have in the end is one where we have developed the advice lounge model, which is here at 1360 René-Lévesque, where we have about 22 advisors, no vault, no counter, no transactions at all and everything is digital.

What we're talking about here is really trying to retrain administrative workers into those advice jobs, people that are in the back office or call centre or support teams, as time is going by. That's really what we're looking forward to doing. It's just taking a lot more time. So, not-according-to-plan part and is not according to timeline.

Meny Grauman, Cormark Securities

Okay.

Francois Desjardins, President and Chief Executive Officer

Stéphane?

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

I would add that, so far in the transformation plan, we've said that we would optimise retail. And we did some of it by cutting costs here and there, optimising our branches to 100% advice and so forth. What we have not done so far is the investment in the retail sector. We said that we are delaying decision of technology and real estate investment. These two items are at the centre of what we want to do to transform the retail sector.

So the labour situation is definitely slowing us down right now. Yes, we can do the advice at 100%, but with the existing branches, so we're transforming our branches, we're not creating the new ones and that's what we want to do. We want to invest, but right now we just cannot.

Francois Desjardins, President and Chief Executive Officer

I would add to that, of course, in the last few quarters we made the announcement that we would be launching digital products at B2B Bank and through Laurentian Bank brand across Canada. This portion was accelerated in the original plan, because we thought that retail branch banking is a great source of deposits and funding for a bank. But if we want to have growth in business services, or growth overall, it has to come from somewhere. And if we're not able to increase the advisor base to the level that we wanted to, it has to come from somewhere else.

So going direct to customer from a digital perspective for transactional accounts, higher savings, deposits, with a great brand like Laurentian across Canada was a way to go. So we're looking forward to launching that in the first half of the year for B2B Bank as financial advisors can refer their customers to us. And in the latter part of the year direct to customer under Laurentian Bank brand.

Meny Grauman, Cormark Securities

Thanks. And then, if I could just ask a question for sort of more detail. What was the growth in the branch – in branch-originated mortgages, sequentially and year over year?

Francois Desjardins, President and Chief Executive Officer

I'll ask Stéphane Therrien to answer that.

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

Year over year, the mortgages in the branches, were down 13%. As François Desjardins mentioned, we basically exited the referrals from brokerage channel. So this accounts roughly for half of that decline.

Meny Grauman, Cormark Securities

Okay. And then in terms of the portfolio sale this quarter, there was a loss on that sale. I'm just hoping you could quantify that loss?

Francois Desjardins, President and Chief Executive Officer

I'll ask François Laurin to comment.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Less than $1.5 million, around $1.4 million, Meny.

Meny Grauman, Cormark Securities

And in the portfolio you talked about in Q1 that $100 million. Is there also a loss associated with that sale?

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

No, not to my knowledge.

Meny Grauman, Cormark Securities

Thank you.

Operator

Once again, ladies and gentlemen, if you'd like to ask a question, please press star one. We'll take our next question from the line of Scott Chan with Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Good morning. I just want to focus on the other income for a little bit and on two specific items that have been sequentially declining. I guess, one, deposit service charges, and secondly, on the insurance side. On the insurance side, you talked about lower premiums, which kind of caused the year-over-year decline. But is there anything else to think about within those two categories over the next two years?

Francois Desjardins, President and Chief Executive Officer

I'll ask François Laurin to comment.

Francois Laurin, Executive Vice President, Finance, Treasury and Capital Markets, and Chief Financial Officer

Thank you, Scott. Clearly, as we transform retail to respond to the changes in customer behaviours, we expect that the service charge revenue line will decrease. But what we firmly believe is that our expenses will also decrease, so the efficiency ratio will improve over time.

In terms of insurance, it's just lower activity. The lower level of volume is the prime indicator of where this insurance revenue line comes from. So the growth in the revenue follows the loan growth.

Scott Chan, Canaccord Genuity

Is the volume expected to continue to be low over the next year or how do you kind of see that?

Francois Desjardins, President and Chief Executive Officer

Stéphane?

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking

The insurance growth will continue to be low.

Scott Chan, Canaccord Genuity

Yeah, okay. And just lastly, just on the personal loan side, you talked about investment loans kind of being attractive within that portfolio. Is there anything else in that portfolio to comment on?

Francois Desjardins, President and Chief Executive Officer

Only that normally when the markets are good, the investment lending business, people cash out. And when the markets are lower, people have a tendency to get in. Markets have been good over the last few years. And of course, this product has lost a little bit of favour since 2008. So we've been seeing some decline in this portfolio. We are making efforts in 2019 to relaunch this product.

We actually believe that this is a great loan for consumers to use their borrowing power to invest in assets rather than use their borrowing power to spend. So in line with our mission to improve our customers' financial health, using lending to borrow to, for example, fill your unused portion of RSPs, which most Canadians have not used in terms of maximising the returns. The TFSA limit has been increased again this year to 6,000. We're now in a total limit of, I think, it's 66 or something like that. We now offer TFSA loans for people that want to maximise that product. So these are things that we're looking at as we're shifting towards advice.

Scott Chan, Canaccord Genuity

Great. Thank you very much.

Operator

And that's all the time we have for questions today. Mr François Desjardins, at this time, I will turn the conference back to you for any additional or closing remarks.

Francois Desjardins, President and Chief Executive Officer

In closing, I would like to thank you for your continued interest – our shareholders and investors for your continuous support and trust, our team members whose dedication is an inspiration and most importantly, to our clients who motivate us to surpass their expectations every day.

I will now turn the call back to Susan

Susan Cohen, Director, Investor Relations

Thank you for joining us today. Should you have any further questions, our contact information is included at the end of the presentation. We look forward to speaking with you again at our first quarter 2019 conference call on February 27.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect your lines.