Laurentian Bank Quarterly Results Conference Call

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C O R P O R A T E P AR T I C I P AN T S

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P R E S E N T AT I O N

Operator

Ladies and gentlemen, and welcome to the Laurentian Bank First Quarter 2014 conference call. As a reminder, this conference is being recorded. At this time I would like to turn the conference over to Ms. Gladys Caron. Please go ahead Ms. Caron.

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

((inaudible)) Good afternoon everyone. Our please release for the first quarter of 2014 was issued on Canada Newswire and is posted on our web site.

This afternoon review will be provided by our President and CEO, Rejean 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 the names and titles on slide 21 of the presentation available on our web site.

Rejean Robitaille and Michel Lauzon 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 Rejean Robitaille.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, thank you Gladys and good afternoon ladies and gentlemen. The first quarter of 2014 was a very good start to the year. Net income reached $35.5 million or $39.3 million excluding adjusting items. We are pleased that the ((inaudible)) sources of income, as we have been targeting, all posted double-digit growth rates year over year. We're also pleased that our disciplined approach to expense management and efforts to optimize operations resulted in non-interest expenses being well contained.

The personal and commercial segment performed well in disregard with a year over year expense reduction of 3%. Operating leverage for the quarter was positive and our efficiency ratio is gradually improving; a trend that we are working hard to (perpetrate).

Challenges persist as the environment remains competitive. Loan demand is modest and interest rates are historically low. Given this context, we have been adapting our strategies, that is why we're not chasing grow for volumes sake but instead we are picking our spots and focusing on profitable growth. For example, we are continuing to target higher margin commercial activities. To this end; commercial loans and BAs grew by 17% over the past 12 months. This is serving to improve the business mix and diversity our portfolios.

Credit quality remains excellent as evidenced by the industry low loss ratios and is confirmation of our solid approach to risk management.

Slide 4 compares our results for the first quarter of 2014 excluding adjusting items to our targets. After the first three months of the year our performance is in line with the financial objectives that we established for 2014. We also believe that the bank is on track to meet these objectives for the fully year as well.

I will now call upon Michel to review the first quarter of 2014 financial results. Michel?

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

Thank you Rejean. I will begin on slide 5 which presents the first quarter of 2014 results compared with the first quarter of 2013. Total revenue reached $216.1 million or 1% higher than a year ago driven by 5% increase in other income while net interest income decreased slightly.

The provision for loan losses was $10.5 million in the first quarter of 2014, $2.5 million higher than in the first quarter of 2013. Adjusted non-interest expenses, excluding T&I costs totaled $155.2 million, marginally lower than a year earlier.

In the first quarter of 2014 adjusted diluted EPS and adjusted ROE reached $1.29 and 11.7% respectively compared with $1.30 and 12.5% in the first quarter of 2013.

I will now discuss the main factors behind the banks performance during the first quarter of 2014. First, net interest income of $140.9 million in the first quarter of 2014 decreased by $1.5 million from a year earlier. This largely reflected a reduced level of investment loans and lower mortgage loan prepayment penalties which was partly offset by improved margins.

Our assumptions for 2014 as presented at year-end included relatively stable margins. As highlighted on slide 6, NIM in the first quarter of 2014 was 1.66% equal to the level reported for the full year of 2013 and up three basis points from the first quarter of 2013.

Accounting for the improvement was a maturing of high coupon securitizations and a lower level of liquidity partially offset by modest margin compression owing to the re-pricing and maturing loans and deposits in the persistently low interest rate environment.

Second, other income of $75.3 million rose 5% from the first quarter of 2013 as shown on slide 7. The increase was broad-based reflecting improvements in most of the revenue streams that we have been proactively targeting

Specifically; increased business activity resulted in higher card service revenues, income from the sale of mutual funds and credit insurance income all generating double-digit growth rates. As well, higher loan prepayment penalties in the commercial portfolios of $1.8 contributed to the increase in other income. These increases were partly mitigated by lower income from brokers operations which recorded a particularly strong quarter a year ago and lower coming from treasure and financial market operations stemming form lower security gains in the first quarter of 2014.

Third as highlighted on slide 8, the provision for loan losses amounted to $10.5 million in the first quarter, $0.5 million higher than in the fourth quarter of 2013 and $2.5 million higher than the year earlier. We believe this reflects more normalized loan losses as these low levels, and because these tends to be some fluidity between loss provisions associated with any one portfolio in any one quarter, the total loan loss provision can be more indicative overall credit quality rather than the loss provision for a particular portfolio.

In the first quarter of 2014 loan losses on the personal loan as a residential loan portfolios declined by $4.3 million from a year earlier. This mainly reflects the fact that B2B banks investment loan portfolio has experienced an expected attrition with the reduced size of the portfolio requiring lower provisions.

Loan losses on the combined commercial loan and commercial mortgage portfolios increased by $6.8 million year over year largely as a function of loan growth, slightly higher impaired loans and lower recoveries compared to a year earlier.

At $5.4 million for the quarter, these total commercial provisions remain at a very acceptable level. Overall the banks credit quality remains strong and continues to benefit from the favorable credit conditions in Canada.

Slide 9 highlights gross impaired loans which stood at $113.9 million at the end of the first quarter of 2014 compared to the historically low level of $99.4 million at the end of 2013.

While there were a few specific exposures in the commercial mortgage portfolio which contributed to higher impaired loans, the bank does not expect to incur any losses on these loans nor is the increase considered to be a precursor of deteriorating credit quality.

However, owing to the growth in loan portfolios, we could still incur a slight increase in impaired loans and loss provisions as the year progresses. It remains noteworthy that the provision for loan losses as a percentage of loans and acceptances stood at 0.15% for the first quarter of 2014.

Our low and relatively stable credit risk profile as demonstrate by this loss ratio should continue to compare favorably to the banking industry.

Turning to slide 10; the efficiency ratio excluding transaction and integration costs for the first quarter of 2014 improved to 71.8% compared to 73.5% for all of 2013 and 72.7% in the first quarter of 2013. Moreover, in line with our 2014 financial objectives presented at year end adjusted operating leverage was positive quarter over quarter and year over year. Slide 11 highlights that T&I costs in the first quarter of 2014 totaled $3.9 million compared with $10 million in the prior period. The integration of (MRS) is just about complete with less than $650,000 of T&I costs incurred in the first quarter of 2014.

AGF Trust accounted for $3.3 million mainly relating to IT systems conversion costs, employee relocation costs, salaries and professional fees. With the integrations winding down over the next couple of quarters, B2B Bank is well positioned to leverage business opportunities as we go into 2015.

Our rigorous approach to expanse management and our efforts to streamline operations are demonstrated on slide 12. Non-interest expenses excluding T&I costs and the one-time restructuring charge in the fourth quarter of 2013 declined sequentially and year over year.

Slide 13 highlights the banks' balance sheet. Loans and BA's total $27.1 billion up 1% year over year. Residential mortgages grew by 2% as we focus on maintaining margins. Personal loans declined by 7% largely reflecting repayments of immigrant investment program loans, the expected attrition in investment loan portfolio as well as the trend in consumer deleveraging.

We are pleased that our strategy to target the higher margin commercial loans including BAs is bearing fruit; the portfolio growth of 17% year over year.

Deposits totaling $19.4 billion were virtually unchanged from a year earlier in line with the overall slower loan growth. Retail deposits represent 81% of total deposits providing a solid and stable source of funding. As of January 31, 2014 the common equity tier 1 capital ratio was 7.6%. The impact of changes to employee benefit accounting of about 20 basis points was largely offset by internal capital generation and stable risk weighted assets during the first quarter of 2014. The bank remains comfortably capitalized.

We will now turn to the performance of our business (sites). This is the first quarter in which we are reporting our retail and commercial activities in the newly formed personal and commercial segment. This business segment better reflects the interdependencies of these activities and it more closely aligns the banks reporting to the industry practice.

Slide 15 shows that the personal and commercial business segments contribution to net income rose 7% to $28.3 million in the first quarter of 2014 compared to our year earlier. Total revenue increased by 4% from the first quarter of 2013 driven by 12% increase in other income while net interest income was relatively unchanged.

Contributing to the growth and other income was higher than usual commercial loan prepayment penalties of $1.5 million. Other income benefited from higher revenues from the sale of mutual funds, card services and credit insurance. The provision for loan losses increased by $5.7 million from a year earlier reflecting growth in the portfolio and higher commercial loan losses.

Non-interest expenses decreased by 5% from a year earlier excluding the restructuring charge taken last year largely owning to lower head count from the optimization of certain activities and the careful control of discretionary expenses. Partially offsetting this were higher premise and technology costs. Operating leverage was positive and the efficiency ratio improved by 460 basis points to 68% from a year ago.

As shown on slide 16, B2B Banks contributions to the net income was $17.2 million excluding T&I costs in the first quarter of 2014.

Total revenue declined by $3.2 million largely due to lower net interest incomes stemming from the lower level of investment loans and margin compression on mortgages which more than offset the higher spreads earned on deposits year over year.

Provision for loan losses of $0.2 in the first quarter of 2014 were lower than a year earlier largely reflecting the reduced size of the investment loan portfolio. Non-interest expenses decreased by $2.4 million with lower salaries due to reduced headcount from integration synergies being partially offset by higher leasing costs.

Please note that in the first quarter of 2014 we retroactively adjusted the same (number) of results for B2B Bank and the other segment to better reflect the corporate expense allocation methodology that we are currently using.

As shown on slide 17, Laurentian Bank securities end capital markets contribution to net income decreased by $0.4 million in the first quarter of 2014 compared to a year earlier.

Slightly lower revenue was a result of reduced fixed income underwriting fees compared to a particularly strong quarter a year ago and lower revenue from the immigrant investor program. Correspondingly, expenses declined by $0.4 million as performance-based compensation, commissions and transaction fees were slightly lower. The other sector presented on slide 18 posted a negative contribution to net income of $8.4 million in the first quarter of 2014 compared to a negative contribution of $5.6 million in the first quarter of 2013.

Total revenue improved by $1.2 million from a year ago with net interest income benefiting from maturing high-cost debt related to synchronization activities and lower liquidity while other income was impacted by lower security gains.

Non-interest expenses increased to $10.7 million from $5.2 million in the first quarter of 2013 mainly due to higher technology expenses related to regulatory developments as well an adjustment related to the resolution of contractual IT exposures favorably impacted the first quarter of 2013 results.

This concludes my comments and now Rejean will offer some closing remarks.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you Michel. Among the positive results of our business plan is the change in our asset makes and our portfolios are becoming increasingly diversified. This portfolio evolution will continued as our specializations and commercial lending including the renewable energy healthcare and public private partnerships expand and our initiatives in leasing activities gain traction.

Margins, irrespective of interest rates will benefit from this strategy as will our risk profiles as we build a portfolio that spans a wide across section of the Canadian economy. A second favorable outcome of our business strategies is increasing geographic diversification.

Slide 19 highlights that almost 40% of our loan portfolio is generated from outside of Quebec. It is a quality noteworthy that within our residential mortgage portfolio 27% of mortgages are currently sourced from other provinces as are 60% of (original) loans and 74% of commercial mortgages.

We have initiatives in place to further diversify our portfolios geographically as B2B bank transitions from integrating acquisitions to leveraging its 27,000 relationships with financial advisors and brokers across Canada in order to spur business development, loan growth should ensue.

This growth will be fueled by the rollout of B2B Banks ((inaudible)) mortgage product later this year as well as revitalized marketing efforts in other offerings.

Similarly, the expansion of commercial lending activities will contribute to the evolution of our portfolio. The value has grown by 17% over the past three years and our quarterly dividends has increased by 30% over the same period.

In fact, Laurentian Bank shares currently provide investors with the highest yield of un-Canadian bank stocks. We are very proud also to have ranked in the 2014 addition among Montreal's top employers. This demand demonstrates the bank's commitment to human capital creating a positive working environment fosters good relationships with

employees resulting not only in a much (weighted) and productive workforce but also an ability to attract and retain talent; talent that is key to effectively deploying our business plan.

To conclude, as we continue to exist to execute our strategies to generate stronger revenue growth, better control operating costs and maximized strategies we are delivering the sustainable development in long-term earnings growth to enhance shareholder value.

I will now turn the floor back to Gladys.

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

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

QUESTION & ANSWER SESSION

Operator

Thank you. If you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone please make sure that your mute function is turned off to allow your signal to reach our equipment.

A voice prompt on the phone line will indicate when your line is open so please state your name before posing your question. Again, press star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for a question.

And we'll now take our first question.

Manny Graumann, Cormark Securities.

My question is relating to loan growth. I was hoping you'd give us a little bit more elaboration on your views going forward. When you talk about the speed bumps of loan growth you talk about a number of things including repayment of immigrant investor program loans, a focus on integration, attrition, investment portfolios and then also limited appetite for increasing leverage.

I'm wondering, how you scale all of these. Some of them are temporary, some of them are more long-lasting; what's your view of loan growth going forward?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, thanks for the question. In fact, we mentioned that during the fourth quarter conference call but loan growth for this year for the overall bank we expect a low single digit and depending on, let's say, the efforts that we started to develop in our commercial activities and B2B banks so it could be a little bit different.

So, commercial we expect a high, well, in fact, double digit growth in our commercial portfolios. As you probably noticed we have the year over year of 17% growth in that portfolio and that's part of our strategy to gradually shift our asset mix to do more and more commercial activities.

As for B2B because of the integration process we are still experiencing some attrition in the investment loan portfolio. That was expected in the beginning and gradually for this year we expect a relatively, let's say, flat to slightly negative growth in our B2B operation.

As for the overall bank in 2014, that will represent a low single digit growth in the portfolio.

Manny Graumann, Cormark Securities.

When you look out to 2015, does that change meaningfully for B2B in terms of your loan growth projection?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We'll ask if Francois Desjardins has the B2B answer to this question then.

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

Sure, thank you. Yes, of course it does. As you know, we've been knee-deep integration efforts and handholding customers through this process so as we're now whining down the integration all hands on deck to get back to organic growth strategies so two of the focuses is the launch of, or the re-launch, alternative lending mortgage products which will be in April of 2014 and in the later part of the year some organic growth efforts for repositioning the investment lending portfolios so that we'll end up in 2015 with expectations of at least low to mid single digit growth.

Manny Graumann, Cormark Securities.

Thank you.

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

You're welcome.

Operator

If you find your question has been answered you may remove yourself from the queue by pressing star 2.

We will go ahead to the next question.

(Sumit), from Scotiabank

Hi, good afternoon guys, it's (Sumit) from Scotiabank.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Good afternoon (Sumit).

(Sumit), from Scotiabank

I wanted to just continue on the loan growth for one moment. I obviously appreciate the efforts that you're making to build out the commercial capabilities of the bank but residential mortgages are still overwhelmingly the biggest product and I think we all appreciate the slowdown in the Canadian housing market and perhaps the heightened competition but it seems like the bank has had quite a challenge in growing mortgages the last couple of quarters and it seems to be at a slower pace than we've seen for most - that may have hindered Laurentian's resident mortgage growth and what the strategy is in that regard.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, first of all and thanks for the question (Sumit). A year ago there was a price war on the mortgage side and we have decided to not to follow because we certainly don't want to, let's say, put more emphasis on growth versus what we want to do is to have profitable growth.

Still this year on the residential mortgage side profitability is not that appealing so we are, on purpose, a little bit more conservative on this and on purpose, as I said, we also want to gradually shift our asset mix to our commercial activities but at the same time as Francois mentioned, in terms of mortgage, residential mortgage, we are also looking at higher margin products through the alternative mortgages. So, part of that will be a repositioning of the mortgages that AGF Trust offered in the past; not necessarily a significant growth in the other residential mortgages that was mainly in Quebec and much more growth in our commercial activities.

(Sumit), from Scotiabank

So if I kind of put those moving parts together when you look at your (resi) mortgage balance at just over $14.5 billion do you think that this is a number that you can grow in that same low single digit range that you're talking about or is this likely to be flat to down in 2014 as you work through some of these differing issues.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, 2014 should be relatively flat I would say or low single digit but we think that, yes, we could grow that portfolio. But as I said, mainly through the alternative mortgage capacity that we will develop.

(Sumit), from Scotiabank

All right, fair enough. And then the next question is on capital and perhaps tying in the dividend as well. It seems like the capital bar for the banks continues to get pushed higher and I know Laurentian is obviously being measured on (RWA) on a different standard than the larger piers but when you start to see some of the larger banks pushing up over 9.5%, I wanted to check with you as to whether there's been any change in the thinking as to where capital levels for the non-(D sib) banks need to be whether 7.6% is sufficient or if this is one where you'd like to see some more padding?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well, I think first of all you're right about two things; we're not a (D sib) so instead of the other major banks are the level that is required to maintain is a 7% level then an 8% level. the other part also of your comments is the fact that we are still measuring ourselves under the standard approach instead of the advance methodology and that's definitely something that put us at a little bit of a disadvantage but with the (ARB methodology) that we are looking at, we think that we could free up lots of capital.

That said, in terms of the 7% threshold at 7.6 we think that we have a very comfortable level of capital and that that could be in the coming quarters, we could have some bumpiness in that numbers, 7.6, 7.5, 7.7 around that, but we would like to see that number a little bit higher than that but not much more than, let's say, and not going after the 9% that you were mentioning with the others. So it will gradually continue to increase and we are very comfortable with the 7.6 level that we have right now.

(Sumit), from Scotiabank

And last one that kind of ties into that; Rejean, you followed a very defined every other quarter pattern of dividend growth since the end of 2010 and thinking about the earnings power and capital profile of the bank, is that still an expectation that you're comfortable with the market having for Laurentian?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We are still comfortable with the market. That's something that we look on a quarterly basis, certainly as a trend in the last few quarters. That's something that we will try to continue to do. We still have the same three priorities for deploying capital, the first thing, and they are in order, we have to maintain strong capital ratio. I think that we are there right now; invest in our business development, that's the second priority and we have invested and we will continue to invest in such capacities.

Francois was mentioning the ((inaudible)) mortgage. At the same time, we are also investing in our credit leasing capacity so that's things that should also bring more volumes and more growth for the bank going forward and the third priority is to increase our dividend. So we were able to increase it two times a year in the last three or four years, that's certainly something that we want to continue but that said, we will look at our results on a quality basis.

(Sumit), from Scotiabank

Thanks for your time.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you (Sumit).

Operator

We will go ahead to the next question.

Male (inaudible), Canaccord Genuity.

Good afternoon. Maybe for Francois, just on B2B bank, when I look at the other income line, it's down sequentially and flat year over year. I always thought that ran off a (UA) and if I look at the (AUA) it's been up year over year mostly because of good equity markets. Am I missing something there? I'm just trying to figure out how to look at that line as I'm going forward and what are the factors driving it?

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

I'm sorry, I didn't understand, you're looking for...

Male (inaudible), Canaccord Genuity.

The other income line is just flat year over year and down sequentially. You know, I thought it was driven mostly on the self-directed (RSP)s, the (AUA) within that and the fees off of that and I see that (AUA) has been going up because of the equity markets and we haven't seen a corresponding increase in other income. I was just thinking if there's any other factors impeding that line growth and how...

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

I'm sorry, I missed out your question on (AUA). It's not driven by that at all.

Male (inaudible), Canaccord Genuity.

No?

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

The self-directed account business and now what we call investment account business, which is a nominee business is totally driven off fee per account so the number of accounts grow, the revenues grow. Number of accounts decrease the fees decrease.

This is one of the things that we wanted to avoid actually by having cyclical linked businesses. This is a pure fee business that is totally linked to the amount of accounts and not to the assets under administration.

Male(inaudible), Canaccord Genuity.

Okay, so it's a flat fee on the accounts. So have the accounts been kind of flat-ish, I guess, year over year, I would assume in terms of the number of accounts?

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

It's been flat year over year. Since the purchase really the focus has been on synergies and not growth initiatives so nothing has really been done to date and that's something in the latter part of 2014 or '15 that we're going to be working on but for the moment the number of accounts has been relatively flat as many coming in as going out.

Male(inaudible), Canaccord Genuity.

Okay and just on the adjusted efficiency ratio it's been kind of at that 58, 59 level over the past several quarters. How do you think about that ratio in 2014 and perhaps maybe some outlook into 2015?

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

Sure. You know, what I've said all along is there's going to be some (lunkiness) in our results and especially in the components of the results all along the integration cycle but I'm happy about - a couple of quarters and what I had already said before, and I'm still sticking to it, is this business should run at below 55 and that's what we're always aiming for.

Male (inaudible), Canaccord Genuity.

Okay and maybe just last question for Michel, just if I look at the supplemental it looks like full-time employees were down another 5% this quarter, down 7% last quarter, was that more of the restructuring or is that more broad-based?

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

It's the tail end of the restructuring plus continued synergies at B2B Bank.

Male (inaudible), Canaccord Genuity.

Okay, great. Thanks.

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

Thank you.

Operator

And we'll go ahead to the next question.

Michael Goldberg, Desjardins Securities

Thank you, Michael Goldberg, Desjardins Securities. Let me start first with the transaction and integration costs, it was pre-taxed $3.9 million this quarter. Should we be expecting something in the area of around $2 million pretax for the remainder of the year quarterly?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

I'll ask Francois to answer this question Michael.

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

We're really winding it down and our estimate right now is still 6 to 8 over the next two quarters.

Michael Goldberg, Desjardins Securities

Six to eight over the next two quarters?

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

Yep.

Michael Goldberg, Desjardins Securities

Okay and turning to loan quality, it does look like there was some deterioration in personal loans and commercial mortgages which you mentioned. You know, I figured that there was about $10 million of net new non-performing commercial mortgages. Can you give us some idea of what type of properties, what the circumstances where and you said you don't expect any loss. Why no loss?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We'll ask (Luis) ((inaudible)), the head of credit to answer this question.

Luis (inaudible), Laurentian Bank Head of Credit

Its two loans, two residential. One is a rental, one is the ((inaudible)) condo project. In both cases our loan to value is very low. In one case there's a second (mortgage) and that is, that will take any loss, if there is any.

So in both situations I'm quite comfortable that we'll get out (0) and actually one of them is likely to be resolved in the current quarter.

Michael Goldberg, Desjardins Securities

Okay and...

(Crosstalk)

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

There's no concern at all concerning those two loans Michael.

Michael Goldberg, Desjardins Securities

Okay, and in personal loans it looks like there was about $14 million of net new non-performing loans this quarter. I understand that much of this is related to AGF investment loans but, you know, I guess first I'd like to get confirmation of that and how much that would have amounted to and if deterioration in these loans was expected, were they not market to market at the time of acquisition and if not why not? Will there be more losses on these loans than expected?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

I'll ask ((inaudible)) to answer the first part of your question and then Michel will take the second part of the question.

Luis (inaudible), Laurentian Bank Head of Credit

Most of the increase is due to a reclass in some of the loans. To be very precise, they're (elocks). There - any provision in those loans was captured through the collective provisioning, our view of the potential loss has not changed in the quarter but it's really a reclass to make them fit in what we do at the bank which is more conservative than what was done prior.

So it's not a change in the risk. Of course this portfolio we've said it, is riskier than we have so we could see some movement, we could see some increase but this is a one-up as far as I'm concerned at this point.

Michael Goldberg, Desjardins Securities

So, how much of that $14 million would have been the reclassification?

Luis (inaudible), Laurentian Bank Head of Credit

About half of the amount that you're mentioning. I have a tough time ((inaudible)) 14 but anyways that's - relating to the current portfolios its $8 million and six of the eight is reclass of the (elocks).

Michael Goldberg, Desjardins Securities

Okay, when you acquired AGF did you mark those loans to market?

Luis (inaudible), Laurentian Bank Head of Credit

(Fair) loans were market to market and you will notice that they did not generate that that reclass did not generate an extra expense in the quarter. You're right, you've got a point because in the past few quarter it's given that they were all put back, they were put as performing loans as net value. They did create an increase in the (impaired) levels and we could see a bit more of that in the next few quarters as we've seen in the previous quarters.

Michael Goldberg, Desjardins Securities

So you're - be any more losses on these loans than expected?

Luis (inaudible), Laurentian Bank Head of Credit

We could see losses. My expectations for the rest of the year is our loan losses at B2B and our view of that portfolio has not changed. We expect it to generate some losses.

The counterpart of that is I expect loan losses for commercial and real estate for the rest of the year to be lower than what we've seen in the current - in the first quarter.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Michel, do you want to add on this?

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

Yeah, Michael, I'd remind you the loss level at B2B in the quarter is 200,000 so when (Luis) says a higher level of losses it's from practically new. On top of that, he did mention that these loans had been provisioned through the modeling that had been done previously so that's why we're not expecting a particularly strong increase in the level of losses on these particular loans. So these loans were non-impaired before but were still modeled to generate collective provisioning. Now they've just been reclassified as impaired as part of the banks own credit policies.

And yes, it was all modeled in the market to market of the balance sheet at acquisition.

Michael Goldberg, Desjardins Securities

Okay, maybe we can follow-up after. Thank you.

Operator

Ladies and gentlemen, if there are any additional questions at this time please press the star followed by the 1 on your touch-tone phone.

And there are no further questions. You may continue.

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

Thank you all for joining us today. If you have any further questions do not hesitate to contact us, our phone numbers are listed on the presentation. Thank you!

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating and please disconnect your lines.