Conference Call

First Quarter 2020

Financial Results

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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 may include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2019 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 are identified with words or phrases such as believe, estimate, forecast, project, expect, anticipate, plan, goal, target, may, should, could, would, will, intend or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that the predictions, forecasts, projections or conclusions will prove to be inaccurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, projections or conclusions.

We caution readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond our control and the effects of which can be difficult to predict, could cause our actual results to differ materially from the targets, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions; changes in government monetary, fiscal or economic policies; changes in currency and interest rates; legislative and regulatory developments, including tax legislation and interpretation; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; changes in competition; modifications to credit ratings; scarcity of human resources; developments with respect to labour relations; information technology and cyber security; developments in the technological environment; environmental risk including changes to global environmental policy and the effects of climate change; the possible effects of global conflicts and terrorism, natural disasters, public health emergencies, disruptions to public infrastructure and other catastrophic events; our ability to execute our strategic plans including the reorganization of our retail branches, the modernization of our core banking system and implementation of the Advanced Internal Ratings-Based (AIRB) Approach to credit risk, as well as our ability to anticipate and effectively manage risks arising from the foregoing.

We further caution that the foregoing list of factors is not exhaustive. Other factors and risks could adversely affect our results. 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 2019 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 amounts designated as adjusting items. Adjusting items relate 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

Good day and welcome to the Laurentian Bank Financial Group First Quarter Results, 2020 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Susan Cohen, director investor relations. Please go-ahead ma'am.

Susan Cohen, Director, Investor Relations

Good morning and thank you for joining us. Today's review of the first quarter of 2020 results will be presented by Francois Desjardins, president and CEO and Francois Laurin, executive vice president and CFO. All documents pertaining to the quarter including of Laurentian Bank Financial Group, news release, investor presentation, and financial supplement can be found on our website in the investor center. Following our formal comments, the senior management team will be available to answer questions and then Francois 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's 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 two of the presentation. It is now my pleasure to turn the call over to Francois Desjardins.

François Desjardins, President and Chief Executive Officer

Thank you Susan and good morning everyone. This quarter we continued executing strategies across all businesses with the ultimate goal of building a better and different banking experience for our customers. With a lot of work already behind us and a renewed energy across the organization, we're beginning to see real progress in our foundational work, growth in our customer base and concrete advancement towards improving customer experience. In terms of our financial performance, Laurentian Bank Financial Group reported adjusted earnings of 36.9, diluted earnings per share of 79 cents and a return on equity of 5.8. Several elements impacted our performance this quarter, including lower net interest income in part due to the low interest rate environment, competitive pricing and customer growth initiatives, higher expenses in part due to the investment in our digital platform and higher salaries and benefits to recruit and retain talent and higher provisions for credit losses, mainly due to commercial loans.

We're disappointed with this quarter's financial results and are addressing both the revenue and expense side of the equation. After a period of asset attrition where we are building growth engines and making good progress towards stabilizing our loan portfolio, we expect a return to net positive personal loan growth by the end of the year. Loan and deposit growth combined with efforts to improve efficiency and implement new technologies is the path we are on and we are confident that this would lead to better performance. Consequently, we remain committed to our midterm targets. More details on our financial performance will be presented by Francois Laurin, but first I will report on key areas of the business.

For personal customers, we launched LBC digital, our newest direct-to-customer channel, expanding our personal customer reach from coast to coast. We welcome thousands of new customers and accumulated over a billion dollars in deposits. Digital deposit is not our end goal but rather a first step in acquiring new customers. For the moment, the offering is limited to checking high interest savings accounts as well as GICs, but our goal is to broaden and deepen the relationship with customers and use this platform to build out a more complete suite of higher value, convenience driven products over time with the next product being a credit card.

In the advisor and broker channel, renewed business development efforts combined with expanded all-day mortgage programs are gaining traction with brokers. We expect to see positive trend throughout the spring and summer home buying season. In financial clinics, the momentum is changing. We are originating new business with growth and grow sales of mutual funds and mortgages demonstrating that customers do appreciate the value of the 100% advice model. Every day, our professionals are having productive conversations with customers, accompanying them through their lifecycle as they buy a home, state personal goals and plan for their retirement. For business customers, the portfolio of loans-to-business customers grew by 7% year-over-year and by 2% sequentially. We continue to see profitable growth and we are on track to deliver low double-digit growth again in 2020. In real estate financing, we are continuing to build opportunities and drive growth.

The pipeline is strong although we experienced a high level of loan repayments in the first quarter. Commercial will also see benefit this year from the core banking initiative. We are developing a new online banking platform which will provide better self-service and cash management solutions for small business customers. In equipment finance and inventory finance, the growth that we are achieving on both sides of the border has been exceeding our expectations. The two acquisitions that we made helped us become better leaders in this niche market where we can truly meet the unique and diverse needs of customers.

For institutional customers, capital markets had a good quarter with stronger results compared to both last quarter and last year. Strengthen fixed income as well as improved activity in equities were key contributors. With a fresh perspective, we expect new growth opportunities. With respect to transformation overall, I began my remarks by mentioning that a lot of work was already behind us. This is true. We have been making strategic investments in the business to meet the demands of customers for digital solutions and in technology to continuously improve governance, risk and security and in our people so that they embrace a culture of performance. The bulk of the investment related to this transformation is behind us. What we have put in place are the technology, people and processes necessary to manage growth in this ever-evolving environment and what we have built is a stronger financial institution than ever before.

Stronger capital, a healthy level of liquidity and an industry low loan loss ratio positions us well for the future. But we are not done just yet. Our teams are working on finishing the core banking replacement for financial clinics and once complete, this will not only allow the organization to decommission legacy IT systems and improve efficiency but offer a greatly improved customer experience. At the end of 2020, we expect that all new customers will be onboarded digitally, and we will have started migrating existing customers accounts to the new platform so that by mid-21, all our personal banking customers will enjoy the same experience in managing their accounts and day-to-day transactions.

As we had previously stated, we fully expect to deliver improved financial performance in the second half of this year and to resume growth in our loan portfolio. Growth and efficiency, this is the focus of our teams. This was a challenging quarter in terms of financial results, but we must remember that one quarter doesn't make a year. Growth is returning and performance will follow. And now I will turn the call over to Francois Laurin today to provide a more detailed review of our first quarter results. Francois.

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

Thank you, Francois. Good morning everyone. I would like to begin by turning to slide 10 which highlights the bank's financial performance. As Francois just mentioned, our results in the first quarter of 2020 were lower year-over-year and sequentially. Reported their earnings for the first quarter were affected by adjusting items as outlined on slide 11 totalling $4.7 million after tax or 11 cents per share and are largely related to severance charges, amortization of acquisition related intangible assets. The drivers of our performance begin on slide 12. Total revenue in the first quarter of 2020 amounted to $238.7 million, a decrease of 1% compared to last quarter and last year. Net interest come failed by 2% compared to a year ago and 3% sequentially while other income was unchanged and increased by 2% over the same periods.

The year-over-year decrease in net interest income was mainly due to a lower loan and deposit volumes, partly upset by an improved business mix as well as a wider prime-BA spread and a normalized level of liquidity. The sequential decrease in net interest income was mainly due to the impact of the adoption of IFRS 16 on November 1st, 2019, the launch of digital interest saving accounts and the lower prime-BA spread. As shown on slide 13, NIM in the first quarter of 2020 was 1.81% up one basis point compared to a year earlier, mainly due to the change in the loan portfolio mix. The proportion of commercial loans in the portfolio stood at 39% versus 36% a year ago. As we are successfully executing a strategic plan to evolve the bank mix towards higher margin commercial loans. Compared to the fourth quarter of 2019, NIM decreased by three basis points, the impact of IFRS 16, the launch of the digital high interest saving accounts and the lower prime-BA spreads, each accounted for a decline of about one basis point.

Other income as presented on slide 14 total $69.9 million, relatively unchanged from a year ago. The largest year-over-year variances included market related revenues that increased by 1.5 million and were mostly driven by strong results in fixed income activities and the recovery in revenues from advisory and equity operations and service charges that decreased by $1.2 million mainly result of the ongoing changes to the retail banking environment and consumer banking behavior. Sequentially, the largest variance was market related revenues that increased by $5.4 million for the same reasons I just stated. As mentioned last quarter, the fourth – excuse me – the fourth quarter of 2019 included a $3.8 million loss related to their revaluation of trading securities.

Slide 15 highlights adjusted non-interest expenses of $182.8 million which rose to $3.5 million or by 2% year-over-year. Salaries and employee benefits increased by $3.2 million partly as a result of share-based and performance-based compensation including a portion related to brokerage operations as well as other sales driven compensation. Taking into account IFRS 16, rental costs improves slightly. Sequentially adjusted non-interest expenses increased by $10.8 million. The increase is explained by share-based grants, higher performance-based compensation related to improve results in capital markets, higher employee including payroll taxes and regular salary increases. Adjusted other non-interest expense decreased by close to half a million dollars year-over-year and sequentially largely due to lower advertising costs and lower professional fees. The $15 million of cost savings initiatives were substantially completed over the last 12 months. However, despite the implementation of these measures, the adjusted efficiency ratio of 76.6% in the first quarter of 2020 remains high as we pursue investments in our foundation, processes and technology. Nonetheless, we're striving to improve both revenues and expenses and continue to grow loans-to-business customers and resume growth and more into mortgage portfolio in order to achieve tangible efficiency gains throughout the remainder of 2020. Slide 16 highlights our well-diversified sources of funds.

In the first quarter of 2020, deposits stood at $25.2 billion, personal deposits total $20.1 billion, including $1 billion of digital deposits and the stable level of deposits at our financial clinics. Given the successful launch of our newest digital direct-to-customer channel, we reduced GICs from third parties and the wholesale funding. Furthermore, our liquidity position continues to be strong and above regulatory requirements and our liquidity portfolio is largely highly rated government securities. Slide 17 presents the CET 1 ratio under the standardized approach of 9% at January 31st, 2020 and highlights our strong capital position. Our diversified loan portfolio is shown on slide 19 and stand at 33.5 billion dollars close to the year-end level. The residential mortgage loan portfolio is also close to the year-end level and loans-to-business customers increased by 2%. Personal loans declined 5% from year-end reflecting the reduction in the investment loan portfolio.

Site 20 highlights our residential mortgage portfolio. We're maintaining our strategy to seek profitable niches and to that end recently enhanced the breadth of our all-day offering. At January 31st, 2020, our all-day portfolio total $1 billion and represented 6% of the total mortgage book and 3% of the total loan portfolio. Overall, this portfolio is high quality as evidenced by very low loss ratios and low LTVs as well as the high credit scores. Slide 21 highlights our commercial loan portfolio, which is Pan-Canadian with a US presence at $13.2 billion as of January 31st, 2020. This portfolio grew 2% sequentially. Strong growth and inventory financing and equipment financing was partially offset by repayments of commercial real estate loans. The portfolio is well diversified and is positioned for sustainable profitable growth.

Turning to slide 22, in the first quarter of 2020, the provision for credit losses was $14.9 million compared to $10.5 million a year ago and $12.6 million in the prior period. The year-over-year increase was mainly due to a few loans in the commercial zone portfolio. However, economic conditions as well as the good overall underlying credit quality of our loan portfolios continue to result in industry low loss ratio of 18 basis points. Impaired loans are shown on slide 23. Gross impaired loans total $186.7million up $11.6 million sequentially mainly due to an increase in the commercial loan portfolio. The allowances for loan losses against impaired loans increased by $5 million from year-end mainly from commercial loans. Allowances for loan losses against other loans amounted to $57.9 million down $1.6 million as a result of improvement in risk rating of personal loans and the decrease in loan volumes. The net impaired loan ratios stood at 42 basis points up two basis points from year-end. The bank remains comfortably provisioned and the loan portfolio remains well-collaterized.

I would now like to provide an update on how we expect the remainder of 2020 to unfold. NIM should improve slightly from the level in the first quarter of 2020 as our loan portfolio continues to evolve towards higher margin loans-to-business customers. The efficiency ratio is expected to gradually improve throughout the year. The loan loss ratio is expected to be in the mid-teens and the tax rates should be moved towards that mid-to-high teens. In light of the weak first quarter results, adjusted EPS for 2020 is now expected to range from 5% below to being in line with the 2019 adjusted EPS. As we speak, there's growing uncertainty in the macroeconomic environment as well as increasing volatility in capital markets globally. This evolving situation has the potential to impact our outlook and performance. To conclude, despite the challenging quarter, we remain committed to our strategic plan and work towards the medium-term objectives that we have set. 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. Angel.

Operator

Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask your question and we will pause for just a moment to allow everyone an opportunity to signal for questions. One moment please. Your first question comes from the line of Meny Grauman of Cormark Securities. Please go ahead.

Meny Grauman, Cormark Securities

Hi. Good morning. First question just wanted to follow up on the guidance in terms of the net interest margin. You're talking about an improvement. I'm just wondering what you're assuming right now in terms of a Bank of Canada rate moves?

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

We're taking the view of the forward rate that exists at the moment.

Meny Grauman, Cormark Securities

So that's two cuts baked into the outlook?

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

We're doing sensitivity analysis and stress testing regularly. At this point, we were waiting to see – we haven't built in a reduction at this point.

Meny Grauman, Cormark Securities

Okay. And then if I could just ask in terms of the credit, just wondering about the increase in commercial provisions on the impaired side and if you could give a lot more detail in terms of what drove that increases? Is there any pattern there? Is it a few specific accounts?

William Mason, Executive Vice President and chief Risk Officer

Thank you. And good morning Meny. Thanks for your question. There were a few loans in the commercial loan portfolio that did become impaired. It amounts to about $5 million of provisions. Beyond the macroeconomic environment pressures, we don't see anything systemic in our portfolios. At this point, we believe that these loans are adequately provisioned, and they are not tied back to any previous loans.

Meny Grauman, Cormark Securities

And then in terms of the recovery in stage one and two in the personal loans, just wanted to get more insight into what was moving that? Is that just migration or a change in economic assumptions?

William Mason, Executive Vice President and chief Risk Officer

So, in terms of the personal loans, we did see favorable migration overall in that portfolio. And in my view, this is just normal variation, ebbs and flows. We've talked about that in the past quarters.

Meny Grauman, Cormark Securities

Okay. And then, just a final question for me is just in terms of the high interest savings accounts and sort of the promotional rates there, do you expect that promotion to continue to weigh on the margin in Q2 and beyond? And how confident are you that the clients that are taking those promotions aren't just rate shopping? Like how sticky do you believe those clients are?

François Desjardins, President and Chief Executive Officer

Well, first of all, having diversified sources of funds is a real strength for the bank and that includes deposits obviously. With respect to personal customer deposits, we're pleased that now we have three channels instead of two - Financial Clinics where we had a few quarters of stable deposits now, advisors and brokers, and now we have LBC digital, our digital direct-to-customer channel. We're really pleased that we have gathered $1 billion in deposits through this channel, which gives us access to many new customers all across Canada. And this will provide cross-sell opportunities. I'll ask Craig Backman to give us some more color on that.

Craig Backman, Executive Vice President Personal Digital Banking

Sure. We've just announced to customers that there will be a reduction in rates to 2.8% from 3.3% effective March 1st. We believe this remains a competitive offer. Over the next quarter considering the reduction in the interest rate, we would not expect material variation in the volume. We will continue to dynamically monitor rates and volumes according to the needs of the bank and market conditions.

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

If I may add, Francois Laurin here, the impact on profitability is not expected to be material in 2020 and longer term we expect it to be profitable.

Meny Grauman, Cormark Securities

Understood. Thank you.

François Desjardins, President and Chief Executive Officer

Thank you.

Operator

We'll now take our next question from Sumit Malhotra. Go ahead.

Sumit Malhotra, Scotiabank

Thanks. Maybe I will ask the qualitative one first on your shift to the advice-based model. I know that it's obviously still early days since you've migrated to this new structure. Just wanted to ask you, and some of this might be conceptual. Maybe there's some numbers around product offerings you can share with us. Obviously you've talked about some of the revenue challenges that are still visible, but as far as the interaction with customers and what you're seeing in terms of product sales, cross-sell, those types of measures, is there any tangible wins you can talk to us about it as to how that is being received in your marketplace?

François Desjardins, President and Chief Executive Officer

Thanks for the question. Well, as I said in my remarks, we're seeing gross sales in both mutual funds and mortgages, which is very encouraging and also stable in deposits from Financial Clinics. I'll ask Stephane Therrien to give more color on the interactions that we're having with customers.

Stéphane Therrien, Executive Vice President, Personal & Commercial Banking

Thanks for the question. We're really pleased with the reaction from our customers. Just to remind you that all of these changes were aligned with the evolving customer needs of our customer. So, having more time dedicated to a longer discussion with our customers, advising them on their future - is all positive for the customer and their reaction so far is really positive. Good thing as well is during the first half of our transformation plan, as you mentioned, a lot of our time was dedicated to simplifying our offering, preparing the customer for the new model and also preparing for a potential work conflict. All of this is now behind us. We are now in a growth mode as Francois just mentioned. We're getting back to basics. Our financial clinics are now full of customer meetings with dedicated advisors to improve the customers' financial health.

Sumit Malhotra, Scotiabank

And getting a little bit more specific about the quarter here. You know, if you go back to your commentary for Francois Desjardins after the new contract with your workforce was resolved. It certainly seemed to open the door to the efficiency improvement and expense outlook getting better for the bank. To be fair, expenses are only up 2% year-over-year on adjusted basis. And clearly the revenue piece plays into efficiency. But I get the feeling from some of your commentary that the aggregate level of expenses this quarter – I mean you used the term disappointing for how you viewed Q1. Are expenses a part of that and more specifically, what are some of the areas that might aid this line going forward in 2020?

François Desjardins, President and Chief Executive Officer

I'll ask Francois to give some specific on those numbers and then I'll double back on the end. Alright?

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

Okay. On the expense site, most of the increase sequentially comes from salary and benefits by the tune of $10 million or so and basically 6 million or 60% of this is related to seasonally higher performance compensation, including higher vesting of share-based compensation and other seasonally higher employee benefits like higher payroll taxes. So half of those we don't feel will recur in the following quarters. And the other part of the increase is $2 million and is related to higher compensation, reflecting improved – better performance in the capital market business compared to previous quarter and business services growth. So those expenses will come with the success of the units themselves. And the remaining $2 million is related to favorable adjustment to pension costs in the previous quarter so that we don't expect going forward. When we take all of these expenses from the salaries and other expenses, we expect to gradually improve our efficiency ratio in the year by 300 to 400 basis points coming from the salary benefits I just mentioned and other expenses that we see coming down like professional fees for the rest of the year.

François Desjardins, President and Chief Executive Officer

You know, obviously we're not happy with the quarter for obvious reasons. But you know, putting this into context, we are recovering from a period of decreasing assets due to the labor relations environment. I'm encouraged by what I see on the momentum on the growth side. Business services has never stopped, and we see good growth there. From a mortgage perspective, I'm really encouraged by what I see. We're increasing momentum there. Business is coming in more than it was last year for sure. We're putting in place new programs with major brokers across Canada. We're increasing our business development activities and basically, we're originating more mortgages. There's still work to be done there. I'm expecting more from this and we also have to address personal loans and credit card businesses. But all in all, we need to be in growth mode. From an expense perspective, we had a quarter where we had some nonrecurring expenses, so obviously doesn't help, but as Francois explained, we need to work on the efficiency ratio and we expect the efficiency ratio to go down more – to decrease from now to the end of the year, a combination of both, the revenue and expense side of the equation.

Sumit Malhotra, Scotiabank

Last question for me is on the commercial loan portfolio. You've made it very clear since you took the role, Francois that that's really where the focus of the bank is going to go. And the numbers we see this quarter in terms of balance is 2% sequentially, seven year-over-year, certainly solid. There has been – as we've gone through this earning season, there has been some differentiation in the commentary from the various banks on how they're approaching the commercial market in Canada and some seem to be taking their foot off the gas, whereas others continued to go. If I look at your numbers this quarter, and also again two on the quarter, seven on the year, is that a reasonable expectation for what you think the bank can deliver when it comes to commercial? And are there any situations from a credit quality perspective, maybe a pricing perspective that give you any pause in pursuing growth at this level?

François Desjardins, President and Chief Executive Officer

I'll ask Stephane to give some commentary on growth in the sector.

Stéphane Therrien, Executive Vice President, Personal & Commercial Banking

Thanks for the question. Again, we still feel very good about our specialization strategy. So, I think that if 100% of your sales force is specialized by industry, they're really close to the highs and lows of the industry. They're aligned with our credit team as well. So, we feel good about the current structure that we have in place and we feel good to continue to grow by double digits in the current year.

Sumit Malhotra, Scotiabank

Thanks for your time.

Stéphane Therrien, Executive Vice President, Personal & Commercial Banking

You're welcome.

Operator

And we will now take our next question from Mario Mendonca of TD. Please go ahead.

Mario Mendonca, TD Securities

Good morning everyone. And forgive me if some of these questions have been addressed in other calls. I'm still familiarizing myself with some of the nuances of your bank. Can we talk first about the sensitivity the bank has – the sensitivity of the 25-basis point rate cut in Canada, what that might mean to your NIM over, say, a 12-month period?

François Desjardins, President and Chief Executive Officer

Francois.

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

Sure. All things being equal, Mario, the 25 bps decrease in interest rates would result in approximately $4.6 million reduction in net interest income annually, all things being equal with no change in any of the other variable. To that, I would say we still expect even if that would occur and when it does occur, we'd still believe that our NIM is expected to be positively impacted by the volume growth and the explanation that Stephane just gave as we deploy our capital and evolve our portfolio to higher yields in commercial loans that would be partly offset by any decrease in interest rate that could occur. But we still see our evolving mix to be a positive thing on revenues and NIM going forward.

Mario Mendonca, TD Securities

I see. You also refer to lowering the rate paid on certain deposits from, say, 3.3 to 2.8%. I think you made the point that you don't expect this to have any effect on profitability in 2020 because there's eight months left in the year if you would do this on March 1st. Is the logic here that the rate is essentially just offsetting the decline in your realized yields on other securities and other assets? Is that the logic behind suggesting that it won't have an effect on profitability?

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

It's more from the overall funding perspective as we lowered this rate when you look at the various options that we have to fund our business in our plan. Lowering the rate by 50 basis points at this point, we see this as not materially impacting our profitability going forward from that perspective.

Mario Mendonca, TD Securities

Okay. And then finally, I think on page 14 of your presentation you were referring to the decline in service charges, you said that it was a change in retail banking behavior. The 12% decline seems like an awfully large amount reflecting customer behavior because I'd never think of customer behavior changing in such a big way. Could you talk about what you're actually – what you're really seeing there?

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

Well, Francois here. Clearly as we moved our financial clinics to fewer transactions, obviously many services you had at the counter before just totally disappeared. So now it's financial advice to their customers and new products. And Francois explained that sales and mutual funds and other products are getting some growth since we moved to the new model and that's what we mean by the behavior we have – before we made the switch, basically less than 4% of our transaction were done at the counter by clients. So already they were not coming to the branches and doing services at the counter, but we had the costs before. So now we moved Financial Clinics to service and advice, so we eliminate many costs to provide services that were not sought after by customers. And so that's why we see a decrease on the revenue line, but the decrease in expenses is part of our total expenses, other expenses, salaries and everything that you don't identify with the financial clinics per se, but their revenues are.

Mario Mendonca, TD Securities

That's helpful. Thank you very much for your help.

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

You're welcome.

Operator

And if you find that your question has been answered, you may remove yourself from the queue by pressing star two and we will now take our next question from Scott Chan of Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Hi. Good morning. Just on other expenses, I just kind of see some variability in some of the line items that hopefully you can help me out with. If I look at rent and property taxes, this quarter was $6 million, and it's been tracking at$11 million for a while. Could you explain why it dropped so much?

François Desjardins, President and Chief Executive Officer

Sorry, Scott, are you talking about the rent?

Scott Chan, Canaccord Genuity

Yeah, the rent and property taxes line and other expenses.

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

The rent - with the advent of IFRS 16 - started on November 1st. Basically, there is no more rent. We need to capitalize most of the rent. So, you have a major decrease of rent by, I think it's a $5.8 million or $4 million, $5.8 million, but you have an increase in amortization of $4 million. So, you have a change in the lines. So, you have a decrease of rent expenses by $5.8 million. You have an increase of amortization because now you have to capitalize the leases. And then you have the interest portion, the interest costs portion of $1.2 million. That's part of the NIM. So, when you take those three elements compared to the previous, the rent expenses were basically a bit less expensive where we have some savings compared to previous periods. So that explains that the rent and the operating rent expense.

Scott Chan, Canaccord Genuity

That's helpful. And Francois, you talked about in your opening remarks about personal getting back to positive territory by year-end. Did you refer to just personal in isolation that was down 15% or does that include credit cards and mortgages as well?

François Desjardins, President and Chief Executive Officer

You know, the goal of getting to positive loan growth by the end of the year is an overall comment. I'm really encouraged by what I see on the mortgage side. I'm seeing new loans coming in at a much higher pace than what I've been seeing. So that is very encouraging. We still have work to do to do the same on the personal lending side and the Visa credit card portfolio is rather stable and we need to put more effort in terms of growth and cross-selling to our existing customers. So that would be the task that's before us, but I'm encouraged by what I see so far.

Scott Chan, Canaccord Genuity

So, it's a combination of those that those three?

François Desjardins, President and Chief Executive Officer

Correct.

Scott Chan, Canaccord Genuity

Okay. Thank you very much.

François Desjardins, President and Chief Executive Officer

You're welcome.

Operator

We'll now take our next question from Will Flanigan of National Bank Financial. Please go ahead.

Will Flanigan, National Bank Financial

Hey, good morning guys. I just have a couple of quick questions here. So just going back to obviously digital product offerings, I'm just wondering if you guys are seeing existing clients transferring balances from your other deposit products to the LBC digital or is this entirely new clients you're getting?

François Desjardins, President and Chief Executive Officer

Obviously, the LBC digital offering was launched only outside of Quebec. So, given that our financial clinics are in Quebec, we saw very, very little crossover from one clientele to the next.

Will Flanigan, National Bank Financial

Okay, great. And then talking about your early thoughts on the proportionality proposal for capital regulations for the small and medium size banks, is there anything you're seeing there or anything that you think might impact your business from that so far?

François Desjardins, President and Chief Executive Officer

I'll ask Liam Mason to comment on that.

William Mason, Executive Vice President and chief Risk Officer

Thank you for your question, Will. In terms of the white paper on the proportionality, we do believe that regulators are taking a step in the right direction by addressing proportionality for small and medium sized banks and attempt to reduce complexity in the capital space while allowing institutions to compete effectively and taking reasonable risks. It is a bit early to assess the impact as the consultation with our regulators are evolving. But we view OSFI moves in this direction as positive.

Will Flanigan, National Bank Financial

Okay, great. And then my last question is just touching back on the commercial loan book and the provisions there this quarter. Would you be able to provide any detail on the regions or specific sectors that it's all sort of some of the trouble there this quarter?

William Mason, Executive Vice President and chief Risk Officer

In terms of the specific areas, I don't really want to get into the specifics, but they were within our syndicated loan portfolio. They were in the energy and telecom sectors.

Will Flanigan, National Bank Financial

Okay, great. Thanks. That's all I have for today.

Operator

Okay. We'll go ahead with our next question from Robert Sedran of CIBC World Markets. Please go ahead.

Robert Sedran, CIBC World Markets

Hi. Good morning. Francois, I just want to come back to the performance-based compensation for a moment. You addressed it in your prepared remarks and I think in an earlier question as well, but I'm still a bit confused when I see that large of a jump both quarter-over-quarter and year-over-year, like fees and securities brokerage commissions looks flat and in fact down sequentially, fee income is down sequentially, you're now guiding for the full year EPS to be flat to down. And so, I'm not sure from where this magnitude of an increase in seasonality, it's up even more a year-on-year than it is sequentially. So, can you maybe just try one more time to help me get to where, you know, what's driving this number up so much this quarter?

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

Sure. Basically, it's mostly in the performance-based compensation, about 60% of the performance-based compensation, if you look for some supplementary information, we have about four or five million dollars. About 60% of it relates to share-based compensation that will not recur in the rest of the year. Basically, this is the time of the year when units and options are granted and sometimes, people achieve a vesting period and we need to put this to expenses on the P&L. So that's always basically from Q4 to Q1, you have this. Obviously, we have a bit more this year than we had previously. So that's one.

Then the second is 40% of it is related to the higher compensation because of capital markets. If you recall the last quarter, we had a $3.8 million loss on some financial instrument that hit the performance-based compensation of those people and this year you have an increase of basically $5 million in the result. So that – basically those people get anywhere between 30% to 40% compensated on those revenues. So that's why I say this one is based on the results going forward. Then you have the growth in business and people in that sector based on their profitability and their volumes. They have access to compensation, and they are doing well as we saw from the increase in loans in that sector. So that's why despite the lower revenues overall in the portfolio that these two sectors have done better than they did previous quarter. Does that help?

Robert Sedran, CIBC World Markets

It does. Just to clarify, that first component, is it about – it's not about bigger grants, it's more just about more vesting and again equivalent to, I guess, some employees that are eligible to retire. And so you have to take that charge into Q1. Is that more what it is rather than people getting paid for?

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

Exactly Robert.

Robert Sedran, CIBC World Markets

Okay. Thank you.

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

You're welcome.

Operator

And we will now take our next question from Sohrab Movahedi of BMO Capital Markets. Please go ahead.

Sohrab Movahedi, BMO Capital Markets

Thank you. Just wanted to get a couple of clarifications here. On the service fee charge with the customer behaviors, is that line going to go close to zero over the coming, call it, seven or eight quarters?

François Desjardins, President and Chief Executive Officer

Stephane, you want to comment?

Stéphane Therrien, Executive Vice President, Personal & Commercial Banking

Yeah, obviously moving to 100% advice and having a lot less transactions gradually. If you add that as well into the fact that we're going digital, this line will continue to go down for sure.

Sohrab Movahedi, BMO Capital Markets

Is it going to be going to zero, like as quicker than let's say a million or so a quarter or do you think that's about the right kind of rate for it to be going down?

François Desjardins, President and Chief Executive Officer

If I might add here, only the transactions that are in the Financial Clinics done by human beings is where this reduction has occurred. Other fees that are related to things that are done online or things that are on other products or transaction fees don't disappear. So, the move to 100% advice meant that we're not doing these transactions by human beings anymore. We don't have the revenue. We don't have the costs.

Sohrab Movahedi, BMO Capital Markets

I was speaking specific just to the service charge line, which I think was discussed earlier.

François Desjardins, President and Chief Executive Officer

It should not go down as quickly as – because what is left is transactions that are not done by human beings, but it will, as Stephane said, continue to decrease slightly.

Sohrab Movahedi, BMO Capital Markets

Thank you. And you've talked about the commercial loan growth and the pipeline and the like. Are these syndicated credits?

Stéphane Therrien, Executive Vice President, Personal & Commercial Banking

As any other banks, obviously we're using the syndication desk. Both in commercial and in real estate, our overall syndicated desk for business services only accounts for 10% of our loans.

Sohrab Movahedi, BMO Capital Markets

But it accounted for – I think it accounted for all of the impairment, right, this quarter? Is that what was said that these were syndicated loans and energy on telecom –

Stéphane Therrien, Executive Vice President, Personal & Commercial Banking

The increase was driven by two syndicated loans.

Sohrab Movahedi, BMO Capital Markets

Are syndicated loans good quality, I guess is what I'm trying to figure out here?

William Mason, Executive Vice President and chief Risk Officer

From an overall quality perspective, we're happy with the quality of our syndicated loan portfolio. You do have ebbs and flows, as you know, in this space, on specific situations, but we're very comfortable given our underwriting standards with the overall syndicated loan portfolio.

Sohrab Movahedi, BMO Capital Markets

Okay. And Francois, maybe I'll just finish off with you. I mean, I think on a number of occasions on this call, you've said you weren't happy about the quarter. Can you be a little bit more specific about which aspect of the quarter you are unhappy about? Was it the expenses? Was it the revenue? Was it – what was it that you were unhappy about?

François Desjardins, President and Chief Executive Officer

All of it. A little bit of everything, right? We're recovering from an asset reduction, so a decrease in the top line. I'd like to see a flattened-out loan portfolio. We're working on that. Obviously, having a few – having to take a few provisions on net specific loans in this quarter did not help. And having some expenses related to, you know, growth in our digital and others, this combination gave us, the results that we have. Obviously, not happy with any of it. Happy with the strategic advancement that we're making. Happy with the fact that we're going and getting customers across Canada now. Happy with the fact that we welcomed thousands of customers. Just not happy with the end results of this quarter. What I am looking forward to is, right, the efforts that we're making, going and getting that growth. Like I said, last year was difficult to do. This year, it's all boots on the ground. I'm seeing results in that and as soon as we see growth, we will see performance. Like Francois said, from loan loss perspective, we have a couple of hiccups this quarter, but that doesn't mean that we're expecting not to go forward every quarter. And from an expense perspective, we are working on getting our efficiency ratio down like Francois and I mentioned earlier. Three to 400 basis points is what we're looking for from now until the end of the year. I'll be a lot happier when that occurs.

Sohrab Movahedi, BMO Capital Markets

Thank you very much.

François Desjardins, President and Chief Executive Officer

Thank you.

Operator

And once again, ladies and gentlemen, if you have any additional questions at this time, please press star one now. Again, it's star one for additional questions. We'll hold on just one moment for additional questions. And we have no further questions at this time. I'd like to hand it back over to Francois Desjardins for any closing remarks. Please go ahead Mr. Desjardins for your closing.

François Desjardins, President and Chief Executive Officer

It is when we have a challenging quarter like this one that it is most important to remind ourselves why we undertook this transformation, why we are working on or working through such an ambitious undertaking. Transformation can be bumpy, but it is worthwhile. Overall costs are under pressure through transformation, but this is not a permanent run rate and when we get a quarter like this, it looks even worse, but the heavy lifting is coming to an end. We also need to remind ourselves that substantial portion of the transformation is already behind us and even if it's not yet tangible, we are making progress towards growth, efficiency and future performance. We're on a plan, we're on a mission, we're going to get it done. We're working on growth and efficiency. The year is not over. We're building something great. 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 investor presentation. Our second quarter 2020 conference call will be held on May 29th and we look forward to speaking to you then. Have a good day.

Operator

And this concludes today's call. We thank you for your participation. You may now disconnect your lines and have a wonderful day everyone.