Conference Call
Financial Results

First Quarter 2021

March 3, 2021

LAURENTIAN BANK
FINANCIAL GROUP

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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 Susan Cohen. Please go ahead, Ms. Cohen.

Susan Cohen, Director, Investor Relations

Good morning and thank you for joining us.

Today's opening remarks will be delivered by Rania Llewellyn, President and CEO, and the review of our first quarter of 2021 financial results will be presented by François Laurin, Executive Vice President and Chief Financial Officer, after which we will invite questions from the phone. Also joining us for the question period are: Liam Mason, Executive Vice President and Chief Risk Officer; Kelsey Gunderson, Executive Vice President, Capital Markets; and for the first time, Éric Provost, Executive Vice President, Commercial Banking.

All documents pertaining to the quarter can be found on our website in the Investor Center.

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 Rania Llewellyn.

Rania Llewellyn, President and Chief Executive Officer

Thank you, Susan, and good morning everyone. Thank you for joining us today.

We hope you and your loved ones are keeping safe and well. Our main focus continues to be ensuring the health and safety of our employees while supporting our customers and communities during these challenging times.

The first quarter of 2021 marked my first full quarter as CEO of Laurentian Bank, and I am pleased to report that we had a good start to the year – delivering adjusted net income of $47.6MM which represents an increase of 12% quarter over quarter and 29% year over year with adjusted earnings per share of $1.03. Our results were driven by a strong performance in Capital Markets, the resumption of growth in Commercial Banking, lower provision for credit losses and strong cost discipline. We continue to take a cautious approach towards PCL, considering the high level of uncertainty in the economy. While there is optimism related to vaccines, there is also concern surrounding new variants. To mitigate this uncertainty, the Bank continues to maintain healthy liquidity levels and a strong capital position with a CET1 ratio of 9.8%.

While I am pleased with our overall performance for the quarter, we do not expect this year of transition and strategic re-focus to be a straight line to success. There is much work to be done to position Laurentian Bank for sustained growth and profitability.

You will recall last quarter we established three strategic pillars that are guiding our efforts and actions. They are:

1. Cultivating a "Customer First" culture,
2. Creating a more "Agile Organization" with an "Innovative Mindset", and
3. Engaging and Empowering our employees to work collaboratively as "One Team"

As we work towards establishing a renewed strategic direction, we set out a number of goals last quarter that I want to update you on.

1. The **1st goal** was the **renewal of our senior leadership team** in our effort to put the customer at the center of everything we do. I am pleased with our progress on this front as we have recently added 3 new external hires and an internal promotion.

   Sebastien Belair, Chief Human Resources Officer, will drive the Bank's strategy of engaging and empowering employees to work collaboratively as One Team. His focus will be on building high performing teams in a diversified and inclusive workplace. Sebastien joined the Bank on February 2nd.

   Yves Denommé, Head of Operations, fills a new role that was established following the retirement of the Chief Operating Officer. We have separated the Bank's Operations and Technology units with Yves overseeing the operations teams. His mandate is to reduce complexity, improve and streamline end-to-end customer processes and drive cost optimization across the Bank. Yves joined us on February 22nd.

   Adam Swinemar, Head of Digital, is leading the digital strategy across both Personal and Commercial Banking. He will develop and oversee the strategic digital initiatives to simplify and improve the customer experience. Adam joined the Bank on February 2nd.

   Lastly, **Yvan Deschamps**, currently our SVP, Finance, Accounting and Corporate Development, will succeed François Laurin as CFO when François retires on April 6th. Yvan will use his financial expertise and deep knowledge of the Bank's operations to guide the growth and profitability of the Bank.

   Each of these new leaders will play a critical role in helping to achieve our strategic priorities. They will contribute to the thorough review of all Laurentian Bank's operations to ensure the organization has the right priorities, resources and personnel to position the bank for future growth.

2. The **2nd goal** was focused on our efforts regarding **cost discipline**. We have made good progress this quarter on controlling expenses as reflected in our adjusted efficiency ratio of 68.9%, which represents an improvement of 100 bps over the past quarter and 770bps compared to last year. For the remainder of the year, we will continue to focus on expense management while working on identifying structural cost optimization opportunities that align with the future strategic direction of the Bank. These efforts will create the type of sustained operational efficiencies that ultimately drive long-term shareholder value.

3. The **3rd goal** that we discussed last quarter was to advance our efforts towards a comprehensive strategic review of all the Bank's operations and current priorities. This work, spearheaded by our renewed leadership team, is underway and we are on track to deliver our new strategic plan, including Laurentian Bank's value proposition and vision for the future, by the end of the year.

In the near term, one opportunity that has surfaced as a high priority for the organization is our residential mortgage business. While the industry has been experiencing growth over the past 12 months, we have not benefited from it. To reverse this trend, we are embarking on an end-to-end review of our mortgage processes with a focus on reducing the number of touchpoints to improve the customer and broker experience. We will share our assessments and progress over the next few quarters.

What is increasingly clear is that the long-term impact of the pandemic will have far-reaching effects. It has changed the way we work and live, and the expectations of customers and financial service providers.

One area of change and increased investor focus is in the area of ESG. This is an area I am personally committed to because building a legacy for our future customers, shareholders and employees is vitally important to me.

At Laurentian, we're raising the bar at what and how we champion important events: We recognized the annual Bell Let's Talk day by challenging every employee to a 30-minute mental health activity called "Find Time for Me"; For Black History Month, we introduced our Courageous Conversation series, and with just a few days until International Women's Day, the heightened need for greater attention to Equity, Diversity and Inclusion has never been more paramount.

I'm proud that women at Laurentian Bank represent more than 55% of our workforce, 46% of our management positions and we have had equal representation on our Board for the past three years. The theme for International Women's Day this year is "Choose to Challenge". At Laurentian Bank, we choose to challenge by leading. We're the first Bank in Canada to appoint a woman as Chair of the Board, Jeannine Guillevin Wood in 1997, followed by Isabelle Courville in 2013. And in 2020, we were the first major Bank in Canada to appoint a woman as CEO.

Laurentian Bank has begun its multi-year ESG journey that I believe will increase our accountability and transparency as we evolve our organization on important issues like equity, diversity and inclusion, sustainability and enhanced corporate governance.

We will continue to provide updates as we progress through that journey and leverage the experiences of the past year to propel us forward as we create an organization that is more agile, efficient and above all customer centric.

Before I turn the floor to François for what will be his last earnings call, I would like to sincerely thank him for his outstanding contribution. He has played a vital role in the evolution of the Bank over the past 5 years. His mentorship is enabling a smooth internal succession plan. I want to extend my personal appreciation for your support and guidance during my transition to CEO. We wish you continued health and happiness in the next chapter of your life.

François…

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

Thank you, Rania for your kind words.

Good morning everyone, et bonjour à tous.

I would like to begin by turning to slide 7 which highlights the Bank's financial performance. Total revenue increased by 4% and adjusted non-interest expenses declined by 7%, driving positive operating leverage from last year. Adjusted net income was $47.6 million in the first quarter of 2021, 29% higher than a year ago and 12% higher than last quarter. Adjusted pre-tax, pre-provision income was 38% higher than a year ago and 5% higher than last quarter.

A more granular review of the drivers of our performance begins on slide 8. Year-over year, net interest income increased by 3% and net interest margin increased by 3 basis points. The improvement was due to optimized funding as we increased the utilization of secured funding, as well as higher prepayment penalties on residential mortgages. While contributing to net interest income in the short-term, prepayment penalties reflect the reduction in the underlying portfolio. This is why reviewing the end-to-end mortgage process, as Rania had mentioned, is a priority which we are proactively addressing.

Turning to slide 9, other income was up 6% from a year ago. An increase in capital markets revenues of $7.8 million was partly offset by lower service charges and credit card revenues. The pandemic has led to a build-up of liquidity, resulting from government programs and less consumer spending, and is reflected in reduced credit card usage and faster payment of balances.

Slide 10 highlights our disciplined focus on costs. Salaries and employee benefits were relatively unchanged from a year ago as higher performance-based compensation related to strong capital markets revenues was offset by a decrease in salaries from a reduction in headcount. Premises and technology costs were 3% lower year-over-year as we continue to streamline costs and decelerated the pace of IT projects given our ongoing strategic review.

Other non-interest expenses declined by 30%, stemming from lower regulatory costs and other costs ensuing from efficiency measures, some of which were implemented last year. As well, in the current environment, costs are generally lower, including those related to business development and travel. The adjusted efficiency ratio improved to 68.9%.

Slide 11 presents our well diversified sources of funding. Personal deposits account for 77% of total deposits and contribute to our healthy liquidity position. We continue to optimize our funding sources and manage third-party term deposits to align with loans.

Slide 12 highlights our strong capital position. The CET1 capital ratio, presented under the Standardized approach, stood at 9.8% at quarter-end, and 9.7% excluding OSFI's transitional arrangements for the provisioning of expected credit losses. Internally generated capital was the main driver of a 20 basis point sequential increase. At the current CET1 level, the Bank has about $300 million of excess capital, based on the mid-point of our risk appetite range of 8.1% - 8.5%.

Slide 13 highlights the commercial loan portfolio which grew by 3% sequentially. Growth in inventory financing volumes resumed, reflecting seasonality as well as dealers partially restocking their inventories. While consumer demand for recreational boats and vehicles remains high in the current environment, supply chain challenges are expected to delay a full recovery in inventory financing volumes. Real estate lending also contributed to growth, largely through insured multi-residential mortgages. The strength of our underwriting, good diversification and strong collateral, contribute to the high quality of this portfolio.

Slide 14 presents the pan-Canadian residential mortgage loan portfolio. The loss ratio increased to 10 basis points and mainly reflects the end of the deferral program and an upward revision of the unemployment rate. The level of insured mortgages, at 57%, is among the highest in the banking industry and when combined with a low LTV on the uninsured portfolio, contributes to reducing the overall risk of this portfolio.

Turning to Slide 15, allowances for credit losses totaled $193.6 million. The sequential increase of $8.6 million is due to an increase in allowances for impaired commercial loans. It takes into consideration our cautious approach considering the uncertainty related to new variants of the COVID-19 virus and a slower vaccine roll-out than previously announced. Scenario weights were unchanged from the prior quarter with higher weights attributed to the base and downside scenarios and a lower weight to the upside.

As shown on slide 16, the provision for credit losses was $16.8 million in the first quarter of 2021. Compared to last quarter, PCL decreased by $7.4 million, reflecting lower provisions on performing loans, offset by higher allowances on impaired commercial loans. The PCL loan ratio stood at 20 basis points in the quarter compared to 29 basis points last quarter and 18 basis points last year.

Gross impaired loans, on slide 17, were relatively unchanged from the prior quarter and stood at 82 basis points.

I would like to offer some thoughts on how we see the second quarter developing.

- Net interest income will be impacted by the slightly shorter quarter
- Net interest margin should be similar to the Q1 level
- Capital Markets has begun the second quarter with positive momentum
- The Commercial Banking pipeline is strong, and we are cautiously optimistic about our growth prospects
- Although we do not expect non-interest expenses to decline in a straight line, we will continue our heightened focus on cost discipline
- Gross impaired loans are expected to peak around mid-year. All things being equal, we believe that we remain adequately provisioned and are cautiously optimistic that provision for credit losses could improve over the remainder of 2021

Considering these factors, and the fewer number of days in the second quarter, we expect Q2 pre-tax, pre-provision income to be lower than in Q1.

Before the question and answer session begins, I would like to take a moment to say how privileged I am to have had the opportunity to work with an exceptional team at Laurentian Bank. I am also fortunate to have been able to build strong relationships over the past five years with investors and analysts. I thank you for your trust and support.

I will now turn the call back to Susan.

Susan Cohen, Director, Investor Relations

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

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad or 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 a question. We'll now take our first question from Meny Grauman, Scotia Bank, please go ahead.

Meny Grauman, Scotiabank

Hi, good morning. I was intrigued by the commentary on the mortgage business. Rania, I understand the fix will take a while, but I'm just trying to understand better sort of your assessment of the reasons for the lag in volumes. You talked about reviewing MDN processing and also connecting it to prepayments. I'm just curious if you'd go into that in a little more detail.

Rania Llewellyn, President and Chief Executive Officer

Thanks, Meny, what I would say is, as you've seen, many of the other institutions have really benefited from a robust mortgage asset growth, and we haven't benefited from that. So, as we're undergoing the detailed review of our operations, this was one opportunity that came to light very quickly. And so, we are currently mapping out the entire end to end process, just to see, reduce the number of touch points and understand what those touch points are, identify opportunities where we can introduce automation across the process and really ultimately get a faster time to "yes".. And so, that should drive both growth, as well as improve the customer experience and reduce cost efficiencies as well. So that work is currently under review, and as I said, in my remarks, we're hoping to report back our progress in the next couple of quarters.

Meny Grauman, Scotiabank

Okay, and just to dig into that. When you talk about intent process, is the thinking that it takes too long to get approval and that is impacting some of the performance that we're seeing. Am I getting that correctly? And the connection to, I think since when I talked about elevated prepayments. And so just trying to understand how that end to end process is impacting the prepayments consistently.

Rania Llewellyn, President and Chief Executive Officer

Yeah, so what I would say, Meny, and Francois is welcome to hop in, is ultimately yes. You know, consumer demands have changed, everything has moved to faster time to yes. And so, there's definitely an opportunity where we're lagging behind, which is why we're doing a deep dive on mortgages. And as you know, there's a couple of components, but that's definitely what we're aiming to do is to elevate our end to end processes, improve our customer experience and get a faster time to yes. Francois, did you have anything else to add?

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

No, I have nothing else to add on that point Rania.

Meny Grauman, Scotiabank

Okay, and then if I could just ask another question just in terms of cost optimization, in terms of definitely a priority. And I'm wondering again, as you look across the organization, what are the key areas where you think there is opportunity here to optimize?

Rania Llewellyn, President and Chief Executive Officer

It's part of the comprehensive strategic review that we're currently undergoing and cost optimization, Meny, as we mentioned, it is definitely one that's important to us. I would say in terms of early observations, procurement and vendor management is definitely an area of opportunity that we're going to do a deeper dive on. The other one I would say is, the work from home environment and the pandemic has really proven that there's an opportunity for us to build hybrid working arrangements, which will also create cost optimization opportunities in terms of looking at our real estate footprint. So, I'd say, those are kind of the two early observations, but we'll be reporting back once the comprehensive review is completed.

Meny Grauman, Scotiabank

Thanks Rania.

Operator

Thank you, ladies and gentlemen, if you find that your questions have been answered, you may remove yourself from the queue by pressing star two. And as a reminder, it is star one to ask a question. We'll now take our next question from Gabriel Dechaine of National Bank. Please go ahead.

Gabriel Dechaine, National Bank Financial

Good morning. I won't ask that many questions because we've got you coming to our conference at the end of the month. But I'll stick with the mortgage topic here and good to hear you are highlighting some of the changes that you're putting into place. And, but just on the quarter, what we saw, can you quantify the prepayment penalty benefit? And can I connect the dots in such a way that you have prepayments, but your mortgage balances went down, so that people that are leaving the bank is that they're going to somewhere else to get the loans?

Rania Llewellyn, President and Chief Executive Officer

Gabriel, thank you for the question. And I'm really looking forward to the conference at the end of the month and hopefully we'll be virtually meeting soon. I'll pass it on to François and then I'll add a little bit more color as to what we're doing moving forward. François?

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

Thank you, Rania, the increase in the NIM year over year is partly due to the prepayment penalties which is basically a half of the difference. So, we went from 181 last year to 184 bps, so basically half of this is due to the pre-payment.

Gabriel Dechaine, National Bank Financial

Okay. And then, regarding the trend, can I ask Rania to complete the answer?

Rania Llewellyn, President and Chief Executive Officer

What I would say, Gabriel, there's a reason why we're doing a thorough review. So obviously it's a trend we're trying to reverse. We are doing a thorough analysis to understand retention versus pile up of cash where people are paying off their mortgages, what their reasons are. But what we do know is, that this is an area of focus and it's an area of priority and opportunity for us. We've got multiple channels by which we deliver mortgage services - through our B2B Bank, as well as through our retail network. And so, it's a high priority for me and for the institution. And that's why we're embarking on this end to end process. Because we know we're lagging, and we know we need to reverse the trend.

Gabriel Dechaine, National Bank Financial

Okay, great. And just switching over to the commercial side of the business, saw some growth there, in floor plan or I guess equipment finance or inventory finance, sorry. Is that an indication of, you know, some of those supply constraints diminishing and your dealers are closer to normal? And what the outlook would be for the rest of the year in that business? And then, I guess CRE, in particular multi-family project lending, you have been growing for the last few quarters, can you tell me is that condo development or what? Thanks.

Rania Llewellyn, President and Chief Executive Officer

So, I'll start off Gabriel and then I'll hand it off to Éric Provost who's our new EVP of Commercial banking. So, what I would say is, as you know, our consumers have been building up quite a bit of liquidity. And what we're seeing is that consumer demand for recreational boats and vehicles remain hihg in the current environment, which is resulting in the nice resumption of growth in our inventory financing that you see on slide-I believe it was slide 13. The supply chain challenges though are still here. And so, there's an expected delay in terms of the full recovery and inventory financing. And so, I would say that the seasonality will start kicking in in Q3, Q4, but in terms of our forecast, the pipelines are quite strong and so we're feeling relatively comfortable with the next quarter, but the supply chain challenges continue. But I'll hand it over to Eric to provide a little bit more color, both on the inventory financing, as well as the multi res portfolio.

Éric Provost, Executive Vice President, Commercial Banking

Thank you, Rania and Gabriel. On the inventory finance side,for sure, we do expect a lower credit line utilization throughout the spring and summer season. As Rania mentioned, there's a very high demand on those products and the OEMs are still catching up with that situation. So, expect lower usage for Q3 and Q4. In terms of the question regarding multi residential, it's been a strong Q1 in terms of growing that portfolio on the insured side, pipeline is still strong. But this is really multi-family type units and not condo related.

Gabriel Dechaine, National Bank Financial

Okay, low rise with four units or five units or something like that? I'm just trying to visualize it.

Éric Provost, Executive Vice President, Commercial Banking

Correct. Have a good one.

Gabriel Dechaine, National Bank Financial

Thank you.

Operator

Thank you, we'll now tale our next question from Doug Young of Capital Markets, please go ahead.

Doug Young, Desjardins Capital Markets

Hi, good morning. Just wanted to go back to the expenses and just so I understand how to think about this over the next year. Because I think in the opening comments, it was mentioned It's not going to be a straight line. This quarter was obviously much better than what we saw from a trend perspective last year. But there's a lot of projects still. It feels like ongoing and the review is still ongoing. So how do we think of those? Because the expense line has bounced around quite a bit and there was a material decline on the unusual items this quarter, which is great to see. Just trying to get a sense - is that indicative of what to expect? And if you can provide any thoughts in terms of NIX ratio or direction on adjusted NIX, that would be helpful.

Rania Llewellyn, President and Chief Executive Officer

What I would say, Doug, thanks for the question. And as I mentioned in my opening remarks, given as you said, we're undergoing the strategic review in the organization and so it's hard to predict at this point, in terms of what it's going to look like. We do know it's likely not going to be a straight line. But I think the key thing is, the cost discipline is here to stay. So, the heightened focus around discretionary spend is definitely here to stay, but in order to ensure sustainable growth and profitability, we'll be pivoting very quickly to activating some of the cost optimization opportunities that we'll be identifying. And so, that would be what I would say in terms of a forecasting perspective and we'll continue to report back on what these cost optimization opportunities are. And, sorry Doug, what was the second part of the question?

Doug Young, Desjardins Capital Markets

No, sorry, I kind of droned on. It's my fault. No, it's just around the expense side. And so, there was a big decline in the material, unusual items this quarter. And so, is there anything that you foresee over the next few quarters in terms of charges from decommissioning systems or you're looking at the mortgage and the end process? Is there going to be any large chunky items that you would consider unusual that you foresee over the next few quarters?

Rania Llewellyn, President and Chief Executive Officer

So again Doug, it's really hard to forecast at this point. We're still undergoing that thorough review and we'll report back when things get clearer for sure.

Doug Young, Desjardins Capital Markets

Okay. And then, just on the PCL side or allowance side, there was a small release in the performing ACL's looks like it was more personal and commercial. You know, your remark suggests that there's obviously an improvement in the economic outlook, but also, you've probably reigned in the level of release that otherwise would have occurred. I apologize, I think you mentioned maybe there was an increase in the weighting to the downside scenario. I'm just trying to understand what the offsets were, that would have reigned in the amounts. And then if you can just talk a bit about what you're seeing on the personal and commercial side from the ACL's on the performing loan side.

Rania Llewellyn, President and Chief Executive Officer

Sure, I'll start off and then pass it over to Liam. I think just a couple of key messages is, number one, we're adequately reserved. We've always taken a consistent and conservative approach and very disciplined in terms of our underwriting. As well, we have a very diversified portfolio that's highly collateralized. I think what's really important to know is that, we were very gradual in our ramp up in 2020, which is consistent with our conservative approach. And in terms of a forecast, we'll be doing a gradual ramp down in 2021 as things unfold from an economic outlook perspective. So, I'll pass it over to Liam to kind of add a little bit more color, particularly around the ACL.

William Mason, Executive Vice President and Chief Risk Officer

Thank you, Rania, [impaired loans were very stable versus last quarter, a stable watch list, and we're not seeing a lot of new formations. Doug, you will see in terms of the stages, and I think Francois highlighted this in his comments, the drop-in stage two mortgages that's due to a decrease in clients without their payment deferral. That's somewhat offset by, as François articulated, by a higher unemployment situation. And then on the personal loan side, we're seeing a decrease in stage two as we see the equity markets and you know, some of our investment loan product improve. We're over all very appropriately reserved, consistent with the current economic scenario expectations and we're taking a prudent measured approach to how we manage reserves and we'll continue to do so.

Doug Young, Desjardins Capital Markets

And maybe if I can add another-sorry, go ahead.

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

Just to clarify, you alluded to the weightings, we kept the same weightings as in the previous quarter for the economic scenarios, which are high, it's skewed towards base case and downside risk scenarios.

Doug Young, Desjardins Capital Markets

Okay, and then if I can just pick another one in. The AIRB conversion process, can you just update us where you stand with that?

Rania Llewellyn, President and Chief Executive Officer

Yeah, so again, as part of the comprehensive strategic review underway, we're looking at all of our key projects and so AIRB is definitely one of them. And so, once we complete that thorough review, we will be coming back with some comments on that.

Doug Young, Desjardins Capital Markets

And so, there's no update on timing related to that project at this point?

Rania Llewellyn, President and Chief Executive Officer

As I had stated publicly is that our comprehensive strategic review, we will be coming back at the end of the year. However, if there are decisions that are made between now and then, or any priorities that surface, we will be updating you in due course.

Doug Young, Desjardins Capital Markets

Okay, great. Thank you.

Rania Llewellyn, President and Chief Executive Officer

Thank you.

Operator

Thank you, we'll now take our next question from Paul Holden of CIBC, please go ahead.

Paul Holden, CIBC

Thank you. Good morning. First question I want to ask is regarding how you're broadly thinking about potential uses of that excess capital you highlighted in your prepared remarks at $300 million. And appreciate that some of it is going to be based on the completion of your strategic review. But OSFI is likely- at least in my opinion, to remove those capital handcuffs before that and your stock is still trading at a significant discount to book value. So how do you think about that sort of potential return of capital to shareholders versus holding on to that capital to execute on your scheduled priorities?

Rania Llewellyn, President and Chief Executive Officer

Yeah, so I'll kick it off Paul. What I would say is, our number one priority will be organic growth, opportunities that we will identify as part of that comprehensive strategic review. And so, that'll be our number one priority that we're going to be focused on going forward. If there's any tuck-in opportunities for acquisition opportunities that are in line with our strategic direction of our organization, we'll have to be opportunistic. But it really gives us the flexibility to make the right decisions, but it has to be fully aligned to our strategic review and the strategic direction that we're going to be taking Laurentian Bank towards.

Paul Holden, CIBC

That's helpful. Thank you. And then just looking at some of the details behind the lower fee income as on investment accounts, it's a small number. But given generally rising AUA levels across the industry, I would have expected that to be a positive number, not a sequential decline. So maybe just some comments on what's happening there.

Rania Llewellyn, President and Chief Executive Officer

François?

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

Paul, I don't have the details of this. If I may take it offline after if you don't mind.

Paul Holden, CIBC

Sure, I'd be interested to know. And then sort of a follow up question then, as I think about Laurentian's strategic shift to more advice-based branches, or at least that's the shift today, where would that show up in the fee income line? Because that's one of the lines I would have expected to show up on mutual fund commissions obviously would be the other, and that has trended positively. But what are the key sort of income statement items I should be looking at to identify success in that part of the strategy?

Rania Llewellyn, President and Chief Executive Officer

Yeah, I can talk generically about the strategy and where we're at. I strongly believe that the advice model is the right strategy, but there's still a lot of work that needs to be done on the personal side. It needs to be repositioned; we need to really be clear on what our value proposition is. We have too many brands that face the market on the personal side, so we need to simplify that. There's an opportunity for us to rationalize our products and then ultimately similar to the mortgage book, is really to simplify and streamline our end to end processes. And one key element as well is doubling down on our digital solutions, which will then further cement and support our advice model strategy. François, I don't know if you have anything else to add on that front?

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

No, at this point no.

Paul Holden, CIBC

And last question from me is just regarding the changing funding mix you benefited from higher securitizations this quarter. Just wondering, will that be an increasingly greater proportion of the funding mix or as you start getting the strategy right, those branch-based deposits might start growing faster again, and that will become an increasingly higher proportion of the funding mix? I guess to make the question clearer, how are you balancing the priority between branch-based versus securitization?

Rania Llewellyn, President and Chief Executive Officer

Yeah, so I'll start off then if François has something to add he can jump in. What I would say is, if you were to actually look at our personal demand deposits, those increased 19% year over year and 5% quarter over quarter. We made a conscious decision of reducing our third-party deposits, which are lower margin and replaced it with securitization. And we're constantly proactively managing our deposits to really optimize margin and sources and make sure it's also matched up with our asset growth. Commercial deposits have also increased with the asset growth, so that will continue to be a focus. And then last but not least, the digital strategy to drive deposits is going to actually be core to our success going forward. So those would be my comments in terms of where we're going on the deposit side. Deposits will continue to be a core and we'll continue to proactively manage it to optimize our margins as well as sources.

Paul Holden, CIBC

Great, I'll leave it there. Thanks for your answers

Rania Llewellyn, President and Chief Executive Officer

Thank you.

Operator

Thank you. We'll now take our next question from Lemar Persau of Cormak Securities. Please go ahead.

Lemar Persaud, Cormak Securities

Thank you. I understand it's very early days in your mortgage review, but just wondering if broad strokes, you can help us understand when we could see the narrowing of the performance gap in residential mortgages versus peers. Like what I need is, is this a 2022 thing or beyond?

Rania Llewellyn, President and Chief Executive Officer

Yeah, so Lemar it is early days and so what I would say is, as we're mapping out the process, we'll be highlighting some quick wins that were probably impacted in a positive way. But it really depends on what the review uncovers in terms of, how much investment and the timeline in order for us to actually set it up for success going forward. But if there's any quick wins that will be identified, we'll be moving quickly in executing them. So really hard to give you a timeline at this point. But stay tuned.

Lemar Persaud, Cormak Securities

And then, François, I think you mentioned the PCL ratio could improve for the balance of the year. So, I want to be clear here. Are you talking about improvements from Q1 21 levels? Or are you talking about year over year? So relative to the elevated ratio we saw in 2020?

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

Now, I'm going from where we are. We foresee the gross impaired loans peaking at the end of Q2 mid-year and then throughout the year, we are cautiously optimistic about seeing improvement in the PCL over last year, because 2020 was higher, but sequentially, cautiously optimistic.

Lemar Persaud, Cormak Securities

Okay. And then, you know, if I made this flip over to the Supp pack, and your non-interest expenses and I'm looking at other. So, the footnote here suggests that it includes amortization of acquisition related intangibles. So, when I think about that, I think more of stability. But clearly that number has bounced around from quarter to quarter and this quarter looks quite low. Is there anything? Maybe could you talk about what goes into the other and what could be driving some of that volatility?

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

Typically, year over year, there's been a reduction. But it's across all sectors, across many activities across all departments of the bank, Lemar. So, there's no one specific in terms of reduction in other versus last year. It's the cost discipline and measures that we started to implement last year, because obviously, the decrease is not that great compared to last quarter, but it's much higher compared to last year. So, you see a progression in our cost discipline at the end of last year and it continues this year.

Lemar Persaud, Cormak Securities

What types of expenses go in there if I just may?

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

Sorry, I missed that. What type of expenses?

Lemar Persaud, Cormak Securities

Yeah, what type of expenses going into other other?

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

Oh boy, you've got travel, corporate, professional services, advisory, insurance costs, and what I'll call other administrative expenses.

Lemar Persaud, Cormak Securities

Thank you.

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

You are welcome.

Operator

Thank you. We'll now take our next question from Darko Mihelic of RBC Capital Markets.

Darko Mihelic, RBC Capital Markets

Hi, thank you. Good morning. I wanted to revisit, Rania your answer on the deposit side. Because I see it a little bit differently. When I look at the deposits, I mean, you mentioned strong growth in the personal slide. And then there's runoff in fixed term, which we've actually been seeing that in other banks. And so, when I combine all your personal deposits together, I get your personal deposit growth to be rather weak relative to peers and commercial even worse. So, when I look at commercial deposits, the peers are up 15% year over year. You're down 13. So, I'm surprised that, I mean, if we were highlighting mortgages as being an area, you know, of strategic importance, I'm surprised that deposits haven't made that list as well. So, can you talk a little bit more about the deposit or the lack of deposit or the version?

Rania Llewellyn, President and Chief Executive Officer

Yeah, so I would say-thanks Darko. I would say on the commercial deposits and that we currently for example, don't have cash management solutions. And so that's where the digital strategy becomes key, which is why Adam is not only looking at personal, but he's also looking at commercial. And so, in order for us to drive more significant deposits in the commercial bank, we need to have a cash management solution for our clients. So, you're absolutely right in terms of our performance on that front. In terms of the personal demand deposits, again, as we said, we need to reposition our personal banking division in its entirety, in terms of looking at rationalizing our products and making sure digital solutions are there. We have seen the growth though, in terms of quarter over quarter and year over year, but it's an area that we are focused on, leading with a digital strategy. Does that answer your question Darko?

Darko Mihelic, RBC Capital Markets

Yeah, I guess it does. I mean, I'm going to do a little deeper dive analysis into deposits as well. It's just that's my first brush look at it. It just looks like deposit, growth, even though we're seeing the same trends, with respect to the fixed term, it still doesn't seem as though your personal is growing as fast as peers. And I'm wondering if it leads back to the same conclusion that we may be losing customers.

Rania Llewellyn, President and Chief Executive Officer

Yes, so what I would say, often we have-oh, sorry, go ahead Darko.

Darko Mihelic, RBC Capital Markets

No, no, go ahead please. I was going to move on to another question, but if you have more to say on deposits, I'd love to hear it.

Rania Llewellyn, President and Chief Executive Officer

No, no, we're good Darko

Darko Mihelic, RBC Capital Markets

And then, with respect to the expenses, I mean, I'm looking at your slide, 10. Premises and technology is another significant area of improvement. We're seeing that trend everywhere else at the other banks as well. But I'm starting to get a different story from some banks with respect to expenses going forward. And this is where I wanted to ask a little bit more about strategic spend. So, in other words, most banks and I myself included, are expecting a much stronger, robust economy when we open up in the back half of the year. And some banks are saying, look, we need to spend in that kind of an environment. All right? We need to come out with new products. Some banks are going to give you an iPad for opening an account, we need to hire staff, we need to train staff. We need to be back in the offices. And so many of them are pointing to higher expenses in the back half of the year, to really capture the resurgence of spending and to really go out and try and get customers back.

So, you know, I understand where you're coming from with a high efficiency ratio relative to peers, but I just wanted to understand if tactically you're also thinking about potentially defending and growing your customer base when we get a very strong economic recovery in the back half of the year. So, can you provide any thoughts on whether or not, there's a potential for a significant ramp up in costs, in the back half of the year, rather than a continued focus on sort of being stingy on costs? So, there's a lot in there, so I'll leave it to you to answer as you wish.

Rania Llewellyn, President and Chief Executive Officer

I think those are fair comments Darko. What I would say is, you know, strong focus on cost discipline, but we did say it's not going to be a straight line. I think what we need to happen here, which is what we're doing is to very quickly move from cost discipline, to pivoting, to cost optimization, which will require structural changes. And that'll give us the room to then reinvest in our strategic areas that we need to grow. Right? So, these are all of the things that we'll be reviewing as part of our comprehensive strategic review, but we need to move quickly to pivoting and cost optimization so we can take these costs structurally out of the bank. But growth is definitely our end game. That's what we need to do, but we need to make sure we're repositioned and refocused on the right priorities to set us up for growth.

Darko Mihelic, RBC Capital Markets

And so, do you think that you need to maybe hire some frontline staff or as you said, I think you have to rationalize your product lineup? But I'm wondering about, if in that rationalization you also have to come up with some pretty juicy offers. So is there any possibility here that we see salary and employee benefits actually rise as you add frontline and as variable costs go up.

Rania Llewellyn, President and Chief Executive Officer

What I would say is, we actually need to make sure our end to end processes are simplified and that we're actually actioning what we already have in the pipeline faster. So similar to what I said on the mortgage side, and that will generate growth. So, in the near term, I would say, we will be very strategic in terms of where we add frontline staff. So in the commercial bank where we see opportunities or in certain growth areas where there are well-oiled machines, we will definitely be very strategic in terms of where we add additional staff.

Darko Mihelic, RBC Capital Markets

Okay, great, thank you.

Operator

Thank you, ladies and gentlemen, once again, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We'll just take a brief moment to allow everyone an opportunity to signal for questions. Thank you. Once again, ladies and gentlemen, star one to ask a question. And we don't seem to have any further questions at this time. I would like to turn the call back over to Ms. Llewellyn for any additional or closing remarks. Thank you.

Rania Llewellyn, President and Chief Executive Officer

Thank you. In closing, I would like to leave you with a few key takeaways. The banks' capital and liquidity positions are strong, and its credit quality is sound. We are hard at work with a renewed leadership team, to identify areas of focus and priorities.

Over the next few quarters, I plan on updating you on our review of our end-to-end mortgage process, as well as some of the initial learnings that arise from our efforts on the strategic review. We will maintain our cost discipline, while identifying more structural costs optimization opportunities. And we will advance our comprehensive strategic review, to chart a new path forward. Thank you everybody.

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 of 2021 earnings call will be held on June second. And we look forward to speaking with you then. Have a pleasant day.