

Conference Call Financial Results

Second Quarter 2021

June 2, 2021



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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

Bonjour à tous. 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 second quarter of 2021 financial results will be presented by Yvan Deschamps, Executive Vice President and Chief Financial Officer, after which we will invite questions from the phone. Also joining us for the question period are several members of the Bank's Executive Leadership Team: Liam Mason, Chief Risk Officer; Kelsey Gunderson, Head of Capital Markets; Éric Provost, Head of Commercial Banking; and for the first time, Karine Abgrall-Teslyk, Head of Personal Banking.

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

I would like to 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

Thanks Susan.

Bonjour à tous. Good morning and thank you to everyone for joining us today.

I would like to begin by expressing my deep sadness about the recent discovery of the remains of 215 children buried on the grounds of a former residential school in Kamloops, BC. As we pause and honour the lives of these 215 innocent children and countless others, we must also make a commitment to them and their families that our individual and collective actions as a nation must focus on righting these wrongs.

Moving now to our second quarter, on behalf of the entire leadership team, I want to thank everyone at Laurentian Bank for their efforts over the last quarter and for their ongoing commitment to our organization and the new leadership team. You have continued to grapple with the competing priorities of home life and your ongoing commitment to the work of the Bank. Your efforts are very much appreciated and directly contribute to our positive results.

As the country continues to work its way through the third wave of the pandemic, our priority remains the health and safety of our employees and in supporting our customers and communities during these challenging times. For our part, we are offering all our employees paid time-off to get vaccinated and encourage everyone to do so as soon as possible. With the number of new COVID-19 cases declining – and with increasing vaccination rates across the country – there is reason to feel optimistic.

Results

Turning to our results, the momentum we built in the first quarter of 2021 continued into the second quarter – delivering adjusted net income of \$56.7 million. This represents an increase of 19% quarter over quarter and is almost four times higher than a year ago with adjusted earnings per share of \$1.23.

Our results were driven by strong performance in capital markets, lower provision for credit losses and our continued focus on cost discipline. The PCL includes a reserve release on performing loans of \$9.9 million reflecting improvements in economic forecasts. The Bank has also maintained its healthy liquidity levels and a strong capital position with a CET1 ratio of 10.1%.

This quarter also saw some key developments that I would like to highlight:

- Following the employee vote, the Canada Industrial Relations Board revoked the union certification covering the unionized employees;
- Both DBRS and S&P upgraded their ratings outlook on the Bank from negative to stable, recognizing the solid progress that the Bank is making;
- The Bank launched its inaugural covered bond program, issuing \$250 million at the beginning of the third quarter to further diversify and optimize sources of funding; and,
- We announced the issuance of \$125 million of Limited Recourse Capital Notes. The proceeds are earmarked to redeem the Preferred Shares Series 15, with a positive impact on the cost of capital.

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

Strategic Pillars

You will recall from previous quarters that we have established three strategic pillars that are guiding all of our efforts and actions. They are:

1. Cultivating a “Customer First” culture;
2. Driving an “Agile and Innovative” Mindset”; and
3. Engaging and Empowering our employees to work as “One Team”.

From those pillars, we identified three key priorities for 2021:

1. Renew the senior leadership team and organizational structure;
2. Increase our efforts on cost discipline while pivoting to structural cost opportunities; and,
3. Conduct a thorough review of the Bank’s operations and develop a new strategic plan.

I would like to provide a brief update on our progress against each of those priorities:

First, as part of renewing our senior leadership team, we appointed Karine Abgrall-Teslyk as Executive Vice President and Head of Personal Banking. With 25 years of financial services experience, Karine has a strong track record of transforming businesses and driving a customer-first strategy. She is leading our “One Team” approach to Personal Banking, which includes the Quebec branch network, Digital Banking and B2B Bank.

With the acceleration of digitization, changing consumer needs and speed of change, technology has become a key enabler for all organizations, especially financial institutions. In order to support our need to become more agile as an organization and more digitally enabled we will be conducting a formal search for a new Chief Technology Officer.

Second, I would like to highlight the continued efforts in the Bank to carefully manage our discretionary expenses. Our focus on cost discipline enabled us to improve our adjusted efficiency ratio in the second quarter by 490 basis points from last year, maintaining this ratio below 70%.

We are now pivoting towards cost optimization. In alignment with our overall theme of simplification, we are reviewing several of our key partnership agreements to ensure that we are getting the best value for the

Bank's dollars. As we continue to review our end-to-end processes, we will look to leverage partnerships as a way to drive further efficiencies.

Last quarter, we mentioned that addressing the underperformance of our mortgage business was a high priority and committed to sharing our progress as we embarked on an end-to-end review. This quarter, we conducted a review of our mortgage broker channel origination process and found that the customer experience is complex, the process is lengthy and there is an inconsistent level of service for our brokers. As a result, we are instituting a number of improvements including:

- Piloting a program that segments and differentiates brokers to improve the customer experience;
- Reducing overlap and duplication to streamline and simplify the end-to-end process; and
- Establishing a dedicated end to end file ownership structure to improve our response time and service levels, all while maintaining our disciplined underwriting standards.

We are now extending this review to our mortgage broker channel retention process and to our branch channel.

ESG

On our last call, I talked about the ESG journey that we have begun at Laurentian Bank and how committed I am to it. That's why, I announced at our AGM that I am personally taking the lead as Laurentian Bank's ESG Champion, making myself directly accountable for our ESG strategy and will be working closely with the Board. We have also included ESG and ED&I targets in all leaders' scorecards, linking these initiatives directly to performance as part of our efforts.

To further support our ESG initiatives this past quarter:

- We established an Executive ESG Steering Committee and cross-functional Working Group, and we have appointed our CFO, Yvan Deschamps as the lead of our TCFD taskforce; and,
- We launched our first Courageous Conversations Series led by the newly formed Black Employee Resource Group.

I look forward to continuing to update you on our progress in the quarters to come.

175th Celebrations

On May 26th, Laurentian Bank celebrated its 175th anniversary. Not too many Canadian companies can say they have been part of the fabric of our country for 175 years. This is an incredible milestone, and it is an opportunity to reflect on our remarkable past and to celebrate the strength of our roots.

Our evolution as an institution is one built on prudence, innovation and dedication to serving a market that was previously underserved. What hasn't changed in nearly two centuries is our unwavering commitment to serving the financial needs of our customers, our shareholders and our communities.

To promote our "Customer-First" approach, we have launched several deposit and credit card 175-branded cash back offers to reward our existing customers and acquire new ones. As we continue to celebrate throughout the year and to support our renewal and growth strategy, additional product offerings will be launched.

Conclusion

Across the board, our people are telling us they want to play a vital role in our future success, and I am pleased to say that I am seeing a renewed sense of pride and a winning attitude across all business lines.

As we look towards our exciting future, our continued success will be the result of how we move forward – together as One Team, and as One Bank.

I am now pleased to turn the call over to Yvan for his first earnings call as our CFO.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Merci, Rania.

Bonjour à tous, and good morning everyone.

I would like to begin by turning to slide 9 which highlights the Bank's financial performance.

Total revenue increased by 4% and adjusted non-interest expenses decreased by 3%, driving positive operating leverage from last year. Adjusted net income reached \$56.7 million in the second quarter of 2021 and adjusted pre-tax, pre-provision income totalled \$75.1 million, up \$14.6M from last year.

A more granular review of the drivers of our performance begins on slide 10. Year-over year, net interest income and net interest margin were relatively unchanged as improved funding costs were largely offset by lower loan volumes.

Turning to slide 11, other income was up 13% from a year ago. The increase was mainly due to the strong contribution from capital market and treasury activities, which improved by \$4.5 million, as well as from higher lending fees stemming from increased commercial activity, and commissions from sales of mutual funds which benefitted from the strong performance of financial markets.

We continue to have a disciplined focus on costs. Slide 12 highlights that adjusted non-interest expenses were 3% lower than last year.

- Salaries and employee benefits increased by 4% reflecting higher performance-based compensation related to strong capital markets revenues and the overall improvement in profitability. This was partially offset by lower salaries from a reduction in headcount.
- Premises and technology costs were 2% lower year-over-year reflecting good cost control.
- Other non-interest expenses declined by 22%, stemming from a general reduction of expenses ensuing from efficiency measures and the current economic conditions.

The adjusted efficiency ratio remained below 70%. Normalizing for the higher performance-based compensation, the efficiency ratio would have been similar to the first quarter, underscoring our continued cost discipline.

Slide 13 presents our sources of funding which we continue to strengthen, diversify and optimize.

- First, the Bank increased its use of securitization over the past year by \$1.6B. Considering this increase and the lower loan volumes, we chose to reduce term deposits from Advisors and Brokers by \$1.7B and wholesale deposits by \$0.6B. These decisions optimized our funding costs and contributed to the improvement in net interest income, while providing greater flexibility as growth resumes.
- Second, personal branch notice and demand deposits increased year-over-year by \$300 million or 12%.
- Finally, we recently came to market with two inaugural issues.
 - We established a covered bond programme and shortly after quarter-end, we closed our first \$250 million covered bond issue. This is the most efficient form of funding conventional residential mortgages and will allow the Bank to deliver competitively priced products to our customers;
 - The Bank also issued \$125 million of Limited Recourse Capital Notes at the beginning of the third quarter, with the proceeds to be used to redeem the Preferred Share Series 15. This will generate more than \$2 million in net annual savings to the Bank.

Slide 14 highlights our strong capital position. The CET1 capital ratio, presented under the Standardized approach, stood at 10.1%. Internally generated capital and other gains related to employee benefit plans and equity securities designated at fair value through OCI were the main drivers of a 30-basis point sequential increase. At the current CET1 level, the Bank has about \$350 million of excess capital, based on the mid-point of our risk appetite range of 8.1% - 8.5%.

Slide 15 highlights the commercial loan portfolio which grew by \$59 million sequentially or about \$150 million excluding the impact of foreign exchange. Growth in real estate lending, was mostly offset by a decrease in inventory financing, reflecting seasonality, the impact of FX, and continuing high consumer demand for recreational goods. The latter has kept the dealer credit utilization rate in the mid-thirties compared to the mid-fifties historically. Over the past year, our business development team has expanded the dealer network by approximately 20% which positions us well for the post-pandemic recovery. Furthermore, the Bank's exposure to sectors most impacted by the pandemic, namely restaurants, hotels, retail malls, business aircraft & travel, as well as oil and gas, is low at about 2% of our total loan portfolio. The strength of our underwriting, good diversification and strong collateral, contribute to the high quality of the commercial loan portfolio.

Slide 16 presents the pan-Canadian residential mortgage loan portfolio. Residential mortgage loans slightly declined by 1% during the quarter. As Rania mentioned, we are taking actions to review our end-to-end mortgage processes to improve the customer experience and to renew growth. The loss ratio improved to 6 basis points from 10 basis points last quarter and mainly reflects the conservative credit quality of the portfolio. Insured mortgages, accounting for 57% of the portfolio, is one of the highest ratios in the banking industry, and when combined with a low LTV on the uninsured portfolio, contribute to reducing the overall risk of this portfolio.

Turning to Slide 17, allowances for credit losses totaled \$185.5 million. The sequential decrease of \$8.1 million includes \$9.9 million of releases of provisions on performing loans reflecting an improved economic outlook. ACL continues to take into consideration our cautious approach given the uncertainty related to new variants, vaccine hesitancy and provincial lockdowns, as well as decreasing government support. 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 18, the provision for credit losses was \$2.4 million in the second quarter of 2021. Compared to last quarter, PCL decreased by \$14.4 million, mostly due to releases of provisions on performing loans reflecting an improvement in the economic outlook, as well as lower provisions on commercial impaired loans. The PCL loan ratio stood at 3 basis points in the quarter compared to 20 basis points last quarter.

Gross impaired loans, on slide 19, decreased by \$18.8 million from last quarter, reflecting the return to performing status of some commercial and personal loans, as well as some repayments.

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

- Despite the longer quarter, net interest income is expected to be in line with Q2 mainly due to the recent and the anticipated decrease in inventory financing volume for Q3, reflecting seasonality, the impact of FX, and dealer credit utilization rates that have yet to normalize.
- Net interest margin is expected to be a few basis points lower.
- Capital Markets has begun the third quarter with positive momentum following a record quarter in Q2.
- The Commercial Banking pipeline is strong, particularly in real estate lending, but loan growth is expected to be offset by the temporary softness in inventory financing that I just mentioned.
- We will continue our heightened focus on cost discipline and aim to keep the efficiency ratio below 70% for 2021.
- Finally, provision for credit losses continues to be difficult to predict on a quarterly basis. Uncertainty around the pandemic is lingering, while economic indicators are moving in the right direction. Furthermore, we have not yet seen the expected migration in credit, which led to low provision for credit losses this quarter. Our approach to credit losses remains prudent and we believe that we

remain adequately provisioned. We may see additional releases in the second half of the year should conditions continue to evolve favourably.

Considering these factors, we expect pre-tax, pre-provision income for the third quarter to be similar to the second quarter.

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 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. If you are using a speakerphone, 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 pause for just a brief moment to allow everyone an opportunity to signal for questions. We'll take our first question from Meny Grauman of Scotiabank, please go ahead.

Meny Grauman, Scotia Global Banking and Market

You mentioned that according to the bank's calculation you have about 350 million in excess capital, I'm wondering what your capital deployment priorities are, how you think about that 350 million. Thanks.

Rania Llewellyn, President and Chief Executive Officer

Thanks, Meny. So, yes, we are well-capitalized at 10.1% based on a standardized approach and it is above our risk appetite, which is between 8.1 to 8.5, which leaves us with approximately 350 million dollars in excess capital. Our number one deployment strategy is really... we see a lot of opportunities from an organic growth perspective. So to redeploy it and reinvest in our business, but as we said in the past if there's an opportunity for any strategic tuck-in acquisitions that are not distracting but more importantly are creative and are on strategy, that is definitely something that we will consider at the appropriate time.

Meny Grauman, Scotia Global Banking and Market

So even though you're still going through sort of the strategic review, that wouldn't preclude doing a deal if the right deal came here. Is that correct?

Rania Llewellyn, President and Chief Executive Officer

So, what I would say is that we are open for any strategic transactions that are opportunistic, that are on strategy, and that are accretive, and – but we will continue to be prudent in terms of our capital deployment strategy.

Meny Grauman, Scotia Global Banking and Market

That's helpful. And then just following up in terms of the organic growth comment that you made. In terms of call it RWA growth, how do you see that developing over the second half of the year? And as you look on, when do you expect to really see that start to expand meaningfully?

Rania Llewellyn, President and Chief Executive Officer

Yeah, Meny I'm going to turn that question over to our CFO, Yvan.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you, Meny, for your question. So, as I mentioned in my script, we currently have a very strong pipeline in commercial banking, particularly in real estate, but we do have softness in inventory financing. And the main element there is that, as we've mentioned over the last few quarters, the demand is still pretty high for the consumer recreational goods. So that will temper what we see in terms of assets for the next two quarters. So, my comment would relate to the RWA as well.

Meny Grauman, Scotia Global Banking and Market

That's helpful. And then the final just follow up on the mortgage side in particular, you mentioned a few changes that you're making and extending the review. When do you expect the changes that you've made to bear fruit? Like, what's a realistic timeline there, and will we see it in terms of volume growth and over what timeframe?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So great question. What I would say is that as anybody who's done end-to-end process reengineering for the mortgage business, in particular, it's not going to happen overnight. So what we've done is we've started with our broker origination business, started identifying some quick, early, easy wins, which we've kind of shared with you today in terms of piloting a few things, segmentation, reducing our overlap, and for example, putting in a quarterback who's responsible for making sure they own the file from start to finish. We're starting to see some early positive results coming out of that and so we'll continue to expand that. We're going to be very cautious in terms of our approach, in terms of how we roll things out.

The next thing is, everybody knows retention is a big part of the mortgage business and so that's why we're going to be undergoing an end-to-end review on the retention side. And then we'll also be expanding into our entire branch network in Quebec as well. So, all I see is there's lots of upside, there's lots of opportunities. We just have to be patient. We're probably going to start seeing results in the next 12 to 18 months.

Meny Grauman, Scotia Global Banking and Market

Thank you very much.

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

Hey, good morning. Just stick with this – I guess some of the stuff we've touched upon already here, but the mortgage distribution channel review both the branch and the broker. You identify origination processes that are getting fixed and – but you're also talking about renewals. What's going on there as far as some problems you're seeing and then, I mean, just benchmarking the retention rates that you see, how – where are they and where do you want them to be?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, Gabriel thanks for the question and so we did start in this quarter, this past quarter, to focus on the origination and we're now pivoting to retention. So, it's early days in terms of identifying benchmarks

and where we're at this point, which is why we're undergoing it, because you're absolutely right, retention is key to this. So that's what we're going to be doing in this quarter and we will be providing the analysts in the market with an update in the next quarter or two based on our final findings.

But it's all hands are on deck in terms of making sure that we identify the issues, map it out, figure out what some of the quick wins and early fixes are that we can do to ride this ship. It's no news based on our performance we are underperforming in that business, which is why it's a high priority for us and it's a big opportunity for us.

Gabriel Dechaine, National Bank

No, no, I get that. I'm not asking to be – it's like a glass half full perspective because a few years ago, after B20 was coming in for the effect when we were asking all the banks about retention rates and I was surprised to hear it was over 90% for pretty much all of them. And are you – do you know if you're quite a long way away from that because that does represent – if you can fix it, a big opportunity, as you say.

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, Gabriel what I would say is that, based on our underperformance, that we are below market on all benchmarks, whether it's faster time to decision, improving our funding ratio as well as our retention rates, which is why we see this as a big opportunity for us and we are focused on fixing it.

Gabriel Dechaine, National Bank

Okay. Expense optimization, that was something that I hadn't heard of before and you mentioned reviewing partnerships, is that more of a supplier kind of focused initiative for – I know the one with McKenzie on the mutual fund, but is it more the former or the latter?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, I would say Gabriel, is we actually conducted a complete cost optimization program that we had shared with the market back in Q4 as well as Q1, so – and so now we're in the process under our new leadership team in terms of reviewing what are some of the strategic priorities? How does it fit into our overall strategic review? While we continue our heightened focus on cost discipline. And so, as I had mentioned, we need to pivot from not just being cost discipline but identifying cost optimization.

Some of the early findings are, yes, there are a number of key strategic partnerships out there in terms of contracts where there may be opportunities for us to renegotiate the levels of service while making sure that we're getting our money's worth. Sometimes you end up paying for things that you don't even use. So, some of these key strategic contracts are currently under review. And then as part of our ongoing end-to-end process reengineering and reviews is seeing if there's other opportunities for us to partner up to create more efficiencies in our business.

Gabriel Dechaine, National Bank

Okay. And then lastly, on the deposits slash funding side, the message I'm getting here is it's on the tapping into covered bonds of cheap wholesale funding, maybe the emphasis of the broker channel for deposits to reduce your funding costs there. Is that correct interpretation? But would that the kind of perspective of the emphasis of certain products, would that extend to the broker – oh sorry, the branch channel, the core branch channel, or is that still an area that you're focused on to grow?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, Gabriel, deposits are core to the bank, and making sure that we get personal deposits, as well as commercial deposits, is going to be key to our success going forward. So, it's not deemphasizing it whatsoever. On the contrary, our digital play is going to play a critical role in terms of building that. So, we will be focused on deposit growth. What we've done in the meantime is, as Yvan mentioned, we proactively manage our deposits to really optimize our margins and making sure we're getting cheaper sources of funding, and also make sure that we're managing it against our asset growth.

And so, it's – that's the strategic direction that we focused on, but that's not to say that deposits are not core to the bank. And just in terms of our celebrations for our 175-year celebrations, we've launched a couple of new products and cashback offers in the market again to acquire new customers, new deposits, as well as increase deposits from our existing client base. So, we'll continue to be a focus for the bank.

Gabriel Dechaine, National Bank

Perfect. Thank you. And enjoy the rest of your day.

Rania Llewellyn, President and Chief Executive Officer

Thanks, Gabriel.

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. So, the quarterly guidance you provided was helpful, but maybe I want to drill down on a few of those items, just kind of extend the outlook beyond the next quarter because there are some positive trends here. So maybe starting with the inventory finance, I mean, the customer demand clearly is there. It's really supply chain issues that are been well documented that seems to be limiting the lending opportunity. So, when do you think this might turn around and start becoming a source of growth? Clearly not next quarter, but could it be as early as Q4 or is this more of a 2022 type story?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, thanks, Paul for the question. So maybe if I can just kind of paint a picture. So, in terms of our inventory financing, 85% of our business is in the US. 15% is in Canada and as you know, the re-opening plans are different depending on the markets. The consumer demand has definitely outstripped the supply. So, there is a supply chain issue. And as Yvan had mentioned in his opening remarks, our utilization rates pre-pandemic was in the mid-50s, and right now we're sitting at the mid-30s.

So just in terms of simple math, for one extra percentage point of utilization, that translates into 50 million dollars of additional assets. And so, if we were to return back to our pre-pandemic utilization rates, that would generate an additional billion dollars in assets. It is a seasonal business though, so there is a seasonality to it as well. And so, from a timing perspective, we anticipate that this will be recovering in the next, I would say 12.

So, it would be a 2022 story and beyond. But in the meantime, we've been adding dealers as well to also mitigate some of that risk. We've added 20% year over year. So, we're quite optimistic once the tide turns and the seasonality issue is out of the equation, as well as the supply chain issue, that this will continue to be a growth engine for us.

Paul Holden, CIBC

That is a very helpful answer. Just one follow on in that, in terms of the dealers you've added, is that also mostly in the US as well?

Rania Llewellyn, President and Chief Executive Officer

It's a combination, so we're constantly looking to grow our business in Canada as well as in the US.

Paul Holden, CIBC

Okay. So similar question on equipment finance and maybe that one recovers, my thinking would be maybe that one recovers a little bit earlier. Again, I think positive demand backdrop, but maybe less supply constraints, maybe you can help us with an outlook there in terms of when that can get back to growth trajectory again.

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, Éric Provost who is the head of our commercial bank is on the call. So, I'll turn that question over to him.

Éric Provost, Executive Vice President, Head of Commercial Banking

Yeah. Thank you, Rania. In terms of equipment finance, we're well-positioned as well to benefit from the recovery and most of our positioning is in transportation construction as well as technology and equipment, finance equipment. So, we will ramp up following reopening and again, depending on the geography, but most of the portfolio out there is actually in Canada. So, driver for us in the next few quarters depending on the pandemic situation.

Paul Holden, CIBC

Got it. Okay. And then final question noticed on the fee-based income, that service charges were up 10% quarter over quarter. Just wondering, is that all volume-based or are there some price increases included there?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, I would say in the fee income, there's lending fees that are up, so lending fees are up 15% year over year and 6% quarter over quarter. And that's really just a reflection of the increased commercial lending activities, particularly in our real estate lending portfolio. But the other thing too that we introduced is fees relating to paper statements and that was really to incentivize our customers to access digital statements, which is obviously more environmentally friendly. And as part of our ongoing review, we'll be continuously looking at all of our product offerings and our services and benchmarking it from a fee and pricing perspective.

Paul Holden, CIBC

Got it. Okay. That's all for me. Thank you.

Operator

Thank you. We'll now take our next question from Doug Young of Desjardins Capital Markets. Please go ahead.

Doug Young, Desjardins Capital Markets

Hi, good morning. Just two quick ones on the credit side. When I looked at the release, it seems like there could be – and you can correct me if I'm wrong, there might be a bit of negative migration in the result book and I'm just curious what that might relate to. I guess I'm curious if I'm right and what that might relate to. And then just the net write-offs increased quarter over quarter more on the personal side and just hoping to get a little bit of colour on that as well.

Rania Llewellyn, President and Chief Executive Officer

Yeah. Thanks, Doug. I'll turn that question over to Liam.

Liam Mason, Executive Vice President, Chief Risk Officer

Good morning, Doug. What I would say is there is a slight bit of migration in solely the mortgage book, it relates to a few of the mortgages linked to rentals and it's not material. We don't expect it to persist, but it is not unexpected given the COVID situation.

Doug Young, Desjardins Capital Markets

And then on the personal write-offs?

Liam Mason, Executive Vice President, Chief Risk Officer

On the personal side, actually, there's not a lot of migration at all. As we've explained in the past, we were prudent in terms of our reserving around anything that had a deferral program. We've seen things behave very well on that and as a result, we're not seeing anything adverse in that space.

Doug Young, Desjardins Capital Markets

Okay. So -

Rania Llewellyn, President and Chief Executive Officer

So maybe Doug I can – go ahead. Sorry, Doug.

Doug Young, Desjardins Capital Markets

No, I was just going to say it looks like the personal write-offs were up but I just wanted to know if something was unusual, but it doesn't sound like there is.

Liam Mason, Executive Vice President, Chief Risk Officer

It's normal variation, Doug. Normal variation.

Rania Llewellyn, President and Chief Executive Officer

Yeah, just – I just wanted to just kind of reconfirm that we have – we have no concerns with any of our underlying assets at this point. We feel that we're adequately reserved and just a reminder that we have a minimal exposure to pandemic impacted industries that are – represent less than 2% of our overall portfolio.

Doug Young, Desjardins Capital Markets

Okay. Perfect. And then just on the capital side, like March 11th OFSI came out with the proposed 2023 Basel III related changes for small and medium-sized banks. There are some interesting changes that are in there that potentially could benefit yourselves, and I understand that the AARP conversion is under review and seems to be delayed. But I'm just curious, and not that capital is an issue for you, but would these revisions help you, which I think they would, and can you maybe talk a bit about how that and – how they would help you if at all?

Liam Mason, Executive Vice President, Chief Risk Officer

Thanks, Doug. There are a lot of gives and takes in the Basel III revised, we're in the process of working through the QIS in terms of the impacts and what we're seeing generally is it gives and takes. In some areas, it's going to be positive, in others, it might have a slight impact on our business. Yvan and I working through it and we'll provide further guidance in the future as we work through those numbers.

Rania Llewellyn, President and Chief Executive Officer

And so maybe what I would add is that we are taking those changes into consideration as we continue to do our deep dive in terms of our strategic review because obviously, as Liam said, it'll depend on what industries or what sectors that we look to grow in and so that's definitely going to be taken into account as part of our overall strategic review.

Doug Young, Desjardins Capital Markets

Okay. So more to come on that. And then just lastly, you've done a good job on non-interest expense. One of the things that caught my eye was it was down partially due to lower regulatory costs, and every bank I talked to talked about regulatory cost inflation. So, I'm just curious, what would that relate to that in terms of lower regulatory costs?

Rania Llewellyn, President and Chief Executive Officer

I'll refer that to Yvan.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you, Doug, for your question. I would start by answering generally. We really had the focus on cost over last year. We reduced the cost of materiality as you can see, from the improvements of the efficiency ratio. So, it really impacts the whole lines of expenses and not only regulatory costs, but overall cost. But regulatory programs could have been business continuity, ML initiatives. It was a whole lot of things where we did invest some money for some programs and most of them are now in place. So that's how we see the benefits of the expense reductions going forward.

Doug Young, Desjardins Capital Markets

Okay. Great. Thank you.

Operator

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

Lemar Persaud, Cormark Securities

Thanks. Perhaps more of a big picture question for Rania. So as the economic recovery gains momentum here and we see the benefits of strong volume growth, whether it be on the personal or commercial side, I guess, how does Laurentian position itself to benefit from that recovery? I guess it is kind of an unfair question, given the magnitude of the strategic review you're undergoing right now. But I just want to – I want to get your philosophy and how you balance the need to participate in the economic recovery, which seems like it's going to be over the next couple of quarters versus positioning the bank for success over the longer term?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, thank Lemar, and I think that's a great question in terms of the balancing act quarter to quarter versus longer-term. And so, I would say, as I had mentioned, our commercial book of business is well-positioned to benefit from that upside and even though our utilization rates are down, what we're seeing is the real estate business has been picking up. We're looking at – we've been growing in the multi-residential area. We're expanding in terms of adjacent sectors, in terms of our equipment financing, as well as our dealers looking at new product offerings.

So I would say commercial is definitely well-positioned to kind of ride that wave when it comes and we're already starting to see the fruits of our labor there, and in general, based on the specializations we're in, it's an attractive margin business. We have a deep expertise, excellent customer experience, and really a specialized workforce there. So, I'm quite optimistic that we will ride that wave on that front.

I think in terms of our capital markets, we had a record quarter and our strength continues in the fixed income platform what we're seeing is that government issuances will continue and so that'll continue to drive some of that business for us as well. But the key thing that we've done differently in the capital markets space that I think is going to really position as well is that we have better alignment now between our capital markets coverage model as well as our commercial clients.

And so, as those two businesses work hand in hand, that'll also generate some additional growth opportunities for us as well and we've already started seeing that in Q2 and moving forward. In the personal banking space listen, everybody knows it's challenged. We need to unlock the potential. It's going to take time, but we also identify that there's a lot of low-hanging fruit and so versus some of the longer-term fixes.

So, it's trying to balance out what can we do in the short term while we're trying to fix things for the longer term? And so, I feel optimistic that things are going to start turning around under current leadership. Listen, we have too many brands. We need to simplify it. We need to rationalize our product offerings. We need to streamline our processes and digital is definitely going to help us unlock some of that potential.

And so while doing all of that, we're going to continue our heightened focus on cost and – because I always say there's two levers, it's revenue and cost, but you can't do one without focusing on the other, you need both. And so, pivoting the cost optimization will also allow us to reinvest in our businesses where we need to, to ensure that we can maybe potentially move faster where we can. So hopefully that answers your question, Lemar.

Lemar Persaud, Cormark Securities

So that's very helpful. Thanks for the additional detail there. Then I just want to flip over to non-interest expenses and I'm referring to Slide 12 here and the comment that other income, other expenses decreased seven point six million from lower regulatory costs, advertising, business development, travel. How much of that would you suggest is going to come back when the economies reopen?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So maybe I'll start and then I'll turn it over to Yvan. I mean, I think every institution out there has benefited from some of the reductions in the pandemic cost. But the pandemic has also generated some additional costs, whether it's maintenance, it's cleaning, it's equipment, it's – right. So, I mean, our branches have been open and so we've got staff going into the branches. So, some of that will level out and as we know when the economy opens up, there will be a return and we've already started seeing it in our operations in the U.S. business development costs will start going up.

So as long as we will continue to focus on those that are within our control and we'll be very disciplined and prudent and making sure that where we invest if it's business development, that is going to generate revenue. And so, every leader is responsible and accountable for that, which is why we need to pivot very quickly to cost optimization so that we don't waste our efforts and so we are starting to pivot very quickly on that. But I don't know if Yvan my CFO has a few maybe words to add.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

I think it's a good answer, Lemar, but as we look at it, there's probably if you look at the cost-based currency versus what was pre-COVID, there's probably two million dollars that you can identify as what I call strong living business development. But if you offset that with the additional cleaning and some of the stuff, it's probably a million dollars of difference per quarter and the only other element I would add is that the environment post-COVID is not going to be the same as prior to COVID.

So definitely there's going to be a different way of working, maybe not the same level of pricing and [inaudible], that will offset some of this, and maybe the last comment is what we expect is that we restart doing business development. We would expect additional revenues coming from that as well. So, we're not too concerned with the evolution of as I – and I mentioned, currently, the lockdowns are opening up in Quebec, Ontario, and some other places. So, we are forecasting the efficiency ratio below 70% for the whole year in 2021.

Lemar Persaud, Cormark Securities

Great. Thanks. That's it for me.

Operator

Thank you. Ladies and gentlemen as a reminder, if you would like to ask a question, please signal by pressing star one. We'll now take our next question from Sohrab Movahedi of BMO Capital Markets. Please go ahead.

Sohrab Movahedi, BMO Capital Markets

Okay. Thank you very much. Hopefully, a couple of quick ones, a lot of the questions have been asked and answered. Liam, just first for you, I'm looking on your Slide 18, where you show your PCL and its relative to the big six. I think the bank has taken great pride in saying that it's always been consistently below the big six, as you think over the next four quarters, do you see the risk that you may actually fall above the big six?

Liam Mason, Executive Vice President, Chief Risk Officer

Thank you, Sohrab, and good morning. Now it's difficult to assess right now, certainly hard to predict that the economy improves how things will play out and how things stabilize. The trends do look appropriate. What I would say is that we have a very disciplined and prudent approach to our underwriting. The sectors we're in with specialized experts on that and I would expect our credit discipline to continue and our results to be similar subject to business mix and how things evolve. But it's difficult to predict how things will evolve as the end of the pandemic plays out.

Rania Llewellyn, President and Chief Executive Officer

So maybe I can – if I can just talk about – if I can just talk about maybe fiscal '22 and beyond because I think in terms of this year, as we said, provided things continue, we will be looking at releases in the next two quarters. But as we continue to kind of finalize our strategic review, that could potentially change our business mix and making sure that we have a risk-adjusted return model that we're comfortable with, that the board is comfortable with, that our investors are comfortable with. So, the risk appetite will determine that based on the strategic direction that we take going forward. But we will continue to be disciplined and we do take great pride in terms of making sure that our quality of credit is strong and that we are well reserved.

Sohrab Movahedi, BMO Capital Markets

So maybe, Rania, maybe it's for you, maybe it's for Liam, but I think you gave a very, I think, full answer as to where the utilization rates, for example, an inventory finance are and what a 1% utilization increase means in terms of dollars of loans, and you also say what a dollar of incremental loan will mean in terms of additional reserve requirements. I guess what I'm trying to figure out here is, how volatile can this line end up getting? Are you trying to grow into reserves or these reserves coming out and once there is an economic rebound that shows that you'll have to kind of build it back up?

Liam Mason, Executive Vice President, Chief Risk Officer

No, Sohrab, we're very happy with where our provisions for today and as we've – Rania has articulated, as well as Yvan, right now based on what we're seeing in the third quarter so far and given the recent reopening by the provinces, we would anticipate further releases. But we're going to remain disciplined. We're going to respond to the economic conditions and that will really drive how our reserves play out. But at this juncture, we would anticipate further releases based on reopening and what we're seeing so far in the third quarter.

Rania Llewellyn, President and Chief Executive Officer

And so Sohrab, I think you can kind of probably go back and look at our pre-pandemic rates. Our business mix hasn't really changed much. So, our commercial business has always been our growth engine and so I think it's fair to say all things being equal, it would look more or less like our pre-pandemic PCL rates, which have historically been lower than the other banks. But the strategic review will come into play as things unfold at the end of the year.

Sohrab Movahedi, BMO Capital Markets

Okay. And you made mention of the decertification of the union, I think Yvan mentioned that on a full-year basis, the expense to revenue ratio should be up 70%. Are you in a position to quantify what are the financial benefits of the decertification of the union?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, what I would say, listen, the union was an employee-led process, as far as I'm concerned, it's business as usual. We're focused on renewing and growing Laurentian Bank and charting the path forward and we will continue to focus on our employees, making sure they're empowered, they're engaged, and they're operating as one team.

Sohrab Movahedi, BMO Capital Markets

I mean, like, how should I think about this from an expense to revenue ratio or expense growth prospects or the mix of expenses, no change?

Liam Mason, Executive Vice President, Chief Risk Officer

I think no change is the best answer for us. So, the conditions of the people will pretty much remain the same, may improve for some of them, but overall, it's not material. You shouldn't expect any change from that.

Sohrab Movahedi, BMO Capital Markets

Okay. Thank you. And then one last question, maybe not so quick, but I think on a number of common comments that you mentioned, I think you've talked about more fundamental reviews, but also finding low-hanging fruit or some quick fixes. I think in the context of the mortgage review process, for example, you said the channel, the broker channel you've got some quick fixes and some more, I guess, more fundamental ones coming through. Can you give us some specific examples of some of those quick fixes just so that we have a sense of where the starting point, if you will, as far as the process just to be able to get a feel for what the size of the prize is at the end?

Rania Llewellyn, President and Chief Executive Officer

Yeah, yeah. So Sohrab what I would say is I think in terms of like, let's just stick to mortgages, because that's one that we started kind of working on. So, it's as simple as having a dedicated end-to-end file owner. I mean, it's – that's an easy low-hanging fruit having one person responsible for making sure that the file is going from front to end in a timely fashion, moving from one department to another, and is fully accountable.

So, it sounds simple, sounds basic, and it is and those are the little fixes that will change a sense of accountability, ownership and ensure that we're tracking it against key KPIs. So, introducing new funding after time end-to-end process turnaround time, improving our funding ratio, improving our retention rates while maintaining our disciplined underwriting standards. So, I would say that's an easy one there that we can kind of point to because that's something that we've delivered on and we started seeing how that helps.

Even I'm a big believer in agile stand-up huddles, people talking to each other where's the file? Is this a priority file? Is it complex? So, streamlining different streams for different transactions, depending on complexity and depending on what the expectations of the customers are. So, to be honest, there's a lot of these that are not rocket science. It's a mind shift. It's a change in culture. I believe we brought in the right team and that we're ready to execute and so stay tuned. Like I said, there's lots of opportunities, but it's going to take time.

Sohrab Movahedi, BMO Capital Markets

And maybe Rania, just one last question, and maybe if it's too long of an answer, we can save this for another time. But you said you're still in the market for, I think, a chief digital officer or a technology officer. I may get the characterization wrong, but what is – what would be – what is the goal for that individual? What are you looking for that individual to deliver to the bank and over what sort of time frame?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So Sohrab, I'm not sure if you're applying for the job, but I'm happy to share with you what I'm looking for in a chief technology officer. I'm just being a little facetious here. So, listen, technology is a foundational component to any institution, particularly financial institutions, given the changing consumer behaviours, the acceleration of digital adoption and so I'm looking for somebody who will help us in terms of making sure we're building on a strong foundation. I do have an interim CIO. We have an entire team. So, I'm looking for someone who will bring leadership skills, someone who will help us architect the future technology roadmap for Laurentian to support the strategy that we will be launching at the end of this year. That's what I'm looking for.

Sohrab Movahedi, BMO Capital Markets

Okay. But is – does that indicate Rania, that you expect personal banking will be a growing piece of the overall pie when you think about the business mix in the future as Laurentian Bank?

Rania Llewellyn, President and Chief Executive Officer

Yeah. So, we've got three businesses and I expect all businesses to contribute to our growth, commercial banking, capital markets, and personal banking, and it's going to be underpinned by digital as well as our technology platforms. Yes.

Sohrab Movahedi, BMO Capital Markets

Okay. Thank you.

Operator

Thank you. We don't have any further questions at this time.

Rania Llewellyn, President and Chief Executive Officer

In closing, I would like to leave you with a few key takeaways.

The momentum we built at the beginning of the year has continued into the second quarter. The Bank's capital and liquidity positions are strong, and its credit quality is sound. This quarter also included some significant achievements, including the credit outlook upgrades, the launch of our inaugural covered bond program, and the issuance of Limited Recourse Capital Notes.

At the same time, we continue to maintain a focus on cost discipline as we pivot towards identifying more structural cost optimization opportunities.

Over the next few quarters, I plan to provide additional updates on the review of our mortgage process as we aim to further improve the customer experience and renew growth. As the digital channel is integral to our plan, we are initiating a review of our digital strategy and will also share these insights. Finally, across the board, the leadership team is hard at work to identify key areas of strategic focus and priorities to chart a new path forward.

Thank you for joining the call today. Have a happy and safe summer, and I look forward to speaking with you again in September.

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 third quarter 2021 earnings call will be held on September 1 and we look forward to speaking with you then. Have a pleasant day.