Second Quarter Results 2018 Conference Call

June 1, 2018

LAURENTIAN BANK
FINANCIAL GROUP

Caution Regarding Forward-Looking Statements

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include our estimate of the total amount of CMHC portfolio insured mortgage loans to be repurchased and statements regarding our business plan and financial objectives including statements contained in our 2017 Annual Report under the headings "Outlook" and "Off-Balance Sheet Arrangements - Securitization Activities". The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that these expectations will prove to be correct. Certain important assumptions by us in making forward-looking statements include, but are not limited to, our assumption that the in-depth review of CMHC portfolio insured mortgage loans will reveal a level of inadvertently portfolio insured and sold mortgage loans in line with those discovered through the normal course audit and our estimates and statements regarding our business plan and financial objectives including statements contained in our 2017 Annual Report under the headings "Outlook" and "Off-Balance Sheet Arrangements - Securitization Activities".

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

With respect to the anticipated benefits from the acquisition of Northpoint Commercial Finance ("NCF") and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to promptly and effectively integrate the businesses, reputational risks and the reaction of our and NCF's customers to the transaction; the failure to realize, in the timeframe anticipated or at all, the anticipated benefits and synergies of the acquisition of NCF; our limited experience in the U.S. market and in inventory financing; and diversion of management time on acquisition-related issues.

With respect to the anticipated benefits from the acquisition of CIT Canada and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to realize synergies in the anticipated time frame, the ability to promptly and effectively integrate the businesses, and diversion of management time on integration-related issues.

We further caution that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the “Risk Appetite and Risk Management Framework” on page 44 of our Management's Discussion and Analysis as contained in our 2017 Annual Report, as well as to other public filings available at www.sedar.com.

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

NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and certain non-GAAP measures to assess the Bank's performance. The Bank's non-GAAP measures presented throughout this document exclude the effect of certain amounts designated as adjusting items due to their nature or significance. These non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers.

Operator

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

Susan Cohen, Director, Investor Relations

Good morning and thank you for joining us.

Today's review of the second quarter of 2018 results will be presented by François Desjardins, President and CEO, and François Laurin, Executive Vice President and CFO. All documents pertaining to the quarter, including Laurentian Bank Financial Group's Report to Shareholders, investor presentation and financial supplement can be found on our website in the Investor Center.

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

Before we begin, let me remind you that during this conference call, forward-looking statements may be made, and it is possible that actual results may differ materially from those projected in such statements. For the complete cautionary note regarding forward-looking statements, please refer to our press release or to Slide 2 of the presentation.

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

PREPARED REMARKS

François Desjardins, President and Chief Executive Officer

Thank you, Susan. Good morning everyone.

Earlier this week, we provided an update of the mortgage loan review. A summary can be found on Slide 4, with additional information in the Appendix of today's Investor Presentation.

All in all, I am pleased with the progress we have made and although not yet complete, management is confident that we have a clear path to resolution. As I have previously mentioned, managing this file has been a learning experience that will help us better manage our business. Implementing enhanced quality control and origination processes throughout the Group strengthens our compliance and risk management practices – in fact, it strengthens our foundation. It is also a reminder of why we are transforming. Simplifying product lines and channels, eliminating paper and more, not only lowers costs but also improves the quality of our processes.

With that said, we are more determined than ever as we continue to move towards a fully digital banking offer and serve the changing needs of our customers. With respect to our performance in the second quarter, our organization posted good results. On an adjusted basis, net income was up 25% from a year ago and we improved our efficiency ratio by 210 basis points. Adjusted ROE was 11.6%. This was achieved while maintaining strong capital and liquidity positions which provides flexibility to execute the transformation plan and pursue sustainable profitability.

I am also pleased to report that loans to business customers increased 19% year over year. Furthermore, if we exclude the impact from the sale of the agricultural loan portfolio at the end of the quarter, loans to business customers increased by 23%. The acquisition of Northpoint accounted for about two thirds of that growth. An important component of our transformation plan is to increase the proportion of loans to business customers in our loan portfolio. Business loans now represent 34% of the portfolio, up from 30% last year.

As I discussed during our last call, the sale of the agricultural loan portfolio is consistent with our desire to exit non-strategic portfolios so that we may focus on specialized niches where we can win. We will continue to review our activities and determine areas and portfolios that we will grow or maintain, as well as areas we need to fix or exit.

We also achieved double-digit year over year growth as residential mortgage loans through independent brokers and advisors were up 11%. As you know however, the whole industry is feeling the effects of tighter mortgage rules and rising interest rates, with the result that mortgage growth is slowing and we expect this trend to continue.

With respect to deposits, we are also pleased that they grew by 7% from a year earlier.

Our plan requires investment and as I have previously mentioned, 2018 and 2019 will be years of investment in talent, performance culture, processes and technologies. Undertaking the transformation from a traditional bank to offering fully digital banking products requires us to build on strong foundations. The first phase of our initiative to replace our core banking system – the backbone of our digital offer – is progressing. With investment loans already on this platform, we are working to gradually migrate all products onto the Temenos T-24 platform. Until we can retire the old system, we must keep two separate core banking systems and the technology teams to support them. I would like to add that during the second quarter, we successfully implemented our new financing and leasing system at LBC Capital which will provide improved scalability and flexibility in meeting our customers' needs.

As we continue to execute on our strategy of advice-only branches, along with a simplified product offering, we are ensuring that our customers will benefit from our value-added approach and investing to prepare our customers. To this end, we have been actively encouraging our customers to use electronic channels. Last quarter, we joined The Exchange Network, giving our customers access to 3,600 ATM's across the country. We will continue to focus Retail Services on advice and live up to our mission statement of "helping our customers improve their financial health".

Our investment in digital banking is continuing. Transactional accounts and deposit products will be our first products offered, thereby supporting deposit growth and further diversification of our funding sources across Canada. Through B2B Bank, these fully digital products will be offered by Independent financial advisors and mortgage brokers that already do business with us – enabling them to better serve their clients, enhancing their ability to grow their business and in turn making us a key and reliable product provider.

Nurturing culture is important and we believe that offering a dynamic environment for our various Montreal-based teams will contribute to improving the working environment and fostering a culture of performance. Montreal-based corporate teams will be moving to new premises in the fall - an investment in our people, as well as in Montreal, where our institution took root.

As you know, we are now in the third year of our plan. In the last two years or so, many have focused on growth and performance as core elements. These certainly garner tangible outcomes, but it is important to remember that our first and most important strategic objective is to build a strong foundation. With a strong foundation in place, we will be able to rebuild our service offering and realize the benefits of our transformation.

Since we first announced our plan in January 2016, the environment has evolved considerably and we are facing increased headwinds. Some of these challenges are industry-wide while others are more specific to our organization.

With respect to industry-wide challenges, I had earlier alluded to the softness in the mortgage market. Regulatory initiatives to cool the housing market and to slow consumer debt that have been put in place over the past 2 years are having an effect. The mortgage market has tightened, the growth in insured mortgages has slowed, the competition for prime mortgages has become fierce, and the private, unregulated mortgage market is expanding.

Moreover, we have seen 3 interest rate increases in less than a year, further impacting affordability for consumers.

With respect to challenges that are more specific to our organization, we have yet to reach a new collective agreement with the union. As a result, the transformation of our Retail Services segment is progressing slower than initially expected. While we have been able to simplify our product offering, reduce costs and improve our efficiency, as well as continue to focus the network on financial advice, other changes have not happened as planned.

We have always been a conservative organisation. In the current environment, having a strong capital and liquidity position, while it may come at a cost to earnings in the short-term, is simply prudent and conservative. The investments we've already made and will continue making, that will allow us to shore up our foundations, will continue to put pressure on short-term performance. We strongly believe this is a temporary cost worth bearing to ensure operational flexibility through our transformation, as we build the bank of tomorrow.

Although we must adjust our plans to take into account changing times, this does not deter us from our goals. The banking industry is ripe for disruption and customer behaviours are changing. The future will not be kind to organisations that are not transforming and I am proud to say that at Laurentian Bank Financial Group, we have the foresight and courage to meet these challenges head on.

The Board of Directors shares our confidence in our transformation and has approved an increase in the quarterly dividend of one cent to $0.64 per share.
I will now call upon François to provide a more in depth review of the financial results for the second quarter of 2018 and following the Q&A, I will return to offer a few closing remarks.

François...

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

Thank you, François.

Good morning everyone.

I would like to begin by turning to slide 12 which highlights the Bank's good core financial performance. Adjusted net income in the second quarter of 2018 grew 25% compared to a year earlier. Adjusted EPS was $1.47, up 6% over the same period. Second quarter EPS was impacted by the common share issuances which increased the average number of outstanding shares by 23% compared to a year ago. Included in adjusted EPS is the sale of the $380 million agricultural commercial loan portfolio resulting in a gain of $0.11 per share. Adjusted ROE was 11.6%, and while 10 basis points lower than a year earlier, it reflects a strong capital base which positions us well in an evolving environment.

As outlined on slide 13, reported earnings for the second quarter were affected by adjusting items totalling $5.3 million after tax or $0.13 per share, and are largely related to business combinations.

The drivers of our performance are presented on slide 14. Total revenue in the second quarter of 2018 amounted to $259.9 million, an increase of 9% compared to a year earlier. Net interest income rose by 18% mainly due to strong volume growth in the commercial loan portfolio, both organic and from acquisitions, and the higher margins earned, particularly on the acquired loans. Other income decreased by 6% reflecting, in part, less favorable capital market conditions.

Net interest margin, shown on slide 15, was 1.82%. The main factors contributing to the 15 basis point year-over-year increase was the larger proportion of higher yielding loans to business customers, including the acquisition of Northpoint, with corresponding higher margins, and recent increases in the prime rate that were partly offset by the higher level of liquid assets. Sequentially, the margin was up by 5 basis points, reflecting the positive impact of a higher level of commercial loans as well as higher interest rates. While average earning assets rose 8% year-over-year reflecting 11% organic growth in residential mortgage loans through independent brokers and advisors and 19% growth in loans to business customers, it remained relatively unchanged from the prior quarter.

Other income, as presented on Slide 16, totaled $82.8 million, down 6% from a year ago. The declines were primarily driven by market-related conditions with income from brokerage operations down $4.0 million reflecting a lower level of activity and income from treasury and financial market operations down $3.3 million due to lower net securities gains. As well, deposit service charges declined by $1.7 million as clients continue to modify their banking behavior and as we simplify our product offering. This was partially offset by the $5.3 million gain from the sale of the agricultural loan portfolio. I would like to add that simplifying our product suite is impacting other income. For example, we no longer offer safety deposit boxes in our branches. While this reduces fee income, it is offset by a reduction in expenses.

Slide 17 highlights that adjusted non-interest expenses rose by 5% year-over-year. This increase was mainly the result of the acquisition of Northpoint, regular salary increases and higher technology costs related to ongoing activities to enhance IT service levels and security. Our adjusted efficiency ratio of 65.1% improved by 210 basis points compared to a year ago and is up 30 basis points sequentially. As we previously discussed, the investments required as the Bank transforms will exert pressure on expenses. However, an efficiency ratio of below 65% on a sustainable basis by 2020 remains our objective.

Slide 18 highlights our well diversified sources of funds. Deposits stood at $29.5 billion, up 7% compared to a year earlier. Total deposits sourced through independent brokers and advisors grew by 11% and institutional deposit growth was also very strong. While we have reduced our footprint by close to a third, our Branch sourced deposits have been stable when compared to the previous quarter and have experienced low attrition over the past year.

Slide 19 highlights the numerous initiatives that we have undertaken to diversify and optimize our funding. We also have strategies in place for future initiatives, including a US funding program.

Slide 20 demonstrates the success of our strategies to increase our non-redeemable broker-sourced GIC’s over the past 2 years - a higher quality term funding source - while reducing our exposure to more volatile broker-sourced high interest investment accounts.

With respect to liquidity, our positions continue to be strong and well above our internal and regulatory requirements. Furthermore, slide 21 highlights the high-quality composition of our liquidity portfolio. Almost 90% is invested in low risk – highly rated liquid assets, such as Canadian Government, Provincial and Municipal securities, as well as in cash.

Slide 22 presents the CET1 ratio, under the Standardized Approach, of 8.6% at April 30, 2018. Our capital ratios are strong and support the Bank’s transformation plan.

Our diversified loan portfolio is highlighted on Slides 24 to 26. Loans to business customers have increased to 34% of the portfolio from 30% a year ago and residential mortgage loans remain relatively unchanged at around 50%. Within the residential mortgage loan portfolio, Alt-A mortgages total $1.5 billion and represent 8% of the total residential mortgage loan book and 4% of the total loan portfolio. As well, residential mortgage loans in the GTA represent about 22% of the residential mortgage loan portfolio and the GVA accounts for 4%, equal to last quarter. LTV’s remain low and credit scores remain high.

Turning to slide 27, credit quality remains strong. The provision for credit losses at $9.5 million was $600,000 lower than a year ago, reflecting the $2.8 million favorable impact from updates to risk model parameters and the sale of the agricultural loan portfolio. The loss ratio was 11 basis points in the second quarter of 2018, compared to 12 basis points a year earlier. Ninety seven percent of our loan book is collateralized and the underlying credit quality of the portfolios continues to be excellent.

Impaired loans are shown on Slide 28. The gross impaired loan ratio stood at 43 basis points, one basis point higher than the previous quarter, reflecting the strong credit quality of the underlying portfolios. The net impaired loan ratio stood at 34 basis points and we remain well provisioned.

We continue to expect that over the medium-term, the loss ratio will gradually move higher to reflect our changing business mix. Nonetheless, with our current portfolio mix and lending practices, we expect that the loss ratio will remain below other Canadian banks.

Turning to Slide 30, we continue to gradually progress towards our 2020 medium-term growth targets and financial objectives.

To conclude, we are pleased with the core earnings performance in the second quarter of 2018. We are confident that our transformation plan and the strategic initiatives that we are implementing will lead to sustainable profitability and create long-term value for our shareholders.

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

QUESTION AND ANSWER

Susan Cohen, Director, Investor Relations

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

Operator

Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure that 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 moment to allow everyone an opportunity to signal for questions.

And we'll move to our first question from the line of Sohrab Movahedi of BMO Capital Markets.

Sohrab Movahedi, BMO Capital Markets

Hey, thank you. Just a couple of clarifying questions, it looks like interest rate sensitivity has changed since year-end. You talk about the structural interest rate sensitivity now resulting in negative or a decrease in net interest income versus an increase before. Can you just talk through a little bit of that François, as to what's causing that and ultimately, are you positioned for rate increases or not?

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

Sure, Sohrab. Thank you. First from the year-end, we reduced – there are two items to stress test. For the next 12 months of the 100 bps you've seen in the MD&A and that's the market value. So I will address both. So first, we shortened our duration in the portfolio. So you see a reduction in the market value impact from year-end. We position ourselves in a shorter end compared to our benchmark. And we basically adopted more of a steepening going forward to benefit higher end and future expected increase – rate increases.

And the picture you see is really on that day, basically, we will benefit, at the end of April, where we're moving our position to shorten it and to benefit from longer term interest rate increases. And since then, we have a positive impact going forward. But on that day, on 30th April, when you do the stress test of

100 bps over the whole curve for the next 12 months, it derives a negative $4 million. But since then, as we transition to the desired position, now, we have a positive impact on that same stress test.

Does that answer your question, Sohrab?

Sohrab Movahedi, BMO Capital Markets

Yes, that's helpful. So you are positioned for a rising rate environment so to speak?

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

Yes. So we were transitioning in the last quarter to move to a shorter end and then to benefit from that, but on that day, the calculation is at 30th April.

Sohrab Movahedi, BMO Capital Markets

Okay. And then François, maybe just staying with you, you have some discussion in the MD&A around future taxes being higher. And I think you've talked about it in dollar terms, maybe $4 million annually. I wonder if you could kind of position that for us on an effective tax rate basis, where do you think it will come in and would this have to do with some sort of – I wouldn't have thought you had foreign insurance operation, so maybe if you could just talk to me a little bit about what gives rise to that?

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

Okay. Two things. It's a captive reinsurance business for insurance business, insurance that we sell on our products and self-insurance. So that's the business. Second, it would be about 100 bps in the tax rate. If everything is equal, all other things equal and the legislation is adopted as presented in the budget.

Sohrab Movahedi, BMO Capital Markets

Okay, perfect. And just one last one from me I guess. And I think about it, you have been collectively fairly transparent about the on-going collective bargaining arrangements and the like. I mean are you just exercising an abundance of caution here or are things kind of going a little bit less favourably as far as the discussions, given some of the discussions, both in the MD&A and in François' opening remarks?

François Desjardins, President and Chief Executive Officer

François Desjardins here. It's an abundance of caution from a relationship perspective. We were at the table still bargaining. I think that from a strategy perspective though, I think it's fair to say that some of the things that we wanted to do from our retail services side didn't happen as fast as we would have wanted them to and that's really what we're saying. We're looking forward to on-going talks and since we're at the table, we can't really speak to the quality of those talks, but I would say abundance of caution is the right answer here.

Sohrab Movahedi, BMO Capital Markets

Okay. Sorry, and I have one more question. I guess, as you kind of sit back and you think about the narrative of, we will have to make some investments 2018 and 2019, you've talked to us about that a little bit, if they're committed to the structural transformation type targets that you had communicated. How quickly, if need be, are you able to cut back on those expenses, if the operating environment, either unique to you or industry wide were to deteriorate?

François Desjardins, President and Chief Executive Officer

I think that – pretty quickly. 2018 is a big year in terms of investments, '19 a little less, and further years down the road, certainly less, especially given that this year, we're doing core banking and next year as well, but your question is more in the likes of adjusting to expenses. We're still holding true to our 2020 targets of being at an efficiency ratio of 65%, with some lumpiness along the way.

I think that Laurentian Bank has been pretty good at adjusting to situations in the environment and I think that we'll continue to do that just as well in the future.

Sohrab Movahedi, BMO Capital Markets

And none of this distraction with the mortgage documentation and the like, has altered the timeline towards AIRB compliance and the like, by the end of 2019?

François Desjardins, President and Chief Executive Officer

No. I'm not going to pretend that the mortgage review has no impact. Of course, it does. We're working on it. It takes time, energy and focus. But in the end, it will have no material impact, and that's what we've said all along.

In terms of just a general plan, as we said back in 2016, we have seven years. Everybody was saying it's a long time. But this is transformation, right? Things will evolve. With some things taking a little longer and some things taking less time, right?

As a reminder in the last year, we were able to do the branch mergers in advance of the plan, but sometimes are taking longer. We have IRB right now at the end of 2020. And what we have said earlier is that the project, when you launched the plan two years ago – that that has been evolving, we said that we could get the benefits before the end of 2020, which is still the case.

Sohrab Movahedi, BMO Capital Markets

Thank you very much.

François Desjardins, President and Chief Executive Officer

You're welcome.

Operator

Thank you. If you find that your question has been answered, you may remove yourself from the queue by pressing star two.

We'll move to our next question from the line of Richard Roth of TD Securities. Please go ahead.

Richard Roth, TD Securities

Hi. I've had a question on the fee income line; I guess both the brokerage and deposit fees. It seems like there is some permanence to this decline. You mentioned – François, you mentioned the safety deposit boxes. Do we see now this current level as a steady run rate or are we going to still see some more further decline as you economise or streamline your branches and your service offerings?

François Desjardins, President and Chief Executive Officer

Well, thank you, Richard, I may comment on that. As far as other income, our concern, as we simplify our product suite, obviously, we will eliminate some future revenue generating products. However, we see expenses also move away. And overall, we see an efficiency contribution to the bottom line. But if the trend on service fee is going down, we expect that going forward, and that's part of our plan. But we also expect that our revenues will benefit positively from the implementation of our strategies in the retail to move to financial advice and the advent of the digital products as well at the retail level.

So all in all, we will have revenues and a positive contribution, efficiency ratio-wise and bottom line-wise going forward. But if you look at just the one line of service fee, clearly, that will change overtime.

Richard Roth, TD Securities

Got you. And I guess this is somewhat related to that. We saw this quarter, I guess, your FTE, your headcount was elevated and I think higher than it's been for a little while. How would you describe that in the same context of streamlining branches and all that?

François Desjardins, President and Chief Executive Officer

François Desjardins here. In the same vein that we're saying that we're making investments in the business, this is just a direct correlation to that.

Richard Roth, TD Securities

Okay. And is this a good run rate or are you guys going to continue adding more head count, I guess, for core banking system conversion and the other investments you're doing?

François Desjardins, President and Chief Executive Officer

There's both. Some projects will require higher headcount, efficiencies and elimination or certain automation will require lower headcounts. So, overtime, there is going to be some lumpiness in the FTE count. But in the end, what you should be looking for is lower headcount in terms of general administration type positions and more towards advice, specifically in the retail services sector. And just generally, I would say the same level as today with a different composition.

Richard Roth, TD Securities

Okay, thank you.

François Desjardins, President and Chief Executive Officer

You're welcome.

Operator

Thank you. We will move to our next question from the line of Meny Grauman of Cormark Securities. Please go ahead.

Meny Grauman, Cormark Securities

Hi, good afternoon. First question is just on the issue of the union negotiations. François, you mentioned that it's not allowing you to do certain things in the retail channel that you like to do. Can you just explain what those kinds of things are, what is it preventing you from doing that you'd like to be doing?

François Desjardins, President and Chief Executive Officer

I'll ask Denis Pinsonneault to answer that question, Meny.

Denis Pinsonneault, Senior Vice President, Human Resources

Yeah, thanks for your question. As you mentioned, we are negotiating to renew the collective agreement. So, for example, in the last couple of – I would say, in the three years, we have merged a couple of branches but we have not opened new branches. So that's one example of investment that is taking us a bit more time. And as François just mentioned, we – in our plan, we wanted to change the mix of employees from back office to front end type of employees. And unfortunately, we're not moving as fast as we want on that part.

Meny Grauman, Cormark Securities

So the negotiation is preventing you from hiring new people and that's preventing you from opening branches? Is that sort of the connection to the collective agreement?

François Desjardins, President and Chief Executive Officer

I think – François Desjardins here. I think just in general, the way that you should position it is that there are some things like that that are a little bit more strategic and positive that we have to negotiate with the union, and the negotiation is taking longer than expected. So we're still hopeful that this is still the plan. It's just taking a little longer to get to an agreement.

Meny Grauman, Cormark Securities

Okay. And then just trying to understand on slide 31 some of the targets. I mean, it was mentioned before just the efficiency target, and I appreciate you're not changing that target. But – so I'm wondering if you could help us kind of think through it in the context of the mortgage issues. I mean, you've talked about how you have some higher expenses related to that. So the fact that your target is not – is still in place – do we think about those extra expenses related to the mortgage issue as just being temporary, or you're just able to find offsets somewhere else where you didn't expect, maybe you've built in some contingency? Help with that I think would be useful.

François Desjardins, President and Chief Executive Officer

Sure. We've said all along that managing the mortgage review sure takes time, energy, focus, but from a pure cost perspective, it's not really that material. It's not a significant cost, so it's not really material to the business.

In terms of the efficiency ratio, what is more important is that 2018 and 2019, we are making investments in the business and that's what we've been talking about: investing in core banking, we have to hold two systems side by side. We have to hold two teams side by side. That's a significant expense that once core banking unit is completely done, then those costs go away. And that's why there's lumpiness in 2018, 2019, and we're saying like these are going to be investment years, these are the type of items that are driving those costs. Of course, different projects also have a different cost. But as it relates to the mortgage review itself, we're not saying that that's significant at all from a cost perspective.

Meny Grauman, Cormark Securities

Okay. Understood. And then if I could just ask about the ROE target. I mean, on that same slide, you talk about the gap to peers and you have a target relative to peers. Given some of the expenses you're talking about, the challenges that you're talking about over the next two years, is it reasonable to assume that that gap could actually – that gap to peers on ROE could actually widen, at least temporarily?

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

I think the guidance that we've been saying for 2018 and 2019 is that the ROE would be, or possibly slightly below, what we've seen in the last quarters. As a reminder, some of the reasons for that is, we're holding higher capital than we used to and also holding higher liquidity, just to help us and be prudent and conservative and to give us operational flexibility around these two years of investment.

But from a guidance perspective, we haven't changed our mind. Of course, this gap is also – it takes two to tango here. I can't predict with certainty what the industry average is going to be, but certainly we're working towards narrowing the gap, and as I've said in previous calls and even since the beginning of the plan, these midterm targets are one thing, but the real target is to narrow the gap completely and that is something that we're holding ourselves true.

The plan is not only to get to 2020, but to get to that narrowing of the gap completely, which is achieved not only by efficiencies, but also by better capital management, which is the IRB project. As you know, moving to advanced methodology, we've said and we've re-said it has an impact of about 200 bps on our ROE and with implementation in 2020, that takes us to a really completely different level in terms of profitability as RWAs are calculated downwards. And of course, getting there requires us to make investments and better processes and such, but that's the real part of the plan on that front.

Meny Grauman, Cormark Securities

Thank you, François.

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

You're welcome.

Operator

Thank you. And we'll move to our next question from the line of Scott Chan of Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Hi. Good morning. I just wanted to look at some of the volume growth trends. If I looked at the commercial side and if I kind of exclude acquisitions, is 8% year over year the right number over the past 12 months?

François Desjardins, President and Chief Executive Officer

That's a good number.

Scott Chan, Canaccord Genuity

That's a good number. And that 8%, is that a good number for the next 12 months on an organic basis?

François Desjardins, President and Chief Executive Officer

What we said was low- to mid-single digit loan growth overall.

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

The target is to meet the $14 billion that we have by 2020. You can refer to page 30 of the PowerPoint presentation for the targets for 2020, which we feel are the targets we're working towards.

Scott Chan, Canaccord Genuity

Okay. And maybe just a modelling question on other income in terms of the gains on sale. On a quarterly basis, I think are you comfortable providing a number that we can use or on an annual basis just because it's so volatile?

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

Scott, we don't provide that information. This is when we do it. We've had a gain last year. We have one this year. We can't predict. We review our portfolios regularly, but we don't disclose and we don't project this. We project our targets for the mid-term. It's part of our mid-term and guidelines regarding efficiency and profitability that we maintain.

Scott Chan, Canaccord Genuity

Okay. And maybe just lastly, just on the CMHC review. In terms of this Equity 50, 65 mortgage product that was specified – that you guys specified, what percent of that is of that product of total mortgages and is it predominately in that B2B channel?

François Desjardins, President and Chief Executive Officer

I'll ask Christian De Broux, Senior VP of Credit to answer that question.

Christian De Broux, Senior Vice President, Credit

It's about 10% of our mortgage book, and it is predominantly B2B; about three quarters of the amount is B2B. And I think it's important to state that these are loans with great customers where we have 35 and upwards, almost to 50% of cash down. And because of this, we have simplified documentation to make it easy for these customers to do business with us. Under the new B20 guidelines, now, it's the same full documentation that is required, regardless of the cash down being given. These are good mortgages.

Scott Chan, Canaccord Genuity

Okay, that's very helpful. Thank you.

François Desjardins, President and Chief Executive Officer

You're welcome.

Operator

Thank you. We'll move to our next question from the line of Gabriel Dechaine of National Bank Financial. Please go ahead

Gabriel Dechaine, National Bank Financial

Good morning. Thanks for taking the question. Just wanted to follow up on the fee line there, and you did highlight the one example anyway of safety deposits eliminating those. Between the various actions you're taking place there plus the change in consumer behaviour for putting downward pressure on the deposit fees, is there a way you can quantify the revenue and offsetting expense elements that will come out of this?

François Desjardins, President and Chief Executive Officer

The change that you've seen in the year-over-year is – from the deposit line is pretty much from the change in the service offering. I would say that in terms of guidance, removing safety deposit boxes is behind us. So you should see some stability going forward on that line.

But I think if we're looking much further into the future, customer behaviours are changing, right. So there is pressure on eliminating fees overall. Of course, like François said earlier, that has to be balanced with an equal or greater amount of cost reductions. If people aren't going to counters any more to do transactions, they won't pay fees for them, but at the same time, we won't have employees there, waiting to make those transactions happen. And therefore, the net should be positive for us, but in a sense also for the clients. People pay a lot in fees in Canada and reducing those fees is a theme that has to do with financial health. We aim to improve our customer financial health and in the retail services sector, that's exactly what we're doing.

Gabriel Dechaine, National Bank Financial

Good. So, sort of these deposit boxes, you said that's built into the run rate, are there other action that kind of measure just the one, I can't imagine maybe that much money on safety deposit boxes. Like is there more to come that we'll see in this particular line?

François Desjardins, President and Chief Executive Officer

I can ask Stephane Therrien.

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking President & CEO of LBC Financial Services

Just to remind you that we converted the – roughly 23 of our branches to advice-only, which means that there is no transaction over the counter anymore for these branches, as we continue on this route, this will generate obviously, less fees, but as François just mentioned, obviously we have lot less expenses for us as well.

Gabriel Dechaine, National Bank Financial

Yeah. Okay. But it's a near term hit to the fees and then longer term, you come out ahead basically. Is that the idea?

François Desjardins, President and Chief Executive Officer

They're more aligned than you think.

Gabriel Dechaine, National Bank Financial

Okay. My other question is on the, well, I guess, the NIX ratio. If I back out that gain on the ag portfolio sale, saw the NIX ratio pop up over 66% this quarter and you're talking about investments that you're making this year and next. I'm just wondering if this sort of 66 level is – you're going to be bumping around that over the next year and a half.

François Desjardins, President and Chief Executive Officer

I'll ask François Laurin to comment on that.

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

Well, basically the NIX ratio and the efficiency – is very tied to the efficiency ratio, Gabriel. We said that this year and next year would be a time where investments and people processes and technology, as François mentioned, will be performed and done. And it's also a period where we're enhancing our technology and our regulatory and compliance framework.

So last quarter, we mentioned that there would be a bump and it wouldn't be a straight-line direction towards a 65% efficiency ratio on a sustainable basis. So this period reflects that. This quarter reflects a bit of that and the next ones as well. But our objective is still to get back to 65% on a sustainable basis by 2020.

Gabriel Dechaine, National Bank Financial

No, I get that. You guys are very clear on that. But you made big strides in the last few years. This year and next are investments and then we're back on track to lower that ratio. But beyond 2020, or 2022, I guess, is the timeline and the interim work kind of more flattish efficiency performance, is that the idea?

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

Well, as you say, this quarter is slightly above last quarter. So we'll fluctuate a bit. We said last quarter that we were less than 65, now, we're a bit above 65. So it's going to fluctuate a bit but clearly above 65 for – within a small range over the next two years.

Gabriel Dechaine, National Bank Financial

Then the liquidity discussion keeps coming up in your margin outlook and I appreciate the slide that you – I forget which slide it is now, but the one where you breakdown what's in your liquidity. I've asked this question before and I'm trying to track it on the balance sheet and maybe if there's a direction there that we should anticipate. Are you building more liquidity? I know there's an internal capital measure – sorry, liquidity measure you used. But for calculation of margins and such, we've got to use the balance sheet. So if I look at cash and some of the securities that are 8% of your earning assets, is that – and that's been pretty flat for the past two years, is that number going to bump higher or not?

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

So which number are you referring to Gabriel, if I may ask?

Gabriel Dechaine, National Bank Financial

Well, I mean, my own – I just take cash plus AFS Securities and securities held to maturity and divide that by earning assets. And it's 8%, that's how I look at it. And it's been pretty tight around that level for a couple of years. So, I'm not actually – from what I see, I don't really see the big bump up in liquidity that you're alluding to. So, I'm trying to figure that one out.

François Desjardins, President and Chief Executive Officer

Okay. First, we don't publish LCR. But I can tell you that we're higher than the average of the banks of who publish their LCR. So, it doesn't give you a quantum but it gives you, I think, a range; a point of reference.

Obviously, both the LCR and then our internal requirement methodology takes into account also our requirement of cash. It's not just that pure liquidity cash assets – well, what are our commitments going forward. And one of the things that we've done is that we strengthened our institutional funding on a longer-term basis so that alleviates the requirements on a short-term basis which in fact helps our – what we call the liquidity level that we need to maintain. So, I think it's a combination of the numbers you've mentioned. And when you look at the balance sheet on the other side, especially on the funding side, as you see a longer funding duration, then obviously, it does impact the liquidity measures, both regulatory and internal. I mean – I have helped you?

Gabriel Dechaine, National Bank Financial

Let me ask this way. Do you collect the cash and securities balances, that rate of growth to pace your loan growth for example?

François Desjardins, President and Chief Executive Officer

Typically, it would be in sync give or take a small margin. But the portfolio build up would be similar as we move the balance sheet to a higher level. That's a fair assumption.

Gabriel Dechaine, National Bank Financial

Last one, the broker channel; is there a push towards consumers going for more two to three year terms and how is that affecting your funding cost?

François Desjardins, President and Chief Executive Officer

Our funding cost? You mean from our broker deposits?

Gabriel Dechaine, National Bank Financial

Yeah, sorry broker deposits with rates moving higher, consumers might be looking more to two to three-year deposit terms as opposed to what they were doing when rates were super low and you couldn't sell those. Is that a trend?

François Desjardins, President and Chief Executive Officer

It hasn't moved that much. The needle hasn't moved that much. It's still the one to two years predominantly in the GIC world at the moment.

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

We have seen the rates go up on both sides of the balance sheet though, both on mortgages and on GICs in general.

François Desjardins, President and Chief Executive Officer

But the point of reference for us Gabriel is, what does our NIM do? And our NIM improves even when the cost of fund improves, it's how we reflect it in our pricing and obviously the NIM is the best reflection of how we manage that.

Gabriel Dechaine, National Bank Financial

Okay, great. Thanks guys.

François Desjardins, President and Chief Executive Officer

You're welcome.

Operator

Thank you. We'll move to our next question from the line of Marco Giurleo of CIBC. Please go ahead.

Marco Giurleo, CIBC

Good morning. I'd like to touch on mortgage growth quickly. We saw a 2.8% decline in the book this quarter and you cited B20 headwinds and higher rates could have on the broker channel in Quebec. I was just wondering in addition to that, was that partially offset by any loans acquired, originated by third parties this quarter?

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

Yeah. Clearly what we originate, that's the number you have, that you quoted. And obviously, we cut out the program, the NHA MBS, while we acquired some in the market and put it out in conduits. That's the other part that ends up in the mortgage numbers in the end.

Marco Giurleo, CIBC

Okay. So, would the mortgage balances have been down more sequentially and – how much more?

François Desjardins, President and Chief Executive Officer

The portion of the NHA is not really that significant in terms of the ones that we buy from third parties. So, the number that you have is pretty much in line. I would say though, you know, as a general comment on growth, we reset our medium-term objectives last year. After two important years of growth as you know, and we reviewed our growth targets – I said earlier – to low mid-single digits. Both on mortgages and on loans to businesses customers. We're really happy with the progress that we've made on the businesses services side, especially in equipment finance and in inventory finance. I think that that is really helping us in our objectives to move the mix of the bank towards business services and as you may recall in my prepared remarks, that has been working. We're up from 30% of the mix, up to 34% now.

On the mortgage side though, there's been many environmental impacts at play here. The market has been soft in general for the industry as a whole, rising interest rates, B20 and as you know, we had high growth in Q1 before the holidays as people were trying to beat the implementation date of B20. But a big part of the loss here is we stopped accepting referrals from mortgage brokers to the branch network and concentrated retail services on financial advice. We just didn't think that it was the best use of our financial advisors.

And now we're concentrating on our own clients, financial advice, investments and deposits. And deposit growth has been actually really good including in the branch network in the last quarter. So, that paints a good picture of growth in general I think. Looking forward though, still looking forward to growth both in loans to business customers and mortgages to be able to get to our 2020 targets.

Marco Giurleo, CIBC

All right, great. And I just had a quick follow up on the tax rate. So, the effective tax rate was down over 200 bps sequentially. You mentioned a benefit from the 100 bps benefit from the reinsurance business. What else was impacting the tax rate this quarter? And is the current tax rate that we saw this quarter a good run rate?

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

For the rest of the year, yes basically. 20 to 22 is a good range for tax rate. What I mentioned earlier is for 2019, the impact of the 100 bps would be only beyond this year, 19 and following.

Marco Giurleo, CIBC

All right, thank you.

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

You're welcome.

Operator

Once again, ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. And we'll take our next question from the line of Sumit Malhotra of Scotia Capital. Please go ahead.

Sumit Malhotra, Scotia Capital

Thanks good morning.

François Desjardins, President and Chief Executive Officer

Hey, Sumit, good morning.

Sumit Malhotra, Scotia Capital

Yes. First question is going to be around capital. So, the rCET1 ratio was up a very little bit quarter on quarter. So, pretty flat. You would have had the benefit, I'm assuming, of the portfolio sale coming out of RWA. Just maybe for François Desjardins, in thinking about that ratio going forward, if the mortgage portion is going to be a smaller part of the growth going forward, is it fair to say or is your forecast that we shouldn't see too much organic capital growth from here given that it will be more – higher RWA components that are driving your loan growth?

François Desjardins, President and Chief Executive Officer

Yeah, I think that you're right on this. I mean what we have said is that we would be operating at the higher end of the operating range that we had set for ourselves which we are. And over time as the business mix changes towards business services, of course that the CET1 adjusts accordingly to the business that we have. These things are really progressive I would say over time. So, you're right towards that. The level that we're at currently, I think is what you should be expecting, you know, in the near future. We said so for the last little while here that, you know, for us, managing this transformation prudently is important. And having a higher liquidity and capital ratio is just – I think ensures that we have the means to make the moves that we need to make when we need to make them. So, that's where we are.

Sumit Malhotra, Scotia Capital

And, you know, related to capital and the AIRB transition, I don't want to put too specific a timeline on a few quarters, but you and I have had conversations about this in the last few years, it does seem like it's changed for now, the end of 2019, start of 2020 to one year later. Is it – you've made a few references to having to run the two systems. Is there anything in terms of the information that you're providing to us or OSFI that is responsible for this delay or is this just part of the process as you shift through because I think you'll agree, we had talked about starting 2020 under AIRB previously.

François Desjardins, President and Chief Executive Officer

I'll ask Susan Kudzman to comment on that Sumit.

Susan Kudzman, Executive Vice President, and Chief Risk Officer

Sumit, you're right. We are speaking a little bit more about later 2020 now. But there are no real issues, be the regulator or even the project itself as you well know, it's a very big project involving a lot of work on models, but also data governance and processes within the bank. So, as we're getting further along and it's progressing well, we've refined our timelines and now we're looking at later 2020 which you mentioned.

The business case for AIRB remains as strong as ever. As we refine our timelines, we also refine our numbers and that still is very solid and still expect 200 bps on our CET1 ratios as in the past.

François Desjardins, President and Chief Executive Officer

And as you might remember Sumit, when we started talking about this back in 2016, the actual physical date that you put the switch on is not the actual physical date that you get 100% of the benefits. That has never occurred in any bank. It happens over the next few months and years. And that's why we built the plan up until 2022 because when you turn that switch on, then the benefits happen in 12, 18 months that come after that. And that's why I said earlier that we're still expecting to have those benefits within the timeline of the plan.

Sumit Malhotra, Scotia Capital

Since Susan came in there, let me go back to her for a minute. Credit quality has been so good across the sector that maybe we haven't had to look or talk too much on these calls about some of the underlying metrics. But just as we're going through the process here, I noticed with respect to your coverage ratio. So, if I have it right here, it's about 65% this quarter. This reference made earlier on with the portfolio composition changing again more towards commercial that you would expect the loan losses to reflect that and obviously be offset by margin.

But at least – I've covered this bank for a long time, I don't think I've seen a coverage ratio in the mid 60s. But conceptually, as the portfolio changes, should we expect this number to move higher as far as the overall allowance build is concerned? I know your gross impaired loans have been low and that's a big part of it. But at 10 or 11 bps provision ratio at this point in the cycle with the portfolio changing, from a risk perspective Susan, where is your thought process on how the allowance builds trends from here?

Susan Kudzman, Executive Vice President, and Chief Risk Officer

Well, a couple of things. You touched on some of the correct facts in here. Our loss ratio, that was compared, say, to the rest of the industry and we had a higher coverage ratio in the past. And you know, more importantly that I repeated quarter after quarter that this loss ratio is quite low, and we have spoken about the business and it changing, and we were coming off the cycle.

However, one thing we need to mention is that as you're moving to AIRB, we're reviewing our models. And, you know, we had very conservative provisioning and that's maybe appropriate when you understand our methodology and using, if you will, a model that is less refined than AIRB. So, as we move along that process, our models are becoming more and more refined allowing us as we see we've released provision in the view of the models. And I will just say that moving forward, that our coverage reflects that risk in the future.

Sumit Malhotra, Scotia Capital

Okay. So, I hear you.

Susan Kudzman, Executive Vice President, and Chief Risk Officer

Maybe Christian De Broux would like to add something on that.

Christian De Broux, Senior Vice President, Credit

You know, as we grow the commercial, I think it's important as well to understand that we're not changing the conservativeness that we've always shown in our credit approach. I think the level of provision that we have is reflective of the collateral that underpins all our deals and we've proven ourselves on that.

Sumit Malhotra, Scotia Capital

All right. I think I understand you that some of the process in shifting to AIRB is giving you more visibility and underlying credit trends and perhaps that's the reason that ratio is lower. We've heard something similar from some other banks as well.

Susan Kudzman, Executive Vice President, and Chief Risk Officer

And that's a good thing. You know, we're getting a – better, a more refined view of our risks.

Sumit Malhotra, Scotia Capital

All right. Last one for me – I'll go back to Mr FD – is just thinking about the targets and where we stand half way through 2018. I think we'll agree that the last six months have been more challenging on a few fronts. And when I look at EPS this quarter, maybe this is the way to look at it, maybe it isn't, if I take out the portfolio sale, the EPS in Q2 is down 2% year over year. There's been a lot of reference to the medium term targets of five years– in general. But if I look at the EPS one, it's 5-10% annually.

If I go ahead six months from now, hopefully the review of CMHC is behind you and you said there's some impact on management time from that. So, that's behind you. When you think about 2019, it feels like over a few calls now, I've heard you make references to higher liquidity, investments required, some of the impact that we're seeing on the industry and mortgages. Do you think that 5-10% range is applicable to 2019 because in hearing you the last few calls, it seems like your messaging is, hey, you know, that's a medium-term target and maybe not something that we're able to do in the very near term as a result of some of these initiatives and headwinds we're encountering.

François Desjardins, President and Chief Executive Officer

Well, I think that all of the midterm targets go together. So, including the EPS growth which is a CAGR, you can't say that there's going to be lumpiness on the efficiency ratio and the ROE without talking about lumpiness on the EPS as well. But, you know, all in all, our guidance to you is that these investments are required. They're going to create a little bit of lumpiness in the results. But in the end, we're going to get to a better bank and a sustainable efficiency ratio and also one that we can build upon to get the rest of the way.

You know, we're looking at – we're not making investments for investments sake here. We're making investments so that we have a better foundation on which to build on. And of course, you know, we've said this since the beginning of the plan. We're absorbing these costs within 'operating budgets' here, right. We're not, you know, costing the investments in core and within our normal business activities. So, you know, specifically for 2019, we usually don't give guidance as you know for a specific year and I think that we're pretty open with trying to give a good idea of what to expect in 2020 with some lumpiness from now till then.

Sumit Malhotra, Scotia Capital

No, I hear you. And look, it's – as I said, there's been a few bumps in the road the last six months and it's just when I look at market expectations, it seems like there's a view that the growth is going to be right in line with your target range. At least from my seat, listening to you, it seems like you're saying hey, you know, it's not a straight-line path.

François Desjardins, President and Chief Executive Officer

No. And you know, I want to be clear on this, right, because, you know, I have to separate out the mortgage review from other headwinds that we're facing. You know, doing a transformation in any case is never easy. Forget the mortgage review for a second and just look at the other things that are going on in the industry and economics. We have to adjust to those things. But, you know, the real question is how are we creating long-term value for investors by investing in the business and transforming it to something that's going to be better and sustainable.

So, sure, I mean I would rather talk about something else in the last six months. And of course, you know, I don't want to lessen the importance of this. The team is addressing the mortgage review with urgency and transparency as much as we possibly can with you. But you know, the more measured response here is that once this is behind us and it will be, the plan is – we have some big years of investments in front of us, a lot of work and we're going to be proud of the outcome.

Sumit Malhotra, Scotia Capital

That's understood. Thanks for your time.

François Desjardins, President and Chief Executive Officer

Welcome.

Operator

Thank you. And we'll move to our next question from the line of Darko Mihelic of RBC Capital Markets. Please go ahead.

Darko Mihelic, RBC Capital Markets

Hi, thank you.

François Desjardins, President and Chief Executive Officer

Hello Darko.

Darko Mihelic, RBC Capital Markets

Hi. First question is how much did you earn in the U.S. this quarter?

François Desjardins, President and Chief Executive Officer

We don't disclose that Darko.

Darko Mihelic, RBC Capital Markets

Okay. Second question; why did you decide to sell the agricultural loan portfolio?

François Desjardins, President and Chief Executive Officer

I'll ask Stéphane Therrien to answer that Darko, if you don't mind.

Stéphane Therrien, Executive Vice President, Personal and Commercial Banking President & CEO of LBC Financial Services

Yes, Darko. Thanks for your question. As we mentioned, as a smaller bank, we continually review our portfolio to determine which one we should grow, fix, exit or maintain. And as you know over the last couple of years, we had a specialised approach and we play where we can win and this is across Canada. So, for us, agriculture portfolio is only Quebec based and not strategic for us because of its small size.

Darko Mihelic, RBC Capital Markets

Are there any other portfolios that are at risk here or – it's just particular because you have growth plans in commercial, so, I wouldn't have thought you would be selling off portfolios.

François Desjardins, President and Chief Executive Officer

Well, I wouldn't use the words at risk. And of course, I'm not going to announce anything today. But I think that the comments that I've made earlier are – there are some areas or portfolios that we want to grow and maintain and some that we might need to fix and some exit. And I think that pretty much covers what we want to do. We do have growth plans in business services and we're proving that every day.

But it doesn't mean that if we're looking at growth plans, some of our portfolios, like equipment finance or inventory financing, real estate financing are all in growth mode. It's when we have smaller portfolios where we can't necessarily – or we feel we can't necessarily win, we're not going to fight it out for nothing and concentrate on things that we can be relevant to our customers.

Darko Mihelic, RBC Capital Markets

Okay, fair enough. Thank you for the time.

François Desjardins, President and Chief Executive Officer

Thank you.

Operator

Thank you. It appears that there are no further questions at this time.

I will return the call to François Desjardins for some closing remarks.

François Desjardins, President and Chief Executive Officer

Throughout its 172-year history, the Bank has always been prudent and conservative in managing its business. Our track record of credit, in particular, has always been excellent.

This has allowed us to successfully weather a number of economic crises and challenges. While some have been more severe than others, each one has been a learning opportunity that we have capitalized on. Every challenge has made us stronger.

It is essential that we build a robust foundation, one that will last for the long-term. With a high level of liquidity and capital, we are well positioned to transform the Bank - to build the bank of tomorrow. We are confident that the benefits, even over the medium-term, will be sustainable.

Since we presented our plan just over two years ago, our vision has taken shape and we have made significant progress. There has been a lot of excitement both internally and externally about our plan as more and more people realize the transformation that we are making.

Being more determined than ever, we are seizing the opportunity to build a better bank.

Thank you for being with us today.

Susan Cohen, Director, Investor Relations

Thank you, François. Should you have any further questions, our contact information is included at the end of the presentation. Our third quarter 2018 conference call will be held on August 30 and we look forward to speaking with you then. Have a good day.