# Banque Laurentienne du Canada

## First Quarter 2024 Results

Event Date/Time: February 29, 2024 — 11:00 a.m. E.T.

Length: 54 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommage ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

## CORPORATE PARTICIPANTS

**Andrew Chornenky**
*Laurentian Bank — Vice President, Investor Relations*

**Éric Provost**
*Laurentian Bank — President and Chief Executive Officer*

**Yvan Deschamps**
*Laurentian Bank — Executive Vice President and Chief Financial Officer*

**Kelsey Gunderson**
*Laurentian Bank — Head, Capital Markets*

**Liam Mason**
*Laurentian Bank — Chief Risk Officer*

## CONFERENCE CALL PARTICIPANTS

**Meny Grauman**
*Scotiabank — Analyst*

**Sohrab Movahedi**
*BMO Capital Markets — Analyst*

**Gabriel Deschaine**
*National Bank Financial — Analyst*

**Nigel D'Souza**
*Veritas Investment Research — Analyst*

**Darko Mihelic**
*RBC Capital Markets — Analyst*

**Doug Young**
*Desjardins World Markets— Analyst*

**Stephen Boland**
*Raymond James — Analyst*

## PRESENTATION

**Operator**

Welcome to the Laurentian Bank Quarterly Financial Results Call. Please note that this call is being recorded.

I would now like to turn the meeting over to Andrew Chornenky, Vice President, Investor Relations. Please go ahead, Andrew.

**Andrew Chornenky** — Vice President, Investor Relations, Laurentian Bank

Bonjour á tous. Good morning and thank you for joining us.

Today's opening remarks will be delivered by Éric Provost, President and CEO, and the review of the first quarter financial results will be presented by Yvan Deschamps, Executive Vice President and Chief Financial Officer, after which we'll invite questions from the phone. Also joining us for the question period are Liam Mason, Chief Risk Officer, and Kelsey Gunderson, Head of Capital Markets.

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

I'd 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.

I would also like to remind listeners that the Bank assesses its performance on a reported and adjusted basis, and considers both to be useful in assessing underlying business performance. Éric and Yvan will be referring to adjusted results in their remarks unless otherwise noted, as reported.

I will now turn the call over to Éric.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Merci, Andrew. (French spoken). Good morning and thank you for joining us today.

Over the past few months, I have had the opportunity to meet with many Laurentian Bank team members, and I consistently hear the same things. They are committed to this institution, they are driven to improving our operations and simplifying our structure, and they are dedicated to serving our customers.

Throughout the quarter, we have remained focused on three priorities: customer focus, simplification, and strategic investments to improve our technology infrastructure. I would like to thank every Laurentian Bank employee for their efforts while also supporting the organization in our strategic planning exercise. While Yvan will provide further details during his remarks, I wanted to offer some high level thoughts on our overall performance.

I am pleased to report that the Bank strengthened its capital position in a time of continued macroeconomic uncertainty. We have managed our funding to our book of business, and given the reduction in loans due to the current environment, we executed on our planned deposit reduction activities while maintaining a strong level of liquidity, materially above the industry average. We are

comfortable with our commercial portfolio and are well-positioned for a rebound later this year, as business conditions improve.

This quarter, revenues were slightly down compared to last year and grew by 4 percent on a sequential basis. Net income and EPS were both down year-over-year and quarter-over-quarter, as expenses remained high. This increase included costs related to the mainframe outage last year, which impacted EPS by $0.04 this quarter. We know there is more work to do to reduce our expenses, and that is why simplification is a key part of our plan going forward.

While overall loan growth was negatively impacted by macroeconomic conditions, including business and consumer sentiment, our NIM was up four bps to 1.8 percent. This quarter also saw a small rebound in capital markets' related businesses, with stronger trading results in fixed income. The businesses' results also benefited from recent right-sizing actions.

Our credit performance remained strong, with a small increase in PCLs compared to Q1 last year, and stable versus last quarter. We remain confident in the portfolio and are adequately provisioned.

Dealers and manufacturers in our inventory financing business remain cautious. Inventory levels are not rising to the levels seen in previous years, and as a result, utilization was at 50 percent. This is lower than the mid-50s utilization rate we would typically see at this time of year. Given macroeconomic conditions, dealers and manufacturers are working together on floor planning programs. This shows strong partnership and provides us with significant confidence as we look forward to the remainder of the year. We expect an increase in utilization starting in the fall if interest rates adjust according to projections.

Turning now to commercial real estate activities; we have seen a slowdown in construction starts, which remains in line with our expectations as developers continue to adjust to the current cost environment. We have seen no cancellation of projects and our portfolio is in line with our credit appetite. The majority of our portfolio is in multi-residential housing, which continues to show resiliency as demand remains stronger than supply. As a reminder, we deal with Tier 1 and Tier 2 developers with significant experience through the cycles. We're pleased with how both commercial portfolios are performing. Our specialized approach gives us confidence as we continue to face uncertainty in the macroeconomic environment.

As I mentioned earlier, this quarter also saw a planned year-over-year and sequential decline in deposits, and there are a few points I'd like to make. First, we manage deposit and loan activity on a relative basis. That's why we have executed on planned deposit reduction activities. This includes actions such as more conservative pricing in our broker deposit channel to maintain our focus on profitability, contributing to our NIM expansion.

Second, strategic partnership deposits function like conventional demand deposit products. Recent quarters have witnessed these deposits behaving like typical demand deposits, with funds being redirected towards market activities and other term deposit products, consistent with our expectations.

Third, personal deposits sourced through our retail channel are stable quarter-over-quarter, and personal deposits overall represent 86 percent of our total deposits, contributing to the Bank's sound liquidity position. In fact, this quarter, we enhanced our ActionGIC, an equity-linked product, with a competitive minimum rate guarantee, which saw good pickup. We also held a very successful (inaudible)

private campaign where total GIC sales exceeded last year's performance in the same period, further solidifying our funding sources.

Operationally, we have a number of development to share from this quarter, beginning with our people. I'm pleased announce three new appointments to my Executive team. First, we have promoted Macha Pohu to the position of Chief Human Resources Officer. Macha succeeds Sébastien Bélair, who held this position for the past three years, allowing him to better focus on his role running retail and corporate operations. Macha joined the Bank in 2022 and has more than 25 of experience in the financial services sectors, in distribution, information technology, and human resources.

Second, I'm pleased to announce that Benoit Bertrand has joined the Bank as our new Chief Information Officer this month. Benoit is an accomplished technology and digital transformation leader with almost 30 years of experience. He has a history of managing large and complex IT programs, as well as architecting and delivering innovative solutions. His mandate will be to align the Bank's IT strategy with our overall business strategy, ensuring that our technology initiatives directly support our organizational objectives.

Third is the creation of our Strategy and Transformation Office, which will be led by Marie-Christine Custeau, with almost 20 years of experience in financial services, including self-effectiveness, change management, and business process optimization. This new office will oversee the development, implementation, and evolution of the strategic plan, identify organizational priorities and ensure a steady pace of decisions that enable us to deliver value for our customers quickly. The office will work closely with finance to monitor the budget and maximize transformation goals.

The Bank also announced three new appointments to our Board of Directors: Dr. Johanne Brunet, Mr. Jamey Hubbs, and Mr. Paul Stinis. These appointments are part of the Board's commitment to ongoing renewal to enhance overall effectiveness and ensures an appropriate balance between skills and experience, and a diversity of perspectives. Their backgrounds are varied and include marketing, risk management, capital markets, and business development.

Looking forward, we are fully engaged on the revamp of our strategic plan. This plan will refine our focus on the areas where we can win to increase our competitiveness, while always maintaining our objective of improving the customer experience. As part of this refresh, we have launched an end-to-end review of all our products, projects, and processes to help inform our decision making as we look to simplify our operating model. This work is ongoing and we will make appropriate decisions about products and projects as we progress through this exercise.

I would now like to turn the call over to Yvan to review our financial performance.

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Merci, Éric, et bonjour á tous.

I would like to begin by turning to Slide 8, which highlights the Bank's financial performance for the first quarter. Total revenue was $258 million, down 1 percent compared to last year, and up 4 percent quarter-over-quarter. On a reported basis, net income and EPS were $37.3 million and $0.75 respectively. Adjusting items for the quarter amount to $6.9 million after tax, or $0.16 per share, and include amortization of acquisition-related intangible assets and restructuring charges of $6.1 million or

$4.5 million after tax, resulting from the previously announced simplification of the Bank's organizational structure and headcount reduction. Details on these items are shown on Slide 22. This quarter, an LRCN biannual interest payment had a $0.06 impact on our EPS.

The remainder of my comments will be on an adjusted basis. EPS of $0.91 was down year-over-year and quarter-over-quarter by 21 percent and 9 percent respectively. Net income of $44.2 million was down by 19 percent compared to last year and 1 percent compared to last quarter. The Bank's efficiency ratio increased by 360 basis points compared to last year, and by 100 basis points sequentially. This uptick reflects our ongoing investment in strategic priorities and the remaining expenses related to the mainframe outage in September 2023, which totalled $0.04 this quarter on an EPS basis. Additionally, and as previously guided, there was a seasonal increase in salary and employee benefits. Our ROE for the quarter stood at 6 percent.

Slide 9 shows net interest income down by $1.9 million or 1 percent year-over-year, mainly due to lower interest income from lower loan volume. On a sequential basis, net interest income was up by $2.4 million or 1 percent, mainly due to lower liquidity levels and lower funding costs, partly offset by lower loan volumes. Our net interest margin was up four basis points sequentially, to 1.8 percent, mainly for the same reasons.

Slide 10 highlights the Bank's funding position. Following a period of elevated liquidity, we gradually reduced our deposit basis, considering the loan volume reductions and our previously stated objective of reducing our liquidity position. On a sequential basis, total funding was down $1 billion. Strategic partnership deposits decreased by $500 million as customers allocated funds back into market

activity or term products. Deposits from advisors and brokers were also down by $300 million, mostly due to the natural runoff and our intentionally less competitive market rates. Despite the reduction in liquidity, the Bank maintained a healthy liquidity coverage ratio through the quarter, which remains materially above the industry average.

Slide 11 presents other income, which was relatively unchanged compared to last year. Higher income from financial instruments was mostly offset by lower lending fees due to tempered commercial real estate activity and lower income from mutual funds. On a sequential basis, other income increased by $8.5 million or 13 percent as a result of higher income from financial instruments, due to more favourable market conditions and higher service charges as two months of fees were waived during Q4 2023. This was partly offset by lower lending fees.

Slide 12 shows noninterest expenses, up by 4 percent compared to last year, mainly due to higher technology costs as the Bank is investing in its infrastructure, as well as higher professional and advisory service fees related to the mainframe outage that occurred last quarter. This was partly offset by reduced headcount and lower performance-based compensation. On a sequential basis, noninterest expenses were up 6 percent, mainly due to seasonally higher vacation accruals, employee benefits, and performance-based compensation, partly offset by lower advertising fees. This quarter, the remaining expenses related to the mainframe outage in the fourth quarter totalled $0.04 on an EPS basis.

Turning to Slide 13, our CET1 ratio was up 30 basis points to 10.2 due to a reduction in risk-weighted assets.

Slide 14 highlights our commercial loan portfolio, which was down about $1 billion or 6 percent year-over-year, and it was down $500 million on a sequential basis, mostly due to slowing real estate market activity and our inventory financing dealer base being prudent in the current macroeconomic environment.

Slide 15 provides details of our inventory financing portfolio. This quarter, utilization rates were 50 percent and are lower than historical levels as dealers have been taking a more conservative approach to inventory. We expect utilization rates to follow the usual seasonality, which includes a reduction in the spring and summer periods before starting to increase in the fall.

In commercial real estate, our unfunded pipeline has been impacted by market trends, but remains healthy. We have seen some developers slow down the starts of projects given the current macroeconomic environment, as they navigate through this period of high inflation and interest rates. However, demand in residential real estate continues to exceed supply.

As seen on Slide 16, the majority of our portfolio is in multi-residential housing, and only around 3 percent of our commercial loan portfolio is in office. Our office portfolio consists of Class A or Class B assets and financial recourse to strong and experienced sponsors. As we have said over the past few quarters, the majority of the portfolio is in multi-tenanted properties which limit the exposures to single-tenanted buildings.

Slide 17 presents the Bank's residential mortgage portfolio. Residential mortgage loans were up 5 percent year-over-year and 2 percent on a sequential basis. We maintain prudent underwriting standards and are confident in the quality of our portfolio, as evidenced by the high proportion of

insured mortgages, at 58 percent, and low LTV of 51 percent on the uninsured portion. It is also worth noting that more than 80 percent of our residential mortgage portfolio is fixed rate, of which more than 80 percent will mature in 2025 or later.

Allowances for credit losses, on Slide 18, totalled $218.5 million, up $15 million compared to last year, mostly as a result of higher allowances in the commercial portfolio. Allowances for credit losses increased by $3.7 million sequentially, mostly as a result of higher allowances on commercial loans due to credit migration, partly offset by write-offs in the commercial and personal loan portfolios.

Turning to Slide 19, provisions for credit losses was $16.9 million, an increase of $1.5 million from a year ago, reflecting higher provisions on performing loans. PCLs were essentially in line with last quarter. As a percentage of average loan and acceptances, PCLs were unchanged at 18 bps.

Slide 20 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans increased by $73.9 million and were up $16.5 million sequentially, mostly in the commercial portfolio, which is well-collateralized. We continue to manage our risk with a prudent and disciplined approach, and remain adequately provisioned.

As we look ahead to Q2, I would like to note a few key points focused on the next quarter. We expect our loan book to continue to be impacted by macroeconomic conditions, as dealers continue to be prudent in restocking inventory, and due to lower level of activity on real estate projects. Adding the impact of the lower number of days, we expect a low-single digit NII reduction for Q2. NIM is expected to remain relatively stable.

We are committed to reducing our efficiency ratio, and will share more details with you later this year as part of our revamped strategic plan. For the second quarter, we expect a slight increase of our efficiency ratio due to the pressure on revenues I just mentioned, and as we incur expenses to support the review of our strategic plan. Given the macroeconomic environment, PCLs are expected to be in the high teens or low 20s. Capital and liquidity levels are solid and expected to remain strong for Q2.

I will now turn the call back to the Operator.

## Q & A

**Operator**

Thank you.

(Operator Instructions)

Your first question will be from Meny Grauman at Scotiabank. Please go ahead.

**Meny Grauman** – Analyst, Scotiabank

Hi, good morning. Just a question on the strategic review; any more you can provide us with, in terms of a timeline for when we should expect to hear a more fulsome plan from you?

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Yes, good morning, Meny. It's Éric. In terms of timeline, we indicated that we're aiming spring, and I would clarify later spring. The team is working real hard to make this happen, and more to come there.

**Meny Grauman** – Analyst, Scotiabank

Okay. I appreciate you highlighted at the end here that there would be more on expenses at that time, but I'm just wondering more conceptually; it feels like, given the step down in expenses that's required, it seems hard to believe that this can be accomplished without further restructuring charges. I'm wondering if you could comment on that, how organic can this expense management process be? You talked a lot about simplification. It sounded like the things you're looking to do will require restructuring charges, but they sound more dramatic. I just wanted to get your thoughts on that.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Well, Meny, as you notice, we already started last quarter with a reduction of 2 percent of workforce. Part of our analysis, and in trying actually to simplify this organization, I would say yes, there will be need for further restructuring charges now the debt of it still needs to be worked and addressed when we come back with the strategic plan.

**Meny Grauman** – Analyst, Scotiabank

Okay. Then maybe just related, I think the good news is, obviously, your capital position is quite strong and stepped up again this quarter, CET1 at 10.2 percent. You took a less defensive posture in terms of liquidity. I'm wondering how that translates into your outlook for capital, and your view of

excess capital and where your CET1 ratio should be. Any thoughts there in terms of how much flexibility you have there; are you looking at your capital ratio differently now that it is at 10.2 percent?

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Meny, great question there. We've indicated in the last quarter we'd be managing 10 percent and above. Right now where we stand at 10.2 percent, we feel pretty good versus the overall macroeconomic situation. I know we're still monitoring the evolution, both of inflation and behaviour of interest rate going forward, so we feel good where we are right now.

**Meny Grauman** – Analyst, Scotiabank

Thank you.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Thank you.

**Operator**

Next question will be from Sohrab Movahedi at BMO Capital Markets. Please go ahead.

**Sohrab Movahedi** — Analyst, BMO Capital Markets

Okay, I'm just going to follow-up on Meny quickly for a second. I assume part of the reason why the capital ratio is drifting higher is because loan growth is lower, RWA consumption is a little bit lower and you anticipate that's going to rebound. Is that the correct way to think about it?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, Sohrab, this is Yvan, so I'll take this one. You're correct. The increase of the capital essentially came from a reduction of the RWA.

**Sohrab Movahedi** — Analyst, BMO Capital Markets

The reduction of the RWA is because utilization rates are lower?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Exactly. As you see, there's been a reduction of commercial, kind of commercial, it is a big consumer of capital from an RWA perspective, so that's essentially coming from that impact, yes.

**Sohrab Movahedi** — Analyst, BMO Capital Markets

Yes, okay. I think, Yvan, I think I'll reiterate Meny's point here, or Éric, sorry. Over the last five quarters, the earnings, even if you adjust for some one-timers, are ranging anywhere from $40 million to $50 million. That's a wide swing, or a wide range, and we need this strategic review to have an understanding of what sort of an organization Laurentian Bank is going to be so that—what sort of earnings potential it's going to have going forward. The sooner you could give us some of that, the better. It's not a question, it's a statement, but I feel like it's hard to make an investment case not knowing exactly what we're going for. Thank you.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Thank you for that, Sohrab. Like I said, we are working hard to come to market in the right manner so that we have all the analyses in play. The big thing will be about making sure that this organization has a very, very strong focus on its customer base, understanding where we can win, simplifying our structure and product shelf, while maintaining our investments in our foundational technology to run the Bank, but also to make sure that we generate additional revenue for the various platforms.

**Operator**

Thank you.

Next question will be from Gabriel Deschaine at National Bank. Please go ahead.

**Gabriel Deschaine**— Analyst, National Bank Financial

Good morning. Just want to talk quickly about other income. One, it looks like the service fees and—well, particularly, yes, service fees that you had maybe cut or refunded last quarter because of the IT issues, it looks like that stabilized, so we're through the worst of it, I suppose, or that's gone completely?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, exactly, Gabriel. There was two months waived in Q4 for about $2 million, and that's the difference in the improvement this quarter. It's relatively stable, excluding the waive of the fees that we've seen in Q4.

**Gabriel Deschaine**— Analyst, National Bank Financial

Okay. Then the, what is it, investment income, or investment instruments, whatever it's called, the big—the $12 million figure. What was behind that spike?

**Kelsey Gunderson** — Head, Capital Markets, Laurentian Bank

Hey, Gabriel, it's Kelsey Gunderson here, Capital Markets. I think we typically guide to between $6 million and $9 million in that line, and clearly had a good result this quarter.

I think that's reflective of, obviously, much more constructive markets for us. Traders were in a good position for it and were able to participate in what were better markets. I wouldn't read that into any kind of change in strategy, I would read that into a good quarter on the trading desk.

**Gabriel Deschaine**— Analyst, National Bank Financial

Okay. Liquidity has been—you're reducing liquidity. We don't have a LCR ratio we can look at to track that? I know we talked about this last quarter, that it was internal measures that you have access to. What I can see is the loan to deposits ratio, it's nearly 150 percent now. Are you comfortable with that level, and could we see it even going higher? There's a bit of an expectation that loans to deposit ratios go down, not up, in the current market context and probably into the future as well.

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, thanks, Gabriel.

The way we manage the funding of the Bank is we look at the deposits plus securitizations, which are long-term very cost-efficient funding as well. If you take those two compared to the loans, we try to maintain them relatively in line. If you look at that based on this quarter, we're at 1.03. That's the way we manage it. It's not only a question of deposits versus loans, it's really a question of securitization plus deposits versus the loans. We're currently, I would say in the positive territory, because we intend to manage that around one.

**Gabriel Deschaine**— Analyst, National Bank Financial

Okay. Then, well, speaking of deposits, and this is another NIM question, you did talk about lower funding costs. I see loans going down, and it's not like I'm clapping and cheering, but the silver lining to it is that you can be more selective in your funding and let some of the highest-cost sources shrink. Just wondering, when I look at your funding chart, I forget which slide it is, but which one of those would you point to as being the most beneficial to NIM this quarter?

Then, just to drill down a bit into these strategic partnerships, I know this predates the current Management team's responsibility or however you want to put that, but part of the funding structure that was announced with a bit of fanfare previously, and now it's off about $1.5 billion. I'm wondering what the shift is there, if any, in that strategy?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Thanks, Gabriel, I'll take that one too.

On the NIM side, as you mention, the improvement of four basis points came from the reduction of liquidity we had this quarter that we actioned and we had guided you last quarter.

But it also comes from, probably, I would say, still a little bit of catch-up of the stabilization of rates that we had to incur, and that's what's been happening. I would say most of it is now in the bag. But as you mention, we've been prudent in terms of loan outstandings, so definitely it's good on the margins while you're prudent in terms of development as well. That explains, I would say, most of that. Definitely, the fact that we've been less aggressive on the deposits, that plays on the margins of the products for sure.

If I discuss about the strategic deposits, or partnership deposits, those, we have to keep in mind, are demand deposits. They are idle money, technically, that are waiting for better markets, and that's what we've experienced recently.

We see definitely the same trend of that money going back to market investments and higher-return GICs or other kinds of investments. This is expected, and you should expect that this line is going to continue to go down, unless there's a big swing in the market. But as we see the market getting better, this line just behaves like other demand deposits and the rest of the industry.

**Gabriel Deschaine**— Analyst, National Bank Financial

Got it, that makes sense. You say demand deposits, but they're not zero cost, I would assume. They're probably high interest savings account type?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, exactly. The difference, and we could simply just re-class that as normal demand deposits, happy to do that if we want, but the key element here is that we sign some multiyear agreements with some customers, and we're managing on their behalf the demand deposits, the idle money of their customers.

**Gabriel Deschaine**— Analyst, National Bank Financial

Okay, last one, and sorry if I missed this in your comment. I probably did miss it, but just to get a bit more clarity on the equipment, the inventory finance balance trend and the outlook. A, what was the seasonality impact this quarter, and B, end user demand probably going down, so that means less growth, or negative growth for that category? How would you put it?

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Yes, Gabriel, Éric, I'm going to answer this. It's a good question and we definitely saw our dealer base being more cautious in the restocking season. You mentioned seasonality. Usually at this point in the year, we are more mid-50s in terms of line utilization. When we closed the quarter, we were showing 50 percent. Lines are utilized below normal trends in this particular time of the year, because dealers see a market where there's still some uncertainties, both in terms of the interest rate and the inflation rate. I actually was at the Boat Show a few weeks ago in Miami, and you can see and feel, the dealers are seeing customers, consumers are out there for the products but the products will be slower to turn. We like the approach of the dealer base being more cautious in terms of restocking. We would hope, if interest rates go down later on this year, to see an increase of that utilization of credit lines later this fall.

**Gabriel Deschaine**— Analyst, National Bank Financial

Okay, perfect. Thank you. Well, enjoy the weekend, although it's Thursday.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Thank you, Gabriel.

**Operator**

Next question will be from Nigel D'Souza at Veritas. Please go ahead.

**Nigel D'Souza**— Analyst, Veritas Investment Research

Thank you, good morning.

Apologies if you already covered this, but do you have a breakout of the categories within the commercial portfolio that drove the higher provisioning for commercial loans this quarter?

**Liam Mason** — Chief Risk Officer, Laurentian Bank

Good morning, Nigel. It's Liam Mason, CRO. It was broad, general migration across the portfolio. Obviously, as Éric articulated, we're seeing a slower environment in commercial real estate, and we are seeing pressures in that space, but for our portfolio, broad, general migration across the commercial portfolio. We've been disciplined around our reserving, Nigel, across all those categories, and that's reflected in our PCL this quarter.

**Nigel D'Souza**— Analyst, Veritas Investment Research

Any comments on the contribution from inventory financing for provisions this quarter?

**Liam Mason** — Chief Risk Officer, Laurentian Bank

It would be just—it's part of the portfolio, and we're pleased that our dealers are being prudent with regard to the restocking, as Éric remarked. But a degree of migration, as you'd expect at this point in the economic cycle.

**Nigel D'Souza**— Analyst, Veritas Investment Research

Okay, and if I could switch gears, just want to make sure I understand the deposit dynamics and the liquidity comments as well. My understanding would be that if there's a decline in deposits, that would reduce distressed cash outflows, so that should improve your liquidity coverage ratio. Or are you implying that you're also taking down your high-quality liquid assets in conjunction with lower deposit levels? Just trying to understand the interplay between deposits and your LCR.

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

In fact, you're totally… For the LCR, includes deposits, includes the general funding of the Bank, and definitely, as you mentioned, the other liquidity baskets that we have, so it's a general trend. I think I just try to make it easy by talking about deposits, which is probably the simplest element to the equation.

When we take all that into account, we are still managing at a pretty high level of LCR. We are materially above the industry average or the big six. We were elevated; we had built a war chest in terms of liquidity, seeing the macroeconomic change, as well as based on the recent events that happened. We're still very well-positioned and very safe from a liquidity perspective.

When I mentioned the deposit decrease this quarter, I just reaffirmed that we manage securitization and deposits depending of how the loans are going. The difference this quarter is, as stated, we have an objective to reduce it. We've been less aggressive on the rates of the deposits, and that's exactly what it created. The biggest impact of that, you can see, is broker GIC, that reduced by $300 million, because we've been less aggressive on rates.

**Nigel D'Souza**— Analyst, Veritas Investment Research

Okay, and just one point of clarification. Put simply, if your deposit balances continue to decline, is that going to increase your LCR ratio, or is it going to remain stable? Is there any cost to keeping an elevated LCR ratio, because it doesn't seem you need it in order to meet the deposit outflows.

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

As you increase the deposits, your LCR increase. As you decrease the deposits, your LCR decrease. But it's not only a question of deposits or liquidity, LCR is also a question of the flows that you need for the next three months as well. It does depend of the volumes; it does depend of the commitments we have. There's many aspects impacting the LCR, and you have to put all that in the pudding and just remain cautious, and that's what we've been doing in terms of the LCR.

**Nigel D'Souza**— Analyst, Veritas Investment Research

Okay, that's helpful. That's it for me, thank you.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Thank you, Nigel.

**Operator**

(Operator Instructions)

Your next question will be from Darko Mihelic at RBC. Please go ahead.

**Darko Mihelic** — Analyst, RBC Capital Markets

Hi, thank you.

I just have a couple of—they're simple, straightforward questions, I think, so bear with me. The first question is, this quarter had fees from the mainframe outage, there was professional fees and other expenses. Can you just provide some colour around that? Is that part of your view into next quarter and beyond? Essentially what I'm trying to gather here is whether or not more consultants or more work needs to be done simply on that, and if that's part of the pressure on expenses going forward, or is the expense pressure really tied to other things?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, thanks for the question, Darko. Allow me to clarify that item.

As you know, the outage in the last few days of September, for a few days of October, so the remediation work has been done pretty much in October and early November. What we see right now is the remaining expenses related to that outage remediation. This will not flow, or continue in Q2. In Q2, level of expenses is expected to remain roughly in the same ballpark because of other elements, including some spending related to the strategic plan that we're ongoing.

But definitely, what we incurred to remediate the outage was something that we've done in October and November that impacted in expenses, impacted Q4 by $3 million, impacted Q1 by $2 million, but should not impact Q2 anymore.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay, but I understood that—and maybe I have to go back to my notes and check, but I thought, previously, it was a waiving of fees. But this is different, or am I thinking of this incorrectly?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

I'll take it and open to my colleagues if they want to complete. But last quarter, we had two months of waived fees, for $2 million. But in addition to that, we had about $3 million of expenses to remediate and correct, what we had to correct last quarter. In total, what I mean, if you take both quarters together, we had $2 million of fees waived, and that was only in Q4, not impacting Q1. We had $5 million of spending, including professional fees and expenses; $3 million of that was in Q4, and $2 million was in Q1. Technically, a total of $7 million, and that's now passed.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay, okay. Thank you very much for that clarity. I apologize, I just didn't have my notes at my fingertips.

Now, after the fact, has there been any work on the customer experience, given the outage, and further remedial steps that are necessary?

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Yes, Darko, Éric, good morning. Well, pleased to announce this morning that we have a new CIO joining in, Benoit Bertrand. In terms of customer experience, on our side, it's a continuous improvement. We're continuing to make some foundational investments in our technology to improve, but after that it's going to be a matter of simplifying how we actually address customer needs. This will be all blend together within our strategic review, or strategic plan, so more to come in the spring there.

**Darko Mihelic** — Analyst, RBC Capital Markets

Then lastly, I just wanted to also get back to the guidance for the PCL, specifically for next quarter, high teens, low 20s. Is it something that we see in the watch list, or is this related more to a performing reserve billed in Q2? Just any colour on that would be helpful.

**Liam Mason** — Chief Risk Officer, Laurentian Bank

Sure, Darko. It's Liam Mason on that. Just to maybe take you back a little bit and talk about the history we've done with regard to ACLs. If you recall, post-COVID, we've been systematically building our

reserves based on the forward expectation on our performing portfolio. We have continued to systematically build against performing to position ourselves for the macroeconomic conditions.

I would say it's both in the performing, as well as within the watch list portfolio. We're very disciplined in terms of how we set individual reserves on the watch list and the workouts. The broad industry has seen some pressures within real estate, as we've articulated, and as other players have, but we're very disciplined within our reserves, both with regard to performing and specific watch list files.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay. Thanks very much for that.

**Operator**

Thank you.

Next question will be from Doug Young at Desjardins. Please go ahead.

**Doug Young** — Analyst, Desjardins Capital Markets

Hi, good morning. Just hope to get a few quicker clarifications. Just back to the dealer inventory financing, you say utilization is 50 percent; it probably goes down in the next few quarters before coming back up in the fall. What I'm trying to understand is where does that 50 percent go in Q2, Q3, and then sequentially, what does that do to your loan book in terms of total dollar loans? I'm just trying to understand how much more contraction in the next few quarters we could see.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Yes, Doug, Éric here. Just in terms of utilization, what we expect this summer is the consumer will still be prudent in their approach in the market. As you know, the various products that we serve and various industries are quite seasonal, so we should expect a small reduction still in the utilization, but to what extent will really depend on the macroeconomic, in terms of inflation and the behaviours of the policy, in terms of interest rates. We have a prudent consumer out there, so we would expect a small reduction, but to which extent it's too early in the season right now to guide towards that.

**Doug Young** — Analyst, Desjardins Capital Markets

In terms of the impact, in terms of dollar amount on the loan book, are you also adding, is there offsets here, so utilization on your existing goes down? Are you adding new portfolios or new dealers in here that would potentially be a bit of an offset, or is this a status quo, you're not doing that type of extension right now?

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Yes, Doug, it's an excellent question. Actually, we've been indicating that we are in a pursuit of diversifying the overall portfolio in terms of industry mix. The team has made efforts to grow in the ag, construction, technology, which are less seasonal and can also provide great diversification. I'm glad to say that the team with its efforts was able to grow dealer base just over 400 dealers, about 8 percent year-over-year. Yes, we continue to see organic growth in our dealer base, and that will definitely create more momentum in the organic growth, diversified dealer for the future.

**Doug Young** — Analyst, Desjardins Capital Markets

Okay. Then maybe just back to credit, I apologize again if I missed this. But on the performing loan sales, that was all credit migration in the commercial book. Was there model updates? Was there anything else that's underneath the hood there?

**Liam Mason** — Chief Risk Officer, Laurentian Bank

Thank you, Doug. It's Liam again.

No, no model updates. I know some of our competitors did mention that. We are very disciplined in terms of how we set our macroeconomic conditions for the forecast. We benchmark those to the industry and also to the Bank of Canada, so what's really driving it is migration and the forward view on macroeconomic conditions.

**Doug Young** — Analyst, Desjardins Capital Markets

Okay. Just on expenses, lastly, did I hear it right? Essentially, excluding restructuring charges and the adjusted expense base, the anticipation is that it will be relatively flat end Q versus Q1. Did I get that messaging correct?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, you did, Doug.

**Doug Young** — Analyst, Desjardins Capital Markets

Okay, thank you.

**Operator**

Next question will be from Stephen Boland at Raymond James. Please go ahead.

**Stephen Boland** — Analyst, Raymond James

Oh, thanks.

Just the first question actually, Éric, was just on—you had talked before of moving into different verticals in the inventory finance, and you've added these dealers in those different verticals. I'm wondering if you've gotten the same type of protection or covenants that you have in the traditional silo that you'd been in, in terms of guarantees, in terms of actual credit protection? I just wondered if there's any changes in that.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Yes, Stephen, it's a great question there. The approach is always the same in our operating model, so we always start with the OEM, trying to secure. We have 95 percent, 96 percent of OEM repurchases in place, whatever the industry we're chasing. After that, it goes down to financing the asset at the old sale price, getting PG and dealer guarantees for the overall line utilization, and all linked, of course, to that repurchase to the OEM. Yes, we maintain the same discipline approach, whatever type of industry we're chasing.

**Stephen Boland** — Analyst, Raymond James

There hasn’t been any pushback from the OEMs or at the dealer level in terms of some of these covenants, or is it just that’s the way it is if they want access to your financing?

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Well, for us, this is the disciplined approach we gave ourselves and we remain true to it. That’s what we believe allows good companies to go through cycles, so we’re quite consistent in our approach, so that’s how we look (inaudible), yes.

**Stephen Boland** — Analyst, Raymond James

Okay. My second question, I apologize if this is obvious but I’m not sure, Yvan, you mentioned this. Just in terms of giving some guidance, I think last quarter you talked about the loan book being stable throughout 2024, meaning year-over-year. First, was that correct, and has that changed now? Obviously, a big reduction in Q1, but is it still expected to be stable throughout—at the end of 2024 over 2023?

**Yvan Deschamps** — Executive Vice President and Chief Financial Officer, Laurentian Bank

Yes, Stephen, I don’t recall having said that it would be stable ’24 versus ’23. I think I usually guide to a quarter at a time. What we expect for the next quarter is probably a slight reduction of the loan book, due to the fact that we remain prudent and our customers remain impacted by the current economic environment. We mentioned, on the inventory side, they are being prudent with restocking inventory. On the commercial real estate side, we see promoters are dealing some projects, waiting or

expecting a reduction of rates. That is expected to impact slightly the next quarter, not in a material way, but just a slight reduction.

**Stephen Boland** — Analyst, Raymond James

Okay, thanks for clarifying that for me. Thanks.

**Operator**

Thank you.

That's all the time we have for questions. I would now like to turn the meeting over to Éric.

**Éric Provost** — President and Chief Executive Officer, Laurentian Bank

Thank you for joining the call today.

As we head into Q2, our focus remains on our three strategic priorities: customer focus, simplification, and strategic investments to improve our technology infrastructure. We continue to work to revamp our strategic plan and look forward to having more to say later this year, including further details about our upcoming investor events. Thank you.

**Operator**

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time, we do ask that you please disconnect your lines.