Investor Presentation

First Quarter 2023

February 28, 2023

Caution Regarding Forward-Looking Statements

From time to time, Laurentian Bank of Canada and, as applicable its subsidiaries (collectively referred to as the “Bank”) will make written or oral forward-looking statements within the meaning of applicable Canadian and United States (U.S.) securities legislation, including such as those contained in this document (and in the documents incorporated by reference herein), and in other documents filed with Canadian or U.S. regulatory authorities, in reports to shareholders, and in other written or oral communications. These forward-looking statements are made in accordance with the “safe harbor” provisions of, and, are intended to be forward-looking statements in accordance with, applicable Canadian and U.S. securities legislation. They include, but are not limited to, statements regarding the Bank's vision, strategic goals, business plans and strategies, priorities and financial performance objectives; the economic and market review and outlook for Canadian, U.S., European, and global economies; the regulatory environment in which the Bank operates; the risk environment, including, credit risk, liquidity, and funding risks; the impact of COVID-19, the statements under the headings “Outlook”, “Impact of COVID-19” and “Risk Appetite and Risk Management Framework” contained in the 2022 Annual Report for the year ended October 31, 2022 (the “2022 Annual Report”), including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2022; and other statements that are not historical facts..

Forward-looking statements typically are identified with words or phrases such as “believe”, “assume”, “estimate”, “forecast”, “outlook”, “project”, “vision”, “expect”, “foresee”, “anticipate”, “intend”, “plan”, “goal”, “aim”, “target”, and expressions of future or conditional verbs such as “may”, “should”, “could”, “would”, “will”, “intend” or the negative of any of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature, which give rise to the possibility that the Bank's predictions, forecasts, projections, expectations, or conclusions may prove to be inaccurate; that the Bank's assumptions may be incorrect (in whole or in part); and that the Bank's financial performance objectives, visions, and strategic goals may not be achieved. Forward-looking statements should not be read as guarantees of future performance or results, or indications of whether or not actual results will be achieved. Material economic assumptions underlying such forward-looking statements are set out in the 2022 Annual Report under the heading “Outlook”, which assumptions are incorporated by reference herein.

We caution readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond the Bank's control and the effects of which can be difficult to predict or measure, could influence, individually or collectively, the accuracy of the forward-looking statements and cause the Bank's actual future results to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include, but are not limited to, risks relating to: credit; market; liquidity and funding; insurance; operational; regulatory compliance (which could lead to the Bank being subject to various legal and regulatory proceedings, the potential outcome of which could include regulatory restrictions, penalties, and fines); strategic; reputation; legal and regulatory environment; competitive and systemic risks; supply chain disruptions; geopolitical events and uncertainties; government sanctions; conflict, war, or terrorism; and other significant risks discussed in the risk-related portions of the Bank's 2022 Annual Report, such as those related to: the ongoing and potential impacts of COVID-19 on the Bank's business, financial condition and prospects; Canadian and global economic conditions (including the risk of higher inflation and rising interest rates); geopolitical issues; Canadian housing and household indebtedness; technology, information systems and cybersecurity; technological disruption, privacy, data and third-party related risks; competition and the Bank's ability to execute on its strategic objectives; the economic climate in the U.S. and Canada; digital disruption and innovation (including, emerging fintech competitors); Interbank offered rate (IBOR) transition; changes in currency and interest rates (including the possibility of negative interest rates); accounting policies, estimates and developments; legal and regulatory compliance and changes; changes in government fiscal, monetary and other policies; tax risk and transparency; modernization of Canadian payment systems; fraud and criminal activity; human capital; insurance; business continuity; business infrastructure; emergence of widespread health emergencies or public health crises; emergence of COVID-19 variants; environmental and social risks; including climate change; and the Bank's ability to manage, measure or model operational, regulatory, legal, strategic or reputational risks, all of which are described in more detail in the section titled “Risk Appetite and Risk Management Framework” in the 2022 Annual Report, including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2022, which information is incorporated by reference herein. The Bank further cautions that the foregoing list of factors is not exhaustive. When relying on the Bank's forward-looking statements to make decisions involving the Bank, investors and others should carefully consider the foregoing factors, uncertainties, and current and potential events.

Any forward-looking statements contained herein or incorporated by reference represent the views of management only as at the date such statements were or are made, are presented for the purposes of assisting investors, financial analysts, and others in understanding certain key elements of the Bank’s financial position, current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Bank’s business and anticipated financial performance and operating environment and may not be appropriate for other purposes. The Bank does not undertake any obligation to update any forward-looking statements made by the Bank or on its behalf whether as a result of new information, future events or otherwise, except to the extent required by applicable securities regulations and laws. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com.

Non-GAAP financial and other measures

In addition to financial measures based on generally accepted accounting principles (GAAP), management uses non-GAAP financial measures to assess the Bank's underlying ongoing business performance. Non-GAAP financial measures presented throughout this document are referred to as "adjusted" measures and exclude amounts designated as adjusting items. Adjusting items include the amortization of acquisition-related intangible assets, and certain items of significance that arise from time to time which management believes are not reflective of underlying business performance. Non-GAAP financial measures are not standardized financial measures under the financial reporting framework used to prepare the financial statements of the Bank and might not be comparable to similar financial measures disclosed by other issuers. The Bank believes non-GAAP financial measures are useful to readers in obtaining a better understanding of how management assesses the Bank's performance and in analyzing trends.

Non-GAAP ratios are not standardized financial measures under the financial reporting framework used to prepare the financial statements of the Bank to which the non-GAAP ratios relate and might not be comparable to similar financial measures disclosed by other issuers. Ratios are considered non-GAAP ratios if adjusted measures are used as components, refer to the non-GAAP financial measure section above. The Bank believes non-GAAP ratios are useful to readers in obtaining a better understanding of how management assesses the Bank's performance and in analyzing trends.

Management also uses supplementary financial measures to analyze the Bank's results and in assessing underlying business performance and related trends.

For more information, refer to page 29 and 30 of this presentation and to the Non-GAAP financial and other measures section beginning on page 5 of the First Quarter 2023 Report to Shareholders, including the Management's Discussion and Analysis (MD&A) as at and for the period ending January 31, 2023, which pages are incorporated by reference herein. The MD&A is available on SEDAR at www.sedar.com.

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, Head of Investor Relations

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

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

All documents pertaining to the quarter can be found on our website in the Investor Center.
I would like to remind you that during this conference call, forward-looking statements may be made, and it is possible that actual results may differ materially from those projected in such statements. For the complete cautionary note regarding forward-looking statements, please refer to our press release or to Slide 2 of the presentation.

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. Rania and Yvan will be referring to adjusted results in their remarks unless otherwise noted as reported.

I will now turn the call over to Rania.

Rania Llewellyn, President and Chief Executive Officer

Thank you Andrew. Bonjour à tous.

Good morning and thank you for joining us on what I know is a very busy morning.

This quarter kicks off the second year of our three-year strategy and I am pleased to report that we have continued to make good progress, including the exciting public launch of our reimagined VISA experience – a game-changer for Laurentian Bank and its customers.

On behalf of the management team, we would like to thank everyone on our One Winning Team for their efforts over the quarter.

The macroeconomic environment remains uncertain. Central Banks are trying to dampen inflation in the face of mixed economic indicators, causing significant market volatility.

Notwithstanding, our results speak to the strength of our underlying business, our disciplined approach to credit and capital management, and the progress we are making on executing against our plan.

This quarter, total revenue for the Bank grew by 1% year-over-year to $260 million. Net income was $54.3 million and earnings per share were $1.15.

Net interest income was up 3% year-over-year, driven by commercial loan growth.

In line with our expectations that we mentioned last quarter:

- Our NIM was stable at 1.77%, despite material rate hikes in Canada and the U.S. since October. As we have previously said, we expect our NIM to gradually rebound once interest rates stabilize, all other things being equal.

- Our efficiency ratio was 69.4%, due to the temporary pressures on our NIM and investments in our key strategic priorities, including the launch of our reimagined VISA experience, as well as seasonal elements impacting salaries and benefits.

- In line with our prudent and disciplined approach to managing risk, PCLs were 16bps, a year-over-year increase of 5bps.

- By dynamically managing our capital, we maintained our CET1 ratio at 9.1%, offsetting the small negative impact from the phase-out of the ECL transitional arrangements.

I will now turn to our strategic highlights for the quarter.

Last year, we identified three priority areas for 2023 to stimulate growth:
1. First, deliver excellent customer service;
2. Second, grow deposits; and,
3. Third, drive efficiencies through simplification.

I will begin with **customer service.**

We are focusing on delivering excellent customer service and removing pain points by leveraging data from our Net Promoter Score or NPS program. This concentrated effort will help us to gain a deeper understanding of what drives customer satisfaction and dissatisfaction, allowing us to implement targeted actions.

To that end, I am pleased to share that in addition to Inventory Financing, our Equipment Financing specialization is now also rated as “world class”, moving up from “excellent”, with a significant improvement in its NPS.

This achievement is the result of proactively putting our customers at the centre of all our organizational decisions, as well as having the right expertise, right products and right solutions for our customers.

We are now taking these best practices and applying them across the organization, including the rollout of NPS in all retail channels and our contact centre. This will provide us with deeper insights into areas we need to address, giving us the ability to quickly adjust and implement actions to improve the customer experience.

I am also excited to announce that in February, we launched our newly reimagined VISA experience to the public.

The progress in our Personal Banking segment is significant. One year after introducing a mobile app and closing the top five digital pain points for our customers, we have shown that we can truly make size our advantage, by thinking customer first and leveraging partnerships to deliver to market faster.

Through our strategic partnership with BRIM Financial, customers, from across Canada, can now sign up for one of our new VISA cards online, be approved within minutes, and start transacting with their virtual card immediately from their digital wallets.

In addition to the quick, online approval, customers will benefit from one of the most flexible rewards programs on the market, a best-in-class digital platform, and tools to help budget and manage spending.

This is a significant achievement on our digital transformation journey.

Furthermore, in order to continue improving the customer experience, we launched a new Mortgage Financing Centre to handle all mortgage acquisition and refinancing solutions for our retail branches. Using existing resources with strong backgrounds in home financing, we are now delivering more targeted solutions for our customers.
Turning now to **deposits.**

Coming off a record year in deposit growth, we have continued our focus on maintaining a strong balance sheet and supporting loan growth. Having now closed our customers' top five digital gaps, we are well positioned to further grow deposits by deepening our relationships with existing customers and targeting new ones.

To that end, I am pleased to report significant year-over-year growth in deposits of 14%, which outpaced loan growth of 10%. I would like to highlight two key drivers in particular:

1. First, over the last few years we have been focused on growing strategic partnership deposits, which are a cost-effective funding source and backed by multi-year commitments. This quarter saw a $1 billion increase sequentially and more than $2.6 billion since last year.

2. Second, as part of repositioning our personal bank, which includes new digital capabilities and a simpler product offering, we are now seeing a positive trend with term deposit growth of almost $400 million quarter-over-quarter and $700 million since last year. This positions us well as we prepare to launch our digital onboarding solution to market in the next few months.

To drive accountability, we have also included deposit growth on our leaders' scorecards across the organization – whether they are customer-facing or non-customer-facing.

In addition, by leveraging the new Mortgage Financing Centre that I previously mentioned, we are removing many of the day-to-day mortgage activities out of the branch. This creates additional capacity for our financial advisors to focus on deposit growth and deepening our relationships with existing customers.

Our third priority is to drive efficiencies through simplification. We remain committed to reducing our efficiency ratio below 65% over the medium-term by further streamlining our internal processes and operations. But, as we stated in the fourth quarter, this will not be a straight line as we continue to invest in strategic priorities.

A few examples of process simplification underway include:

- First, the launch of an e-statement campaign for retail banking customers, focused on VISA statements as part of our digital-first approach, which is expected to save the Bank $500,000 this year, and up to $750,000 in annual run rate savings beginning next year.

- Second, the introduction of robotics process automation into three processes, with another 17 to follow. Once implemented across all 20 processes, we expect this to generate $2 million in annual run-rate savings over time.

- Third, the introduction of process automation in our deposit fulfillment process, reducing turnaround time by 50%.

Culture and ESG also remain a significant priority and I would like to share some highlights from this quarter:

- First, we launched our newly refreshed corporate donations strategy called Giving Beyond Numbers, which is focused on supporting organizations dedicated to the economic inclusion of newcomers, refugees, and other underrepresented groups.

- Second, we established a 35% reduction target in our Scope 1 and 2 Green House Gas emissions by 2030. And,

- Third, to support Quebec school bus operators in their transition to electric vehicles, we participated in the financing of zero-emission buses.

The Bank also signed the Parental Leave Pledge introduced by Women in Capital Markets which includes commitments to provide paid leave to all parents – including fathers, same-sex partners and parents adopting a child, as well as fostering a supportive work culture that normalizes and embraces parental leave across all ranks and positions.

I am pleased with our progress this quarter and am confident that we are on the right path with our strategic plan.

As we continue to deliver on our three priorities for the year, we expect to launch our digital onboarding experience to the market over the next few months, beginning with a focus on day-to-day accounts. This will allow us to continue to deepen customer relationships, acquire new customers and expand our presence across Canada.

The entire Bank is focused on working together as One Winning Team to drive growth.

I will now turn the call over to Yvan.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Merci, Rania et bonjour à tous.

I would like to begin by turning to slide 13 which highlights the Bank's financial performance for the first quarter.

Total revenue was $260 million, an increase of 1% compared to last year, despite a lower contribution from financial markets related activities, which were impacted by volatile market conditions. On a reported basis, net income and EPS were $51.9 million and $1.09 respectively. Adjusting items for the quarter amounted to $2.4 million or 6 cents per share and are related to the amortization of acquisition-related intangible assets. Details of these items are shown on Slide 29.

The remainder of my comments will be on an adjusted basis.

Net income and EPS were down quarter-over-quarter by 6% and 12% respectively to $54.3 million and $1.15. This was mainly a result of a one-time $2.9 million employee salary subsidy in our U.S. operations recorded last quarter, as well as seasonal impacts in salaries and benefits. This quarter also included an LRCN interest payment negatively impacting EPS by 6 cents.
Slide 14, shows net interest income up by 3% year-over-year and 2% on a sequential basis mainly due to the positive impact of higher interest income stemming from commercial loans.

Since October, the Bank of Canada and the U.S. Federal Reserve both continued to raise interest rates for a total 125 bps in Canada and 150 bps in the U.S. As guided last quarter, the rate increases continued to impact NIM which was stable at 1.77% this quarter. We expect the Bank's NIM to gradually rebound once interest rates stabilize, all other things being equal.

Slide 15 presents Other Income, which decreased by 5% compared to last year, mainly because of volatile conditions unfavourably impacting financial markets related revenues, including fees and securities brokerage commissions and income from mutual funds. On a sequential basis, Other Income was stable.

As shown on Slide 16, non-interest expenses increased by 5% compared to last year and last quarter. This is in-line with our guidance that expenses would be higher due to investments in strategic projects, including the launch of our reimagined VISA experience and digital onboarding. On a sequential basis, in addition to the one-time subsidy recorded last quarter, there were also seasonal impacts in salaries and benefits, such as higher vacation accruals, employee benefits and performance-based compensation, partly offset by lower professional fees.

Slide 17 outlines our diversified sources of funding. Total deposits grew by 14% year-over-year, driven by our strategic partnership deposits. These are backed by multi-year commitments and are a cost-effective funding source for the Bank.

Deposit growth was greater than loan growth on a year-over-year basis and exceeded our objective of deposit and loan growth being in line. Sequentially deposits were up 2%, including good growth in retail term deposits of almost $400 million.

As you can see on Slide 18, we maintained our CET1 capital ratio at 9.1%, as internal capital generation in the quarter offset the 6 bps negative impact from the phase-out of the ECL transitional arrangements in response to COVID-19. We continue to dynamically manage our capital to support business growth and remain committed to our stated objective of managing our CET1 capital ratio at around 9% for the year.

Slide 19 highlights our commercial loan portfolio, which was up by $3 billion or 19%, year-over-year and $200 million quarter-over-quarter, with contributions from our Commercial Real Estate and Inventory Financing specializations.

Slide 20 provides a greater level of detail on our Commercial Real Estate portfolio. We deal with established Tier 1 and Tier 2 real estate developers in Canada with good track records. A significant portion of our portfolio is in multi-residential housing construction where demand remains resilient due to high immigration levels in Canada. The LTV on the term loan portfolio stood at 61% and the LTV on the uninsured multi-residential mortgage portfolio stood at 54%. Considering these LTVs, and our good track record of credit quality with a low level of historical write-offs, we remain confident in this portfolio.

Slide 21 highlights our Inventory Financing specialization. We are a leading platform across Canada and the United States with more than 5,400 dealers.

The majority of our lending activity focuses on RVs, marine equipment and trailers. The average amount of credit outstanding by dealer is approximately $800,000. As a reminder, we lend in this portfolio on a product-by-product basis.

This is also an operational business where key performance indicators such as the age of inventories and turnover rates are monitored closely. The portfolio has generated nominal write-offs. The KPIs are currently healthy and in line with historical levels.

Slide 22 presents the Bank's residential mortgage portfolio. Residential mortgage loans were up 5% year-over-year and 1% 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 57% and low LTV of 51% on the uninsured portion.
It is also worth noting that more than 80% of our residential mortgage portfolio is fixed rate, of which more than 75% will mature in 2025 or later.

Allowances for credit losses on Slide 23 totalled $203.5 million and were relatively in line with last quarter.

Turning to Slide 24, the provision for credit losses was $15.4 million, an increase of $6 million from a year ago, mainly as a result of write-offs in personal loans and the uncertain macroeconomic outlook. PCLs were down by $2.4 million sequentially, mainly as a result of lower provisions on impaired commercial loans.

Slide 25 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans decreased by $43.6 million driven by commercial loan write-offs of previously provisioned accounts. Sequentially, there was a $12.9 million increase due to commercial impaired loans.

We continue to manage our risk with a prudent and disciplined approach and remain adequately provisioned.

Last quarter, we provided detailed guidance for 2023, and I would like to note a few key points, given the ongoing macroeconomic uncertainty:

- We continue to expect that the Bank's NIM will gradually rebound in the second half of the year once interest rates stabilize, all other things being equal.
- Financial markets remain extremely volatile which is expected to continue tempering Other Income results.
- Our efficiency ratio will remain elevated in the second quarter as a result of continued pressure on revenues and investments in our key strategic projects.
- We dynamically manage our capital and resources to grow our business and support our customers and as a result are targeting to remain around a 9% CET1 capital ratio throughout the year.
- The timing and impacts on the economy of inflation reduction measures by central banks are still difficult to predict and so are PCLs. We maintain our previous guidance of high teens or low twenties for the year.
- We expect loan growth to remain tempered as macroeconomic conditions continue to impact business and consumer spending. Overall loan growth for the year is expected to be in the low single digits.

I will now turn the call back to the operator.

Operator

Your first question comes from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman, Scotiabank

Hi, good morning. Yvan, thanks for reiterating the guidance and the margin, but I just want to understand the granularity a little more in terms of what's expected for Q2 in particular, and it's based off of Q1 where, as you highlighted, we continued to see rate hikes. That continues to extend into Q2 as well. The fact that you were able to achieve flat margins in Q1, is that sort of—are we now at the low water mark in terms of margins as you see it, or could we still expect to see some variability before that guidance kicks in, in terms of being in a world where we are stable in terms of the Bank of Canada target rates?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, thank you, Meny, for the question.

I think your question in fact outline many elements to the answer I'm going to give. First, it's been still pretty volatile from a rate perspective. The Bank of Canada increased, since October, by 125 basis points, in the U.S. 150 basis points. For sure, the speed and magnitude of the rate does impact the equation, because we said we do expect that it will gradually recover as the rates stabilize.

We're being prudent with Q2. There's still a lot of pressure on the economy side, so not sure exactly where the central banks will move, so we remain cautious for Q2. But we're pretty positive that it will gradually recover, mostly in the second half.

Meny Grauman, Scotiabank

Got it. Then, I was curious to see RWA growth essentially flat sequentially, and just wanted to understand what led to that result? I mean, loan growth is slowing, but still remains positive on a sequential basis. Just wondering if you can help us understand what's driving that flat RWA growth sequentially?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, for sure, Meny. The first thing is, I would say we're happy right now with the capital level that we have, but something to keep in mind is 2022 was pretty exceptional in terms of growth. We used that to redeploy capital that we had accumulated during the pandemic; I think we outlined that pretty well in the past.

But considering the uncertainty out there, we currently project a GDP that's going to be close to nil, or something that's going to be very limited. In that context, we do project to remain in the low single-digits. This quarter is a bit of a reflection of the same thing. We've been managing, of course, capital and loan volumes, but it's a reflection of what that means in the economy, in terms of the growth. The RWA this quarter, as you mentioned, was pretty much flat from the last quarter.

Meny Grauman, Scotiabank

Understood. I'll leave it there. Thank you.

Operator

Your first question comes from Paul Holden from CIBC. Please go ahead.

Paul Holden, CIBC

First question is related to the deposit growth coming from those strategic partners, and appreciate the numbers you gave us in terms of the Q-over-Q and year-over-year growth. Just wondering if you can give us a better understanding on potential future growth from those same partners. Is there any way to quantify sort of what potential might look like?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, thank you for the question.

The first thing is, as you probably notice, or may notice soon, is we did isolate in the supplementary information, those deposits now. You can see the level of those going forward. We've been increasing those by 400% since 2020, including $2 billion in 2022 and a billion dollars in the last quarter. I would not assume that the billion that we've just seen is going to be the trend, because it's been pretty exceptional in terms of building the relationship with those guys. We need to continue expanding and create new relationships, so the speed of the growth is definitely going to be related to that. I think we had an exceptional growth over the last 15 months.

I would not necessarily use that trend, but to compensate that, we have to know that we got pretty great growth from retail term deposits this quarter. We have been turning that around, great efforts from Karine and our team. We are also, in the next few months, going to start the digital onboarding, so that will allow us to grow outside Quebec by opening accounts. We're looking forward to getting new checking accounts and great core deposits from those customers.

I would say there's probably a transition at one point that is compensated by the internal growth of the core deposits, which is overall pretty positive, and give us diversification, a good deposit base.

Paul Holden, CIBC

Given the growth you've experienced there, I think it would be helpful to understand to what extent that's impacted the net interest margin. Maybe to make it a little bit more granular, I think you previously set an expectation of declining margins in Q1, but you were able to get flat. How significant a role did this growth in deposits play in that better outcome for this current quarter?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, and if I can go back, I would say that, we mentioned last quarter that we had pressure from a few things, right, due to the loan re-pricing. But definitely, the deposits have been offsetting some of that, because we mentioned partnership deposits is cost-effective, and also the term deposits. What you can notice this quarter is that the growth we had in those two categories allowed us to reduce the appropriate deposit GIC by about $700 million. There's definitely an impact there. I don't want to go too granular, but I would say definitely, it's a bit of a positive impact, potentially it'll be a beep (phon) or two to protect the NIM this quarter.

Paul Holden, CIBC

Last question for me is just with respect to credit experience, and obviously I see the PCL result and it looks pretty benign, but there is some uptick in gross impaired loans and new formations. Wondering if there's anything in there to call out in terms of, perhaps, emerging trends that might result in higher losses through the remainder of the year?

Liam Mason, Executive Vice President, Chief Risk Officer

Thank you for your question, Paul.

As you rightly point up, our gross impaired did tick up slightly, up $13 million compared to last quarter. Given the macroeconomic conditions, we are seeing some early signs of a migration. You see that in the disclosure we've had, and that's to be expected in these economic circumstances.

That said, overall, the portfolio is performing very well. Our strong underwriting standards and our consistent disciplined reserving process are serving us well. I'd remind you that over 90% of our portfolio is collateralized; we stress-test our exposures. There are pressures, but net of those, the portfolio is performing really quite well.

Paul Holden, CIBC

Okay, that's all for me. Thank you.

Operator

Your next question comes from Gabriel Dechaine with National Bank. Please go ahead.

Gabriel Dechaine, National Bank

Hi, good morning. My first question is on your capital guidance, you're keeping the core Tier 1 ratios stable from here. A, have you quantified the impact of the update to CAR guidelines that are coming next quarter? B, that your guidance incorporates that potential deviation?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, thank you for the question.

I think it's good that we clarify where we stand in terms of the Basel III revised report. Last quarter, we had mentioned that we would see a slight reduction in terms of capital. With the additional work that we've done and the quarterly asset variations, we now expect it's going to be not material, but it should be nonmaterial, then yes, it is definitely in the guidance of staying around 9%, plus or minus, throughout 2023, including in fact Q2.

Gabriel Dechaine, National Bank

Got it. Then on the deposit disclosure change there, showing strategic partners now—I guess the answer must be "Yes" here, but you're seeing the strategic partner deposit balances go up and broker deposits go down. That would tell me that those are cheaper deposits? If so, could you kind of give me a sense of the cost savings there?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

The answer is definitely yes, but I don't want to go too granular in terms of the margins, just for competitive and competition in general, Gabriel. But definitely, I would say, it's an interesting benefit to have those versus the brokers, yes.

Gabriel Dechaine, National Bank

Were the promotions big this past quarter, because of the growth, and that's why you had so much come in?

Karine Abgrall-Teslyk, Head of Personal Banking

Can you rephrase that, Gabriel, the promotions?

Gabriel Dechaine, National Bank

Were there any promotional rates that got you—I mean, a billion dollars in deposits is pretty big in one quarter.

Karine Abgrall-Teslyk, Head of Personal Banking

The promotion is not in regards to the strategic deposits, but in regards to deposits. That's where we saw the growth in the GIC, and…

Yvan Deschamps, Executive Vice President, Chief Financial Officer

…actually (multiple speakers) explaining with the new digital onboarding, we'll now be able to get to new customers, and other products like the VISA product that we launched in Quebec for instance in Fiscal '22 that's not available to the rest of the country, so still a lot of upside possible. Just to come back to the strategic deposits, just to make sure we understand, this is multiyear commitments that we're putting in place with partners, so it's not deposits that go up and down depending on promotions that we do with them. It's really longer-term agreements and commitments that we have in place where we manage their client's money. It's really, I would say, much more stable than other kinds of demand deposits with this.

Gabriel Dechaine, National Bank

Okay. Last question here is on the inventory finance business. Can you remind me of the seasonal trends we expect? I thought Q1 was maybe a bit more of a seasonal tailwind; growth was positive but flatter than some of the quarters we've seen recently.

If you could talk more broadly about what's going on with end user demand and if that could actually boost balances, because if end user demand for discretionary vehicles is going down, then that would force the dealers to carry higher inventory, then that benefits you, ultimately.

Éric Provost, Executive Vice President, Commercial Banking and President, Quebec Market

Yes, Gabriel, thank you, it's Éric.

Yes, you have the right sense. In terms of inventory financing, we saw normalization throughout the last few quarters versus what was pre-pandemic levels, so this is where we are right now. In terms of the activity, what the dealers are telling us and what we're seeing is there's still good floor activities out there. Consumers are more cautious about (audio interference) more towards pre-pandemic level, to be expected in this season.

Yes, probably helping us to carry more inventory in the line utilization than during the pandemic, which was the lowest historical we've experienced, so yes.

Gabriel Dechaine, National Bank

What does that mean in terms of what kind of growth I should expect?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Well…

Gabriel Dechaine, National Bank

Yes, if inventory levels are going up…

Éric Provost, Executive Vice President, Commercial Banking and President, Quebec Market

Yes, Gabriel, walking into the season, we should see a decrease, actually, of the assets towards…
Right now we're at 59% utilization, and during the summer season, in the pre-pandemic levels, we would see 45%, around that, in terms of utilization. For sure, a decrease in terms of the level of assets during the summertime.

Gabriel Dechaine, National Bank

All right, great. Thanks for answering my questions.

Operator

Your next question comes from Doug Young with Desjardins. Please go ahead.

Doug Young, Desjardins Capital Markets

Hi, good morning. First, I think "dynamically managing capital" was mentioned a few times in the discussions. Just wanted to understand what that means, what you're doing to maintain the CET1 ratio around 9%. Is it just the normal puts and takes, or is there some additional activity that you're taking?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

I think we like saying it's dynamic because we do it on a constant basis, right? Every quarter, we do manage capital. We have been managing capital to remain at about 9.1% now for three quarters in line. That includes a lot of various elements. There's nothing in particular, Doug, it's just a question of making sure that we constantly manage it.

Doug Young, Desjardins Capital Markets

Yes, no, I just wanted to confirm. Okay. Then, income from financial instruments and other income was up, I think 69%. I apologize if you answered what that was, but if not, can you dive into—it was a substantial increase.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, I mean, obviously, the capital markets have recovered in Q1, certainly over the volatility we saw last year. I'd point out that's not a particularly large number for our organization, but we try to run, from a trading perspective, somewhere between $6 million and $7 million a quarter. We do that again this quarter, and so again, I think it's just more reflective of the recovery in the markets that you saw in Q1 versus last year.

Doug Young, Desjardins Capital Markets

That's all trading related, is that right?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

A large part of it is trading, yes.

Doug Young, Desjardins Capital Markets

Okay. Then, back to the—I think you talked about low-single digit loan growth for this year. Can you break that down between the different components, like your inventory finance versus commercial mortgages versus consumer unsecured lending, or whatever, can you provide a little more granularity? I mean, loan growth was obviously much higher than that this quarter, and I get—to your answer around being cautious from an economic perspective, but just trying to get a little bit more details of where you think more of the slowdown is coming from?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, and in fact, I don't want to get too granular, Doug, but if you look at this quarter, the growth was in fact pretty much nil overall for the loans. It was pretty close to being the same as last quarter, as we've discussed previously with RWA. We've seen the smaller increase in commercial, and I explained previously that GDP and everything happening is tempering that growth. We do project a tempered growth in commercial, and we all know that mortgages is currently a market that is impacted by interest rates as well.

I would say it's a bit more general. I don't think there's anything specific where we had a big swing on one side or the other ones in the portfolio. We're just being prudent overall with the portfolios and managing towards low single-digits.

Doug Young, Desjardins Capital Markets

Fair enough. Thank you very much.

Operator

Your next question comes from Sohrab Movahedi with BMO. Please go ahead.

Sohrab Movahedi, BMO Capital Markets

Thank you.

I just wanted to go back to the deposits discussion, and reference back, I think it was during the Investor Day that Karine may have mentioned some customer losses that were obviously weighing on, also, deposit balances. Aside from the strategic kind of relationships, is there any update as to whether or not you've been able to recapture those customers that had been leaving up until about a year or so ago?

Karine Abgrall-Teslyk, Head of Personal Banking

Thank you, Sohrab, for the question.

What I can say is that our net new year-to-date account growth is actually higher than expected, and the majority of the customers that are opening new accounts are new clients. As you'll recall, about half of our customers only have one product with us, so really, the new onboarding capabilities will really allow us to access new geographies and increase client acquisition.

Sohrab Movahedi, BMO Capital Markets

I mean, I think the number you had mentioned before, and I'm ball-parking it, was maybe in the 600,000, 700,000 that had been leaving. Have you added that much back, or where are you relative to that 600,000, 700,000 that had left?

Karine Abgrall-Teslyk, Head of Personal Banking

No, we have a total base of 450,000 customers, so we're definitely not in those numbers. We don't necessarily disclose all those numbers. But, what I can say is that we're definitely on track with our transformation.

Sohrab Movahedi, BMO Capital Markets

Okay. I think, Yvan, you may have mentioned this, but just for crystal clarity, I think you said we should have more tempered expectations for financial markets. Would last year's Q2 have been a higher water mark in particular for financial markets that we should be aware of, or this quarter is more like what you would expect to kind of continue to get out of it? Just maybe put a little bit more colour on that?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, I'll start and I'll let Kelsey add some comments. But if you look at the trend, Q1 and Q2 last year was definitely higher, and then we got into volatile market, due to the rate increases, Q3, Q4, and I would say still this quarter. But in terms of going forward, I'll let Kelsey add a few comments.

Kelsey Gunderson, Head of Capital Markets

Yes, I mean, I think that our capital markets revenues are a combination of trading and advisory revenue. We haven't really seen a recovery in advisory revenues with the stability in the market, as (inaudible) discussed earlier. Our trading results have been strong, or have been consistent, I would say, is probably a better way to describe it. I think it's important to point out too, because that number has been consistent over many quarters, and we've had constructive markets and less constructive markets as well. I'm particularly pleased with how that performs in the face of a variety of market environments.

Looking forward, obviously there's still uncertainty out there. The first part of this quarter has not started strong in the markets, as we all know here, but to the extent that the market results stabilize, we haven't changed our strategy here. We're aligning our capital markets business with the rest of the organization. We're not intending to run big trading risks going forward, we're trying to align with the Bank and drive a fee-based earnings revenue stream. To the extent that the markets themselves stabilize, I think you'll see a run rate (inaudible).

Sohrab Movahedi, BMO Capital Markets

Okay. One last one, and Liam, I know—or the mention of the high teens, low 20s PCL ratio, I think credit obviously being a bit of a lagging indicator. That is taking into account the low, call it single-digit loan growth, so if loan growth, I guess, slowed down further, that basis points would be higher, all else equal?

Liam Mason, Executive Vice President, Chief Risk Officer

Thank you for the question, Sohrab.

Yes, it's consistent with that. We're very happy with the portfolio right now. As I said, we're very highly collateralized and, as you know, we got out ahead of the macroeconomic slowdown with our reserves. We're well-positioned right now and we expect high teens, low 20s.

Sohrab Movahedi, BMO Capital Markets

Thank you.

Operator

Your next question comes from Lemar Persaud from Cormak Securities. Please go ahead.

Lemar Persaud, Cormak Securities

Thanks.

I want to come back to the efficiency ratio and the comment that I think I heard, it's going to be elevated in Q2. First, is that correct?

Then, I think you mentioned there's going to be some pressure on revenues and some elevated project spend. What's going to drive the lift in revenues in the back half of the year? Is that the expectation for NIMs to move higher? Then, what's the elevated project spend in the first half of the year related to, or at least in Q2?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, this is Yvan, Lamar, I'll take that one. I'll give you some guidance, and we can discuss the various elements you outlined. Our guidance is definitely, as we mentioned last quarter, that we would have an efficiency ratio that would be elevated for the first half of the year, so that's exactly what we saw in Q1 as we guided. That's what we expect for Q2 as well.

Why we're expecting that for Q2, it definitely relates to the fact that we have pressure and we're still having pressure by having a lower NIM, and having what I would call as relatively lower capital markets in general. All that to say that if, going forward, we get an increase, a gradual rebound of the NIM in the second half and potentially better capital markets, that's a contribution that should help the efficiency ratio for the second part of the year.

We have to keep in mind, for Q1, that there's been changes in terms of expenses versus Q4. We had a one-time salary subsidy in Q4, that's nonrecurring, and we have seasonally higher elements that we outlined like vacation accruals. That's a difference of $5 million versus Q4. We have a few other elements like payroll taxes related to the payment of the bonuses in Q1.

But what's going to drive it again in Q2 is that we're still investing in our strategic projects, with the VISA project, the digital onboarding projects, but we're also working on the efficiency improvement over time with things like RPAs and automation. We're going to keep the level of expenses relatively elevated because we're investing in the business, but the recovery of the revenue that we expect for the second part should help with that ratio.

Lemar Persaud, Cormak Securities

Okay, thanks.

Then my next question, I think maybe Doug was asking this but I had to hop off there, so feel free to let me know if you've answered this one already. But is the Bank intentionally slowing loan growth to match deposit growth, when you mention that you're dynamically managing capital, or would the Bank allow loan growth to outpace deposit growth? Where I'm going with this is I'm really trying to understand the low single-digit loan growth outlook and if your volume growth is intentionally being depressed from what we could be seeing, because your large cap peers seem to be suggesting a slightly more positive outlook for the year.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

I'm happy to take back some elements if you missed them, Lemar, no issue there. First, 2022 was pretty exceptional in terms of growth. We had big growth in real estate, but also especially in inventory financing, because current line utilization in inventory financing was depressed because of COVID, but it came back. The normalization now at 59% at the end of Q1 is back to where it was pre-pandemic. Definitely, we've seen a normalization of the growth, or a normalization of the volume with the big growth we had in 2022, so we're now back to the normal level.

We're impacted definitely, but what's going on in the economy with the GDP growth that's going to be close to nil projected by the market, we're just being cautious at this point. We believe that, if the GDP is there, our loan is probably going to be somewhere in the same ballpark as well. Those are the key elements that would explain why we're projecting low single-digits.

Lemar Persaud, Cormak Securities

Appreciate the colour. Thanks, guys.

Operator

Your next question comes from Joo Ho Kim from Credit Suisse. Please go ahead.

Joo Ho Kim, Crédit Suisse

Hi, thanks and good morning.

Just wanted to go back to that discussion on expenses. It sounds like some lift from margins in the second half and expense sort of pressure in the first half. I'm curious how you see expense growth to be for the entire year? I think it was up around 5% this quarter. Just given the timing of the investments that we've seen, and will have, I guess, going forward, I'm just wondering how you see that expense growth playing out for the remainder of the year?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, good question, Joo Ho. Usually, I do prefer talking about the efficiency ratio because that's really how we manage ourselves; depending on the revenue level, we'll manage the expenses as well. But currently, we have 69.4% adjusted number for Q1. We do expect to have an elevated number, so same ballpark roughly for Q2. We will see an improvement, should the revenue, as I previously mentioned, improve for the second part.

Joo Ho Kim, Crédit Suisse

Okay, thanks.

Just a quick number one, last one for me. I'm just looking at your balance sheet here and I see a decrease in both cash and other interest-bearing deposits. On a sequential basis, I'm just curious if that impacted the net interest margins results this quarter, and if it did, if you could help sort of quantify that?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, I would say there's a lot of elements that impact the NIM, to be transparent. Definitely, we do manage liquidities on that balance sheet as we need, to be prudent in the current environment but based on the needs of the Bank. As we need more, a bit more, a bit less, we'll manage accordingly. I wouldn't get any confusion from the variation this quarter.

Joo Ho Kim, Crédit Suisse

Okay. Thank you.

Operator

Your next question comes from Mike Rizvanovic with KBW. Please go ahead.

Mike Rizvanovic, KBW

Hi, good morning. Maybe a quick one for Rania; can you just give me a sense of, are you at the point now where you're adding customers in the retail business on a net basis? Because I think sometimes things can get skewed on—whether we look at deposits or loans, the balance has increased, but I'm just trying to understand from a number of customer perspective. I don't know whether you want to talk high level on the absolute number, or maybe the ones that are considered to be core or key relationships, but are you at the point now where you're adding customers on a net basis?

Rania Llewellyn, President and Chief Executive Officer

Yes, so thanks for that question.

As we always said on the Personal Bank, it's a multiyear strategy. We're simplifying our product offering, we're simplifying our end-to-end processes, we're improving our customer experience. We started with the mortgage business, and our goal last year was to stabilize the consumer attrition there, and we did just that. Now, obviously, market conditions have changed as well.

So, now with the launch of the VISA, our repositioning in some of our deposit products and we're really excited about our upcoming digital onboarding. The goal is ultimately two-pronged.

Number one, as we always said, 50% of our clients only have one product with us, so there's a great opportunity for us to deepen those customer relationships and cross-sell products and services for them, as we continue to launch. Number two is to absolutely grow, from a net new customer acquisition perspective, and that's definitely—we're starting to see some green shoots with our new VISA launch.

We're seeing it with our new repositioning of our term deposits, which we did a campaign. It was obviously just focused on Quebec because that's where we're limited from a physical footprint, and that was successful.

Again, the digital transformation is absolutely going to be critical for us to continue to acquire net new customers, which is ultimately our goal.

Mike Rizvanovic, KBW

Okay, thanks for the colour.

It does sound like you have a lot of avenues where you could grow, but just as far as currently, is it fair to think that you're still net, losing customers up until Q1? I'm just trying to get, very high level, is this something that—it sounds like it's still a work in progress. But were you still a net loser, or a net reduction on your customer base in the quarter?

Rania Llewellyn, President and Chief Executive Officer

Yes. Mike, what I would say, as we've always said, our goal last year was to stabilize and we stabilized, and so now we're starting to see an uptick.

Mike Rizvanovic, KBW

Okay, perfect. That's super helpful. Thank you for the colour.

Operator

Your next question comes from Nigel D'Souza from Veritas. Please go ahead.

Nigel D'Souza, Veritas

Great. Thank you, good morning.

I just had a quick follow-up question on, first on your margin. I believe last quarter you mentioned re-pricing lags have been impacting, I think it was about 10 basis points that you highlighted. Could you provide an update on that? Have you recaptured that re-pricing lag? Is this still something that has to be captured in subsequent quarters?

It sounds like your main takeaway is that you need rates to stabilize from a policy rate perspective before margins are expanding. Do I understand that correctly?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, the key point, Nigel, to take from what I discussed previously is that last quarter since October, we've seen 125 basis points growth in Canada and 150 basis points growth in the U.S. The big rate increase and speedy rate increase that we have seen has now expanded to what I would call the third quarter, after Q3, Q4, now Q1 was a bit of the same story. There is still that re-pricing lag, and we're more guiding towards the second half of the year in terms of gradual rebound, should the interest rates stabilize. I must admit, I have to say, all other things equal, because there is a lot of things impacting it.

Nigel D'Souza, Veritas

Great. A second quick follow-up was on credit losses and impairments this quarter. For commercial lending, and I apologize if you already answered this, but could you kind of drill down into which categories within your commercial loan portfolio drove PCLs and impairments this quarter?

Liam Mason, Executive Vice President, Chief Risk Officer

Nigel, thank you for the question.

Our portfolio overall remains very strong; there are no specific segments that I'd highlight at this time. There are challenges in the marketplace, loan growth is slowing, the economic situation is more uncertain. But our portfolio remains strong, well-collateralized, and I'm not seeing any particular segments in commercial that are concerning at this time.

Nigel D'Souza, Veritas

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

Operator

Your next question comes from Marcel McLean with TD Securities. Please go ahead.

Marcel McLean, TD Securities

Okay, thank you.

I just want to talk to your medium-term financial targets, the big four: the EPS growth, ROE, efficiency ratio and operating leverage. What I'm gathering from the result from Q1 and some of the guidance and headwinds you're naming here, and 2023 is supposed to be your year of growth here. I'm getting the sense that maybe not all of these are going to be achievable this year, but possibly by 2024, it could be back to achieving those. Just love to get your thoughts on, overall high level, how this all kind of adds up here with respect to these four targets?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, thank you for the question.

I would say first, they are medium-term targets, so we're still working towards the same objective and the same results. We have the same plan, and we'll just keep going and delivering on every milestone that we have in that sense. For sure, 2023 is a situation that is more uncertain in terms of macro economy than what we had probably projected 18 months ago, like everybody in the market.

The second thing I would keep in mind is, despite we had called it growth 18 months ago, the growth that we had last year was pretty exceptional. That has definitely moved us forward in terms of accomplishing that growth that we expected to be making, so we're still leading towards the same direction.

Marcel McLean, TD Securities

Okay. Perfect, thanks for that.

Then, just to get very specific on the NIM and what you're incorporating in the guidance and your expectations; specifically, do you have any cuts forecast by the end of this year in your projections, or is that not the case?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

No, the answer is no at this point. We're being prudent with the rate increases and projecting no rate cuts.

Marcel McLean, TD Securities

Okay. If we were to see a rate cut, what sort of impact could we expect from that, late in the year?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, if you look at the financial statements, it says it's a few million bucks for 100 basis points. But at this point, it really depends on a lot of factors, right? It depends of how the slope of the curve is going to move, it will depend on how aggressive are the banks and the GIC market, it depends on a lot of elements. At this point, I don't think 25 basis points is pretty material for any bank. What is material is that we see stabilization after three quarters of very high interest rate hikes.

Marcel McLean, TD Securities

Okay. Got it. Thank you very much.

Operator

Thank you, that's all the time we have for questions.

I would now like to turn the meeting over to Rania.

Rania Llewellyn, President and Chief Executive Officer

Thank you for your questions today.

We continue to make good progress against our strategic plan and are focused on our three priorities for the year.

We will continue deliver excellent customer service through new products and services like our reimagined VISA experience.

We are excited about the upcoming launch of our digital onboarding solution, which drive further deposit growth and support our continued expansion across Canada.

We remain committed to reducing our efficiency ratio and will continue to simplify processes and automate, while also making investments in strategic priorities.

We have a prudent approach to credit and will continue to dynamically manage our capital to support growth.

I look forward to speaking to everyone again in a few months. **Thank you.**

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining and ask that you please disconnect your lines. Thank you.