Conference Call Financial Results

Third Quarter 2023

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Forward-Looking Statements and Non-GAAP Financial Measures

Caution Regarding Forward-Looking Statements

From time to time, Laurentian Bank of Canada and, as applicable its subsidiaries (collectively referred to as the "Bank") may make written or oral forward-looking statements. These forward-looking statements are made in accordance with the "safe harbor" provisions and are intended to be forward-looking statements in accordance with applicable Canadian and U.S. securities legislation. Forward-looking statements 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 statements under the headings "Outlook" 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. The forward-looking statements contained in, or incorporated by reference in, this document are used to assist readers in obtaining a better understanding of the Bank's financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically 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.

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The Bank cautions 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: 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; 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; 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" of 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 or potential events.

Any forward-looking statements contained herein or incorporated by reference represent the views of management of the Bank 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 SEDAR at www.sedar.com.

Non-GAAP and Other Financial 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 30 of this presentation and to the Non-GAAP financial and other measures section beginning on page 5 of the Third Quarter 2023 Report to Shareholders, including the Management's Discussion and Analysis (MD&A) as at and for the period ending July 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 — Vice President, Investor Relations, Laurentian Bank

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 third 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 Team: William 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 under the Investor Centre.

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, Chief Executive Officer, Laurentian Bank

Bonjour à tous. Thank you, Andrew, and thank you all for joining us today.

This morning, we announced solid Q3 results, and I am extremely pleased with the progress we continue to make on our fiscal year 2023 priorities. On behalf of the entire Management Team, I would like to thank everyone at Laurentian Bank for their resilience and focus on executing against our plan.

Before providing an overview of our third quarter, I would like to address our recently announced business update. On July 11, the Bank announced that our Board of Directors and Management Team are conducting a review of strategic options to maximize shareholder and stakeholder value. The review is still underway and we do not intend on disclosing further developments until it concludes. During this time, we remain committed to executing on the Bank's strategy and our fiscal 2023 priorities with the full support and confidence of the Board.

Over the past two and a half years, the Bank's renewed senior leadership team and Board have been focused on building up the bank for sustained growth and profitability. Since the launch of our plan in December 2021, we exceeded all our financial targets against a backdrop of an increasingly challenging macroeconomic environment and market volatility. Quarter after quarter, we have been delivering on key milestones as set out in our plan and exceeded market expectations in 11 of the past 12 quarters, including today. We have closed our customers' top five digital pain points, including the launches of our mobile app, digital account opening solution and re-imagined Visa experience, and we grew our key specializations within commercial banking. We continue to maintain a strong capital and liquidity position and our funding and deposit base remain strong, stable and diversified.

The rest of this call will focus on Q3 progress and results. To reiterate, we will not be providing any further details about the strategic review during the Q&A portion.

Turning now to our financial results, top line revenue for the quarter was $261 million, up 1 percent compared to last quarter and relatively in line with last year. EPS was $1.22, or up 5 percent quarter over quarter and relatively in line compared to last year.

A few additional highlights include: a sequential improvement of 120 basis points in our efficiency ratio to 68.5 percent; an increase of 10 basis points in our ROE to 8.2 percent; NIM was up 4 basis points, in line with our previous guidance; PCLs this quarter were 14 basis points, down 4 basis points year-over-year and sequentially due to the seasonal reduction in utilization rates in inventory financing. We continue to be prudent with our reserves and remain adequately provisioned.

Commercial loan growth was up on a year-over-year basis but down sequentially as our inventory financing portfolio continues to normalize in line with pre-pandemic behavior. Utilization rates this quarter were 49 percent, down from 58 percent in Q2. The third quarter is typically a period of seasonal volume reduction caused by dealers experiencing strong sales due to good consumer demand. We expect utilization to increase in Q4 as dealers begin restocking their inventory. We are closely monitoring turnover of the product, which remains healthy and is a key performance indicator.

In commercial real estate, while demand for new housing remains high, there has been a general slowdown in activity across the sector. Projects in progress continue to be developed; however, we are hearing from some of our customers that they are waiting for inflationary and interest rate pressures to cool before launching new projects. Our unfunded pipeline continues to be strong and we remain comfortable with our portfolio, given our focus in the multi-residential sector and the continued demand for housing in Canada.

I am pleased to share that our capital position was further strengthened as a result of internal capital generation and the seasonal volume reduction in inventory financing. We ended the quarter at 9.8 percent, up 50 basis points on a sequential basis. Looking forward, we will continue to drive results in line with our strategic plan.

For fiscal 2023, we identified three priority areas to stimulate growth: first, deliver excellent customer service; second, deposits and optimizing our funding structure; and third, drive efficiencies through simplification. I will now cover key achievements under each priority, beginning with customer experience.

We said at the beginning of the year that we will continue our focus on delivering excellent customer service and removing pain points by leveraging data from our net promoter score, or NPS program. This concentrated effort is helping us gain a deeper understanding of what drives customer satisfaction and dissatisfaction, allowing us to implement targeted solutions.

Last quarter, we announced that personal banking saw a significant improvement in their NPS scores. This quarter, we launched a new customer experience council which brings together cross-functional groups to align on enhancements to the customer experience. I am pleased to announce the following improvements in our NPS scores: private banking has achieved an excellent NPS rating, which is a score above 50 points; branch NPS increased by three points sequentially and 19 points since the beginning of the year, and our loyalty team NPS was up four points sequentially or 16 points since the beginning of the year. This is a testament to our continued focus on the customer and putting them at the centre of all our actions

In Q1 2023, we announced the launch of a mortgage financing centre to improve the customer experience by handling all mortgage acquisition and refinancing solutions for our retail branches. As a result of this group's high degree of specialization, we have achieved a first-time right score of 96 percent for mortgages, up from 90 percent last year, and have successfully reduced the time to yes to less than two days, in line with industry standards and exceeding our three-year target of less than three days.

One final point on customer experience is that now we have migrated more than 70 percent of our public website to the new modernized look and feel. This is providing a consistent brand experience for our customers and improves navigation on our website.

The second priority we identified this year was a focus on deposits and optimizing our funding structure. We are committed to maintaining a diverse, stable and strong balance sheet that supports loan growth. Following the launch last quarter of our digital account opening solution to the public, I am pleased to announce that 66 percent of customers being on-boarded through this channel are new to the Bank and more than 40 percent are from outside of Quebec. This is in line with our strategy to acquire additional net new customers as well as grow our customer base outside of our traditional branch footprint.

Following a recent marketing effort on deposit campaigns with a particular focus on our high interest savings account, we have seen a 50 percent increase in chequing account openings and 125 times increase in high interest savings accounts opened on a year-to-date basis.

Finally, we have launched a new virtual-first pilot to enhance the customer experience by serving customers where and how they want while still maintaining a presence in our communities. This pilot will also enable us to offer additional products and services to our recently acquired customers from across Canada through an advice-based model.

Our third priority is to drive efficiencies through simplification. We remain committed to reducing our efficiency ratio over the medium term by further streamlining our internal processes and operations. As part of our drive to enhance efficiencies, we launched a business efficiency program within personal banking at the beginning of this year. This program was established to identify key initiatives that will support the Bank in meeting its medium term efficiency target. So far this year, we have identified and achieved 93 percent of our 2023 target in annual recurring savings.

Three key initiatives include: first, we are relocating branches with expiring leases to smaller, modernized and more convenient locations for our customers, improving the customer experience and reducing costs; second, we are harmonizing contracts for physical paper storage and reducing unnecessary licenses; and third, we are digitizing documents and checks across nine remote branches, which will reduce expenses by replacing internal mail with a digital document exchange.

Culture and ESG also remain a significant priority, with culture as the driving force of our strategic plan which is underpinned by our commitment to ESG. This year marked our third annual employee survey. Over the last three years, we have put a heavy emphasis on everyone’s work-life experience. As a result, since the first survey in 2021, our overall response rate has gone up from 66 percent to 85 percent. I am particularly pleased that our overall engagement has gone up from 74 percent to 80 percent, which is

higher than the industry benchmark at 78 percent and achieves our fiscal year 2024 target one year early. I would like to thank everyone at Laurentian Bank for their focus on creating a better employee experience.

Two other highlights under culture and ESG that I would like to mention include an improvement to our Sustainalytics ESG score, which maintained our low ESG risk rating, and launched our third annual Laurentian Bank in the community giving campaign, allocating more than $150,000 to community-based charities and not-for-profits chosen by our frontline team members.

I will now turn the call over to Yvan.

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

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 third quarter.

Total revenue in the third quarter was $260.8 million, relatively in line with last year and up one percent on a sequential basis. Higher net interest income year-over-year from commercial loans was offset by higher funding costs and a lower contribution from financial markets-related revenue, which continues to be impacted by sustained unfavourable financial market conditions. On a reported basis, net income in the third quarter was $49.3 million and EPS was $1.03. Adjusting items for the quarter amounted to $8.4 million after tax, or $0.19 per share, and are related to restructuring charges from the right-sizing of the Bank's capital market franchise announced last quarter, strategic review-related charges, and 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.

Growth in net interest income, cost discipline and lower loan losses drove this quarter's solid results. EPS of $1.22 was up 5 percent quarter-over-quarter and down 2 percent year-over-year. Net income of $57.6 million was up 12 percent compared to last year and down 1 percent compared to—sorry, last quarter. The efficiency ratio improved by 120 basis points quarter-over-quarter to 68.5 percent despite continued investments in key strategic priorities. ROE was up 10 basis points sequentially to 8.2 percent. This quarter also included an LRCN interest payment which negatively impacted EPS by $0.06.

Slide 14 shows net interest income up by $3.6 million or 2 percent year-over-year, mainly due to higher net interest income from commercial loans, partly offset by higher funding costs and lower mortgage prepayment penalties. On a sequential basis, the increase of $7.9 million or 4 percent mainly reflects the positive impact of three additional days in the quarter and sequentially higher mortgage prepayment

penalties. Net interest margin was up 4 basis points sequentially to 1.84 percent. This is mostly due to improved funding costs and higher mortgage prepayment penalties.

Slide 15 highlights our diversified sources of funding and the Bank's liquidity position. Year-over-year, total funding increased by $800 million through cost effective partnership deposits of $1 billion and retail deposits of $300 million, which were offset by a planned decrease in wholesale deposits. On a sequential basis, total funding was relatively flat. We saw a continued transition of deposits to term from demand accounts. The Bank maintained a strong liquidity coverage ratio through the quarter.

Slide 16 presents other income, which decreased by 4 percent compared to last year because of unfavourable market conditions impacting financial markets-related revenue, including fees and securities brokerage commissions, income from mutual funds, and income from financial instruments. On a sequential basis, other income was down 6 percent or $4.3 million, mainly for the same reasons.

Slide 17 shows non-interest expenses up by 2 percent compared to last year mainly due to higher technology depreciation and amortization costs as the Bank continues to invest in its strategic priorities to improve the customer experience and support growth. On a sequential basis, non-interest expenses were slightly lower due to performance-based compensation.

Turning to Slide 18, our CET1 ratio was up 50 basis points to 9.8 percent, mostly due to internal capital generation and the seasonal inventory financing loan reduction.

Slide 19 highlights our commercial loan portfolio, which was up by $400 million or 3 percent year-over-year. As guided in Q2, on a quarter-over-quarter basis, the portfolio was down $800 million or 4 percent due to a reduction in inventory financing, which saw a normal seasonal portfolio reduction with utilization rates and behavior more in line with pre-pandemic patterns. Consumer goods acquisitions from dealers last quarter showed strong resilience despite the uncertain economic environment. Dealers begin restocking in Q4, and therefore utilization rates are expected to increase next quarter.

Slide 20 provides details of our inventory financing portfolio, where key performance indicators such as the age of inventories and turnover rates are monitored closely. Credit line utilization rates are back to pre-COVID levels for this quarter, currently standing at 49 percent. Given the current economic environment, we are monitoring the portfolio closely and it continues to perform well with a high level of dealer sales, as previously mentioned.

In commercial real estate, homebuilding continues to meet the demand of rising immigration levels in Canada; however, some developers are being prudent and delaying the start of some projects until

inflationary pressures and interest rates ease. As seen on Slide 21, 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 B assets and financial recourse to strong and experienced sponsors. As we said last quarter, the majority of the portfolio is in multi-tenanted properties with limited exposure to single tenanted buildings.

Slide 22 presents the Bank's residential mortgage portfolio. Residential mortgage loans were up 4 percent year-over-year and flat on a sequential basis. We maintained 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 48 percent on the uninsured portion. It is also worth noting that more than 80 percent of our residential mortgage portfolio is in fixed rate, of which almost 80 percent will mature in 2025 or later.

Allowances for credit losses on Slide 23 totaled $217.1 million, up $23.9 million compared to last year mostly as a result of higher provisions on commercial loans related to volume growth and macroeconomic uncertainty. Allowances for credit losses were up $5.5 million sequentially mostly as a result of higher provisions on commercial loans.

Turning to Slide 24, the provision for credit losses was $13.3 million, an improvement of $3.3 million from a year ago, reflecting lower provisions on performing loans partly offset by higher provisions on impaired loans. DCLs were down $2.8 million compared to last year, mostly for the same reasons.

Slide 25 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans increased by $43.1 million and were up $18 million sequentially. We continue to manage our risk with a prudent and disciplined approach and remain adequately provisioned.

Last quarter, we provided detailed guidance for the remainder of 2023, and I would like to note a few key points. We expect a slightly higher efficiency ratio in Q4 with lower NII due to the recent seasonal inventory financing loan reduction, unfavourable financial market conditions, and higher expenses mostly related to costs associated with transitioning our current Visa customers to the new brand platform. We expect relatively muted loan growth in Q4 as macroeconomic conditions impact business and consumer spending despite an increase in inventory financing, as dealers start restocking inventory and utilization rates increase.

NIM is expected to remain relatively stable but may be impacted by central bank rate decisions. PCLs remain difficult to predict given the uncertain macroeconomic environment but are expected to be in mid to high teens. Capital is expected to remain strong. I will now turn the call back to the Operator.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator instructions)

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

Meny Grauman – Analyst, Scotiabank

Hi, good morning. Rania, I appreciate you can't comment on the strategic review - you were clear, but I'm just curious if investors should be prepared for some financial impact from the strategic review as it goes on. Is there anything that we should be prepared to see in terms of a slowdown on the revenue side, maybe elevated expenses as maybe decision-making gets slowed down, or maybe some type of client attrition in this period of uncertainty? Anything there that you can offer a perspective on?

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Yes, thanks Meny. As I said in my remarks, and I'll just reiterate it, I won't be providing any comments until the review is completed entirely, and so it's currently ongoing. But what I can say that is our Q4 guidance, which are in both my comments as well as Yvan's, is really what you should be guided with. We're focused on our fiscal 2023 priorities, we're delivering against them, and we're committed to our three-year strategic plan, so it's business as usual and once the review is completed, that's when we'll be providing additional comments.

Meny Grauman – Analyst, Scotiabank

Fair enough, and then just a question on credit better than expected. There's an interesting chart on Slide 24 in terms of the PCL ratio, comparing Laurentian to peers, and it looks like that gap is definitely widening. I'm wondering how investors should interpret that - is this a function of business mix here? How do we understand such a better PCL ratio relative to the peer group, and it appears to be widening as well, so just curious about that.

William Mason — Chief Risk Officer, Laurentian Bank

Meny, good morning and thank you for the question. It's Liam Mason, Chief Risk Officer. We've been very disciplined in setting our reserves. You may recall some time ago after the pandemic, others were releasing, we were prudent and measured and maintained our ACLs through that period. This quarter,

it's really driven by a couple of factors. First off, as both Rania and Yvan noted, our ACLs are coming down due to a drop in volumes in inventory finance, and that's one of the major factors. The other is that we're seeing lower write-off levels, so overall given the strength of our underwriting standards and prudent approach, we're very comfortable with our PCLs and our ACLs and we expect going forward to get to be around the mid to high teens, as Rania indicated.

Meny Grauman – Analyst, Scotiabank

Thanks for that.

Operator

Your next question comes from Paul Holden with CIBC. Please go ahead.

Paul Holden – Analyst, CIBC World Markets

Thank you, good morning. A couple questions on capital to start.

Looking at sort of the waterfall leading us to the Q-over-Q increase in Q3, I would assume some reversal of that RWA benefit next quarter, but it sounds now like despite inventory finance going back up, overall loan growth is expected to be muted, so just trying to figure out what the implication is for CET1 given typical seasonality but slowing demand in loans.

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

Thank you, Paul, for your question. This is Yvan.

This quarter, the 50 BPs, in fact 10 of that came from internal capital generation. Most of it, as you mentioned, came from RWA variations mostly related to the inventory financing reduction seasonal impact that we've seen. Going forward, we expect the inventory financing to go back to normal behavior that we had pre-COVID environment, so Q4 should see a start of an increase, with Q1 being usually where they restock most of their equipment. We will definitely probably use up that for those two quarters, but we also have internal capital generation that will absorb a portion of that, so overall for next quarter, we expect capital to remain pretty strong.

Paul Holden – Analyst, CIBC World Markets

Okay, and my follow-up question, then, you expect capital to remain strong, maybe just a reminder on what your target CET1 is, but then let's say loan growth is slower than normal because of the cycle, are

there other alternative uses of capital that you think about executing on near term, or would you more likely keep that capital in your back pocket for when economic conditions improve?

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

Yes, thank you. I would say at this point we're happy and comfortable with the level of capital that we have. In the current economic environment, it's a good position to be. We always said that internal growth is our key focus in terms of capital deployment. We have mentioned that we wanted to be above 9 percent this year, so we're healthy right now in terms of capital base and really prudent in the environment. But that remains really our key strategic priority, is to deploy that internally with growth, but as mentioned many times in my comments, very happy with the level we have right now.

Paul Holden – Analyst, CIBC World Markets

Okay, got it. Then this will be last question, so given that, does that suggest then there might be opportunities to grow market share with respect to loan growth, and if yes, where would you say are your best opportunities today to grow share?

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Yes, so maybe I'll take this one, Paul, just in terms of—again, we would be assessing things against the current market conditions, our risk appetite in areas where we can win. Ultimately, our goal is to deploy capital where we can maximize shareholder return and earn the largest risk-adjusted, risk-weighted adjusted return, right, so wherever we can deploy it most efficiently and get the biggest return. That's part of our ongoing day-to-day operations, is to maximize the return in terms of how we deploy our capital.

But as Yvan said, I think everyone on the street, everyone is trying to be prudent because markets are quite uncertain right now, and so we're comfortable where we're at from a capital position and we'll continue to review it on a regular basis.

Paul Holden – Analyst, CIBC World Markets

Okay, thanks for that.

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Thanks Paul.

Operator

Your next question comes from Darko Mihelic with RBC Capital Markets. Please go ahead.

Darko Mihelic – Analyst, RBC Capital Markets

Hi, thank you. Good morning. Yvan, I just wanted to go back to the discussion on the restocking of inventory and your expectations. We've received, I don't know, in the last couple of days very reduced expectations next year, in particular for marine - I mean, Mastercraft has really lowered its expectations, Polaris, Malibu Boats, all of them suggesting that there's boats sitting on dealer lots, prices are declining, the interest rate environment is affecting demand, and this is all about recreational, very discretionary type of spend really coming down next year in the U.S., so I would assume ATVs and things like that would also be off quite a bit.

When I look at your Slide 20, I look at marine and recreational vehicles being a very big component, and so I'm really surprised. Yvan, is something that I'm missing or is there—you're expecting very big demand in manufactured housing or other, or is it clearly that maybe your customers or the borrowers that you're servicing there are very different from the broader market? Any help on that would be—because my expectation would have been that you would not see significant restocking, and in fact, you'd probably see significantly weaker lending volumes into next year.

Éric Provost — Executive Vice President, Commercial Banking, Laurentian Bank

Hey Darko, it's Éric Provost, Head of Commercial here. I'm going to take this one, if you don't mind.

Actually, right now, for sure it's more difficult to predict the level of restocking we're going to see, so I don't think Yvan mentioned significant restocking. I think that we will see throughout the Q4 and Q1 how dealers approach next season, and for sure with the interest rates, they will be prudent, but let's not forget in times like these, sometimes OEMs will put out special programs, they will try to structure to facilitate the dealers to actually on-board the new year product, so it is expected that our dealer base will restock for sure in marine and RV for the next season.

But also, it needs to be noted, and we've highlighted that in the previous calls, we're also aiming our inventory financing towards a diversified approach, so we are growing ag, we're growing construction, we're growing our IT dealer base as well, and from there we do expect some good momentum as well going towards 2024.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, great. That's helpful. Thank you very much.

Éric Provost — Executive Vice President, Commercial Banking, Laurentian Bank

Thank you.

Operator

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

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, thank you. I appreciate the strategic review is ongoing and you don't want to talk about the outcome of it, but can I just ask you to maybe validate some of the timelines that were mentioned in some of the press articles, and specifically whether or not the Board engaged in a strategic review almost immediately or coincidental with when you had your investor day. Am I understanding that timeline correctly?

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Yes, so Sohrab, I can't really comment on what's in the press, all I can kind of comment on is what we released in our press release and the comments that I've been disclosing on this call, which is, listen - we're two years into a three-year strategic plan and the obligations of Management and the Board is to continuously be looking at various strategic alternatives and options and to ensure that we're constantly maximizing the shareholder value. It's the optimal time to take a longer term view, and so again, the review is currently ongoing and we'll comment in terms of what are the next steps once its completed.

Sohrab Movahedi – Analyst, BMO Capital Markets

Yvan, I appreciate some of the outlook commentary you offered looking ahead into the fourth quarter. One of them was where you expect the expense to revenue ratio to probably settle in. Unfavourable revenue environment and some—it sounds like some episodic costs holding things back a little bit relative to expectations. But what should we be thinking about next year as far as this expense to revenue type target and ratio?

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

Yes, thank you Sohrab. Maybe I can explain a little bit more on Q4 to start with.

I mentioned in my comments that due to the loan reduction, there's going to be a slight reduction in NII, so that does put pressure on the efficiency ratio. The other key element that we mentioned is the Visa migration of our existing customers, which is currently ongoing, so most of that, in fact all of that is

expected to be done by the end of the calendar day, so there is the clear pressure on the expenses coming from that element.

In terms of '24, we are currently working in budgets and reviewing our plans, as you know, so I would keep and get back to you in Q4 with more details on that.

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Just to add to that, Sohrab, I think the only thing that we are—we can continue to say is that we are committed to reducing our efficiency ratio. We're highly focused on expenses, but yes, stay tuned for our Q4 as we work through our budget in terms of further guidance.

Sohrab Movahedi – Analyst, BMO Capital Markets

Thanks for taking my call.

Operator

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

Gabriel Deschaine – Analyst, National Bank Financial

Hi, good morning. First question about the NIM. I heard you say, and it's in the slides, talk about mortgage prepayment penalties. I'm just a bit surprised to see that being an influencing factor this quarter. I don't think people are paying down their mortgages and refinancing because of higher rates. Maybe I'm thinking about it the wrong way and you can clarify.

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

Yes, thank you Gabriel, this is Yvan. The mortgage prepayment penalty is also something that is seasonal. You would see more houses being sold in the spring, beginning of the summer and things like that, so there is some influence getting there. Definitely there is less prepayment penalties than what we had a few years ago while the rates were lower, so your assumption is good; but if we compare with last quarter, the rates were high last quarter and this quarter. It's mostly seasonally related to activity.

Gabriel Deschaine – Analyst, National Bank Financial

Okay, just like—I got it. It's probably down from last year, I would imagine, as well.

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

Exactly, it's down from last year, it's up from last quarter.

Gabriel Deschaine – Analyst, National Bank Financial

Okay, cool. Now Northpoint, I know the revenue contribution, I know the loan—percentage of loans it represents unless I am missing it, which is possible, but I don't know the profit contribution. Could you clarify how much Northpoint contributes to your profits?

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

Yes, thank you for your question, Gabriel, but unfortunately, we don't disclose product-level profits and contribution, so that's not something that we disclose.

Gabriel Deschaine – Analyst, National Bank Financial

Well, could you tell me—my assumption is that it's a disproportionate contributor to profit, so it may be, whatever - 15, 20 percent of revenue, but in terms of earnings, it could be more than that because if I just look at the loan mix, mortgages are a big chunk but they are not that profitable.

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

Unfortunately, we don't disclose product level contribution, so I cannot confirm or infirm what you're saying. We just don't disclose the product profitability.

Gabriel Deschaine – Analyst, National Bank Financial

All right, thanks. Enjoy the long weekend.

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

Thank you.

Operator

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

Doug Young – Analyst, Desjardins

Hi, good morning. Maybe sticking with the NIMs, was there anything else unusual in the quarter, and when you are talking about for Q4 stable NIMs, I assume that's relative to the 1.84 in Q3? Just wanted to confirm that.

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

Yes, thanks for your question, Doug. I'll take that one.

For the NIM, the first [inaudible] this quarter, which is interesting, is that we have improved funding costs, and the way it works is that despite potentially higher, by example, GIC rates versus what you would have last year, the spread versus the swap rates are lower than they were, so what we do is that when we get, by example, fixed term GICs for our funding, we would translate that—or sorry, hedge that and convert that to variable rates, so the spread versus the swap rate is a key component that impacts the profitability, and those spreads reduced versus last quarter and it did contribute to the profitability of the Bank.

Definitely, as I mentioned with Gabriel a few minutes ago, the fact we are higher in terms of prepayment penalties, that goes in the margin as well, so maybe a bps, up to one bps, a bit less than one bps came from prepayment penalty, and most of it came from lower funding costs.

Doug Young – Analyst, Desjardins

Your assumption is those funding costs stay essentially the same, but if there's a movement that's positive or negative, that could swing a few basis points in Q4? Is that a fair assumption?

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

Yes, it's a good assumption, Doug, at this point. When we say relatively stable, it all depends on spreads, it depends on where the central banks will be going. There's a lot of factors impacting the bank margin, but at this point if I assume most of the conditions remaining about the same, the margin should be relatively close.

Doug Young – Analyst, Desjardins

Okay.

Then second, just on the PCL discussion, the release of performing loan PCLs is very different than what we have seen from others, and I get that the inventory financing was a contributor to that. Was there

any other changes in your forward-looking indicators or your weightings between the different scenarios that resulted in the release of performing loan allowances, or was this all attributed to the inventory financing?

William Mason — Chief Risk Officer, Laurentian Bank

Yes Doug, it's Liam, CRO. It was all related to inventory financing variation. Indeed, we've maintained our strong reserves against other parts of the portfolio and very happy with where we're at. All inventory financing.

Doug Young – Analyst, Desjardins

Okay, and then just lastly on expenses, the strategic review is costing you money. Is this a level that we are seeing, or can you give us a sense of how much this is going to cost when we build into our models? I get it that it's backed out of cash, but it does impact reported and capital and whatnot. Just trying to get a sense of the ongoing cost related to this.

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

Yes, and thank you for your question, Doug, but the level that we have in Q3, you should expect we—we're still in the strategic review, so definitely there is going to be cost, but we will get back to you if there is big movements there. But at this point, you should expect something relatively around the same number, something like that, so it's a relatively small amount at this point.

Doug Young – Analyst, Desjardins

Okay, good. Thank you.

Operator

Your next question comes from Lemar Persaud with Cormark. Please go ahead.

Lemar Persaud – Analyst, Cormark

Yes, thanks. For Yvan, what is the expectation for stable NIMs next quarter if we're going to see inventory finance volumes come back on and this quarter you saw some improved funding costs? Like, what am I missing here? Are you just being conservative, because I would think that with inventory financing coming back on, that would be accretive to NIMs, or maybe the answer is that you are going to offer more promotions on the inventory finance business to facilitate growth in response to an earlier question? Help me square that one up.

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

Yes, no problem, Lemar. One thing that is important is the NIM is impacted by the average volume of a quarter, right, so there has been a big decrease, $700 million related to inventory financing in Q3, so technically despite the fact that it can go up in Q4, it's really the average of the quarter that will impact it. At this point, there is no benefit that we expect from inventory financing; in fact, there is potentially a small negative impact on the margin because of the volume reduction and the level of the margin of inventory financing, so think at it really from an average order asset-based perspective.

Lemar Persaud – Analyst, Cormark

Okay, okay. If I understand it correctly, then, the return of those volumes will be more of a Q1 margin story. Is that fair to say?

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

Exactly, so what you are going to see in Q4 will impact Q1, as you mentioned, and the increase we are going to see in Q1 will gradually impact Q1 and Q2, so there is always a small lag related to the average balances of those quarters.

Lemar Persaud – Analyst, Cormark

That's very helpful.

My next question for Rania - I know you can't talk about the strategic review process, but I just want to be clear because you did throw it out there, are the investor day targets still valid despite the strategic review process? Is that the way to think about it?

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Yes, so as I said in my comments, and yes, I'll reiterate it, we're focused on our three-year strategic plan, we have been delivering against it. We are finalizing the second year of the third year, so the targets at this point continue to be the targets that we're all collectively as a Management Team and as a Bank working towards.

Lemar Persaud – Analyst, Cormark

Okay, I appreciate that.

Then my final question, just a modeling-related question, would it be fair to suggest that there is some improvement in capital markets-related revenues into Q4? Just any comment on that would be helpful.

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

The markets are really uncertain at this point, so it's really difficult to expect, but seasonally as well, the summer is currently—has been impacting Q3 as it does every year, so we would expect a slight improvement, but this is all depending on the financial market conditions overall.

Kelsey Gunderson — Executive Vice President, Capital Markets, Laurentian Bank

Yes, I'll jump in - it's Kelsey Gunderson here. We're expecting to see a resumption of the activity that we would characterize as more normal run rate for capital markets. Keep in mind, our business is heavily focused on fixed income. Already in the first quarter, we have seen some decent activity on the DCM side and we have been participating in that, so we're cautiously optimistic that we'll see a resumption to more normal run rate market—capital market run rate revenue numbers.

Lemar Persaud – Analyst, Cormark

Thanks, appreciate the time, guys.

Operator

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

Nigel D'Souza – Analyst, Veritas Investment

Thank you, good morning. I wanted to follow up on credit losses. When I look at the gross impaired loans, there is an uptick quarter-over-quarter particularly in commercial, but you're not seeing that necessarily show up in credit losses proportionately, so wondering if you could elaborate on the expected loss rates in commercial and what were the specific exposures in commercial that became impaired this quarter?

William Mason — Chief Risk Officer, Laurentian Bank

Yes, hi Nigel, it's Liam Mason.

We are very, very disciplined in terms of our approach to impaired loans. You will see that by the time they get to fully impaired, generally we have very, very—or appropriately prudent reserves against them. We have a disciplined workout process, it does take some time, but overall, there is nothing new

here other than variations commensurate with the macroeconomic environment. I will just reiterate the expectations that Rania and Yvan laid out, that we expect mid to high teens in terms of the aggregate portfolio, and comfortable with our processes and the reserves at this time.

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

Just to be very mathematical, Nigel, I will give a simple example. If you move a $10 million loan to impaired, it's very highly collateralized, what we have, so it means that the PCL potential impact could be very minimal. It's just that that loan is moved to impaired loans, but may trigger very minimal losses at the end of the day.

William Mason — Chief Risk Officer, Laurentian Bank

Just to give you some colour on that, more than 94 percent of our lending portfolio has a degree of collateral against it.

Nigel D'Souza – Analyst, Veritas Investment

Yes, I appreciate it. I guess that's what I was getting to in terms of the collateral values of what's becoming impaired. Could you elaborate on what that collateral is and what your outlook is for collateral values as we go through the cycle, because that's what's going to mitigate your loan losses?

William Mason — Chief Risk Officer, Laurentian Bank

There are challenges within the real estate market and impact on valuations from the higher rates, but we are generally first lien. We have strong underwriting standards and we're taking loan-to-value attachment points that are very, very conservative, so even if there is an impact on valuation on some of those commercial real estate properties, generally given our attachment points, we are well protected and we have less than—the big pressures right now, as were outweighed by the number of competitors, are in the office space. We're less than 4 percent of that. It's really our emphasis on purpose-built multi-family construction, and we're also within this environment very conscious of contingencies, appropriate debt service reserves to ensure that the properties remain stable and current.

Nigel D'Souza – Analyst, Veritas Investment

Okay, that's helpful. I know you can't comment on the strategic review, but was just wondering if you can comment, not on the specifics of the review but just the timeline of—or when you expect the next update on it, or anything in terms of just timing.

Rania Llewellyn — President, Chief Executive Officer, Laurentian Bank

Yes, so Nigel, from a timing perspective, the update will be provided once the review is finalized. That's all I can comment on at this point in time.

Nigel D'Souza – Analyst, Veritas Investment

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

Operator

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

Joo Ho Kim – Analyst, Credit Suisse

Hi, good morning, and thanks for taking my questions.

I wanted to ask on residential mortgages, and if you can talk about whether you see any difference in client behavior, whether that's on the payment side or renewals between your alt-A book and the prime book. I am just trying to get a sense of whether there are different levels of stress on the different types of borrowers, given the higher rate environment.

Karine Abgrall-Teslyk — Executive Vice President, Personal Banking, Laurentian Bank

Hi Joo Ho, thank you for your question. It's Karine here.

As you know, we are seeing some stress for some customers and working with them on an individual basis, but when we look at our alt-A mortgage, it is really a strong portfolio and governance in terms of our risk assessment. We approve it using the same stress test methodology as our other mortgages, so there is no other key differences. Really when we look at our alt, it's a small percentage of our overall portfolio - it's only 12 percent of our mortgages and less than 5 percent of our total loan mortgages, and our alt-A portfolio also has very low LTV, so less than 65 percent, and 55 percent or even less than 50 percent.

William Mason — Chief Risk Officer, Laurentian Bank

Yes, just to add to that, the average LTV on our alt-A book is 49 percent, Joo Ho, so very, very strong from a collateral coverage standpoint, and we're not seeing any variation relative to the conventional book.

Joo Ho Kim – Analyst, Credit Suisse

Got it, thanks for that. When the renewals are expected to happen in 2025 and beyond, how do you think about your borrowers' capacity to handle the higher rates, especially given that your book seems to be a bit more geared towards the fixed rate mortgages?

William Mason — Chief Risk Officer, Laurentian Bank

We're very disciplined in terms of our underwriting standards with our mortgage customers. We do recognize that they will see an impact to the debt service in post 2025 to 2026, but as Karine outlined, we stress the customer capacity to absorb rate increases at the outset, and at this time we're very comfortable with the reserves against those exposures. There will be an impact for those customers in terms of the debt service with the higher rates, but we're comfortable from a credit standpoint, given the valuation, given the reserves and given our forward expectations.

Joo Ho Kim – Analyst, Credit Suisse

Got it, thank you.

Operator

Your last question comes from Stephen Boland with Raymond James. Please go ahead.

Stephen Boland – Analyst, Raymond James

Appreciate you fitting me in. Just a follow-up on Darko's question on the inventory finance.

We're hearing from some of your peers that due to higher interest costs, a lot of dealers are paring down their demand for inventory on their lots and things like that. Are you seeing any similar discussions with your dealer groups, is that a possibility in your segments?

Éric Provost — Executive Vice President, Commercial Banking, Laurentian Bank

Hi Stephen, it's Eric. Again, like right now, summer is not even over, so we are still seeing at the dealer level some good foot traffic. We are seeing some demand for the products, so I think that we'll know more walking into Q4 once the restocking season begins and when the shows actually from the OEM are kicked off in all the various industries we cover, so it's still early. It's still difficult to presume for next season, and of course dealers will be prudent and it's something we want to see, actually, because it's the right approach for them. We expect restocking, but again to what level, it is to be seen in the coming quarters.

Stephen Boland – Analyst, Raymond James

Just on the dealer level, are you still seeing—are you still in a dealer add mode, like, are you still out there recruiting to get more dealers on your books?

Éric Provost — Executive Vice President, Commercial Banking, Laurentian Bank

Yes, and actually as I mentioned with Darko's question, we are still acquiring. We have acquired about—we increased our dealer base about 10 percent year-over-year, and we are diversifying our books to try to reduce that seasonality impact. We started originating into the ag, into construction, into the IT sector which will provide diversified sources of assets, as well as diversify the seasonality of the books.

Stephen Boland – Analyst, Raymond James

All right, thanks for taking my questions.

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

Just one last comment, Stephen - thank you for taking coverage on the Bank, and welcome to the quarterly calls with us.

Stephen Boland – Analyst, Raymond James

Thank you very much. The timing has been interesting, for sure.

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, Chief Executive Officer, Laurentian Bank

Thank you for your questions today. We remain focused on our strategic plan and delivering against our three core priorities for this year. Customer experience is top of mind, and I am pleased with the improvements we have made in personal banking. Deposits and an optimized funding structure remain a priority. Our digital account opening solution is supporting this objective by gathering cost-efficient deposits from retail customers across the country. We will continue to take the necessary actions to simplify and automate processes to reduce our efficiency ratio, which will further improve once we complete the conversion of all current Visa customers onto the new card platform. We take a prudent approach to credit and will manage capital to support growth.

Thank you again for joining the call.

Operator

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