

Banque Laurentienne / Laurentian Bank

Résultats du Troisième Trimestre / Third Quarter 2025 Results

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PRESENTATION

Operator

Welcome to the Laurentian Bank Quarterly Financial Results Call.

Please note that this call is being recorded.

I would now like to turn the meeting over to Raphael Ambeault, Vice President, Finance and Investor Relations. Please go ahead, Raphael.

Raphael Ambeault — Vice President, Finance and Investor Relations, Laurentian Bank

Bonjour à tous. Good morning, and thank you for joining us. Today's opening remarks will be delivered by Éric Provost, President and CEO, and the review of the third quarter financial results will be presented by Yvan Deschamps, Executive Vice President and CFO, after which we'll invite questions from the phone. Also joining us for the question period is Christian De Broux, Executive Vice President and CRO.

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

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

I will now turn the call over to Éric.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Merci Raphael. Bonjour à tous et bienvenue à notre conférence téléphonique pour le troisième trimestre de l'année 2025. Good morning. Thanks for being with us today. Today, we're pleased to report a strong quarter, reflecting our continued focus and disciplined execution. These efforts have enabled us to effectively manage the challenges of a volatile economic landscape. Our performance this quarter reaffirms the strength of our market positioning and the value of our commercial specialization, all supported by a solid foundation of liquidity and capital.

Our strategic priority remains clear: to simplify, strengthen and future-proof our operations. We are taking deliberate steps to reduce complexity across the organization, enhance system redundancy and improve overall resiliency. A key part of this involves streamlining our distribution channels and simplifying our technology stack efforts that will continue into 2026.

I'm proud to share that our teams remain highly engaged and committed to executing our strategy. This was clearly reflected in the results of our most recent engagement survey, transpiring to our culture and the support the team is dedicating to transform our organization. Such a high level of engagement is especially important in today's economic environment. We are actively monitoring a range of factors,

including market trends, policy developments and broader macroeconomic conditions that may impact our customers. As always, we remain ready to adapt as needed.

Looking at loan performance, commercial loans remained stable this quarter, supported by growth in our commercial real estate portfolio, which offset the usual seasonal decline in our inventory financing segment. Mainly as a result of this shift in business mix, our net interest margin was slightly down to 1.82 percent.

In Inventory Financing, utilization declined to 41 percent at the end of July – fully aligned with our expectations – and continues to reflect steady, healthy demand for the products offered by our dealers. Our dealer base has also continued to expand at a steady pace this quarter, bringing the year-to-date growth to 4 percent. This momentum was primarily driven by the Agriculture and Powersports segments, both of which are part of our diversification strategy in Inventory Financing.

Looking ahead, we remain encouraged by the sustained demand our dealer network is experiencing this season. Should interest rates begin to ease in the U.S. in the upcoming quarters, we believe this could act as a lever for renewed restocking activity, particularly as dealers prepare for the summer 2026 season.

In our Commercial Real Estate portfolio, loan volumes increased by 5 percent during the quarter, reflecting the strength of our market positioning and deep expertise of our teams. Their ability to identify and seize opportunities has been instrumental in driving this growth. At the same time, we maintain a stable unfunded pipeline with potential to convert in the coming quarters. That said, we remain cautious in our outlook for Q4 given the current market environment.

On the Personal Banking side, our sustained engagement with our customers enabled us to maintain a stable deposit base within our retail segment while also continuing to build positive momentum in broker-sourced deposits. As emphasized during our Investor Day, we remain actively focused on pursuing strategic partnerships to accelerate our specialization strategy. We believe that forging the right partnerships will be a key driver in unlocking future growth and further elevating our market position.

During the quarter, we also maintained focus on investing in our key strategic priorities, resulting in an adjusted efficiency ratio of 75.7 percent. While we expect these elevated expense levels to persist over the coming months, these investments, particularly in technology, are critical to executing our strategic plan.

I'd also like to highlight that our provision for credit losses stood at 12 basis points this quarter, reflecting the strength of our specialized underwriting, consistent adjudication, and robust portfolio management. We remain confident that our current level of provisions is prudent and aligned with the quality of our portfolio. While the economy has shown resilience so far, we remain vigilant and prepared to adjust.

Finally, we continue to maintain a solid position in both liquidity and capital, providing us with the financial stability to manage the current macroeconomic environment while remaining focused on executing our strategic priorities.

With that, I'll turn it over to Yvan.

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

Merci Éric et bonjour à tous. I would like to begin by turning to Slide 6, which highlights the Bank's financial performance for the third quarter of 2025. Total revenue for the quarter was \$246.8 million, down 4 percent compared to last year and up 2 percent quarter-over-quarter.

On a reported basis, net income and diluted EPS were \$37.5 million and \$0.73, respectively. We've recorded adjusting items for the quarter, which totalled \$2.1 million after tax or \$0.05 per share from restructuring and other impairment charges of \$2.9 million. Additional details are available on Slide 21 and in the Third Quarter Report to Shareholders.

The remainder of my comments will be on an adjusted basis. The diluted EPS of \$0.78 decreased by 11 percent year-over-year and increased by 7 percent quarter-over-quarter.

Net income of \$39.6 million was down by 8 percent compared to last year and up 17 percent compared to last quarter.

The Bank's efficiency ratio increased by 240 basis points compared to last year and by 50 basis points sequentially. The increase is mainly driven by the elevated level of expenses related to investments in our strategic priorities.

Our ROE for the quarter stood at 5.4 percent, down 80 basis points year-over-year and up 20 basis points quarter-over-quarter.

Slide 7 shows net interest income up by \$5.1 million, or 3 percent, year-over-year from the growth of average earning assets and higher commercial loan concentration. On a sequential basis, net interest income was up by \$3.7 million, or 2 percent, mainly due to the longer quarter. Our net interest margin at 1.82 percent was up 3 basis points year-over-year and down 3 basis points sequentially due to changes in the loan mix.

Slide 8 highlights the Bank's funding position. On a sequential basis, total funding was up by \$500 million, which mainly came from an increase in deposits from advisors and brokers. The Bank maintained a healthy liquidity coverage ratio through the quarter, which remained at the high end of the industry.

Slide 9 presents Other Income of \$60.9 million, which was lower by 20 percent compared to last year and higher by 1 percent sequentially. The year-over-year decrease mostly came from lower fees and securities brokerage commissions following the divestiture of the retail brokerage divisions, as well as lower income from financial instruments and lower lending fees.

Slide 10 shows non-interest expenses of \$186.9 million, down 1 percent year-over-year and up 2 percent sequentially mainly from the number of days and the higher performance-based compensation.

On Slide 11, you'll see that our CET1 ratio increased by 30 basis points to 11.3 percent sequentially due to changes in the asset mix and in the internal capital generation. We are in a solid position and well prepared to redeploy capital.

Slide 12 highlights our commercial loan portfolio, which grew by about \$1.1 billion year-over-year and by about \$100 million sequentially.

The expected seasonal decline in inventory financing was offset by growth in our commercial real estate portfolio, which also maintained a stable pipeline through the quarter.

Slide 13 provides details of our inventory financing portfolio. This quarter, utilization rates were 41 percent, remaining materially below historical averages normally in the high 40s.

Slide 14 illustrates that two-thirds of our commercial real estate portfolio is residential with most of it in multi-residential housing. We have limited exposure to the office segment, which accounts for just 3 percent of our commercial loan portfolio. The LTV on the uninsured multi-residential portfolio stood prudently at 59 percent.

Slide 15 presents the Bank's residential mortgage portfolio. Residential mortgage loans were down 1 percent year-over-year and up 1 percent on a sequential basis. We adhere to cautious underwriting standards and are confident in the quality of our portfolio. This is reflected in our 62 percent proportion of insured mortgages and a low loan-to-value ratio of 50 percent on the uninsured portion.

Allowances for credit losses on Slide 16 totalled \$189.9 million, down \$14.4 million compared to last quarter, mostly from lower allowances on impaired commercial loans.

Turning to Slide 17, our level of allowances for credit losses has remained elevated since the pandemic period. In the bottom left corner, you'll find the evolution of our coverage ratio expressed as the previous year's allowances for credit losses over the net write-offs incurred over the following 12 months. On a relative basis, we remain well positioned in terms of coverage to face ongoing uncertainties.

Turning to Slide 18, the provisions for credit losses was \$11.1 million, a decrease of \$5.2 million from a year ago from lower provisions on impaired loans. Sequentially, PCLs were down \$5.6 million from provision reversals in performing loans. As a percentage of average loans, PCLs decreased by 6 basis points year-over-year and by 7 basis points quarter-over-quarter to 12 basis points.

Slide 19 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans increased by \$41.9 million due to credit migration in commercial loans and by \$11.3 million sequentially. Thanks to our prudent underwriting standards and the strong credit quality of our loan portfolio – about 95 percent of which is collateralized – we're able to manage credit migration effectively with minimal impact on ACL and PCL outcomes.

As we look ahead to the fourth quarter of 2025, I would like to provide some remarks. We expect muted growth for average earning assets for Q4. NIM is expected to be consistent with Q3. Regarding the efficiency ratio, Q4 should be relatively aligned with Q3, leading to a full year around 75 percent, as previously guided. Considering the uncertain environment, it is difficult to predict the potential outcome on PCLs, but we currently expect to be in the high teens. Our tax rate is expected to be in the 19 to 20 percent range. Capital and liquidity levels are solid and are expected to remain strong for Q4.

I will now turn the call back to the Operator.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, if you do have any questions, please press star, followed by one on your touchtone phone. You will then hear a prompt that your hand has been raised. Should you wish to withdraw from the polling process, please press star, followed by two. If you are using a speakerphone, you will need to lift the handset first before pressing any keys. Please go ahead and press star, one now if you do have any questions.

First we will hear from Paul Holden at CIBC. Please go ahead, Paul.

Paul Holden — Analyst, CIBC Capital Markets

Thank you. Good morning. First question is on, let's call it, credit trends. Performing provision release, but then the increase in gross impaired loans and increase in impaired PCLs, and I recognize the two aren't always correlated, but maybe you can walk us through that? What's driving the increase in GILs and impaired, and then why do you feel comfortable releasing against those trends?

Christian De Broux — Executive Vice President and Chief Risk Officer, Laurentian Bank

Hi, Paul, Christian. Thank you for the question. The increase in GILs is really a function of our commercial book. These tend to be lumpy; when they come in, they come in in big chunks, and that's what we're seeing. It also takes a little bit more time today to work out, out of these accounts. But what you're seeing, there's a lot of activity in our GILs. Our GILs—the new formations was \$140 million this quarter, and yet we've only increased by \$11 million quarter-over-quarter in our GILs. That's because we have very high levels of return to performing net repayments while managing our net write-offs. Overall, it's just a reflection of the economic cycle, and we're performing well.

Why do I feel that, despite this increase, we are well provisioned? There is a better impaired mix in our portfolio right now. As we have built our portfolio—and it has evolved over time—the same is said about our GILs. We have a lot more of inventory financing, equipment financing and commercial real estate in our impaired mix, and that is more collateralized than what we've had in prior years.

Remember as well, every time an impaired commercial account comes in, it goes through a process of a third-party appraisal to peg the value, so we're very comfortable with the level of allowances.

Paul Holden — Analyst, CIBC Capital Markets

Okay. I want to ask a couple of questions on potential recovery in inventory finance. I think you gave us some numbers, roughly a low 40 utilization rate, and I think \$10 billion of lines outstanding. Maybe you can give us a sense, remind us on how much CET1 that might consume if inventory finance recovers, and also maybe the NII potential associated with that.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes. I'll take a portion of that and Yvan will complement. Paul, it's Eric. Good morning. We feel very well positioned for an uptick in our inventory finance business. Just growing our dealer base—as I mentioned in the opening remark in terms of diversification as well—but a lot relies on the overall macro. If we are to see some ease in the interest rate levels in the U.S., we believe that both the consumer confidence, as well as the dealer base confidence could actually get us closer or back to historical levels. As you mentioned, this could represent an uptick of 8 percent to 10 percent in utilization rates. Clearly, it could be a consumption of 40 bps to 50 bps of capital, but again, everything needs to be aligned and we

are comfortable in the position we have right now in terms of capital because we'll be ready to deploy against those highly profitable markets.

In terms of NII, I don't know, Yvan, if you want to add.

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

The only thing I would add on NII, we don't disclose specifically, but what I can tell you is interest rate reductions in the U.S. would have a positive impact on inventory financing; previously explained the impact. Just to quantify it, about a 25 basis points decrease in Fed rates would equate to about a non-recurring \$1.5 million for the quarter.

Paul Holden — Analyst, CIBC Capital Markets

Okay. Then last question for me. How should we think about your liquidity level? You didn't disclose your LCR ratio, but you said it's at the top end of the range. How should we think about that versus the liquidity you might need to draw for recovery in inventory finance? Would you need to increase broker deposits to fund it, or do you have excess liquidity that you could pull on to fund it?

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

Yes, there's many ways of attacking it, but I would say, overall, we are in excess liquidity. We've been managing very prudently the liquidities. We're above the industry in terms of LCR; we have good liquidity aside that would help us support an increased inventory financing. The way we manage—and that also regulatory-wise banks are managed—for uncommitted amounts for some types of portfolios we

always have to keep some liquidities aside. We can definitely use some of that for recovery of volume in inventory financing or otherwise.

Paul Holden — Analyst, CIBC Capital Markets

Okay. I'll leave it there. Thanks for the time.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you, Paul.

Raphael Ambeault — Vice President, Finance and Investor Relations, Laurentian Bank

Thank you, Paul.

Operator

Once again, ladies and gentlemen, a reminder to press star, one should you have any questions.

Next we will hear from Stephen Boland at Raymond James. Please go ahead, Stephen.

Stephen Boland — Analyst, Raymond James

Hi. Paul got through a lot of it. Just one question. There was talk of putting in a forward flow agreement or alternative funding in the U.S. I'm just wondering if there's been any progress on that, on diversifying your funding base in the U.S.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes. Thank you, Stephen, for that question. We're actively working on it in terms of—that's why I opened talking about partnerships. Definitely, this is one of the angle of partnerships we are considering, but we'll make sure that we line up the right agreement. Right now, as you see in our capital position, and as Yvan mentioned in terms of our liquidity position, we feel very good where we are so we're in no rush. We're going to land the best agreement possible for the organization going forward, but it's still in our plans. More to come on that, Stephen.

Stephen Boland — Analyst, Raymond James

Okay. Then just on your CET1, it does grow. Can you remind me what the goal is for your CET1 ratio? Is it to get to high 11s? Twelves? Something like that?

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

Stephen, thank you for the question. This is Yvan. What we mentioned in the past is we wanted to manage in the 10 percent plus margin, to stay above 10 percent and in that margin. We're currently at 11.3 percent, but that goes to a few points and partly Eric discussed that. The environment is still uncertain. We are investing heavily right now in the platform to build efficiencies going forward.

But the key point that I want to pass on capital, Eric just mentioned that there's low utilization in inventory financing. A change in the rates in the U.S. could trigger some demand up to potentially a billion dollars, which is 40 basis points, 50 basis points. Commercial real estate, we also have an increase of more than 20 percent in our unfunded pipeline since last year, that's also additional capital that we want to keep aside to answer that.

We're not in a mode of necessarily growing, Stephen; we're in the mode of having enough for an impact in the market if there's less uncertainty, U.S. rate reduction and even Canada—Canadian rate reduction that could have on the real estate side.

Stephen Boland — Analyst, Raymond James

Okay. I'll sneak one more in. Just in your opening remarks, you mentioned expanding distribution or simplifying your distribution and technology costs. Can you give us a concrete example of maybe some milestone you hit during the quarter or a product that you've discontinued? I'm just wondering, maybe a little bit—something specific.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes. Thank you, Stephen. Actually, it's Eric. On many fronts, we made progress towards the foundation. I won't go into system details, but definitely, efforts we're putting forward in terms of some of the upgrades we're considering are moving from on-premise type technology to cloud technology. This, as we indicated in the strategic plan, puts more pressure from an OpEx point of view, heavily on our expense side and again, for about the first two years of the plan.

Also, remember that we started simplification last year by divesting some of our platforms, but also joining our equipment finance group into our inventory finance platform, Northpoint. That combination also will fuel and create some future opportunities.

We're working on all aspects to really reduce complexity and create those efficiencies going forward.

Stephen Boland — Analyst, Raymond James

Okay. I appreciate that. Thanks. Have a great weekend.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes, you too.

Raphael Ambeault — Vice President, Finance and Investor Relations, Laurentian Bank

Thank you.

Operator

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

Sohrab Movahedi — Analyst, BMO Capital Markets

Okay. Thank you. Eric, I just wanted to maybe follow up on that. You obviously had a strategic plan. You shared some of that with us at your Investor Day. We're about a year or so into it. How are we tracking to that plan halfway through?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you. I would come back on the halfway through, Sohrab, because we're just over a year in the plan actually of what has been released and the financial targets we set were for midterm. I feel very good. Just like we said last quarter, we're tracking towards plan. Again, working on the foundation of

future state required that investment blitz from the beginning to make sure we're ready to transition to cloud, allowing us afterwards to decommission key expensive systems in our platform and in our technology stack.

Again, we are working on multi fronts. It is heavy lifting, but the teams are strongly engaged and we're making the progress as planned, but it's a big undertaking, as we laid out last year.

Sohrab Movahedi — Analyst, BMO Capital Markets

Okay. Just to kind of belabour the point, things are going according to plan—or as planned you're saying, but I assume on the investing and the spending and the heavy lifting of the technology side, but the revenue backdrop has softened. Is there any plan to adjust to the prevailing kind of macro environment? Or is it more of a, I'll call it, pedal-to-the-metal and we're doing the spending, we're going on regardless of what the revenue environment looks like?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

We'll stay committed to our investment level, Sohrab, because it's required. It's needed. If we want to transform and change this Bank, we absolutely need to make the right steps to move to better, stronger, more resilient type technology. This is a commitment we've made. We will continue towards the program. As you mentioned, unfortunately, we do have that macroeconomic volatility and uncertainty. But on that front, I feel very good of where we are in terms of positioning into our specialized markets.

Our goal is to accelerate that specialization, Sohrab. I think this is where it's going to bear its fruit in the overall plan over the quarters. If you look at a couple of examples, we grew year-over-year 19

percent in our Equipment group; our multi res CRE business increased by 22 percent. Overall, we are changing the mix of the Bank's portfolio towards a more commercial focus. This is what's going to improve our NII and our margins towards the time and should make us a more profitable organization and achieve our midterm targets.

Sohrab Movahedi — Analyst, BMO Capital Markets

Okay. Just one last one for me here. To create the capacity to invest, you have done some restructurings. Do you think you'll have to do—unless the revenue environment improves, do you have to do more restructurings to fund continued investments?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Well, Sohrab, we're well positioned, as Yvan said, from a capital perspective to sustain our investment in terms of technology. But to go from a 75.7 percent efficiency towards our goal of 60 percent and below, we'll need to sustain a mix between revenue growth, improved profitability towards the mix of our portfolio, but also continue and make progress towards being a more efficient organization. We'll have to work both on the revenue upside, but also keep the expenses aligned with our future efficiency state.

Sohrab Movahedi — Analyst, BMO Capital Markets

Thank you for taking my questions. Have a nice long weekend.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you, Sohrab. You too.

Operator

Once again, ladies and gentlemen, if you do have any questions, please press star, one now on your telephone keypad.

At this time, gentlemen, it appears we have no other questions. Please proceed.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Okay. Thank you for this morning's call. Overall, we remain focused on executing our strategy: growing a commercial banking business that leverages our core strengths, expanding into targeted areas of opportunity and doing so with a continued focus on delivering a value-added, high-quality client experience.

I'd like to take a moment to sincerely thank our dedicated employees, loyal customers, shareholders and all stakeholders for your ongoing support as we transform and grow Laurentian Bank. We look forward to continuing this journey together and reaching new milestones.

Thank you again, and I wish you all a great rest of your day. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time we ask that you please disconnect your lines. Have a good weekend.