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Banque Laurentienne du Canada

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CORPORATE PARTICIPANTS

Raphael Ambeault
Banque Laurentienne du Canada — Head, Investor Relations

Éric Provost
Banque Laurentienne du Canada — President and Chief Executive Officer

Yvan Deschamps
Banque Laurentienne du Canada — Executive Vice President and Chief Financial Officer

William Mason
Banque Laurentienne du Canada — Executive Vice President and Chief Risk Officer

CONFERENCE CALL PARTICIPANTS

Meny Grauman
Scotiabank — Analyst

Gabriel Dechaine
National Bank Financial — Analyst

Sohrab Movahedi
BMO Capital Markets — Analyst

Paul Holden
CIBC World Markets — Analyst

Douglas Young
Desjardins Capital Markets — Analyst

Lemar Persaud
Cormark Securities — Analyst

Stephen Boland
Raymond James — Analyst

PRESENTATION

Operator

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

I would now like to turn the meeting over to Raphael Ambeault, Head, Investor Relations. Please go ahead, Raphael.

Raphael Ambeault — Head, Investor Relations, Banque Laurentienne du Canada

Bonjour à tous. Good morning, and thank you for joining us for the Laurentian Bank 2024 second quarter result presentation. My name is Raphael Ambeault and I'm Head, Investor Relations.

Today's opening remarks will be delivered by Éric Provost, President and CEO, and the review of the second 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 Liam Mason, Executive Vice President and CRO.

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

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

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

I will now turn the call over to Éric.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Merci beaucoup, Raphael. Bonjour et bienvenue à notre appel conférence pour les résultats du deuxième trimestre

Good morning, and thank you for joining us.

Later today, we'll be unveiling our revamped strategic plan where we will outline our path forward. But first, I want to start by thanking our employees for their ongoing resilience and commitment to serving our customers and shaping the future of the Bank. Today's plan will provide a strong direction forward, with a focus on all of us relentlessly executing against the new plan. In our new strategy, commercial banking will remain our growth engine; we will reduce complexity in personal banking; and capital markets will support our customers across the Bank. I would also like to thank our customers. We are taking steps to build an even stronger bank with a greater focus on the customer experience.

Before discussing the second quarter results, I'd like to address two recent announcements.

In April, Kelsey Gunderson made the decision to leave the Bank to focus on personal interests prior to establishing the next phase in his professional journey. I would like to sincerely thank Kelsey for his contributions to the Bank over the last five years, including navigating our capital market business through multiple periods of market volatility.

This month, we've announced the forthcoming retirement of Liam Mason, Executive Vice President and Chief Risk Officer. Liam has been an invaluable asset to the Bank since 2018, significantly shaping our risk aware culture and driving sustained business success. Under Liam's guidance, the team excelled in credit origination, displaying strong adjudication practices, prudent loss reserving, and effective credit portfolio management. Liam will remain with us until the end of the fiscal year to ensure a seamless transition with his identified successor. I personally extend my heartfelt thanks to Liam for his numerous contributions and unwavering dedication. I wish him all the best as he pursues his personal interests in the future.

As for our second quarter results, they were aligned with previous quarter on an adjusted basis. Loan volume continued to be impacted by macroeconomic conditions, and, as a result, we managed deposits accordingly. Commercial loans have decreased slightly, mostly from our commercial real estate portfolio. We remain disciplined, but still enjoy a strong pipeline which will support the expected rebound in growth once rate reductions occur.

As for inventory financing, dealers and manufacturers continue to exercise caution given the current macroeconomic environment. This quarter, utilization was 49 percent, below historical average. Going forward, we expect the utilization to follow standard seasonality and reduce during Q3 before rebounding in the final quarter of the year. However, we do expect it to remain below historical levels.

Expenses remain elevated as we continue to enhance our technology and digital capabilities, along with other strategic initiatives.

Coupled with lower revenue, our adjusted efficiency ratio was 73.8 percent this quarter. Our revamped strategic plan will address the actions we plan to take and will outline the medium-term targets.

NIM remains stable at 1.8 percent sequentially, and our CET1 capital ratio was up 20 bps to 10.4 percent mostly due to the reduction in loan volumes.

Finally, we maintain a prudent and disciplined approach to credit, with PCLs materially lower than the big six banks. This quarter, we focused on simplification, and I would like to share some details regarding our adjusting items.

After careful consideration, we decided to suspend the AIRB project to prioritize investing in strategic initiatives. This project was not due to be delivered before a few years, but we need to focus and prioritize to deliver on our strategic plan objectives to be outlined later today. The unused assets in development stood at $23 million and were written off. This decision and other factors triggered an impairment test and resulted in an impairment charge of $156 million on the personal and commercial banking segment, including mostly goodwill elimination and intangible reductions.

Furthermore, we have decided to right-size our footprint at the 199 Bay Street corporate office. This decision was driven by our hybrid work model and low occupancy rate at less than 20 percent on average. Our corporate employees in Ontario have the ability to work from home or our Toronto and

Burlington offices. Since last October, we have had to make difficult decisions regarding workforce reductions. Considering the actions taken, we have now decreased our workforce by close to 4 percent.

We have also continued to streamline and simplify our capital market business, including the upcoming sale of assets under administration of our full service brokerage business to Industrial Alliance Private Wealth. This transaction supports our strategic focus on simplification and concentrating on areas of business where we can win and be more competitive. In line with this approach, we also announced that we have discontinued our institutional equity research.

Altogether, including the Q3 items, these initiatives amount to charges of $161 million after taxes, with an impact on regulatory capital of 10 basis points and are aligned with our goals and strategic roadmap. The estimated annual savings are expected to be about $20 million, a portion of which will be reinvested to improve our profitability on a sustainable basis in the medium term. We will provide more colour as part of the unveiling of our plan this afternoon.

These actions demonstrate our conviction and ability to execute on our strategic plan. We will concentrate on core strengths, execute with precision, foster accountability, and seek partnerships to expedite our progress. We will provide more comprehensive details later today, and we hope you will all be able to join us.

Before I conclude my opening remarks, I would like to congratulate Raphael on his new appointment, and thank Andrew Chornenky, who is leaving the Bank to continue his professional career in the financial service sector. Over the last few years, Andrew has played a key advisory role in all external actions that the Bank has taken and ensured a smooth transition. We wish him all the best in his future endeavours.

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

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Merci Éric et bonjour à tous.

I would like to begin by turning to Slide 8, which highlights the Bank's financial performance for the second quarter. Total revenue was $253 million, down 2 percent compared to last year and last quarter. On a reported basis, net income and diluted EPS were negative $117.5 million and negative $2.71, respectively.

As Éric mentioned, we recorded adjusting items for the quarter, which totalled $158 million after tax or $3.61 per share, and include:

- P&C Banking segment impairment charges of $126 million after tax,
- Restructuring and other impairment charges of $30 million after tax, and
- Amortization of acquisition-related intangible assets of $2 million after tax.

Additional details are available on Slide 22 and in the second quarter report to shareholders.

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

Diluted EPS of $0.90 was down year-over-year and quarter-over-quarter by 22 percent and 1 percent, respectively. Net income of $40.5 million was down 22 percent compared to last year and 8 percent compared to last quarter.

The Bank's efficiency ratio increased by 410 basis points compared to last year and by 80 basis points sequentially. This uptick reflects our ongoing investments in strategic priorities and lower loan volumes. Our ROE for the quarter stood at 6.1 percent.

Slide 9 shows net interest income down by $4.6 million or 2 percent year-over-year, mainly due to lower loan volumes. On a sequential basis, net interest income was down by $5.6 million or 3 percent, mainly reflecting the negative impact of two less days in the quarters. Our net interest margin was stable year-over-year and sequentially at 1.80 percent.

Slide 10 highlights the Bank's funding position. Following a period of elevated liquidity, we have been gradually reducing our deposit bases, considering loan volume reductions and our previously stated objective of managing down our strong liquidity position. On a sequential basis, total funding was down $300 million. Strategic partnership deposits decreased by $400 million as customers continued to allocate funds back into market activity or term products. This was partly offset by a $300 million increase in cost-efficient, long-term debt related to securitization activities. The bank maintained a healthy liquidity coverage ratio through the quarter, which remains materially above the industry average.

Slide 11 presents other income, which was unchanged compared to last year. Higher income from financial instruments was offset by lower lending fees due to tempered commercial real estate activity.

On a sequential basis, other income also remained stable. Higher income from financial instruments was offset by lower card service revenues, which had seasonally high first quarter.

Slide 12 shows adjusted non-interest expenses up by 4 percent compared to last year, mainly due to higher regulatory expenses and other cost rates to various compliance projects, as well as higher expenses to support strategic priorities. On a sequential basis, non-interest expenses were down 1 percent, mainly due to lower salaries and employee benefits from the two less days in the second quarter, partly offset by higher other non-interest expenses, as I just described.

Turning to Slide 13, our CET1 ratio was up 20 basis points to 10.4 percent due to a reduction in risk-weighted assets. The impairment and restructuring charges had an impact of 8 basis points on the Bank's CET1 ratio in Q2.

Slide 14 highlights our commercial loan portfolio, which was down about $1.4 billion or 8 percent year-over-year, and down $100 million on a sequential basis, mostly due to slowing real estate market activity and our inventory financing dealer base being prudent in the current macroeconomic environment.

Slide 15 provides details of our inventory financing portfolio. This quarter, utilization rates were 49 percent. This is lower than historical average as dealers take a more conservative approach to inventory due to macroeconomic conditions. We expect utilization rates to follow the usual seasonality, which includes a reduction over the summer months before inventories begin to build in the fall. Our commercial real estate pipeline remains healthy, but we continue to see developers slow down the start of projects, awaiting expected rate reductions.

As seen on Slide 16, the majority of our portfolio is in multi-residential housing, and our exposure to the office segment remains at 3 percent of our commercial loan portfolio. As we've said over the past few quarters, the majority of the portfolio is in multi-tenanted properties with limited exposure to single-tenanted buildings.

Slide 17 presents the Bank's residential mortgage portfolio. Residential mortgage loans were up 2 percent year-over-year and slightly down by 1 percent on a sequential basis. We maintain prudent underwriting standards and are confident in the quality of our portfolio, as evidenced by the high proportion of insured mortgages at 59 percent and low LTV of 50 percent on the uninsured portion.

Allowances for credit losses on Slide 18 totalled $225 million, up $13.6 million compared to last year, mainly due to higher provisions on commercial and personal loans due to credit migration, partly offset by write-offs.

Turning to Slide 19, the provision for credit losses was $17.9 million, an increase of $1.8 million from a year ago, reflecting credit migration and commercial loans with higher provisions on impaired loans and a release on performing loans. Sequentially, PCLs were up $1 million for the same reasons. As a percentage of average loans and acceptances, PCLs increased by two basis points to 20 basis points.

Slide 20 provides an overview of impaired loans. On a year-over-year basis, growth-impaired loans increased by $119.5 million and were up $59.1 million sequentially, mostly in the commercial portfolio, which is well-collateralized. We continue to manage our risk with a prudent and disciplined approach and remain adequately provisioned.

As we look ahead to Q3, I would like to note a few key points focused on the next quarter. We expect our loan book to reduce mostly due to the seasonal reduction in inventory financing in the summer months. This will partly offset some of the increase in NII due to the additional number of days. NIM is expected to remain relatively stable, potentially slightly down due to the expected inventory financing volume reduction.

We are committed to reducing our efficiency ratio and will share more details with you this afternoon as part of our revamped strategic plan. For the third quarter, we expect a slight reduction of our efficiency ratio based on a portion of the cost reductions linked to the impairment and restructuring charges outlined previously. These savings will be partly offset as we reinvest to support our strategic plan.

Given the macroeconomic environment, PCLs are expected to remain in the low-20s. Capital and liquidity levels are solid and expected to remain strong for Q3.

As a reminder, an LRCN interest payment is due next quarter, which has an impact of $0.06 on our EPS.

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. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a three tone prompt acknowledging your request and your questions will be polled in the order they are received. If you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Meny Grauman with Scotiabank. Your line is now open.

Meny Grauman – Analyst, Scotiabank

Hi. Good morning. Thanks for taking my questions. I wanted to start off by just talking about or asking about the goodwill and intangible charge in the P&C Banking business. If you could give us a little bit more colour in terms of why you decided to take those charges this quarter? What's really driving those charges, which really are the bulk of the charges that you're taking?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, thank you, Meny. This is Yvan, I'll give a bit more colour. There are a few items. Every time you have material changes in the business, and currently, we have the new strategic plan we're going to discuss this afternoon. We decided to suspend the AIRB, and there's a few other elements like having the stock price being about 45 percent of the book value. All those elements led to an impairment testing, and as part of that, there's a general reduction of the value in terms of the Bank. Then how it works, technically from an impairment perspective, is that you start first by reducing the goodwill you have left on your balance sheet. We took $84 million down, we've pretty much eliminated the goodwill and then the rest of the charges are attributed to the intangible mostly and a little bit in premises and equipment. You should not see goodwill or intangibles being specific to anything. It's really just the result of the impairment test, and that's technically how it's applied in the business.

Meny Grauman – Analyst, Scotiabank

Okay, thanks for that. Then I just wanted to ask about, in terms of the fee income, financial income, and financial instruments, we're seeing two quarters in a row now of strength there. Just wanted to better understand what's going through that line and is that sustainable at these levels here?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, thank you for your question. We definitely had a good quarter in terms of income from financial instruments. The markets have been better, as you know, for the last two quarters or so, we had a good performance this quarter. Thank you for the team for making that happen. We do believe that it's sustainable, but obviously this is all related to the markets and the mood, and currently, we can sustain that level, but must admit that this quarter was extremely strong.

Meny Grauman – Analyst, Scotiabank

Thank you for that.

Operator

Your next question comes from Gabriel Dechaine with National Bank. Your line is now open.

Gabriel Dechaine – Analyst, National Bank Financial

Good morning. First question is on the credit, just the increase in impaired loans on a sequential basis. Sorry if I missed it in your disclosures, but was that transportation related, because everybody's getting into some issues there, or some other sector?

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

Thank you, Gabriel. Good morning. It's Liam. I'm very happy with where we are on the on the impaired loans. It is not transportation related and It’s not specific to a sector.

Gabriel Dechaine – Analyst, National Bank Financial

Okay.

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

It's across our book. Just a couple of notes. Our PCLs are running half the industry, and overall, if you look at our ACLs for the last 12 months, they're in line with the broader industry as a whole. We're very comfortable with our current portfolio.

Gabriel Dechaine – Analyst, National Bank Financial

Yes, no, no, fair enough. I'm just asking what industry, so you're saying multiple industries or how many?

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

Across the book, but coming from commercial, as Yvan outlined.

Gabriel Dechaine – Analyst, National Bank Financial

How many files, like…

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

It's a few files. Remember Gabriel, 95 percent of our loans are collateralized, when you see a notional increase for Laurentian, It's not the same as looking at other banks..

Gabriel Dechaine – Analyst, National Bank Financial

I know. I just want to educate myself here. Then on the expense side of things, I saw there's a mention of a $7 million figure, and that's included in your core expenses, if you will, associated with regulatory and compliance costs. I'm wondering if this was something embedded in your run rate before, you're just highlighting it, or if it's something new and it's tied to the IT issues maybe last September. Maybe you can shed some light on that, please.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, thank you Gabriel. This is Yvan. No, this has nothing to do with the outage or the IT issues we had last fall. In fact, there's some of that that relates to supporting strategic priorities, but as we mentioned, there's increased regulatory expenses and compliance projects right now. Just to name a few, you can think about B10, 13, 15, 20, and I can keep going, because there's a lot of those, including stuff in Quebec and the federal budget as well. We just want to make sure that we invest and that we're good on the compliance side. There's definitely a burden of that, and you should expect that we need to invest for the next few quarters as well related to those elements.

Gabriel Dechaine – Analyst, National Bank Financial

Is it like a catch-up or how would you describe it, because it doesn't sound normal? Would that have been a smaller number last year and you're just being more proactive and accelerating that type of investment, or…

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, in fact, many of the elements I just mentioned were new over the last 12 months. Definitely, there's a timing aspect of ramping up those projects and that's the key driver. There's nothing special in those outside the fact that there's a lot of regulatory changes and we just need to make sure we're on top of it.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Gabriel, it's Éric. If I may, this afternoon you're going to hear me repeat and talk about investing into our foundational technology. This is going to be core for us to simplify our technology stack and have a better ability to address those changes more efficiently in the future. We'll provide more details this afternoon, but all relates back to how we are structured in terms of our technology stack.

Gabriel Dechaine – Analyst, National Bank Financial

It's not fun stuff to spend on, but investors don't want under investment in that, I'm sure it's good. My last question is on the dividend. This is a pretty pivotal quarter for you, a big transformation for the Company. Under what conditions would you revisit the dividend to the extent—your capital position's fine, 10 percent plus on a standardized basis, but the internal capital generation might be weaker because of investments, because of loan growth declining. There's perhaps a need for capital build to invest in the future direction of the bank. What conditions would need to be present for you to take another look at the dividend and maybe alter it?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

In fact, Gabriel, the dividend decision is taken every quarter. We always look at what is the payout ratio of the Bank. Currently, it's higher than where we'd like it to be, especially in a context where we have an impairment charge in the quarter. But if you look at the capital of the Bank, as you mentioned, we're really well-positioned at 10.4 percent. If you look at standardized, in fact, it's going to be one of the slides this afternoon, I'm giving you that in advance, but you're going to see that we're well placed there versus the rest of the industry on apples-to-apples basis. But We do expect that as rates go down, we will see a catch-up and a rebound in our volumes as well.. Overall, right now, if you look on an adjusted basis, we're at 52 percent payout ratio. It's slightly higher than where we would like to be, that's why the Board decided to stay at 47 percent. This afternoon, you're going to hear a lot about execution, efficiency ratio that we need to improve. We have a plan to increase the profitability of this Bank and that's going to support the dividend going forward.

Gabriel Dechaine – Analyst, National Bank Financial

All right. Great. Thank you. Have a good—I guess we'll talk later today.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Good to see you, Gabriel.

Operator

Your next question comes from Sohrab Movahedi with BMO Capital Markets. Your line is now open.

Sohrab Movahedi – Analyst, BMO Capital Markets

Thank you. Yvan, can I just follow up on Gabe's? When do you think you will probably do dividend increases again? Are you moving to some sort of an annual cycle?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

We don't necessarily have a cycle, Sohrab. We really look at it on a quarterly basis. We've, over the last few years, increased every six months. Right now, the payout ratio is relatively high in the context of the charge. As mentioned, we just decided to hold on this, there's no specific dates of increasing the dividend. We're going to take it quarter-by-quarter, and as I mentioned, we're looking to increase profitability, but in the short term, we'll discuss this afternoon, we have to invest if we want to make sure that there is a sustainable increase of profitability. We're going to be careful with the dividend, for sure.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, and if I can just clarify a few other comments that you made. I think you said you expect PCLs to remain in and around, I think, current levels. I think you said low-20 basis point range. Obviously, that's a ratio, and it's unclear, I think, where utilization rates are going to be. Can you give that PCL guidance more in dollar terms?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

In dollar terms, in fact, if you look at this quarter, we have $17.9 million. It is 20 bps; it shouldn't be that far from that level. We're just being careful of not guiding too low for the next quarter, because we see the industry, there's been some credit migration. We believe that the level where we are is probably close to what we should expect next quarter.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay. Yvan, you had also mentioned some savings, and I think you mentioned $20 million of savings. Was that an annual number or is that a per quarter?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

I would like it to be quarterly, but that's on an annual basis, Sohrab. What we announced in Q2 and what I described is - $20 million = for the next 12 months, but it does include some restructuring and severances that we have in Q3. We outline that there will be $7 million of additional severances in Q3 for what we action in May. If I include the annual savings of that restructuring, Q2 and Q3, what we've done to this point is about $20 million of annual savings.

Unfortunately, from a savings perspective, a big portion of the impairment relates to elements that were not depreciated like goodwill or AIRB. The $23 million was just an asset that was sitting and not depreciated. It's, $20 million on about 40 percent of that impairment charge, because about 55 percent, 60 percent of it didn't have anything going to expenses like goodwill.

Sohrab Movahedi – Analyst, BMO Capital Markets

Éric talked about taking a hard look at the foundational tech stack. Is $20 million enough, Éric, to get you to the upgrade you need, or will you have to spend more than these savings?

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Thank you, Sohrab, for asking. We'll provide better clarification, I believe, this afternoon, but we already have a plan in terms of investing in our technology. . What we're going to be saying is that we're going to accelerate this pace, and part of this $20 million is a portion, but also, we will keep on simplifying and taking the right decision to simplify even further the organization. Hopefully generating more savings and position us better on a profitability standpoint.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, and one last question from me. Yvan, can you just remind me what the goodwill that you wrote off was associated with?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes. I'll start by saying, Sohrab, you should not necessarily see this as an impairment of that specific goodwill. Again, it's applied to the goodwill of the Bank overall no matter what it was coming from, but the goodwill that was left on the balance sheet came from the equipment and inventory financing acquisition that we had done in 2016 and '17. It was on the commercial side, but again, this has nothing to do with the value of the commercial strength and the value of the business, which is the biggest strength probably we have at this Bank.

Sohrab Movahedi – Analyst, BMO Capital Markets

I'm sorry I haven't looked at it, but you're saying that you don't have any more goodwill left on the balance sheet. Is that correct?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Exactly. The first thing you do with an impairment which impacts the whole Bank is to eliminate the goodwill first, and that's what we've done. We're left with no goodwill.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay. Thank you very much for taking my questions.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Thank you, Sohrab.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Thank you, Sohrab.

Operator

Your next question comes from Paul Holden with CIBC. Your line is now open.

Paul Holden – Analyst, CIBC World Markets

Thank you. Good morning. First question is with respect to the inventory finance business. Not so much from a credit perspective, because I understand the layers, the multiple layers of protection you have from credit. I just want to know the health of those dealers you're dealing with, and that's more of a do you get a full recovery and loan growth when rates actually do come down? Reading a number of things that dealers are struggling, because demand is low. Just wondering how you're viewing the health of sort of the customers you have across that platform?

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Yes, thank you, Paul for the question, it's Eric. We're very comfortable with the current behaviour of our dealer base. Of course, the market has normalized, and then for sure it's a softer market in terms of consumer demand, but this is why our dealer base has been prudent in terms of restocking their inventory during the fall and the winter season. Right now, line utilization stand at 49 percent, when actually, historically, at the end of Q2, those lines should be higher 50s. Our dealers are behaving as we would expect, being more cautious, not restocking too much, and currently, they are moving some product. We'll see during the season, but we expect those levels of assets to perform as they did last season—continuing to reduce. We anticipate a bounce back in Q4, though not back to historical levels. .

Until we see interest rate easing in the U.S., we believe that the dealer will keep a prudent approach towards rebuilding their inventory.

Paul Holden – Analyst, CIBC World Markets

Okay, I think that's clear. When we do see lower rates in the U.S., whenever that's going to be, you would expect a full recovery in those lines, because the dealers are going to be—they're healthy enough they're going to last through this soft patch, if you will.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Yes, and then we've always kept a prudent approach in terms of how we underwrite risk, how we structure our credit appetite during those—around those dealers, and we haven't changed our approach. We keep that prudent pace, and we keep growing our dealer base and we'll be ready for the rebound to actually increase those assets level.

Paul Holden – Analyst, CIBC World Markets

Alright, okay, that's great. Then I've got a similar line of questioning on the retail lending portfolio. Some modest upticks in PCLs and impairments there but wondering what insights you can give us into how you feel about the health of the Canadian consumer, big topic of discussion, I think, for obvious reasons. Any data points and observations you can provide there would be helpful.

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

Thank you, Paul. It's Liam. Our client base is—we have seen some uptick in terms of PCLs, but for our portfolio, we're really well-positioned. I think Yvan went through the mortgage portfolio in terms of the 59 percent insured, low loan to value. Our Alt-A portfolio, which is near prime, is behaving very well. On some of our other key assets like investment loans, we're seeing, with the uptick in the markets, good performance there. For us and our customer base, despite broader economic pressures from an interest rate perspective, our portfolio is holding up very well.

Paul Holden – Analyst, CIBC World Markets

Okay, great. Then last one from me on the multi-residential loans. It seemed to me that there's a good level of support and demand there and seeing some peers put up very healthy growth numbers. Just wonder if there's some difference in the composition of your portfolio there or basically trying to get it to—why aren't we seeing better growth in multi-residential loans given the broader growth in that category?

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Yes, thank you, Paul, it’s Éric again, for the question. Our commercial real estate portfolio year-over-year has actually decreased by 8 percent. Then This is explained largely by our specialization in construction within the real estate portfolio, and the mix between our Tier 1 developers who are waiting for the right interest rates to relaunch new projects. The fact that we've been paid out in terms of construction projects that have completed in that multi-residential housing segment, but usually in terms of the economics for us to take those stabilized assets into our balance sheet don't quite make sense on the economics standpoint. For us, it's just to be well-positioned out there with the team, and we believe that once we see that ease in terms of interest rate, we're going to see those housing projects start back again at a better pace. The team is positioned to keep on-boarding those at the construction level.

Paul Holden – Analyst, CIBC World Markets

Okay, okay, again, helpful. All right, thanks for the time and I will see you later today.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Thank you, Paul. See you.

Operator

Your next question comes from Doug Young with Desjardins Capital Markets. Your line is now open.

Douglas Young – Analyst, Desjardins Capital Markets

Hi, good morning. Just maybe continuing with that—I think we've heard this from a lot of financial institutions that there needs to be an ease in interest rates. I'm curious when you think of the multi-residential properties or your dealer network and dealer loan book, what level of ease really is going to have an impact on the growth. Is 25 basis points, 50 basis points, or does it need to be more drastic?

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

It's a great question, Doug. Éric again. We believe that it's going to build momentum as soon as we start seeing some easing, because I believe that's going to send a signal in Canada. I'm talking about the consumers, it’s going to provide more clarity in terms of the directional of those interest rates. We believe that with the shortage we're experiencing across Canada in terms of housing supply, this could be the start of a signal for our developers to relaunch projects, and again, to have a better sense of the economics and the type of profitability they can generate launching those projects. Again, not clear in terms of how quickly the relaunch will occur and how deep of a cost reduction we need to get to actually go back to a very sustained level, but for sure, just an ease will provide some positive inflow to that sector.

Douglas Young – Analyst, Desjardins Capital Markets

Okay, and then just a few other ones. Going back to the—just the—these hopefully are relatively quick, but the income from financial instruments. What runs through that? Is that just interest income on your liquidity block? What’s actually in that line, because you talked about the market impacting that. Just specifically what market?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

It's in fact composed of two elements. Pretty much the trading aspect to it and also the return you get on that portfolio. It's mostly composed of fixed income elements, as it is aligned with our capital markets business. This quarter is really a good quarter and we expect that if the market’s sustained, we're going to continue doing good. Maybe not at the same level, because again, Q2 was exceptional, but we have a great team that is driving those revenues and we would expect, under good market conditions, to continue.

Douglas Young – Analyst, Desjardins Capital Markets

Is it half and half trading and interest income, or is it two-thirds, one-third? Just trying to get a sense.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

In fact, it's going to depend on a quarterly basis. It depends how is the market, if they do more trading versus conditions in the market. I don't want to necessarily pinpoint a percentage, because that may evolve depending on the quarter.

Douglas Young – Analyst, Desjardins Capital Markets

Okay, and then back to credit, I'm just trying to understand the release in performing loan allowances, and it's mostly commercial, and this is despite the uptick in impairments in commercial. I think on the commercial book, your PCL rate in the quarter is 35 basis points and that was 24 in 2023. We're definitely seeing an acceleration there. I'm just trying to understand the release in commercial as it relates to the uptick in the impairments.

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

A couple of things. Net-net, obviously, we've got migrations and positive write-offs and clean-ups of some files in commercial. We've been very pleased with our workout results for that in terms of recoveries. The improvement and release was really within the personal book as we've seen investment loans due to stock markets improve that's given us a better position on the investment loans.

Douglas Young – Analyst, Desjardins Capital Markets

Have you made big changes to your weightings in the different categories or is just a natural evolution of the models going like punching one quarter forward? Any other detail you can provide?

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

It’s a good question, and I just want to remind everyone that we have been very disciplined over the past few years in terms of maintaining and building our reserves. A few years ago, and I've spoken to this in the past, we didn't release. We've maintained it. We have a consistent and prudent reserving standard. We haven't changed those, and I'm really pleased with where we are, because over the past year, while our ACLs were up 11 percent, the industry was up three times that. That reflects that our PCLs run about half the industry, and the overall strength in our underwriting and credit standards as Eric alluded to earlier.

Douglas Young – Analyst, Desjardins Capital Markets

Okay, and just last, going back to the write-offs on the balance sheet, I think there's another $186 million of software and other intangibles. There's another almost $87 million in premise and equipment. What do those relate to? Then obviously you went through a full impairment test, I don't imagine those get write down next quarter, but is it at risk if things don't unfold as you planned, that there is additional risk to some of these asset classes to be written down? Just hoping to get some colour.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Thank you. It’s a good question for clarification for everybody. First, impairment testing is usually done to validate the value of goodwill on the balance sheet, we won't have any goodwill anymore. Then it's going to become an assessment of each specific element. But what you find in those intangibles on the balance sheet are mostly composed of two elements, IT investments that we've been doing in our systems, which are systems we use. As long as we use those systems, we're going to keep them on the balance sheet. Overall, it's mostly related to IT development and investments in our system going forward. You should not expect a big variation or impairment charges going forward unless there's a specific project on one of—but I don't have any right now, but there's no big other charges that should be coming.

Douglas Young – Analyst, Desjardins Capital Markets

I appreciate it. Thank you.

William Mason — Executive Vice President and Chief Risk Officer, Banque Laurentienne du Canada

Thank you, Doug.

Operator

Your next question comes from Lemar Persaud with Cormark. Your line is now open.

Lemar Persaud – Analyst, Cormark Securities

Yes, thanks for taking my questions. I won't ask about specific details about the restructuring, since I'm sure you'll talk about it at the investor day, but just on that, can you talk about the potential for additional restructuring charges? I did see that you're calling out some additional severance in Q3, but I'm just wondering if this is the first of many or if this is a one and done type of situation? Anything you could do to help me think through that.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Thanks for the question. I'll skip the impairment portion or specific charges. We have some severance charges in Q2 and also in Q3, stemming from a workforce reduction we initiated in May, as outlined in the presentation. We're going to continue to evolve and transform that business with an intent to make it more efficient overall. That's going to be a major theme we'll discuss this afternoon. There may be others to come, but if so, they will be accompanied by improvements overall on a sustainable basis for the Bank.

Lemar Persaud – Analyst, Cormark Securities

Anything on the potential of magnitude, should we expect—or is this the initial one that you've taken this quarter. The $40 million is the big chunk, and then we could go back to more kind of what we've historically seen at Laurentian where they're kind of like $6 million—I think you had $6 million in Q1. This is the primary big one and then smaller charges? Is that a fair way to think about it if there are more?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

I think that's a fair way of putting it, because as I mentioned, most of it should be related to potential small charges we may incur, but certainly nothing on the scale that you've seen this quarter.

Lemar Persaud – Analyst, Cormark Securities

Okay, great. That's helpful. Thanks, and then my next question, just when I go to your Slide 11 here, there's some weakness outside of the income from financial instruments. Just looking at the list here; card services, fees on investment accounts, insurance, and other, can you help me think through about what's driving some of these other broader base weaknesses across these other lines? If we see some normalization in the income from financial instruments, then these ones will start to matter a little bit more as we look forward. Can you talk to me—is there any reason to expect that some of these line items have run rated lower? Maybe that's the best way to ask it?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, thanks, and happy you asked the question. I can provide a few details. If I compare quarter-over-quarter, income from financial instruments has definitely been the big gainer compared to Q1. On the other side, you mentioned the card services. The card services is in fact seasonal, because as you know, Q1 includes Christmas and all of that. That's pretty big season, there's a seasonal impact in those revenues, and lending fees is lower as well. That aligns with what Éric described earlier regarding the slowdown of developers in commercial real estate, awaiting interest rate reductions. Technically, lending fees are a matter of timing. The cards is a question of seasonality, technically, I'm not overly concerned.

The key point going forward is that you should expect the $20 million yearly reduction, $5 million per quarter related to the business that we've been selling to industrial lines. You're going to see $5 million reduction starting in Q4. We expect that transaction to close in the first days of August.

Lemar Persaud – Analyst, Cormark Securities

Where does that reduction go through?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

That one would be in thefees and securities brokerage commissions.

Lemar Persaud – Analyst, Cormark Securities

Okay, because the card services revenues, I appreciate the seasonality, but it's still down 11 percent year-over-year. Then also these fees and investment accounts specifically down 15 percent and insurance down 13 percent. Even if I look at the year-over-year, some of these are still weak. Maybe I'll follow up offline on that one.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, happy to do so.

Lemar Persaud – Analyst, Cormark Securities

Okay, and then final one for me, I think the message is that when you look at the bank right now, it's 10.4 percent CET1 ratio, you're still well-positioned from a capital perspective to pursue organic growth. If we see rate cuts coming, you can capitalize there and still execute on the strategic refresh. This 10.4 percent, I think the message is that that's a sufficiently strong CET1 ratio, we shouldn't look at the pause on dividends to preserve capital so that you can continue to grow the business. It's more linked to the elevated payout ratio. Is that a fair statement and fair characterization?

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Yes, I think your questions include pretty much all the elements I would have given. I think it's a fair assessment.

Lemar Persaud – Analyst, Cormark Securities

Okay, thanks for the time. I appreciate it.

Yvan Deschamps — Executive Vice President and Chief Financial Officer, Banque Laurentienne du Canada

Thank you, Lemar.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the one. Your next question comes from Stephen Boland with Raymond James. Your line is now open.

Stephen Boland– Analyst, Raymond James

Thanks. You went through a number of the business lines on the commercial side. Maybe just construction and land, that portfolio continues to decline. I'm just wondering if it's the environment, your appetite, or competition?

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Yes, thank you, Stephen. It’s really the environment as a whole, because the pace we're getting repaid in terms of completing projects versus the new one being launched is unequal. Right now, our Tier 1 developers are awaiting an ease in terms of interest rate level to launch those new projects. We believe we're very well-positioned to capture on that rebound and catch that momentum. The team is prepared for that. Land and construction are certainly core for us to continue and grow in future development, and we're simply awaiting a better macroeconomic environment to do s0.

Stephen Boland– Analyst, Raymond James

Okay, great, and more just a question on agenda, just for the investor day at one o'clock, should we expect a press release before that, a new deck, or is that all going to be provided at one o'clock? I'm just trying to see if there's going to be more disclosure ahead of that.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Yes, you're going to get a press release and a deck prior to just one o'clock before we start our Investor Day.

Stephen Boland– Analyst, Raymond James

Okay. Thanks very much, guys.

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

Thank you.

Operator

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

Éric Provost — President and Chief Executive Officer, Banque Laurentienne du Canada

All right. Thank you for being with us on this call today. We are focused and determined to execute our strategic plan. We're fully aware of our opportunities, and the challenges we face only reinforce the determination of our institution. We will continue to build a robust organization, prioritizing simplicity and delivering enhanced value to all stakeholders.

We hope you will all be able to join our Investor Day presentation via webcast at 1:00 p.m. today. If you haven’t already, you can register on our website under the Investor Relations section.

Merci beaucoup. Bonne journée.

Operator

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