Investor Presentation

Fourth Quarter 2022

December 9, 2022

Caution Regarding Forward-Looking Statements

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

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

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

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

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

Non-GAAP financial and other measures

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

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

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

For more information, refer to page 34 and 35 of this presentation and to the Non-GAAP financial and other measures section beginning on page 28 of the 2022 Annual Report, including the Management’s Discussion and Analysis (MD&A) for the year ended on October 31, 2022, which pages are incorporated by reference herein. The MD&A is available on SEDAR at www.sedar.com.

Operator

Welcome to the Laurentian Bank Quarterly Financial Results call. Please note that this call is being recorded. I would now like to turn the meeting over to Andrew Chornenky, Vice President, Investor Relations. Please go ahead, Andrew.

Andrew Chornenky, Head of Investor Relations

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

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

All documents pertaining to the quarter can be found on our website in the Investor 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 resulted in their remarks unless otherwise noted, as reported.

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

Rania Llewellyn, President and Chief Executive Officer

Thank you Andrew. Bonjour à tous.

Earlier this morning, we released our fourth quarter and annual results for 2022, bringing an end to the first year of our three-year strategy.

I am extremely pleased to announce that we have exceeded all four of our financial targets for the year.

We executed on our plan with a laser-like focus across the entire organization, which is evidenced by the strong results we issued today. We did this in a period of economic uncertainty, and we are confident in our ability to deliver against any backdrop.

We have a lot to be proud of as an organization and, on behalf of the management team, I would like to thank everyone at the Bank for their ongoing dedication.

I would now like to turn to our financial results.

Financial Results

We had strong net income growth this year, up 12%, to $237 million. Top-line revenue of $1.03 billion was driven by continued loan growth in Commercial Banking and complemented by cost discipline and our pivot to finding operational efficiencies across the enterprise. PTPP income was up 9% to $347 million compared to $319 million a year ago.

On a full-year basis, we exceeded our financial targets:

- Earnings per share were $5.19, up 14% year-over-year, and above our target of greater than 5%;
- ROE was 9.3%, up 100 bps from last year, exceeding our target of 8.5%;
- The Bank's efficiency ratio was 66.5%, down 170 bps compared to 2021, and better than our target of 68%; and,
- We delivered positive operating leverage of 2.6%, while making foundational investments in our strategic priorities.

This year also saw record deposit growth of 18%, which outpaced loan growth at 12%, exceeding a key objective to grow deposits in line with loans on a relative basis.

We maintained our CET1 ratio at 9.1% while supporting strong, organic growth.

Fourth Quarter Highlights

Before I recap the year, there are a few highlights from the fourth quarter that I would like to share.

1. First, as part of our strategy to leverage partnerships to deliver products to customers quicker, I am excited to announce that, within just one year, we have launched our newly reimagined credit card experience. This meets a key objective of reducing the time to approval from 25 days to minutes and provides immediate access to a virtual card that can be added to your mobile wallet.

   We are launching this initiative to our employees first, followed by a phased customer rollout in the first half of the year. This is similar to the approach we used for digital account opening and allows us to gather feedback and ensure a seamless customer experience.

2. Second, as part of our commitment to make a positive impact for our customers, investors, employees and communities, we published our inaugural Sustainable Bond Framework. The framework was validated by Sustainalytics, a global leader in ESG ratings, which found it credible, impactful and aligned with international standards.

3. Third, as part of our strategic plan, we have now sub-leased 50% of our corporate office space. This is a particularly significant achievement and highlights the ability of our team to execute in challenging market conditions.

Strategic Plan Update: Our Year of Execution

Culture

Turning now, to our achievements over the past year: our "year of execution".

We kicked off our Investor Day last December identifying **culture** as our driving force.

Guided by our new purpose and core values, we are a very different Bank today than we were two years ago.

We have adopted a work-from-home first approach, introduced an employee recognition program, expanded mental health and wellness resources, and provided employees with new tools to work even more efficiently.

Our employees are also feeling the positive momentum, as reflected in our reduced turnover rate and in the employee engagement score from our annual survey, which is up 3 points to 77%, surpassing our target of 75%.

Commercial Banking

At our Investor Day, we said that **Commercial Banking** would be our growth engine.

This year, we have seen tremendous commercial loan growth of $4.1 billion across our specializations, up 29% year-over-year. The strong growth in inventory financing led to us exceeding our medium-term geographic diversification target, moving from 14% of commercial assets in the U.S. last year to 24% today. As part of our diversification strategy, we have also expanded into new industries such as agriculture and technology where we have grown our dealer base by 27% and 210% respectively, over the last year.

This has all been underpinned by our continued commitment to deliver an excellent customer experience as evidenced by improving our already 'excellent' net promoter score in Commercial Banking.

Capital Markets

In December of last year, we said that our **Capital Markets** business offers a focused and aligned offering.

Since then, we have been aligning our capital markets activities with core commercial lending capabilities. As a result, Capital Markets reached its target of 75% coverage of top-tier commercial clients which also led to year-over-year growth in our FX business, ending with a record quarter in Q4. In support of our strategic pillar, Make the Better Choice, we also participated in 100% of green and social bond issuances by our core clients.

Personal Banking

Personal Banking continues to reposition for growth by closing key foundational gaps.

This year, we met our objective of reducing time to yes for a mortgage from more than 8 days in 2021 to less than 3 days. We did this by eliminating redundant processes and introducing new digital capabilities, like e-signatures.

In addition, we launched our renewed brand with a modernized look and feel and closed the top five digital pain points as identified by our customers. This includes our new mobile app, which was delivered in just seven months, tap on debit, digital account onboarding, self-service password resets, and a refreshed public website. We now continue to build on that momentum with our new credit card experience.

Efficiency & ESG

To support our path to improved **efficiency** we continued with our focus on cost discipline while also turning to net new cost optimization opportunities. In addition to the reduction of our corporate office space, a few other examples include, reducing excess data storage and associated costs by 20%, decommissioning redundant technology applications and leveraging contract renewals to streamline the number of vendors and professional services providers.

We always said that our strategy would be underpinned by a commitment to integrating **ESG** across the organization. In 2022, we launched the Bank's first ESG and TCFD reports, achieved our objective of moving to a low-risk ESG rating from Sustainalytics, and, as I mentioned earlier, published our inaugural sustainable bond framework.

Each of these on its own is a tremendous accomplishment. To have completed all of this within one year is a testament to the skills and engagement of our teams and successfully closes our year of execution.

Strategic Priorities

Now, as we enter 2023 with momentum on our side, our focus shifts to initiatives that will stimulate future growth. We intend on concentrating our efforts in three priority areas:

1. **First, delivering excellent customer service** – We will leverage data from our NPS program to improve the customer experience and reduce pain points.

2. **Second, growing deposits** – Coming off a record year in deposit growth and having closed our top five digital gaps, we are well positioned to grow deposits by deepening our relationships with existing customers and targeting new ones.

3. **Third, driving efficiencies through simplification** – While not always a straight-line as we invest in growth initiatives, we will continue to drive down our adjusted efficiency ratio below 65% over the medium-term by further streamlining our internal processes and operations.

Notwithstanding an uncertain economic environment, I am confident that we have the right plan and the right team in place to continue to drive results and shareholder value.

I will now turn the call over to Yvan.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Merci, Rania et bonjour à tous.

I would like to begin by turning to slide 18 which highlights the Bank's financial performance for 2022.

As Rania mentioned, total revenue for the year was $1.03 billion, an increase of 3% compared to last year. On a reported basis, net income and EPS were $227 million and $4.95 respectively. Adjusting items for the year amount to $10.5 million or 24 cents per share and are related to the amortization of acquisition-related intangible assets and charges related to our strategic review. Details of these items are shown on Slide 34.

The remainder of my comments will focus on the fourth quarter on an adjusted basis.

On a quarterly basis, as seen on Slide 19, total revenue was up 3% year-over-year, mainly due to higher interest income stemming from commercial loan growth. EPS was $1.31 and ROE was 9.0%, up 24% and 150 basis points respectively compared to last year and up 6% and 30 basis points, respectively compared to last quarter.

Slide 20, shows the increase of net interest income by 6% year-over-year and a decline of 2% on a sequential basis. Net interest margin declined by 6 bps compared to the last quarter and 10bps compared to the second quarter, mostly for the following two reasons.

- First, as outlined on Slide 21, the speed and magnitude of the central banks rate increases have caused a temporary loan repricing lag of 10 bps on our NIM since Q2.

- Second, interest rate increases have cooled down the housing market, which along with efforts of our customer loyalty team have reduced mortgage pre-payments. The reduction has negatively impacted NIM by 4 bps since the second quarter, which has been offset by favourable changes in our business mix.

The repricing lag headwind is expected to gradually bounce back once central banks stabilize rates.

Slide 22 presents Other Income, which decreased by 5% compared to last year, mainly as a result of volatile conditions unfavourably impacting financial markets related revenues, including fees and securities brokerage commissions and income from mutual funds. On a sequential basis, Other Income was up by 3%, fueled by a better performance in fees and securities brokerage commissions as well as card service revenues, partly offset by lower income from financial instruments.

As a result of strategic investments to close key foundational gaps and support growth, non-interest expenses, as shown on Slide 23, increased by 4% compared to last year. This was in-line with our previous guidance that investments to close foundational gaps, as well as increased business development and advertising activities, would continue in the second half of 2022 as we execute on our strategic plan. Compared to last quarter, salaries and benefits were lower due to a one-time $2.9 million subsidy related to our US operations, a favourable seasonal reversal related to vacation accruals, lower employee benefits, as well as lower performance-based compensation.

Slide 24 outlines our diversified sources of funding. Total deposits grew by 18% year-over-year, driven by our Personal Banking segment and was higher than the 12% growth of our loan portfolio, exceeding our objective of deposit and loan growth being in line. Sequentially deposits were up 2%.

As you can see on Slide 25, we maintained our capital position at 9.1%, which was the same as last quarter, supporting our strong organic growth, and in line with our stated objective of managing CET1 around 9% considering the uncertain economic environment.

Slide 26 highlights our commercial loan portfolio, which was up by over $800 million quarter-over-quarter, with contributions from our specialized sectors and includes about $300 million in FX adjustments.

When it comes to our commercial real estate portfolio, we deal with established Tier 1 and Tier 2 real estate developers with good track records. Rental construction is centered in major urban centres where demand remains solid and immigration levels are high. The LTV on our uninsured multi-residential mortgage portfolio and term loan portfolio remain low at 55% and 58%, respectively. While the pipeline is still strong, we are starting to see a general slowdown of growth in this space, and we remain confident in the credit quality of this portfolio.

Slide 27 presents the Bank's residential mortgage portfolio. Residential mortgage loans were up 2% year-over-year as well as 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 56% and low LTV of 48% on the uninsured portion.
Allowances for credit losses on Slide 28 totalled $201 million, a sequential increase of $8.0 million mainly due to commercial portfolio volume growth and a less favourable macro-economic outlook.

Turning to Slide 29, the provision for credit losses was $17.8 million, decreasing by $7.1 million from a year ago and was up $1.2 million sequentially. The year-over-year decrease was mostly due to lower provisions on performing loans as the Bank had recorded a provision in the fourth quarter of 2021 as part of its strategic review. Sequentially the increase was a result of higher provisions on impaired loans, partly offset by lower provisions on performing loans.

Slide 30 highlights the improving trend in gross impaired loans which decreased by $93.2 million year-over-year, mainly due to favourable repayments and write-offs of previously provisioned accounts in the commercial loan portfolio. Sequentially the decrease was $1.3 million.

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

For the year-ahead, we are maintaining our medium-term financial objectives, however, I would note the 2023 outlook on the following measures:

- We expect the temporary NIM repricing lag to gradually rebound once interest rates stabilize, all other things being equal.
- Our efficiency ratio will be higher in the first half of the year as a result of continued pressure on our NIM and investments in key growth areas as part of our strategic plan, particularly as we launch our Digital Account Opening solution and reimagined VISA experience to customers. We expect to end the year equal to or less than 68% but are maintaining our medium-term target of less than 65%.
- We dynamically manage our capital and resources to grow our business and support our customers and as a result are targeting to remain close to or above a 9% CET1 ratio in 2023.
- Given the change in our business mix as we grow commercial banking, PCLs are expected to trend up, in line with what we said at our Investor Day. In addition, in light of the weaker economic outlook we expect PCLs to be in the high teens or low twenties for the year.
- We expect loan growth to temper next year as economic conditions continue to impact business and consumer spending. Overall loan growth of the Bank in 2023 is expected to be in the low single digits.

As a reminder, an LRCN interest payment is due next quarter which has an impact of approximately 6 cents on our EPS.

On a final note, I would like to thank everyone at Laurentian Bank for a great start and continued focus on executing against our strategic plan.

I will now turn the call back to the operator.

Operator

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

Meny Grauman, Scotiabank

Hi, good morning. Thanks for the guidance.

On the capital side, what does that imply for RWA growth? I know we've seen quite a significant slowdown in sequential RWA growth for Laurentian Bank, and I'm wondering what the outlook is for 2023 from that perspective.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, so Meny, maybe I can take it from asset growth and then you can derive RWA, it's theoretically a straight line. In 2022, we definitely experienced a year of exceptional growth, but we now have a level in terms of utilization rate at NCF in inventory financing which is roughly back to where it was pre-pandemic, and we also, as I mentioned a few minutes ago, see some signs of a slowdown in real estate, so.

The last point I would add on this is we have economists now guiding to about no growth in terms of GDP for 2023, both in Canada as well as in the U.S., so this year, considering the continued uncertainty, that's why we're leading to low single digit asset growth for the overall bank, so that still means probably low single digit growth for the commercial banking, remaining prudent in the current environment as well.

In 2023, we will continue to balance the growth with the profitability, but also remaining prudent in terms of capital, so the growth I just gave you, you can probably relate that in terms of RWA.

Meny Grauman, Scotiabank

Okay, thanks so much. Then just sticking to capital, can you just remind us the impact that the CAR 2023 requirements, what that will do for capital at Laurentian?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, it's a good question, Meny. We're still working on it because it's pretty complex in terms of revisions and changes and assessments that we need to do, but what I can give you is the following. There is in fact two things that we'll need to manage over the next two quarters, and maybe I can provide some guidance for capital related to those. The first one is it's an industry-wide adjustment in Q1 for the transitional ACL treatment that has been put in place by OSFI at the start of COVID, so the last 25% adjustment is factored in fact in Q1, so we expect probably 6 or 7 bps of capital related to that.

But just to go back to your Basel III reform question for the second quarter, at this point, as I mentioned, we're still computing the impacts, but based on the asset mix that we have, we do anticipate a slight negative reduction in terms of capital, but overall we remain confident with our guidance that we want to remain around 9% for 2023 despite potential quarterly variations.

Meny Grauman, Scotiabank

What's driving that potential negative impact? Certainly we know there is pluses and minuses, but what specifically is likely to impact the Bank?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, it's a good question, Meny. If I keep it really, really high level and simple, it relates to the commitments and our asset mix in terms of real estate assets, so we have a good portfolio and a strong portfolio in that segment but it definitely is slightly negative in terms of the new CAR.

Meny Grauman, Scotiabank

Got it, and then just one last one for me, just in terms of the tax rate, it came in lower than what we've typically seen, so just wondering about what we should think about for the tax rate in '23.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

The tax rate in terms of this quarter came in roughly in line with last quarter, pretty close to last quarter. What I would guide you for 2023 is probably stay in the same waters, so 15% to 16% in terms of tax rate would be what we're looking at right now.

Meny Grauman, Scotiabank

Thanks so much.

Operator

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

Paul Holden, CIBC

Yes, thanks. Good morning, and again thanks for all that guidance, very helpful.

I have a couple questions related to deposit growth, and I think a couple observations here. First off is noticed strong growth in demand and notice deposits for Laurentian, I think, up 7% Q-over-Q while term deposits were actually down 1% Q-over-Q, and that would mean effectively the opposite of what we observed with the bigger banks, so maybe you can talk us through why better growth in demand and notice deposits, which is obviously a positive but just wondering what's driving that.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, it's a good question, Paul. We're really, really pleased with the performance that we had in terms of deposits in 2022, and as you can see, we've been growing deposits by 18%, the loans grew by 12%, and half of that growth was in demand deposits and the other half in term deposits. The growth in terms of demand deposits came from a few things.

We did do a lot of effort in our retail network to go and grab additional customers. We got good traction of that in terms of term deposits. We're also rebuilding and building and launching to the customer the on-boarding, the digital on-boarding checking account that we're going to launch over the first half. That will also help us continue on that trend of getting checking account, deposit account, demand deposits from a customer perspective.

The other big factor is that I mentioned a few times in the last few quarters, we did put a lot of emphasis in building new and enhancing deposit relationships that we're having, and that did generate a lot of growth on the demand deposits, so tribute to the team that's been managing all of this because it's been a great accomplishment for the year.

Paul Holden, CIBC

Okay. Then if I think about the last part of that answer, I'm assuming that implies growth through the broker channel. What kind of assumptions should I make regarding those demand deposits, just from a cost perspective, maybe cost more on interest expense versus demand deposits from the branch but lower cost versus term? Is that fair?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

It's a fair assessment, but I'd just like to add a few comments. It's not like the broker term deposit, it's really relationships that we put in place with partners and it's midterm to long term relationships that we're putting in place. It's not like demand deposits that will come in and go out the next day, it's really things that we envision that we're going to keep in place for the years to come, so it's really stable funding that we went and grabbed out of those relationships, and we thank the partners to trust Laurentian Bank and we're looking after additional ones in 2023.

Rania Llewellyn, President and Chief Executive Officer

Yes, so Paul, just to add—it's Rania, good morning. Just in terms of what Yvan was saying, we've been leveraging our entire network, our various relationships, our vendor relationships and our various partnerships to drive a lot of those deposits, and so we're delighted by the success of that and that's going to continue to be a core part of our deposit gathering strategy, while now we've filled in all of our foundational gaps in the personal bank and are repositioned for growth, so really well positioned for continued growth.

Paul Holden, CIBC

Yes, thanks for that. It's obviously a very important trend for the Bank.

Final question for me, another observation sort of related to NIM, if I look at the breakdown of interest expense for the quarter, there is this other category there and it came in at $40 million this quarter versus $5 million last quarter, and I think sort of a typical run rate looks more like one to two, so just wondering what explains the significant jump this quarter.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Paul, I'll be transparent—I don't have the explanation upfront, so what I'll do, I'll do a follow-up with you after the call, just to make sure I give you the right information.

Paul Holden, CIBC

Okay, that'd be great. Thank you, that's all from me, then.

Operator

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

Gabriel Dechaine, National Bank

Hi, good morning. First question on the lag between the loan and deposit re-pricing, can you maybe put some numbers around the duration of loans and how that differs from deposits, just to better understand that lag?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, thank you for that question, Gabriel, because I think we definitely need to provide more explanation around this to give you the comfort that we have in seeing that coming back to us.

The first thing I would start by saying, we finished the year at 1.84% in terms of NIM and we had guided a year ago 1.85%, so we're pleased with the performance for the overall year. That did happen despite many rapid and sharp rate increases in second half of the year, and that did generate what we identify as temporary loan re-pricing lags. We added a graph in the presentation—I'm sure you probably saw that, where the 10 bps really stand out, and what I'd like is just to explain a few examples—in fact, divide that in two categories and you're going to see our comfort of why we expect it to come back.

Both explanations probably are roughly half of the 10 bps, so the first one is the industry-wide prime and CDOR spread, and that one has been discussed over the last week, but we all know that CDOR moves on anticipation of the rate increases while the prime waits for the actual increase by Bank of Canada, so as we see rates stabilize, we should see the prime catching up to the CDOR and we should revert back closer to near historical levels. If I give you data, which is pretty interesting because if you look at prime to CDOR one month, the first half had an average spread of 1.91% while the second half of the year at 1.65%, so that's quite a big gap. Historically we would expect to be at around 1.9% plus or minus 10, so definitely the second half has been pretty much impacted by this.

The second portion is also very important to understand, is that we do have some products where the rate increase on variable loans are passed to the customer the next month of the rate increase or the following payment of the rate increase, so this one is pretty much automatic. As the rates will stabilize, we're going to see that catching up, it's just that over the last six months, we've seen so many rate increases that we couldn't catch up the increases yet. But as you see from what the market expectations are and pretty much based on the comments we got from Bank of Canada, it seems that we're going towards rate stabilization, and that will allow us to get that back.

What's interesting to really understand of that 10 bps is we don't need to pass additional spreads or re-paper agreements with the customers. Those will come back by the fact that the rates will stabilize, and if we're able to pass the spread to the customers, that will in fact be an additional increase and improvement on the NIM. We're not betting on that, we're just at this point telling what we expect in terms of that 10 bps to come back once the rates stabilize.

Gabriel Dechaine, National Bank

Okay, well thanks. That's a very thorough explanation.

On the capital front, I just want to get maybe an understanding as to why the RWA inflation was so low this quarter—I mean, we had nearly 30% year-over-year growth in commercial loans and over the past year, RWA inflation has been 40 to 60 basis points a quarter and this quarter it was half of the low end of that, so 20. Was there any mechanical reason for that? Just if you can help me out there.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, in fact I can take it from again from a capital focus and give you as well some guidance and explanation.

We're pleased with the current capital level that we have. We constantly manage the capital on an ongoing basis, so we're pleased with the capital management this quarter. It's really shown that we can manage capital while still growing the Bank, so I think that's a clear message and something we're really proud of.

One element that did not necessarily impact RWA but did impact capital this quarter is about $300 million of the commercial growth and the inventory financing growth came from FX translation from the U.S. to Canada. Since we acquired NCF many years ago, give years ago, we've been hedging the capital impact of FX, so when the FX goes up or the U.S. dollar is strengthening, like we'd seen last quarter, there is no impact on that capital. That also explains how we've been able to manage this despite the strong growth in terms of capital, so Gabriel, that gives you some colour.

Gabriel Dechaine, National Bank

Okay, and then last one, the expense item, that $2.9 billion benefit there in the U.S. as well, I guess, just to confirm, that was not backed out of adjusted EPS? I'm wondering if that's the case, why not?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

No, it's not. Maybe I can explain what it is and the rationale why it's included.

The first thing is that it's a program related to the fact we sustained employment levels during the pandemic in the U.S., so we had access to a program and we took advantage of it. We kept it in core results because when the employees sustained the employment in 2020, we didn't adjust the results either, so we took the expense and incurred the expense in the core expenses of the Bank, so as we got this subsidy, we just used the same treatment while we did sustain the salaries in 2020 and '21.

Gabriel Dechaine, National Bank

Okay, thanks.

Operator

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

Joo Ho Kim, Crédit Suisse

Hi, thanks. Good morning. Just wanted to go back to that question on demand and notice deposits. If I look at one of your slides on medium term objectives for new bank account openings in the personal banking space, just wondering how you see that strategy helping with gathering sort of the lower cost deposits as we look ahead, and if there was anything this year that drove the result, I guess, in terms of not meeting that target this year. Thanks.

Karine Abgrall-Teslyk, Head of Personal Banking

Thank you very much for the question. Well, you saw that we had a record year in terms of deposit growth, so really appreciative about the 18%. It's been extremely deliberate about growing the deposits.

As we closed the top five digital gaps, we're really well positioned to grow the deposits and deepen relationships with our existing and targeting new customers. The digital on-boarding will also have a strong value proposition (inaudible) simplified product shelf which is going to support our deposit growth, and we have to remember that half of our customers only have one product with us, which is going to be a tremendous opportunity as we keep on growing.

As you referenced the KPIs, we are proud to have been able to open more accounts this year than all of Fiscal '21. Our target was definitely ambitious and predicated on our digital solution being in place, and with digital on-boarding being in place for the next fiscal year, our medium term target remains achievable.

Joo Ho Kim, Crédit Suisse

Thank you, that's it for me.

Operator

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

Nigel D'Souza, Veritas

Thank you, good morning. I wanted to turn to your interest rate sensitivity disclosure. I noticed there for a 100 basis point increase in rates, the expected benefit is about $3 million to net interest income. Now, that implies margin expansion about two to three basis points, and this quarter end we've already had a 50 basis point increase by the Bank of Canada, so is that the right way to think about it, that we should expect a few basis points of margin expansion from here on out, based on that disclosure?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, thank you for your question, Nigel. Maybe I can just recap on that stress test but give you more guidance in terms of what we would expect from a NIM perspective at this point.

As you said, the stress test tells us that for a rate increase, we're going to see a benefit, and we remain positioned to take advantage of it. But that stress test is really at one point in time, and it does assume a parallel shift of the rate curve which is definitely not what we've seen over the last year and not what I would expect over the coming quarters.

I think it's probably good that I just recap a bit on the NIM side. As I mentioned previously, we've seen sharp and rapid increases that led to what I discussed with Gabriel a few minutes ago, the temporary loan re-pricing lag of 10 bps, so other things being equal, as we will see the central bank stabilize the rates, we will see that coming back, so I think this is going to be probably the key factor to watch in 2023.

We got good insights from the Bank of Canada recently and market expectations, expecting that to come back. We do remain prudent for the first portion of the year, though, because the markets are extremely volatile. If we look at last week versus this week, it seems to change on a daily basis, so we remain really, I would say, prudent for the first six months, but we should see in 2023 gradually bouncing back that famous temporary loan re-pricing lag.

Nigel D'Souza, Veritas

So just to clarify that point, since we've already had a 50 basis point increase, do you still expect despite the recent rate increase to fully recover the 10 basis points, or could you size how much of the 10 basis points in re-pricing lag do you expect to recover by the end of 2023?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, so at this point it's tough to say because, as I mentioned, the markets are still volatile, but as the rates stabilize, which we would at this point, based on the comments of the Bank of Canada and the markets, we should see that in second half of the year. We should expect most of the 10 bps coming back in that period. We just remain prudent for the first half because there is still a lot of volatility out there.

Nigel D'Souza, Veritas

Okay, so then just switching to credit loss provisions, just trying to get a sense of provisions for performing loans. I understand you have that provision build in the quarter last year. I would think that that was just a true-up of provisioning at that point in time and since then you've had revisions to your forward-looking indicators, and this quarter you had a pretty substantial negative provision, especially just to the GDP outlook, so just trying to get a sense of why did that provision you took last year offset the provisions this quarter? I thought that would be a buffer against provisions in the proceeding quarters this year. What was it particularly about this quarter that created that offset?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Maybe just to be clear on our side, Nigel, do you mean any text that you've seen in the MD&A, because there is not really an offset of the provision we took last year—it did not really impact the results this quarter, so if you could just be precise.

Nigel D'Souza, Veritas

Okay, sorry. I thought—okay, maybe I misread some of your comments. Maybe I'll just phrase it differently. What led to lower provision this quarter versus the last quarter, because there was a pretty substantial downward revision in your real GDP outlook, so was there some sort of management overlay offset that lower provision, given that FLIs were unfavourably revised, both higher unemployment and lower GDP?

Liam Mason, Executive Vice President, Chief Risk Officer

Sure Nigel, maybe I'll start. First off, it's very important to note that we were one of the banks that was very prudent, given the macroeconomic expectations, and we maintained provisions, and as you rightly point out, we've been disciplined over the past few quarters in establishing those provisions. Because we were prudent and positioned accordingly with our reserves, we were able to continue that discipline this quarter.

I would say yes, the macroeconomic outlook is slightly more unfavourable compared to previous quarters, but our portfolio is holding up quite strong and the real driver behind our ACL increase is really the strength of our commercial growth, so I remain very comfortable with our provisions at this time. We continue to maintain that disciplined approach, and we'll continue to do so.

Nigel D'Souza, Veritas

Okay. I noticed in your stage 2, there was an increase in the high risk category for commercial loans in stage 2. Any comments on what that increase was related to?

Liam Mason, Executive Vice President, Chief Risk Officer

Yes, I would note that, first of all, the overall portfolio remains solid, and we're very disciplined around how we manage watch lists and migration. There is some migration, as expected, given the macroeconomic conditions, no specific sector is really driving it, and it's really about maintaining our disciplined portfolio management approach. We tend to be pre-emptive with regards to watch lists and to get on top of the portfolio quickly, but as I said, I'm overall very comfortable with our portfolio at this time and the adequacy of our reserves.

Nigel D'Souza, Veritas

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

Operator

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

Darko Mihelic, RBC Capital Markets

Hi, thank you. I wanted to touch a little bit upon the deposit strategy going into next year. I apologize for doing a little bit of math here, but I will take you to your annual report and if I look at Table 7—this is on Page 34 of your annual report, I can see the change in rates for your deposits and, I think, calculate a blended rate for your demand and notice and your term deposits to sort of see what has happened year-over-year, and unfortunately I can only do this year-over-year with all of the big six banks' data. When I do it for Laurentian Bank, your deposit costs on a blended basis, so blending the two together, basically was up about 29 basis points year-over-year. That is exceptionally good relative to what I see at the other banks—TD is 48 basis points, for reference, National is 52. I can look at CIBC, 75, and even BMO was 40, so.

The reason why I'm doing this math is if you do look at that table carefully, the math also shows that the very big increase in rates that occurred for you in the deposit side was actually the demand and notice, and that's without having the digital solution in place to gather up deposits in the new year, and you're looking at 30 times more account openings and I'm envisioning a situation here where you have a lot of account openings and you have promotional rates and so on, so is there some level of NIM suppression that we should assume because: A, you have all these account openings coming; B, you may need to compete against these other Canadian banks that may be offering high deposit rates, so maybe if you can just walk me through a couple of those thoughts as we think about an aggressive deposit gathering campaign in 2023.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for your question, Darko, and happy that our deposit performance pleased you. I will take that as just a general comment.

But if I just go back to our strategy for '23, but in fact I should start with '22, so I mentioned a few minutes ago that we're really pleased with the performance we had, not in terms of just numbers but in terms of the relationships that we've been putting in place, and that one factor that you did not specifically mention is that it did allow us to replace broker term deposits with demand deposits and long and stable at lower rates, so definitely that plays out in terms of the deposit rate that we've been paying overall. That strategy has been working extremely well in 2022 and we're really exceptionally pleased with that result.

In terms of 2023, we intend to go out with the new digital on-boarding feature to the customers. First, that will allow us to go and grab customers outside the province of Quebec, where we have retail branches, and if you want to open an account right now, that's where you need to go—you need to go to a branch, so that will allow us to grab additional customers outside Quebec. We're not going out with a strategy of very high rates, we're going out with getting great products, great features for checking accounts, savings accounts, so we expect those accounts to not have an exceptionally high rate, so we will intend to continue the discipline we have on the deposit side and we intend to continue growing the demand deposits at lower rates, based on the new features that we're putting in place. As we build out on the relationships that I just mentioned a few times on the call, that will continue to allow us to reduce dependence on the higher rate broker term deposits.

Darko Mihelic, RBC Capital Markets

Okay, thank you very much. I do look forward to seeing the strategy in play, and perhaps we can take this offline, I'd like to discuss maybe a few other small technical aspects of that. Thank you very much.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you.

Operator

Thank you, that's all the time we have for questions today. I would now like to turn the meeting over back to Rania.

Rania Llewellyn, President and Chief Executive Officer

Thank you for your questions today.

In closing, we have had a tremendous year executing against our plan and I am extremely pleased that we exceeded all of our financial targets in this first year of our three-year strategic plan.

Our solid results speak to the strength of our underlying business, our ongoing focus on cost discipline, our prudent approach to credit, and our continued efforts in executing against our plan.

We remain focused on maintaining our healthy liquidity and capital levels.

I would once again like to thank all Laurentian Bank team members for embracing our new purpose and living our core values as One Winning Team as we enter 2023 with momentum on our side.

I would like to wish everyone a happy holiday season and we will talk again in the New Year.

Thank you.

Operator

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