Conference Call Financial Results

First Quarter 2022

March 2, 2022

Caution Regarding Forward-Looking Statements

From time to time, Laurentian Bank of Canada (the "Bank") will make written or oral forward-looking statements within the meaning of applicable securities legislation, including such as those contained in this presentation (and in the documents incorporated by reference herein), and in other documents filed filings with Canadian regulatory authorities, in reports to shareholders, and in other written or oral communications. These forward-looking statements are made in accordance with, and are intended to be forward-looking statements under, current securities legislation in Canada. 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, United States (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 anticipated ongoing and potential impact of the coronavirus (COVID-19) pandemic on the Bank’s operations, earnings, financial results and financial performance, condition, objectives, and on the global economy and financial markets conditions; the statements under the headings “Outlook”, “COVID-19 Pandemic” and “Risk Appetite and Risk Management Framework” contained in the Bank's 2021 Annual Report for the year ended October 31, 2021 (the “2021 Annual Report”), including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2021; 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 us 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 the forward-looking statements contained in this document are set out in the 2021 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 risk 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 risk factors include, but are not limited to, risks relating to: credit; market; liquidity and funding; insurance; operational; regulatory compliance (which could lead to us 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; and other significant risks discussed in the risk-related portions of the Bank's 2021 Annual Report, such as those related to: the ongoing and potential impacts of the COVID-19 pandemic on the Bank, the Bank's business, financial condition and prospects; Canadian and global economic conditions (including the risk of higher inflation); 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; development and use of “vaccine passports”; environmental and social risk; and 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” beginning on page 50 of the 2021 Annual Report, including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2021 which information is incorporated by reference herein.

We further caution that the foregoing list of factors is not exhaustive. Additional risks, events, and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on the Bank's financial position, financial performance, cash flows, business or reputation the Bank. 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.

The forward-looking information contained in this document (and in the documents incorporated by reference) is presented for the purpose of assisting investors, financial analysts, and others in understanding the Bank's financial position and the results of the Bank's operations as at, and for the period ended on, the date presented, as well as the Bank's financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes.

Any forward-looking statements contained in this document represent the views of management only as at the date hereof, are presented for the purposes of assisting investors and others in understanding certain key elements of the Bank’s current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Bank’s business and anticipated operating environment and may not be appropriate for other purposes. We do not undertake to update any forward-looking statements, whether oral or written, 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. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com.

Non-GAAP financial and other measures

Management uses financial measures based on generally accepted accounting principles (GAAP) and non-GAAP financial measures to assess the Bank's performance. Non-GAAP financial measures presented throughout this document are referred to as "adjusted" measures and exclude amounts designated as adjusting items. 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. Adjusting items have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP financial measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related 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 description above. Non-GAAP ratios are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends.

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

For more information, refer to page 30 of this presentation and to the Non-GAAP Financial and Other Measures section beginning on page 5 of the First Quarter 2022 Report to Shareholders, including the Management's Discussion and Analysis (MD&A) as at and for the period ended January 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 of Canada conference call. Please note that this call is being recorded. I would now like to turn the meeting over to Susan Cohen. Please go ahead, Ms. Cohen.

Susan Cohen, Head, Investor Relations

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

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

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

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

I would also remind listeners that the bank assesses its performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance. Rania and Yvan will be referring to adjusted results in their remarks unless otherwise noted as reported.
It is now my pleasure to turn the call over to Rania Llewellyn.

Rania Llewellyn, President and Chief Executive Officer

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

At the end of last year, we unveiled a new, three-year strategic plan for the Bank to drive long-term, sustainable, and profitable growth. While it has only been a few short months, we have already taken action on a number of fronts, and I want to sincerely thank all of the Laurentian Bank employees who have worked together as One Team to deliver on our new strategy.

The COVID-19 vaccination rollout in developed countries continues to contribute to a robust economic recovery. In Canada, solid GDP growth was driven by robust spending intentions, the reopening of the economy, and the continuation of targeted federal government support, despite high CPI inflation. However, the onset of the Omicron variant led to brief shutdowns, disrupting the initial positive momentum in the quarter. Notwithstanding uncertainties related to labour shortages, global supply chain bottlenecks and the more recent geopolitical risks, we continue to see positive momentum heading into Q2.

I would now like to review our Q1 2022 results.

The Bank delivered a strong start to the year.

Fueled by top line revenue growth of 4%, net income for the first quarter was $59.5 million or 25% higher than a year earlier, with earnings per share of $1.26, up 22% year-over-year. ROE reached 9.2%, up 170

basis points from a year ago. Results were primarily driven by strong performance in Commercial Banking, our continued focus on cost management, and sound credit quality.

Commercial Banking grew its loan portfolio by $2.2 billion or 17% year-over-year and was up $1.3 billion or 9% quarter-over-quarter. Inventory Financing exceeded our expectations with loan growth of 39% quarter-over-quarter, as manufacturers delivered more equipment to our dealerships. This quarter, the dealer credit utilization rate increased to 43%, which is up from 35% last quarter, but still below the historical level in the mid-fifties. Given our success in increasing our dealer network over the past year, a one percent increase in utilization rate is currently equivalent to $60MM in assets to our balance sheet. We were encouraged by better-than-expected Q1 results which will continue to have a positive impact on Q2 before projected seasonal reductions occur in the latter half of the year.

With our continued focus on cost management, the efficiency ratio improved by 190 basis points year-over-year. As the economy reopens, inflation and normalization of business activities may put some pressure on costs and cause some variability in our efficiency ratio. However, our focus on disciplined expense management and structural cost optimization should set the stage for continued improvement over the medium-term.

Our sound credit quality was evidenced by the declining trend in impaired loans and low provision for credit losses. While the PCL ratio came in at 11 basis points this quarter, we continue to expect that the evolving business mix will lead to a PCL ratio in the mid teens this year.

The Bank continues to maintain healthy liquidity levels and a strong capital position to support our strategic plan with a CET 1 ratio of 9.8%.

As I outlined at our Investor Day, our business lines play a key role in the success of our strategy. To recap,

- Commercial Banking remains our growth engine.
- Capital Markets provides a focused and aligned offering; and
- Personal Banking is repositioning for growth.

This is all underpinned by a strong culture and focus on making the better choice by living our values and integrating ESG best practices.

2022 is the year of execution and we have already made good progress.

As I outlined in our financial results, our Commercial Bank continues to execute on a proven business model with robust loan growth. This quarter, our focus on our specializations and additional relationship managers led to strong origination capacity, allowing us to:

- Grow our Inventory Financing credit line authorizations by 13% quarter-over-quarter, reaching $6 billion.
- Expand our Real Estate pipeline to $4.3B, up 9% versus last quarter, as we were able to benefit from the high volume of new construction projects in the Canadian real estate market; and
- Generate close to $200MM of New Business Volume in Equipment Financing, bringing us back to pre-pandemic origination levels.

With significant growth in inventory and equipment financing, the percent of commercial loans in the U.S. reached 17%, in line with our commitment to continue to diversify our portfolio by geography.

We also continue to maintain a net promoter score of over 50 or ‘excellent’, based on our latest customer survey conducted in November with both our Equipment and Inventory Financing customers. These scores reflect the deep relationships we continue to have with our commercial customers.

In Capital Markets, we continue to offer a focused and aligned approach to differentiate ourselves from the competition. Q1 results remain solid, particularly in fixed income, although overall have moderated somewhat from last year's strong pace.

In line with our strategy, we are further aligning our capabilities with the broader bank and have:

- Hired new talent in our diversified group to augment our offering and provide strategic advice to commercial clients;
- Hired a new real estate research team, which is a key focus area and a specialized sector for the commercial bank, allowing us to triple issuer names under coverage; and
- Participated in multiple government green bond issuances in Canada in the first quarter including those issued by the City of Ottawa and Province of Ontario, in line with our strategy to offer value-added ESG capabilities.

In Personal Banking, we are focused on closing key foundational gaps to drive customer retention and acquisition while deepening existing relationships. I would like to provide three updates related to our strategy:

- First, efforts related to customer retention continued, including the use of predictive analytics and the launch of a new customer loyalty team. The virtual team was launched, onboarded and trained throughout November and started making proactive calls to our customers in December. This team is initially focusing on customers with mortgages coming to maturity and locking them into new terms. Initial results are encouraging, and the team is gaining momentum. While improving the performance of the mortgage business is expected to be a multi-year journey, we are confident that it should gradually yield benefits along the way.
- Second, following our commitment to transform our Visa product suite, we announced a new strategic partnership with Brim Financial. This partnership will fuel our digital transformation and enhance the end-to-end customer journey for our suite of VISA products. By the end of this year, we will have reduced the credit card adjudication time from 25 days to instantaneous while also delivering a robust rewards platform aligned to our new brand purpose. In keeping with our focus on simplification, the partnership also reduces the number of vendors we use to issue a card from five to one and reduces manual processes by 90%. This will close a key foundational gap for the Bank and will allow us to continue to grow our national presence.
- Third, I am pleased to report strong customer demand for our recently launched mobile app. The app allows customers to do their most common banking transactions on the go. Using an agile approach, the Bank will continue to update and enhance its app, and customers will see improvements through ongoing releases. In just three months, over 25% of our active online banking customers have now downloaded the app, doubling our Q1 target.

Finally, our strategic plan is underpinned by a strong culture and an unwavering commitment to ESG. I will now outline key developments related to these priorities.

First, as part of our focus on **cost optimization** and our **Future of Work** strategy, I am pleased to report that we have made significant progress on reducing our leased corporate office space and have signed an agreement for our 199 Bay Street location in Toronto. This is in line with our objective to move to a hybrid, work from home first model for all tasks that can be performed remotely.

Second, as part of our commitment to '**build one winning team'**, I am pleased to announce that Bindu Cudjoe has joined Laurentian Bank as the new Chief Legal Officer and Corporate Secretary. Bindu brings over 20 years of experience in legal and regulatory affairs, corporate and board governance, strategic partnerships and compliance.

Third, in line with our strategic pillar to **make the better choice**, I am very proud that today we published Laurentian Bank's first-ever ESG report which highlights a number of key initiatives, including:

- A materiality assessment to identify key ESG priorities for the Bank;

- Disclosures aligned to the TCFD recommendations including a climate risk assessment and heatmap; and
- New equity, diversity & inclusion policies.

Additionally, the Bank has also joined the Partnership for Carbon Accounting Financials (PCAF). The PCAF initiative enables collaboration among the world's financial institutions to develop standardized methods for measuring and disclosing carbon emissions from their financing and investment activities.

We are in the early stages of our ESG journey, and this report represents another key step towards delivering a comprehensive sustainability program across the organization.

To conclude my opening remarks, I am pleased with the progress we have made this quarter and 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 12 which highlights the Bank's strong financial performance for the first quarter of 2022.

Reported EPS was $1.17 and net income was $55.5 million. Adjusting items this quarter amounted to $5.4 million before taxes and included $3.0 million related to the amortization of acquisition-related intangible assets, and $2.3 million of impairment and restructuring charges. The latter related to the successful completion of the reduction in leased corporate office space in Toronto which required a $2.3 million adjustment to the charges recorded in the fourth quarter of 2021. Details of adjusting items for the quarter are shown on Slide 26. The remainder of my comments will focus on adjusted results.

EPS and ROE were $1.26 and 9.2%, an increase of 22% and 170 basis points respectively compared to a year ago, and ahead of our 2022 targets. The pre-tax pre-provision income (or PTPP) was $85.0 million, a 10% increase compared to last year, driven by both strong revenue growth and good cost discipline.

Compared to the fourth quarter of 2021, EPS and ROE increased by 19% and 170 basis points respectively, mainly due to lower PCL. Note that in the fourth quarter of 2021, a provision for investment loans of $19.3 million was taken. PTPP decreased by 2% driven by higher non-interest expenses. This increase was mainly the result of higher payroll charges due to a higher level of performance-based compensation paid in January. Also noteworthy, semi-annual payments on LRCN are made in the first and third quarters. As such, we made a payment in Q1 which accounted for six cents per share.

Slide 13, shows the improvement in net interest margin. At 1.88%, NIM was 4 basis points higher than a year ago mainly due to higher inventory financing volumes and lower funding costs. Net interest margin increased by 5 basis points versus last quarter, mostly due to the strong growth in inventory financing volumes experienced over the past two quarters.

Other income, as presented on Slide 14, increased by 3% compared with a year ago, mainly due to higher commissions on sales of mutual funds reflecting higher asset values and net sales, as well as higher lending fees primarily driven by the strength in real estate financing. Sequentially, other income was 1% lower, impacted by lower fees and securities brokerage commissions, as the pace of Capital Markets activity has somewhat moderated.

Slide 15 presents non-interest expenses that increased by $2.2 million or 1% compared to a year ago. This was mainly due to higher payroll charges resulting from a higher level of performance-based compensation paid in January as previously mentioned, and higher professional fees to support our strategic initiatives. Partially offsetting these increases were lower amortization charges and rent expenses stemming from our decision to reduce the footprint of our corporate offices by 50%. Sequentially, non-interest expenses increased by 5% mainly due to higher salaries and employee benefits.

The efficiency ratio stood at 67.0% in the first quarter of 2022, an improvement of 190 basis points year over year and in line with our 2022 target of less than 68%. Operating leverage was a positive 3% year-over-year. Sequentially, the efficiency ratio increased by 150 basis points. While we continue to focus on cost discipline, as well as revenue growth, there can be variability from quarter to quarter in this measure.

Slide 16 presents our well diversified sources of funding. Our objective is to align deposit growth and loan growth. To this end, in the first quarter, total deposits increased by $1.1 billion as loans increased by $0.7 billion. Growth in personal notice and demand deposits was particularly strong reflecting our strategy to deepen and expand relationships with advisors and brokers.

Slide 17 highlights our healthy capital position. The CET1 capital ratio, which is presented under the Standardized approach, stood at 9.8% at the end of the first quarter compared to 10.2% at year-end. During the first quarter, we deployed capital to support organic growth which is our priority. We also repurchased 294,000 shares under the NCIB at an average price of $42.86 for a total of $12.6 million. Our capital position remains strong and supports our strategic plan towards sustainable, profitable growth.

Slide 18 highlights the commercial loan portfolio which delivered strong growth. Loans increased by 9% quarter-over-quarter, driven by growth in inventory financing of over $700 million or 39% and real estate financing of $400 million or 5%.

Slide 19 presents the pan-Canadian residential mortgage loan portfolio. Residential mortgage loans declined by 2% sequentially. We previously mentioned that improving the performance of the mortgage business is expected to be a multi-year journey, as we take actions to improve the customer experience, retain customers, and renew growth.

The Bank’s residential mortgage portfolio remains relatively weighted towards insured mortgages when compared to the industry at 56% and, combined with a low LTV on the uninsured portfolio, contributes to reducing the overall risk of this business.

Turning to Slide 20, allowances for credit losses totaled $208.9 million, a sequential increase of $6.3 million. This quarter, the Bank released $5 million in ACL for performing loans which was offset by growth in the commercial loan portfolio, as well as the normal variation in a few commercial loans, without any particular trends.

As shown on slide 21, the provision for credit losses was $9.4 million in the first quarter of 2022, decreasing by $7.4 million from a year ago. Lower provisions on impaired loans and a lower level of write-offs were partly offset by higher provisions on performing loans. Sequentially, the provision for credit losses decreased by $15.5 million, as the prior period included provisions of $19.3 million for the investment loan portfolio. The PCL loan ratio stood at 11 basis points.

Slide 22 highlights the improving trend in gross impaired loans which decreased by 15% quarter-over-quarter. Impaired loans declined mainly as a result of loans returning to performing status and repayments. We remain adequately provisioned.

I would now like to offer some thoughts on how we see the second quarter of 2022 developing.

- The shorter quarter effect is anticipated to be partly offset by the impact of the solid loan growth experienced in Q1. NII and NIM are therefore expected to remain strong, although slightly lower than in Q1.
- We anticipate good performance from our Capital Markets business line but remain cautious as market activity has moderated somewhat and uncertainty remains elevated.
- Our focus on cost discipline will continue. We aim for our efficiency ratio to remain lower than 68% even though overall spending will increase gradually over the year as we invest in our growth and strategic initiatives.
- The provision for credit losses remains difficult to predict on a quarterly basis. We continue to expect that the evolving business mix will lead the PCL ratio to gradually increase towards the mid-teens.

For the rest of 2022:

- Uncertainties remain, including the developing Russia-Ukraine conflict, the potential emergence of new variants, and continuing supply chain challenges.
- The strong Commercial Banking loan growth over the past two quarters is expected to moderate in Q2 and then contract in Q3. The latter is a result of the seasonality of our Inventory Financing activities as a large portion of our portfolio is in RV and Marine products. For these verticals, our dealer base is signaling a high level of pre-sold equipment which is expected to lead to a reduction in credit utilization in Q3.
- This anticipated reduction may moderate profitability growth in the second half of 2022.
- Overall, despite the uncertainties and potential quarterly fluctuations, we believe that the strong results delivered in Q1 position the Bank to meet or exceed its performance targets for 2022.

I will now turn the call back to Susan

Susan Cohen, Head, Investor Relations

At this point, I would like to turn the call over to the conference operator for the question-and-answer session.

Operator

Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. Our first question comes from Meny Grauman at Scotia Global. Your line is open, please go ahead.

Meny Grauman, Scotia Capital

Hi, good morning. First question is just on the inventory finance business, the growth that we saw even outpaced the Q4. You talked about the seasonality last time around and emphasized it now as well. And I'm just wondering, is that all we're seeing here, seasonality, or is there something else going on that surprised you to the upside?

Éric Provost, Executive Vice President, Business Services

Meny, it's Eric. Thanks for the question. Actually, Q4 and Q1 will be impacted by the seasonality, as highlighted by Yvan. Like over 50% right now of our Inventory Finance business is towards RV's and Marine and we saw good supply capability from mostly the RV side of the business. So right now, we do expect this to continue in the beginning of Q2, but definitely with product demands still very strong out there, we feel that credit line utilization should decline the end of Q2, beginning of Q3, and for the summer period.

Rania Llewellyn, President and Chief Executive Officer

So Meny, I just want to make sure we've answered your question. So, it's positive seasonality and usually in Q4 and Q1. And then based on the presale, as Eric was saying, that's when you start seeing the utilization rates of our credit lines going down, usually in Q2 and Q3, however, we have strong momentum. So, we've already started seeing the moderated pace going into Q2, but we'll probably see the credit utilization lines going down a little bit more in Q3.

Now, what the business has done under Eric's leadership is over the past year, we grew the number of dealers year-over-year. And so that's helping with the moderation as well as starting to look at different industries outside of RV and Marine. So obviously we are – it's going to continue to be a growth engine, but yes, it's going to be seasonally lower utilization in Q3 because of the pre-sold inventory.

Meny Grauman, Scotia Capital

We hear a lot about that. From your perspective, is there any change there in terms of things improving that are not yet obvious to us? Are you seeing anything like that or that's not the case at all?

Éric Provost, Executive Vice President, Business Services

Clarify 'improving' Meny, just to make sure.

Rania Llewellyn, President and Chief Executive Officer

Are you talking about just a matter of trend? Yeah.

Meny Grauman, Scotia Capital

Well, just, I'm wondering about what you're seeing in your business in terms of is supply chain becoming less of an issue in that business or is that not really what's driving these numbers at all?

Éric Provost, Executive Vice President, Business Services

Well, like I said, some business lines like RV is more consolidated in terms of OEMs. So they've been more resilient through this supply chain situation, but Marine is more fragmented. So, they're still at way lower credit utilization than they were pre-pandemic. So right now, we feel we're moving towards a more normalized situation in some industries, but still some pending uncertainties regarding supply chain there.

Rania Llewellyn, President and Chief Executive Officer

So, Meny, just a few additional comments. If we were to just break it down as to what happened in the Inventory Financing business, so this quarter alone saw an increase of $700 million in assets; that's up 39% quarter-over-quarter. 70% of that growth came from existing dealers. 30% came from new dealers. So that was one of the key drivers. The second driver was, as Eric mentioned, we were pleasantly surprised with the supply chain easing up in particular sub-segments. And so that's boosted the credit utilization to 43% versus 35% in the last quarter, but that is still below pre-pandemic utilization in the mid-fifties. Right?

And so that's why what we're seeing now is there will be moderation in Q2, and then liquidation or less inventory needed because they're already pre-sold, but we're trying to minimize that seasonality by adding more dealers. We're trying to do that as well by going into different segments. Now, obviously, the Russia-Ukraine, as we've heard this morning in terms of the number of sanctions, there's still a lot of uncertainty and that may have a bigger impact on the supply chain. And so, this is our best guesstimate at this point in time.

Meny Grauman, Scotia Capital

That's helpful, especially the utilization numbers. The second question I had was just on capital. We see the CET-1 ratio go down a little bit over 40 basis points, quarter-over-quarter. And I'm wondering, given the changing business mix and the outlook that you have, is there a risk that RWA growth will continue to pull down your CET-1 as that business mix changes? And where do you see that bottoming out?

Yvan Deschamps, CFO

Thank you for your question, Meny. So, deploying capital for asset growth, internal asset growth is really the priority of the bank. And that's what happened over the last quarter. The key thing also there is that we have a very strong capital base at 10.2, and that's reflected also the reduction that we had in Inventory Financing. So, we were anticipating that industry will come back. So it's not a surprise – in fact, it's a positive, if I can say that, that it came relatively quick. But the point there is that there's no issue in the capital. We were reserved for an increase in volume, and we have enough flexibility to take that going forward. And if you look at the flow chart that we have in the presentation, we do generate good internal capital growth as well. And that's probably 15 to 20 bps going forward quarter[?], and we believe that that will, on a normal basis, support the growth that we have in the mid-term.

Meny Grauman, Scotia Capital

So, in terms of your outlook, could you see that CET-1 ratio continuing to follow, or is it likely, especially given that seasonality you're talking about, that we should see the CET-1 ratio start to climb again from here?

Yvan Deschamps, CFO

At this point, Meny, it definitely is going to move a little bit up down depending on the growth we get, but we see now the level of the capital to stabilize much more. And that's been driven, as we mentioned, by the big growth we had in Inventory Financing and Real Estate. And Rania just mentioned that that's going to temper in Q2 and reduce in Q3. So that may bump a little bit the capital, but overall, by the end of the year, we expect to be relatively in the same order.

Meny Grauman, Scotia Capital

Got it. Thank you very much.

Operator

We'll go next to Paul Holden at CIBC. Your line is open, please. Go ahead.

Paul Holden, CIBC

Thank you. Good morning. So I have a couple more questions on the commercial loan growth, but maybe, putting seasonality aside and focusing more on year-over-year growth rates. So, my first question there is, how should we be thinking about the ability of strong commercial loan growth to impact NIM? And I guess specifically as you move towards that 2024 target of over $18 billion, how are you thinking about funding mix and funding costs associated with that loan growth?

Yvan Deschamps, CFO

Thank you. A few things in there. In terms of NIM, definitely we see that the growth that we got in commercial over the last two quarters definitely improved and fueled the NIM, which was 1.88% this quarter. With the mix that we see, and the market is pretty competitive out there as well, so our expectation is that this is probably going to go down by a few bps but it's going to be sustained at a very good level. And in terms of funding, I would say it really depends on where the growth's coming from, but the good thing this quarter is we have very strong growth in our deposits, which is definitely core for the bank. And we intend to continue pushing on the deposit growth as well, but very pleased with the growth we had this quarter, which was in excess of the growth we had on the loan side.

Rania Llewellyn, President and Chief Executive Officer

And Paul, just to add to that, to put that in perspective as how it relates to the commercial banking growth in the business mix that Yvan was mentioning, Inventory Financing attracts around a mid-single-digit margin. Now, obviously because of competition, there's a little bit of margin compression that's happening there, but it's a higher margin business than you would say our real estate business, which is in the multi-res and construction. So, it really depends on the mix of growth that we're going to be reaching on a quarterly basis. But as Yvan said, we're very comfortable and confident in terms of what we're forecasting from a guidance perspective.

Paul Holden, CIBC

Got it. Okay. And then second question, again, related to that commercial loan growth, and maybe also importantly, the mix. If I look at lending fees, they were down 1% quarter-over-quarter. Does that tell me the Inventory Finance business is not a driver of lending fees, or I guess, more importantly, how do I think about the correlation between your commercial loan growth objectives and lending fees over time?

Yvan Deschamps, CFO

No, you are totally right in your assumption. So, the Inventory Financing business has a very nice margin, but does not generate fees. The fees that we've seen, the growth that we've seen, lending fees, very strong at 8% over last year, is related to the real estate business growth that we have. That business generates good fees and that's what we've seen in the result. The small reduction of 1% is almost, I would call it, a rounding impact because the growth of commercial has been pretty strong over the last two quarters. So both of those quarters were very strong from a lending fee perspective.

Paul Holden, CIBC

Okay. And then last question for me. Because we've focused here a lot on the Inventory Finance businesses, maybe going back to the Real Estate Finance business. I mean, from what I can read in terms of other banks and industry sources, it looks like the outlook there is very strong for the year ahead. So maybe you can give us your perspective on the outlook for Real Estate Finance specifically.

Éric Provost, Executive Vice President, Business Services

Thank you for the question, it's Eric. Right now, our real estate pipeline, as highlighted in the opening remarks, is very strong at $4.3 billion. So 9% quarter-over-quarter increase. So we feel very comfortable right now with the demand level. The team is well deployed across Canada to benefit from that strong demand. And we feel we're very well positioned to continue originating in commercial real estate throughout 2022.

Paul Holden, CIBC

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

Operator

We'll go next to Nigel D'Souza at Veritas Investment Research. Please go ahead.

Nigel D’Souza, Veritas Investment Research

Thank you. Good morning. I wanted to follow up on that line of questioning. If I look at your outlook that you've outlined on slide 28, trying to dig a little deeper on your net interest margin forecast, year-to-date you

have 1.88% and you're forecasting a floor 1.9%. And I'm trying to understand if you could break down the factors driving that because you have a shift in loan mix towards commercial, which should benefit more from rising interest rates. Is there anything else at play there that leads to that more conservative outlook, either interest rate hedging or funding mix or anything else we should think about?

Yvan Deschamps, CFO

Thank you. I'll go back Nigel to some comments I made a few minutes ago, but I'll try to add colour and you can ask more if you want. So 1.88% NIM is a pretty good result this quarter, and as mentioned, it was fueled by the growth we had in commercial. So, you're totally right about that. But specifically, as mentioned by Rania, Inventory Financing is a pretty good margin business, mid-single digits. So, movements in that portfolio does move the NIM as well. With the tempering of the volume in Q2 and the reduction in Q3, that will impact the NIM by a few basis points. So that's why this year, our objective is to remain above 1.85%. And at this point we're comfortable with that. The 1.9% NIM that I think you're referring is in the mid-term. So as the interest rates increase, depending of course what's happening from the competitive side and the portfolio mix, that's more a mid-term objective. But I agree that this quarter we were getting close to 1.90% NIM. Next quarter, I would see the NIM probably being a few basis points lower than what we have this quarter based on the pipeline that we have and the competitive nature we see out there.

Rania Llewellyn, President and Chief Executive Officer

And just to add, the target for this year is greater than 1.85%. So we're confident that we're going to meet or exceed that target.

Nigel D'Souza, Veritas Investment Research

Great. And how many rate hike assumptions are embedded in that medium-term outlook for 1.9% on the NIM?

Yvan Deschamps, CFO

Yeah, the 1.9% is definitely based on the portfolio mix that we anticipate having in terms of growth. So, I cannot really go in much more detail than what we outlined by growing commercial about 45% in the medium term is definitely a factor there. And it does also embed some interest rate increases. So the markets, to be clear, did change a bit from last week. So, we'll see how the interest rate increases play out, but we still expect four interest rate increases this year, two in the next quarter, two towards the end of the year. So that will also help the NIM. But the main impact's going to be towards 2023, because two of those are only at the end of 2022. So with the above 1.90% in the medium term takes into account the portfolio mix as well as the rate increases.

Nigel D'Souza, Veritas Investment Research

Okay, got it. And if I could just finish on your credit outlook on PCLs, the high teen number, again, that's above your PCL ratio of pre pandemic. And is that entirely driven by a shift in mix and maybe a higher Inventory Financing? And we also noticed that pre-sale ratio in the commercial book was a little bit elevated here relative to prior periods. So just any more color on why you expect higher credit loss provisioning because the risk adjusted NIM would actually be moving lower based on your guidance.

William Mason, Executive Vice President, Chief Risk Officer

Thank you, Nigel, it's Liam Mason. We have a very prudent, disciplined approach to reserve management. You saw that through the pandemic and with our approach this quarter. The credit quality is really strong. We do expect, as Rania said in her remarks, mid-teens. That reflects the good underlying credit quality and

also the business mix. You're going to get ebbs and flows in that as the economic environment evolves but we're very comfortable with where we are today and very comfortable with that target of mid-teens.

Nigel D'Souza, Veritas Investment Research

Well, and the high-teens targets for the medium term, any comments on that?

William Mason, Executive Vice President, Chief Risk Officer

It's as the business mix evolves and we take a very risk-return based approach here at the bank. So, if the PCLs were to trend up, we would expect that more than offset by additional revenues.

Yvan Deschamps, CFO

And if I can add one comment, Nigel. I think you mentioned the growth of the Inventory Financing, if it was impacting this. It's not related to Inventory Financing, it's related to the change in the mix. And commercial is usually a business that attracts a bit higher PCL. And that's normal, but we're going to get higher return and higher NIM going in that business as well. So overall, it's positive. It's not targeted to any single product.

Rania Llewellyn, President and Chief Executive Officer

And in the medium term, as we build out our credit card capabilities as well, that usually attracts a higher PCL, which is why we also are showcasing a little bit more high teens in the medium term because we're pretty confident that once we launch our Brim solution and start marketing it out there, that portfolio will also grow.

Nigel D'Souza, Veritas Investment Research

Okay. That's helpful. Thanks.

Operator

We'll go next to Marcel McLean of TD Securities. Your line is open. Please go ahead.

Marcel Mclean, TD Securities

Okay. Thank you. Most of my questions have been asked and answered already, but just looking at the credits a little bit deeper, the performing ratio was around six basis points this quarter. That is a little bit higher than it's been, I think, in a more normalized environment. How do we think about PCL this quarter? Is that the new mix that we're dealing with where that should be a run rate I should expect in my model? Or what was PCL. It could come down going forward by a few basis points anyways.

William Mason, Executive Vice President, Chief Risk Officer

Yeah. Marcel, what's really driving the performing ACL is the commercial loan volume increase. So, it will move in tandem with that. I would note though that a portion of that was offset by the reserve release of $5 million that we indicated, but it really is exactly as you said, driven by the mix.

Marcel Mclean, TD Securities

Okay. Thanks for that. And then, I think that's all I have today, actually. I think my questions were answered already. Thank you.

Operator

And as a reminder, ladies, and gentlemen, it is star one if you had a question. We'll go next to Joseph Ng at Barclays. Your line is open, please go ahead.

Joseph Ng, Barclays

Yes. Good morning. Thank you for taking my call. Just a quick question on CET-1 ratio, the 40 basis points drop in the quarter is quite a step down. How should we look at the CET-1 and its evolution through the year, the end of the year?

Yvan Deschamps, CFO

Thank you for your question, Joe. So the 40 basis points, as I mentioned, our first priority is – in fact, I'll step back. The first thing is we have a strong capital base, right? And that allows us a lot of flexibility. Second point is, if you look at the flow chart that we have in the presentation, you'll see that the reduction is coming from internal RWA deployment. And that came from the strong growth that we had in commercial. So, as previously mentioned, the rate of the CET-1 was high with the fact that there was a reduction of that portfolio in the past and we expected that it would get back. So we are using that flexibility to grow the business, which will benefit the profitability going forward.

But as we mentioned a few minutes ago, we expect the growth of commercial to temper in Q2 and, in fact, reduce a bit in Q3. So we would see the ratio of CET-1 by the end of the year to be at the relatively normalized level that we have right now, maybe a bit up or down. But the internal capital generation that we have on a quarterly basis now expects to fuel normal growth of that business for the coming years.

Rania Llewellyn, President and Chief Executive Officer

And just as a reminder, Joe, it's calculated on a standardized approach as well. And so that's an important distinction.

Joseph Ng, Barclays

Okay. So we should probably see it bounce around, call it a 10 to 9.8 level, basically?

Yvan Deschamps, CFO

At this point, I would expect it to be around the same level that we have by end of the year.

William Mason, Executive Vice President, Chief Risk Officer

Okay. So remember, our internal capital targets are at 8.5% to 9%. That's what we need to support the existing business. So, we have a very strong capital level with adequate – more than adequate to support the business growth at this juncture.

Joseph Ng, Barclays

Okay. Thanks for the color.

Operator

We'll take our next question from Lemar Persaud at Cormak. Your line is open, please go ahead.

Lemar Persaud, Cormark Securities

Thanks. I just want to come back to the line of questioning on margins and PCLs. When I look at your slide 20, I guess if you go from the 185 basis points to 190 on NIM and then mid-teens to high teen on the PCL ratio, it seems like you're adding additional risks to the loan portfolio, but not really getting compensated for it. I suspect that you're going to tell me that's not the case. So maybe some helpful commentary on why this strategy makes sense would be very helpful. Thank you.

Yvan Deschamps, CFO

Thank you. You want to go? Thank you for your question. In fact, to be honest, that's a question we get regularly. So, I think we may have been a bit conservative on our expectations. That's what the market's telling us, but we do anticipate that the growth that we have is definitely fueling more than the PCL increase. So that's definitely clear and we expect that that's going to grow as we move forward. So, we're going to reassess it at the end of the year, and we'll come out with a new objective.

Rania Llewellyn, President and Chief Executive Officer

So, again, it's the business mix. The key growth engines within commercial that will drive the higher potential PCLs as well as margins are really Inventory Financing, Equipment Financing. We said in our strategy that we're looking to continue to grow those assets, particularly in the US. And then I would say the other component is our credit card business as well. And so, at the time when we were putting our strategy together, we were taking a prudent, conservative approach. But that's something that we will continuously revisit.

Lemar Persaud, Cormark Securities

Okay. Then just on that line – on your answer there, what do you think is the more reasonable revision, the margin side, or the PCL side, or would it be both?

Rania Llewellyn, President and Chief Executive Officer

Lamar, I think we'd have to do some more analysis at this point, so we can't provide any guidance at this point on that front.

Lemar Persaud, Cormark Securities

Thanks. That's fair.

Rania Llewellyn, President and Chief Executive Officer

All I can say is that we're going to meet and exceed our 2022 targets

Lemar Persaud, Cormark Securities

Okay, great. Thank you.

Operator

We'll go next to Marcel McLean at TD Securities. Your line is open. Please go ahead

Marcel Mclean, TD Securities

Thanks. I had a follow-up on the capital side. This is the first quarter you guys did a buyback in quite a number of years. Just wondering what the thoughts are on that going forward. Should we – you still have a bit of room on the NCIB. Do you anticipate completing it or how do you think about that decision?

Yvan Deschamps, CFO

Yeah. Thank you for your question and you're right, should have mention it. So, we've done about one-third of the share buyback that we expect to do this and at this point we believe we still have strong capital and a good strategy to grow the assets in line with the capital. So, we're still comfortable with continuing the share buyback as we planned.

Marcel Mclean, TD Securities

Okay, thanks.

Operator

And we'll go next to Nigel D'Souza at Veritas Investment Research. Your line is open. Please go ahead.

Nigel D'Souza, Veritas Investment Research

Thanks for taking my call. I just wanted to switch to a different line of questioning on capital markets. I believe you outlined that commissions and fees there related to capital markets business is a bit softer. And I'm wondering - we saw your peers posting pretty strong results for capital markets this quarter I Is there something structural to that? And how do you expect that performance to evolve as you action your strategic transformation for the business?

Kelsey Gunderson, Executive Vice President, Capital Markets

Thanks for the question, Nigel, it's Kelsey here. We had a solid quarter in capital markets, in particular on the fee side. I think what you're seeing there is a bit of a normalization. Keep in mind, we had a very big Q4 of last year, so we had a couple big transactions close in the quarter. So, the quarter-over-quarter comparison was a little bit challenged from that perspective as well. But we're optimistic, the strategy hasn't changed. We're aligning our capital markets franchise, including our banking side of it, with the rest of the bank under the one-team approach. And so, I'm optimistic that our run rate will continue through the course of the year, and we'll finish off strong.

Nigel D'Souza, Veritas Investment Research

Okay. That's helpful. And I'm going to ask a bit more of a granular question. When I look at your balance sheet, interest-bearing deposits with banks, that's jumped quite a bit quarter over quarter, I believe about $4 million or so. And that's all in the short duration, two to three month bucket. So, any color then what's driving that jump sequentially?

Yvan Deschamps, CFO

On the deposits, we're really happy with the performance we had this quarter. It increased by $1.1 billion, and we do recognize that we have a need for a strong deposit base. And as mentioned, our objective in 2022 is to grow that in line with the asset base, and, in fact, with the loan base, and that's what we've done. In fact, it was a bit more in Q1. The biggest increase this quarter came from deepening and expanding the

relationships that we have with advisors and brokers. So, we're really working hard in that segment to increase and continue to build relationships. In this quarter, we have pretty good results on that side. So, we intend to continue doing this and we already look forward to additional relationships.

Nigel D'Souza, Veritas Investment Research

Okay. That's it for me. Thank you.

Operator

And a final reminder, ladies, and gentlemen, if you had a question or comment, it is star one on your touchtone telephone.

With no other questions holding, I'll turn the conference back to Rania Llewellyn for any closing remarks.

Rania Llewellyn, President and Chief Executive Officer

In closing, I am pleased with our strong results this quarter and the momentum we are building as we head into Q2.

Our One Winning Team is engaged and focused on putting our customers first and executing against the Bank's new three-year strategic plan to deliver profitable growth and drive shareholder value.

Despite the uncertainties in the market, we are confident in our ability to continue to meet or exceed our targets this year.

Thank you for joining the call today.