FINAL TRANSCRIPT

Laurentian Bank

Second Quarter 2025 Results

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PRESENTATION

Operator

Welcome to the Laurentian Bank Quarterly Financial Results Call.

Please note that this call is being recorded.

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

Raphael Ambeault — Head, Investor Relations, Laurentian Bank

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

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

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

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

I will now turn the call over to Éric.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Bonjour à tous. Merci Raphael, et bienvenue à notre conférence téléphonique pour le deuxième trimestre de l'année 2025.

Good morning, and thank you for being with us today. As we mark the one-year anniversary of our strategic plan, I'm proud to share that Laurentian Bank has remained focused and disciplined in executing the priorities we set up. We've taken meaningful steps to transform our organization and are making steady progress towards generating efficiency. While we're still in the early stages, we are satisfied with the progress we have made and are encouraged by the sustained execution we have demonstrated thus far.

Our investment in technology is a key priority in our strategic plan. Thanks to the hard work and dedication of our team throughout the year, we've made real strides towards improving efficiency, strengthening our technology infrastructure, and enhancing the customer experience.

We're focused on the areas where we can truly make an impact. That's why we're continuing to grow our presence in specialized commercial sector, while also maintaining a solid base in personal deposits.

Within Capital Markets, we're concentrating on fixed income and foreign exchange—areas where we've built solid expertise.

I'm incredibly proud of the progress we've made and I'm excited to keep working alongside our talented and committed team.

As we continue to build on this momentum, we remain mindful of the broader environment in which we operate. We're actively monitoring a range of factors—market trends and policy changes, and broader macroeconomic shifts—that could affect our customers and, as always, we're prepared to adapt as needed. While uncertainty remains and we recognize that some sectors may be more impacted than others, I want to emphasize that Laurentian Bank is in a strong financial position. We have consistently maintained excellent credit performance across economic cycles. Our portfolio continues to perform well and has proven resilient. Our conviction remains unchanged, and we are well-positioned to continue executing with confidence.

Looking at our loan performance, commercial loans grew by 1% compared to the previous quarter, reflecting our continued strategic focus on growing commercial assets, which remains central to our long-term plan. Our commercial assets now make up 49% of the total and our Net Interest Margin has remained stable at 1.85% quarter-over-quarter.

As for inventory financing, the utilization rate increased slightly to 46% in Q2, still below historical levels. That said, we saw a continued momentum in dealer onboarding during the quarter, with a growth of 2% compared to last quarter. So far this spring, our dealers have seen healthy activity and we anticipate typical seasonal trend in the summer months, with inventory levels lowering as consumer demand drives sales.

In the commercial real estate portfolio, the market has been slow for the past few quarters and remains quiet. However, our unfunded pipeline continues to build momentum, growing 9% quarter-over-quarter and 28% year-over-year. We believe our partners are eager to start projects and are ready to move forward, but they are still waiting for the right timing. We're optimistic that our pipeline will convert into 2026.

From our client perspective, our Commercial Banking Net Promoter Score, which measures customer satisfaction, remained in the excellent category. This demonstrates that we are consistently delivering strong value-added solutions through our specialized approach.

On the Personal Banking side, we're continuing to build on the momentum from Q1 and are seeing positive consumer sentiment supported by our renewed focus on customer service.

All in all, we're staying true to our commitment: growing a Commercial Banking business that plays to our strengths, expanding into key areas of opportunity, and doing it while keeping customer satisfaction front and centre.

During the quarter, we continued to invest in our strategic priorities, which resulted in an adjusted efficiency ratio of 75.2%. As we mentioned in previous quarters, we anticipate these elevated expenses to continue throughout the remainder of the year. It's important to highlight that these investments are crucial for the successful execution of our strategic plan and for advancing our technology initiatives. In the medium term, these efforts will position us for sustained growth and help us achieve our financial targets.

Finally, we continue to maintain a strong position in both liquidity and capital, providing us with the financial stability necessary to manage current macroeconomic challenges and stay aligned with our strategic goals.

With that, I'll now pass the call over to Yvan, who will walk us through our financial performance.

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

Merci Éric et bonjour à tous. I would like to begin by turning to Slide 7, which highlights the Bank's financial performance for the second quarter of 2025.

Total revenue for the quarter was $242.5 million, down 4%compared to last year and 3% quarter-over-quarter. On a reported basis, net income and diluted EPS were $32.3 million and $0.69, respectively. We've recorded adjusting items for the quarter which total $1.6 million after-tax or $0.04 per share from restructuring and other impairment charges of $2.2 million. Additional details are available on Slide 22 and in the Second Quarter Report to Shareholders. The remainder of my comments will be on an adjusted basis.

The diluted EPS of $0.73 decreased by 19% year-over-year and 6% quarter-over-quarter. Net income of $34.0 million was down by 16% compared to last year and down 14% compared to last quarter.

The Bank's efficiency ratio increased by 140 basis points compared to last year and by 90 basis points sequentially. The increase was driven by the impact of a shorter quarter on revenues while maintaining an elevated level of expenses related to our technology investments.

Our ROE for the quarter stood at 5.2%, down 90 basis points year-over-year and 10 basis points quarter-over-quarter.

Slide 8 shows net interest income up by $2.6 million or 1% year-over-year, mainly from the higher commercial loan concentration. On a sequential basis, net interest income was down by $4.0 million or 2%, mainly from the shorter quarter, partly offset by the growth in our commercial specialties. Our net interest margin was up 5 basis points year-over-year and stable sequentially at 1.85%.

Slide 9 highlights the Bank's funding position. On a sequential basis, total funding was up by $300 million. Deposits from advisers and brokers increased by $900 million to offset Senior Deposit Notes and Banker Deposit Notes that matured in the second quarter. The Bank maintained a healthy Liquidity Coverage Ratio through the quarter, which remained at the high end of the industry.

Slide 10 presents other income of $60.3 million, which was lower by 17% compared to last year and by 4% sequentially. The year-over-year decrease mostly came from lower fees and securities brokerage commissions following the divestiture of the retail brokerage divisions and lower lending fees due to the tempered commercial real estate activity.

Slide 11 shows noninterest expenses of $182.3 million, down 2% year-over-year and 1% sequentially, mainly from the shorter quarter, partly offset by continued investments in our strategic priorities.

On Slide 12, you'll see that our CET1 ratio increased by 10 basis points to 11% sequentially. We are in a solid position and well prepared to redeploy capital.

Slide 13 highlights our commercial loan portfolio, which grew by about $300 million year-over-year and sequentially. It was primarily driven by continued strength in inventory financing. However, the reported growth in our U.S. dollar-denominated portfolio was partly offset by approximately $300 million due to the appreciation of the Canadian dollar during the quarter.

Slide 14 provides details of our inventory financing portfolio. This quarter, utilization rates were 46%, remaining materially below historical averages normally in the mid-50s, with dealers continuing to take a more conservative approach to inventory restocking. Our commercial real estate pipeline continued to show positive momentum.

Slide 15 illustrates that the majority of our commercial real estate portfolio is concentrated in multi-residential housing, with limited exposure to the office segment, which accounts for just 2% of our commercial loan portfolio. As noted, the bulk of our portfolio consists of multitenant properties. The LTV on the uninsured multiresidential portfolio stood prudently at 60%.

Slide 16 presents the Bank's residential mortgage portfolio. Residential mortgage loans were down 4% year-over-year and down 1% sequentially. We adhere to cautious underwriting standards and are confident in the quality of our portfolio. This is reflected in our 61% proportion of insured mortgages and a low Loan-to-Value ratio of 50% on the uninsured portion.

Allowances for credit losses on Slide 17 total $204.3 million, down $2.6 million compared to last quarter, mostly from lower allowances on impaired commercial loans.

Turning to Slide 18, our level of allowances for credit losses has remained relatively stable since the pandemic period. In the bottom-left corner you'll find the evolution of our coverage ratio, expressed as the previous year's allowances for credit losses over the net write-offs incurred over the following 12 months. On that basis, we currently stand at about 15% higher than the industry average in terms of net write-offs coverage, well positioned to face the current uncertainties.

Turning to Slide 19, the provisions for credit losses was $16.7 million, a decrease of $1.2 million from a year ago, from lower provisions on impaired loans partly offset by higher provisions on performing loans. Sequentially, PCLs were up $1.5 million from higher provisions on performing loans, partly offset by lower provisions on impaired loans. As a percentage of average loans, PCLs decreased by 1 basis point year-over-year and increased 2 basis points quarter-over-quarter to 19 basis points.

Slide 20 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans increased by $104.6 million due to credit migration in commercial loans and were relatively stable sequentially. Our disciplined approach to underwriting, along with the high quality and strong collateralization of our loan portfolio—around 93%—enables us to effectively navigate credit migration without material impacts on our ACL or PCL results. We remain committed to a prudent and disciplined approach to risk management.

As we look ahead to third quarter of 2025, I would like to provide some remarks:

- We expect our loan book to decrease due to the seasonal reduction in inventory financing during Q3.

- Revenues are projected to be slightly up, mainly from number of days, partly offset by lower inventory financing volumes.

- NIM is expected to be slightly down for the same reasons.

- Regarding the efficiency ratio, we are continuing to invest in our strategic priorities with some acceleration in the remaining of the fiscal year. As previously mentioned, we expect the full year to be in the mid-70s. The investments we are making in our IT infrastructure will not only improve the customer experience but will also simplify our infrastructure and improve our processes, leading to efficiency gains in the medium term, to achieve our financial targets.

- Considering the geopolitical and macroeconomic environment, it is difficult to predict the potential outcome on PCLs, but we are currently expecting to remain in the high teens.

- Our tax rate is expected to be in the 19% to 20% range.

- Capital and liquidity levels are solid and expected to remain strong for Q3 and the remainder of 2025.

I will now turn the call back to the Operator.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star, followed by the one on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star, followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

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

Doug Young — Analyst, Desjardins Bank Capital Markets

Hi. Good morning. I didn’t expect to be first here. Anyways, maybe I'll start off with a big picture question. Is there anything unusual in these results? Anything that lean for you or against you in this quarter that we should be thinking about?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Hi Doug, it's Eric. Actually, no, it's a no big story quarter for us. What I would emphasize is the positioning we see and continue to see in our specialized sectors—commercial is definitely our main focus. As I mentioned in the opening remarks, we have a very strong, healthy unfunded pipeline in our commercial real estate sector, and our inventory finance group is performing quite well in terms of keeping onboarding new dealers. Right now, we feel very well positioned for future state. It's just a question of timing afterwards, but the portfolio has been resilient and performing well in this uncertain macroeconomic period.

Doug Young — Analyst, Desjardins Bank Capital Markets

Okay. Then just on the inventory finance side, can you talk about the evolution or how many new dealers you added this quarter? You've embarked on expanding it beyond just RVs and boats into other categories. Can you talk a bit about that as well and how you're seeing this? Just it sounds like from your comments that you actually seem fairly confident or constructive on the outlook for inventory financing, in light of or regardless of the economic backdrop, which I would assume people are buying less RVs and boats, but maybe you can flesh that out a bit.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes, Doug. It’s a great question. I'd refer you to Page 14 in the Investor Presentation. But we said we would aim at diversifying and this is what we're doing in terms of inventory financing. Through the quarter, as I mentioned, we've increased about 2%. I'm going to make a round number here, about 100 more dealers quarter-over-quarter. From last year, we grew now close to 6,500 dealers. That's a close to 6% growth year-over-year. Most of that growth comes from new sectors, new industry where we deployed, again specialized focused people on agriculture, construction, IT sectors, power sports, and this is lending into new programs. This is what I believe is positioning us better for future state.

After that, it's a question of restocking and making sure that those dealers are confident that consumers will be out there purchasing. But we feel good about that business. The risk profile is quite strong versus returns and we'll continue to push this in the future state.

Doug Young — Analyst, Desjardins Bank Capital Markets

Okay. Just two more other quick ones. It looked like there was a pickup in commercial write-offs. Do I have that right? Is there anything in particular where you're seeing some pressure in terms of write-offs on the commercial side?

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

Thank you. Christian speaking. Our performance of our portfolios is within historical trends right now. If I have to say, if I have any concerns right now would be the trucking industry that affects everybody, but our exposure is small and we're adequately provisioned at this time taking into account the endemic risk of the sector. Overall, we feel good about our position.

Doug Young — Analyst, Desjardins Bank Capital Markets

Okay. Then just lastly on the expense ratio, I think you were guiding to move maybe a pickup in expenses. It looked like the expenses came through, maybe better than I expected. I don't know if it's better than you expected. But an adjusted expense ratio in that 75% range, is that what you're thinking we should be thinking about for the remainder of this year?

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

Thank you, Doug. This is Yvan. The 75 is what we're guiding or mid-70s for the whole year. At this point, we're in the 74s or so. You can see maybe a small uptick next quarter, but relatively small compared to where we are. It's a good level of assessment for the end of the year.

Doug Young — Analyst, Desjardins Bank Capital Markets

Appreciate the colour. Thank you.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you, Doug.

Operator

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

Sohrab Movahedi — Analyst, BMO Capital Markets

Thanks. I don't know who wants to take it. The capital ratio is comfortable. It keeps on grinding higher, which is not a bad thing in this environment. But I'm just curious if you could just remind us of what medium term, where you would expect your capital levels to be and where you think the extra capital that probably is sitting with you today is going to get deployed. Is it going to be invested in, I don't know, building provisions, or is it going to be deployed because of all this excellent new dealership relationships that you've signed up or utilization rates are going to pick up, or is it going to be invested in return to shareholders, whether it's through buybacks or maybe dividend increases?

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

Thank you, Sohrab, for the question. This is Yvan. I'll start, and Eric may have some comments. We didn't change our guidance in terms of capital. We're at 11%. We said we wanted to manage above 10%, so currently, we have a good cushion that we can use to redeploy capital, as you mentioned. Definitely, at this point, we've been saying for some quarters that inventory financing is running low in terms of utilizations. We expect that we're going to see some normalization 2026. It's obviously dependent on the economy, but at this point we see still good tractions for the assets.

In terms of commercial real estate, we've seen also a pickup in the unfunded deals that we have, so we see good traction on that side. We see some delay in terms of project starts due to what's happening out there, but again, we expect to see some good momentum starting in 2026.

At this point, we just play prudent with the level that we have. We have a good level that we can use to really deploy to profitable growth in our specialties.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Sohrab, if I may add, it's Eric. Commercial is a business more capital intensive, as you know. To give more clarity, on the unfunded commercial real estate we're sitting on right now, it's $3.4 billion compared to $2.7 billion last year. I think just that is a good sign of momentum on our commercial real estate group.

In terms of inventory financing, we are at lower levels of utilization. Q3 will provide for some further decrease because of the selling season and the seasonality of the book, but we are positioned with $10 billion-plus of approved lines in inventory financing to actually benefit from a restocking and more stable state in the macroeconomic levels, and we want to be ready for that. Really, it's a question of timing on our side, but these are good returns segments that we know we can add value and we want to be ready to that timing, so that's the reason.

Sohrab Movahedi — Analyst, BMO Capital Markets

Okay. I appreciate it. Therefore, for clarity, Yvan, what you're saying is, these elevated capital levels will get closer to maybe target levels primarily with balance sheet growth here? Is that the right conclusion?

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

Yes, exactly. If I can give you a quantum, but I would assume for the end of the year it's going to remain elevated, right? The 11 is not a surprise, and it's going to stick for the end of the year, but as we see the growth coming back that Eric discussed. I'll give you an example, the 10% that we're talking inventory financing is roughly a billion bucks. A billion bucks is 40 bps of capital, so that gives you an assessment of why we're keeping the cushion that we have right now. I can do the same math for commercial real estate as well. Definitely, the organic growth through segments where we have values, good margins and good return is what we intend.

Sohrab Movahedi — Analyst, BMO Capital Markets

If I can push my luck here, that $1 billion, 40 basis points of capital, what sort of a return would that generate for us?

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

We don't provide detailed returns by asset, as you know. But what I can tell you, it's a good return and it's going to generate value to the shareholders.

Sohrab Movahedi — Analyst, BMO Capital Markets

Yes. I thought I'd try. Thank you.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you, Sohrab.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star, one.

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

Paul Holden — Analyst, CIBC Capital Markets

Thank you. Good morning. Question regarding that $10 billion of accrued lines, just to give a bit of sense of how successful you have been in growing inventory finance over the last year, do you know what that number would have been a year ago?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

In terms of lines, Sohrab, not quite sure I have that readily …

Unidentified Speaker

Paul.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Paul, sorry for that. Readily and so we were, yes, close to $9.1 billion last year. Again, since we onboarded this platform, it demonstrated year-after-year organic growth potential now on a diversified base. You all know we're looking out for partnerships to help even accelerate further that trend. We believe this is a very great opportunity for us because of the operational capabilities we have and the broad industries that we can actually address through this specialized business. I feel good about the business. I feel good about the risk profile we're in, and I believe in its future potential.

Again, it's a question of timing and the dealers have been cautious this year in terms of restocking, but in a normalized environment we should be running at mid-50s utilization, which you can appreciate the volume it represents.

Paul Holden — Analyst, CIBC Capital Markets

Sure. Sorry, you may have mentioned this earlier, but I missed the—where is the utilization rate currently?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

We're running end of Q2 at 46%, Paul. We should be—historically, it's been running above the 50% mark at this stage of the year, and now that we're entering the seasonal period of where we see increased sales from our dealerships, it is expected that this volume will reduce throughout Q3. But again, the restocking period occurs in the fall for the next season, so we're cautiously optimistic that the dealer base will be in a good position if things stabilize and that they will restock to the historical levels, which just that should give us a good momentum in terms of asset growth for '26.

Paul Holden — Analyst, CIBC Capital Markets

The accrued lines that are available credit under inventory finance and the utilization rates versus historical is very helpful in terms of understanding the future growth potential there. Any similar statistics you can give us on equipment finance or your commercial mortgage lending book? Has the opportunity there, is that growing at a similar sort of 10% pace, or is it something a little bit more modest?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes. It just don't behave the same way, Paul, in terms of it's not utilization lines that we set up. For equipment finance, as an example, over the past four quarters we saw a 20% growth in equipment financing in our diversified groups. Again, we believe this is a good business line for us. It's well diversified also in terms of different categories of industries. We have the same approach, very disciplined in terms of underwriting principles, specialization all across our functions and not solely at the origination stage, and that gives us comfort in the resiliency of the portfolio, but also in the future potential in terms of our North American positioning.

Paul Holden — Analyst, CIBC Capital Markets

Okay. Got it. One final question for me. Just want to get a better sense of where you are at in terms of these technology investments. Obviously, as per the Investor Day, the real intention is to realize expense efficiencies ultimately, right? I think your objective is less than 60%, and you're guiding to 75% this year. Just wondering how far along you are on the path, when roughly we should expect that efficiency ratio to start improving?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes, that's a great question, Paul. I'm very happy with the progress we've made so far a year into the plan. As you mentioned, the goal is to create efficiencies and for us it's through simplification of our technology stack: improving our processes, reducing manual intervention from our various groups in operations. We made good progress, but there's still the path towards moving to cloud-based solution. This is what is putting some pressure on our expense levels right now.

To answer your question more specifically, I think we should start building that momentum on our efficiency ratio into 2026. Again, it's a mix. We are improving our diversified mix of lending throughout more commercial, higher type margins. We are working on simplification and making sure that we're conscious of our operating costs. Of course, a big thing about the foundational technology investments we're making is that it will allow us to actually decommission some of our systems that will also create some efficiency. Many prongs, but definitely good momentum so far.

Paul Holden — Analyst, CIBC Capital Markets

Okay. Just so I understand, I'm putting the revenue sort of argument aside, which I get on efficiency, but just thinking about it from a pure cost perspective, but the real catalyst here, the most material one is going to be the migration of cloud and once you're kind of—that's underway and complete, then you really start realizing the cost efficiencies. Is that what I just heard?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes, that’s right.

Paul Holden — Analyst, CIBC Capital Markets

Yes, okay. Great. That’s it for me then. Thank you.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you, Paul.

Operator

Your next question comes from Stephen Boland with Raymond James. Your line is now open.

Stephen Boland — Analyst, Raymond James

Morning. Just one question for me. I’m a bit of a broken record on this. A couple of quarters ago you mentioned about forward flow in the U.S., diversifying your funding sources. I'm wondering what progress, if any, has been made on that.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes, that's a great question, Stephen. In terms of forward flow, right now, we're not in a—we're very well positioned in terms of diversified sources of funding. We're making progress. We are discussing with various partners, and we want to make sure we land the right agreement for future states. More to come on that, but I feel good where we are. Right now, the bank is in a solid liquidity and capital position. There's no urgency for us. It is all a question of landing the right partner and the right agreement in place. More to come.

Stephen Boland — Analyst, Raymond James

Okay. Actually, I'll do a follow-up. In your intro remarks, you mentioned positive sentiment in Personal Banking. I'm wondering how formal is that? Is that the feedback you're getting from the branches? You mentioned improved customer service. Maybe you could just touch on that a bit, please?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes. Well, it's mostly how we reorganized our approach towards customer service and customer experience. With the means we have, we actually revisited our models, which is showing in terms of customer surveys, customer satisfaction that we are able to pulse. But we don't have any new tools to deploy. Our path towards having a more adaptive digital offering is still underway. But definitely out there, we're seeing positive momentum in how the customers are feeling inside Laurentian Bank.

Stephen Boland — Analyst, Raymond James

Okay. Thanks very much.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star, one.

Your next question comes from Darko Mihelic with RBC Capital Markets. Your line is now open.

Darko Mihelic — Analyst, RBC Capital Markets

Thank you. Good morning everybody. Just a first question for anyone who wants to handle this. What are we seeing on the resolution collection side of the business? Is there anything there that if you could highlight for us? Is there anything different today than versus a year ago?

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

Hi, Darko, Christian here. I would say from a delinquency standpoint we're within historical levels and we're not seeing negative trends. On the commercial side, I think things take a little bit longer time, maybe now in the current environment, but I spent a lot of time on our GILs, on our commercial GILs, and the files are progressing, and nothing leads me to believe that we're not adequately provisioned.

In fact, you can take a look at our GIL activities, and you'll see that year-to-date we have some of the highest returns to performing and repayment and we're really managing net write-offs in there, so I feel good about it.

Darko Mihelic — Analyst, RBC Capital Markets

That would suggest to me that you're having a decent go of sort of restructuring loans and working with—I'm a little more interested in the value of collateral and court processes for the more difficult files. Are you seeing anything different there?

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

The values soften a bit in a down cycle, but given our low loan to values and our conservative approach, you know, this is not affecting us.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Okay, thank you for that. Every so often, once in a blue moon, I get to think longer term about banks. As I sit here and I think about what I've been seeing in terms of trends for Laurentian and I think about my forward model, I'm tempted to put in a higher Net Interest Margin at some point on loan mix alone. But there's another part of me that says, well, funding is kind of important.

You touched on the digital offering. Where are you on that? Are you going to make a big splash soon with a deposit product? Will that maybe set you back a little bit at the beginning, but longer term be beneficial? Any kind of thoughts on that? Because I want to think about my model in '26 and '27, and before I try and push margins higher on loan mix alone, I kind of want to have at least an understanding of your view on longer-term funding.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes. Darko, I'll start and maybe Yvan can complement on the mix in terms of the margin maybe shorter term. But listen, as for a big splash event in the short coming, this is not to be expected. On our side, we're still focusing on the foundational and making the right migration towards cloud based. For us, it is a longer-term type play in terms of having the right self-serve tools, and that's only one tool. We need to encompass the overall needs of our different business segment and it needs to make the right returns for us.

If you refer back to our plan last year, in the overall mix our goal was to increase our retail deposit funding by 5 percent-ish. Mid-single digit was part of the plan horizon; we're still aiming for that. But in terms of having a big influence from a funding perspective on our margin mix, I would be more focused on the lending side where we will change the mix of lending that will allow for better quality of margins on that side of the balance sheet.

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

I'll add a word on the short term and maybe just reinforce what Eric is saying. On the short term, for next quarter you should see a small slight decrease in terms of margins due to the impact of the reduction of volume from inventory financing. But I'll just reinforce what Eric said. As you see the commercial mix improving for the Bank, it's going to help the NIM. One element I mentioned over the last few quarters that is turning to be true is there is one less medium-sized bank on the broker GICs as well. Not that it changes materially the costs, but I would say it's a more deep market for the medium-sized banks right now and I think it really benefits everybody.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. That's helpful. And maybe, Eric, just back to you then. As a follow-up on this topic, it was my impression at Investor Day that we would have seen the product by now. The question is, what has changed? Is it something in the marketplace? Is it something technologically? Is there something that's changed, because I would have really expected the product by now. I think as I recall, it was really focused for like a blue-collar, self-serve kind of client in Quebec. Is it a market dynamic that's changed, or is it something that's changed technologically at your bank?

Éric Provost — President and Chief Executive Officer, Laurentian Bank

No, actually, Darko, what we did lay out in the plan is that we wouldn't be building all ourself. We need to land the right partner, and most importantly, we need to land a solution that will allow to differentiate and have a real impact out there. But the mix between deploying a product and having the right return on investment doing so, for us, makes us approach the overall with cautious.

Right now, we still need to make sure that all the foundation is in place to be able to land that partnership the right way, and at the end of the day, to provide the right solution for enhanced customer experience and also allow for a differentiator factor on our side.

We're still exploring, still discussing, but haven't landed a final spot there. Again, when we laid out the plan it was all about foundational investments and we're still in that phase.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, understood. Thank you.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you.

Operator

Your next question comes from—one moment, please. From Gabriel Dechaine with National Bank. Your line is now open.

Gabriel Dechaine — Analyst, National Bank Financial

Hey, good morning. Apologies if this question has been asked before. I had to hop on a bit late. You hear a lot of banks talking about balance sheet optimization. I mean it's a recurring theme and I know Laurentian in the past has done a few—or not in the past, now your balance sheet optimization involves improving your funding mix and all that. I'm just thinking more on the asset side. Are there any maybe material parts of the business or loan book that you could exit?

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

Thank you for your question, Gabriel. This is Yvan. At this point, the message that we had in the strategic plan, and that didn't change, is that we have specialties in commercial. Those are where we're focusing, and that's what we intend to grow in the bank mix. At this point, there is no intent of divesting of assets, as you're suggesting in your questions. It's on the other side, growing organically, because we have good momentum and we have good potential in unfunded lines in the markets where we are good at, recognize and have very high satisfaction by our employees—our customers, sorry.

Gabriel Dechaine — Analyst, National Bank Financial

No, no, I get that, but commercial is a broad description. Sometimes there's verticals within it that upon further review, say, well, our funding and capital could be better used to support growth in the commercial—the equipment financing business, for instance. Anything? Well, it doesn't sound like it, so I guess the question is irrelevant.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Yes, Gabriel, it's Eric. On our side, it's making sure that the deals we onboard respect our risk return as well as our—we will see an evolution in the mix. But again, it's a transfer between the retail side of the book going towards more commercial assets at the end. You're going to feel that shift but exiting as a whole.

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

If you want to look at the small print, Gabriel, one big shift—despite the fact that the mortgages number on the balance sheet has not changed, the portion of insured mortgages went from 40% to about 60%, so that freed up capital that we intend to use in commercial. Within the portfolio of products we're doing, we're doing shifts of capital, not necessarily in terms of exits of portfolios.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. Well, enjoy the weekend.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you.

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

You too. Thank you.

Operator

This concludes the Q&A session. I will now hand the meeting over to Éric Provost for closing remarks.

Éric Provost — President and Chief Executive Officer, Laurentian Bank

Thank you. I want to take a moment to sincerely thank our dedicated employees, loyal customers, shareholders and all of our stakeholders for your continued support as we transform and grow Laurentian Bank. Your commitment is essential to our progress and we look forward to achieving even more together. 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.