# Conference Call
# Fourth Quarter 2020
# Financial Results

December 4, 2020

LAURENTIAN BANK
FINANCIAL GROUP

# Caution Regarding Forward-Looking Statements

We may, from time to time, make written or oral forward-looking statements within the meaning of applicable securities legislation, including in this document and the documents incorporated by reference herein, and in other documents filed with Canadian regulatory authorities or in other written or oral communications. Forward-looking statements include, but are not limited to, statements regarding our business plans and strategies, priorities and financial objectives, the regulatory environment in which we operate, the anticipated impact of the coronavirus (“COVID-19”) pandemic on the Bank’s operations, earnings results and financial performance and statements under the headings “Outlook”, “COVID-19 Pandemic” and “Risk Appetite and Risk Management Framework” contained in our 2020 Annual Report, including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2020 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”, “plan”, “goal”, “aim”, “target”, “may”, “should”, “could”, “would”, “will”, "intend” or the negative 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. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2020 Annual Report under the heading “Outlook”. There is significant risk that the predictions, forecasts, projections or conclusions will prove to be inaccurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, projections or conclusions.

We caution readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond our control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements and cause actual future results to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include, but are not limited to risks relating to: the impacts of the COVID-19 pandemic on the Bank, our business, financial condition and prospects; technology, information systems and cybersecurity; technological disruption, competition and our ability to execute on our strategic objectives; the economic climate in the U.S. and Canada; accounting policies, estimates and developments; legal and regulatory compliance; fraud and criminal activity; human capital; insurance; business continuity; business infrastructure; environmental and social risk and climate change; and our ability to manage operational, regulatory, legal, strategic, reputational and model risks, all of which are described in more detail in the section titled “Risk Appetite and Risk Management Framework” beginning on page 43 of the 2020 Annual Report including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2020.

We further caution that the foregoing list of factors is not exhaustive. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, financial performance, cash flows, business or reputation. 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 us or on our behalf whether as a result of new information, future events or otherwise, except to the extent required by securities regulations. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com.

## Non-GAAP Measures

Management uses both generally accepted accounting principles (GAAP) and non-GAAP measures to assess the Bank’s performance. Results prepared in accordance with GAAP are referred to as “reported” results. Non-GAAP measures presented throughout this document are referred to as “adjusted” measures and exclude amounts designated as adjusting items. Adjusting items relate to restructuring plans and to business combinations and have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP 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 measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers.

**Operator**

Welcome to the Laurentian Bank Financial Group 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, Director, Investor Relations**

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 our fourth quarter and 2020 financial results will be presented by François Laurin, Executive Vice President and Chief Financial Officer, after which we will invite questions from the phone. Also joining us for the question period are Liam Mason, Executive Vice President and Chief Risk Officer, and Kelsey Gunderson, Executive Vice President, Capital Markets.

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

Before we begin, let me 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.

It is now my pleasure to turn the call over to Rania Llewellyn.

**Rania Llewellyn, President and Chief Executive Officer**

Thank you, Susan, and good morning.

Today, Laurentian Bank reported its fourth quarter and fiscal 2020 financial results. Before François provides us with an overview of our performance, I would like to share some impressions of my first few weeks at the Bank and how I plan to approach the next few months.

Since Oct 30th, my first official day in this role, one of my priorities has been to meet with and listen to as many employees as possible from across the Bank. I want to take a moment to convey my personal thanks and immense appreciation to everyone for sharing their time and ideas with me and especially their efforts in serving our customers and this organization during what has been an unprecedented year of change.

In my conversations with them, it has become clear to me that they share a commitment to reshaping Laurentian to become more relevant to our customers. But I have also heard that they are craving a new strategy and clarity around the path this organization will chart to achieve greater success in the future.

To that end, we have launched a series of initiatives in three key areas.

First, work is underway to strengthen our organization, beginning with a re-assessment of our current priorities. We are in the process of conducting a thorough review of the Bank's operations and assessing key projects, including all the previously announced transformation-related activities. This focused effort will continue over the next few months; it is an important step that will help validate that the foundation we are building upon is strong and that we are taking the right actions to position ourselves well for future growth. I'll provide a detailed overview of our strategic plan as soon as our work is completed.

Second, as we assess our long-term strategy, we are examining ways to enhance our cost discipline across the organization with a view to improving our overall efficiency.

Third, we are making several important changes to our executive team and organization, including implementing a re-organization of Commercial and Personal Banking into two operating units.

I am pleased to announce that Eric Provost, Senior Vice President, Commercial Banking, and President of LBC Capital, has been appointed as Executive Vice President of Commercial Banking, effective January 1, 2021. This promotion is a testament to Eric's many successes during his 8+ years at Laurentian, during which time he played a pivotal role in several recent acquisitions, including the Canadian operations of CIT and Northpoint Commercial Finance.

Personal Banking will include the Québec branch network, Digital Banking and B2B Bank under a "One Retail" operating unit. We will be formally launching a search for a new Head of Personal Banking, who will be based in Québec.

I would also like to announce Stéphane Therrien's decision to retire from the Bank at the end of December. Stéphane has been a valued leader at Laurentian Bank for more than 9 years. I want to thank him for his significant contributions to the Bank and, also, to wish him well for the future.

Looking forward, I expect 2021 to be a year of challenges and opportunities, both at a macro level with the current pandemic and within our Bank. It is a year in which we will be resetting our priorities, refocusing our efforts, and renewing the passion and pride of our employees to believe in, and serve as, One Bank to provide long-term sustainable value to our customers, our communities and our shareholders.

These new operating units, Commercial and Personal Banking, will join our Capital Markets unit, as well as our Corporate functions, as we embark on a renewed strategic direction centered around three pillars:

1. First and foremost, will be a 'Customer First' culture, focused on how we can simplify our operating processes and improve our overall customer experience across all of our business lines.
2. Second, we will create a more agile organization with an innovative mindset. I believe one of our competitive advantages as an organization is our size relative to the big banks. As a mid-sized financial institution, we have a unique opportunity to create an environment characterized by faster decision-making and more nimble implementation of changes to the benefit of our customers.
3. And, third, we will engage and empower our employees to work collaboratively as one team centered around a customer-first mindset.

In closing, I want to make a commitment to our shareholders and to the investment community to work with you to ensure you are part of this journey to reset Laurentian Bank for renewal and growth. I am committed to providing all of you with operational transparency and openness regarding our internal assessments and our future strategic priorities. In the spirit of that transparency, I hope you will share with me any concerns or thoughts you may have that will help drive Laurentian Bank to the next level.

I'll now turn the call over to our CFO François Laurin to provide an overview of our Q4 and full-year earnings.

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

Thank you, Rania and good morning et bonjour à tous.

I would like to begin by turning to slide 5 which highlights the Bank's financial performance for 2020. Adjusted EPS and ROE for the year were $2.93 and 5.5%, a decrease of 31% and 240 basis points respectively compared to 2019. The variation in profitability was mainly due to the higher provision for credit losses, primarily driven by the severe economic conditions resulting from the global pandemic.

Financial highlights for the fourth quarter of 2020 are presented on Slide 6. Adjusted EPS and ROE for the quarter were $0.91 and 6.8%, a decrease of 13% and 100 basis points respectively compared with the fourth quarter of 2019. The higher provision for credit losses was also the most significant factor accounting for the variation in profitability. As well, a reduction in higher margin inventory financing volumes impacted net interest income. This was mostly a result of COVID-19 which caused an increase in demand for boats and other recreational vehicles and disrupted the supply chain. In addition, other income was stronger, mostly as a result of the contribution from capital market activities.

Compared to the third quarter of 2020, adjusted EPS and ROE decreased by 11% and 90 basis points respectively.

As outlined on slide 7, reported earnings for the fourth quarter included adjusting items totalling $5.5 million after tax or $0.13 per share. For 2020, adjusting items totalled $24.1 million after tax or $0.56 per share. Restructuring charges mostly related to severance costs and lease terminations.

The rest of my remarks will focus on sequential variations, as the third and fourth quarters of 2020 were both impacted by COVID-19.

Turning to slide 8, total revenue for the fourth quarter was $243.5 million or 2% lower than in the prior period. Net interest income declined by 2%, largely due to the impact of a decrease in higher-yielding loans to business customers. As just mentioned, the pandemic negatively impacted inventory financing volumes. The average utilization rate of the dealers' facilities during the fourth quarter was about 30% compared to the pre-pandemic rate a year ago of over 55%.

The lower level of higher margin loans to business customers also impacted net interest margin, as shown on Slide 9, which stood at 1.82% compared to 1.86% in the third quarter.

The diversified revenue streams included in other income, as presented on Slide 10, totaled $74.2 million, slightly lower sequentially, mainly as a result of the record contribution of capital markets in the third quarter. Higher commercial lending fees and a net gain of $1.1 million on a securitization also contributed positively to fourth quarter results.

Slide 11 presents adjusted non-interest expenses that totalled $170.3 million in the fourth quarter, 1% higher than the prior period, and mainly resulted from increased activities as the economy began to reopen, as well as sales tax adjustments and other year-end accruals. These increases were partially offset by a decrease in salaries and employee benefits resulting from lower capital markets performance-based compensation and a compensation charge of $2.7 million related to the Bank's former President and CEO retirement in the third quarter.

The adjusted efficiency ratio stood at 69.9% in the fourth quarter of 2020 compared to 68.1% in the prior period. Our cost optimization initiative, as well as a review of our strategic direction are aimed at improving this key metric.

Slide 12 presents our well diversified sources of funding. Personal deposits account for 79% of total deposits and contribute to our healthy liquidity position. We continue to optimize our funding sources and align deposits with loans.

Slide 13 highlights our strong capital position. The CET1 capital ratio, which is presented under the Standardized approach, stood at 9.6% at year-end. Lower risk-weighted assets and higher retained earnings were the main drivers of the 20 basis point sequential increase. CET1 also includes about 10 basis points resulting from OSFI's transitional arrangements for the provisioning of expected credit losses, in line with the third quarter.

Our diversified loan portfolio is shown on Slide 15. The loan mix was relatively similar quarter-over-quarter.

Slide 16 highlights our high-quality residential mortgage portfolio. At year-end, 57% of the portfolio was insured, compared to 55% in the prior period. At October 31, 2020, the Alt-A portfolio totalled $1.2 billion and represented 8% of the total mortgage book. The residential mortgage portfolio remains well diversified geographically. The loss ratio for this portfolio increased to 8 basis points in 2020 and mainly reflects the expected migration of some clients who had benefitted from deferral programs, as well as the forward-looking potential impact of the second wave of the pandemic on housing markets. The level of insured mortgages is among the highest in the banking industry which contributes to reducing the overall risk for this portfolio.

Slide 17 highlights our commercial loan portfolio which is pan-Canadian with a U.S. presence. While COVID-19 has been impacting our inventory financing activities, the decline in assets slowed during the fourth quarter and we now expect growth to resume in the first quarter of 2021, based on recent trends. The commercial real estate portfolio continued to grow during the fourth quarter. We have minimal exposure to industries most impacted by COVID-19.

As shown on Slide 18, payment deferrals in response to COVID-19 decreased significantly during the quarter as the deferral periods are coming to an end and accounted for 0.7% of the loan portfolio at the end of October compared to 13.3% at the end of April and 5.5% at the end of July. We are closely monitoring these accounts. We also continue to work with our customers who may need flexibility in managing their loans.

To consider the evolving impact of the pandemic, as well as other changes to the Bank's environment, we updated our economic scenarios to assess collective provisions as at October 31, 2020 to account for the recent second wave. Our three scenarios, “base”, “downside” and “upside” were probability weighted as part of our approach to determining the expected credit losses as at October 31, 2020. The probability weighting of our three economic scenarios remained similar to the third quarter, with higher weights attributed to the base and downside scenarios and a lower weight to the upside.

Turning to slide 19, in the fourth quarter of 2020, the provision for credit losses was $24.2 million compared to $22.3 million in the third quarter. An increase in provisions for Stage 1 and 2 residential mortgage loans, considering the expected migration of some customers at the end of the deferral period, was partially offset by a decrease in provisions for Stage 3 Commercial loans due a lower level of impaired loans. The PCL ratio was 29 basis points and continues to compare favorably with the banking industry.

Slide 20 highlights a small sequential improvement in net and gross impaired loan ratios. Based on our current assessment of the pandemic, the underlying credit quality of the portfolios remains good.

Uncertainty remains regarding the future course of the pandemic and the performance of the economy, which makes providing guidance for all of 2021 challenging. However, all things equal, for the first quarter of 2021, we expect net interest margins to be relatively stable compared to the fourth quarter. While we expect fixed income activities to remain strong in 2021, revenues from capital markets are volatile and thus difficult to predict. Non-interest expenses should be slightly higher than in the fourth quarter due to seasonal factors, including the annual increase in salaries, the vesting of share units and the reset of the employer payroll taxes, causing the efficiency ratio to be slightly higher than in the fourth quarter. Overall, we expect pre-provision, pre-tax earnings for the first quarter of 2021 to be slightly lower than in the final quarter of 2020.

As we establish a renewed strategic direction for 2021 and beyond, our strong capital and liquidity position will provide a solid foundation to build on to improve our efficiency and profitability.

Thank you for your attention and I will now turn the call back to Susan.

**Susan Cohen, Director, 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. Ladies and gentlemen, if you would like to ask a question on today's call, please do so by pressing star one on your telephone keypad. Please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, it is star one to ask a question. We'll now take our first question from Meny Grauman of Scotiabank. Please go ahead.

**Meny Grauman, Scotiabank**

Hi, good morning. Just wondering if you could give us some direction in terms of what to expect for the PCL ratio for fiscal 21, and specifically how you see the interplay between impaired and performing playing out? Thank you.

**William Mason, Executive Vice President and Chief Risk Officer**

Good morning, Meny. In terms of our expectations for PCL, we expect that impaired loans and write-offs will increase and peak in mid-2021. Post-COVID, will return to our traditional run rate of PCL's adjusted for the business mix based on our strong credit discipline and underwriting practices. Based on the gross impaired loans, we're seeing a very stable pattern versus last quarter, and we're not seeing a new adverse credit formation at this time.

**Meny Grauman, Scotiabank**

And in terms of the 29 basis points that you put up this quarter as you look to 2021, is it likely to be higher than that over the next two quarters?

**William Mason, Executive Vice President and Chief Risk Officer**

It depends, Meny, how it plays out – how the pandemic plays out with the vaccine. As I said, we expect an uptick in gross impaired loans, but we're very comfortable with our reserves right now. We've taken an appropriately prudent provisioning approach. There may be some timing differences in terms of realization versus release of ACLs, but we feel very comfortable with where we are today.

**Meny Grauman, Scotiabank**

Okay. And just to clarify, do you foresee reserve releases in the performing bucket?

**William Mason, Executive Vice President and Chief Risk Officer**

Well, if you look at the breakdown of our ACLs this quarter in terms of the increase, of the ACL increase of $16 million, $11 million are due to stage one and stage two, and $5 million are due to stage three. Depending on how those stage two credits evolve, we could see releases, but this is our best estimate given the economic scenarios we have today.

**Meny Grauman, Scotiabank**

Okay. Thanks for that. And then if I could just ask more on the strategic direction. I was looking through some of the materials. I saw there was a reference to the next phase of the core banking system being evaluated, given management change. And I was just wondering – this is one area where I would have thought it would just be something that would go through. Just curious what the considerations are to pause something like that, that seems to be sort of an important system upgrade and probably also important for future ARB transition.

**Rania Llewellyn, President and Chief Executive Officer**

So, I'll take that question. What I would say is that's part of our thorough review of all the key projects we are looking – we're conducting a review of all of the previously-announced transformation-related activities. We really need to help validate that the foundation we're building upon is strong. As you know, phase one was completed. And so we need to ensure that we have the right foundation and it's going to support the right strategy going forward. And so we'll be providing more details of the overview as soon as that work is completed.

**Meny Grauman, Scotiabank**

Sounds good. And then just the last one on the same vein. So, I know the strategic sort of evaluation is ongoing, but are there any sort of sacred cows? Are there any parts of the previous strategy that are clearly not up for discussion? I mean, one area specifically that I'm thinking about is the brand strategy. How much of sort of the advice only model – is that up for debate, I guess is the question? Could there be any change there in terms of the strategy on the branches?

**Rania Llewellyn, President and Chief Executive Officer**

So, what I would say, everything is currently under review. So, there are no sacred cows. When it comes to the retail network, though, the advice model is really where most financial institutions are moving towards. So as part of the strategic review and by hiring a new leader to come in and set the new strategy and direction for the retail bank, it's looking at how well our digital strategy and some of the other support functions support our advice model.

**Meny Grauman, Scotiabank**

Okay. Thank you.

**Operator**

Thank you. Ladies and gentlemen, if you find that your questions have been answered, you may remove yourself from the queue by pressing star two. And as always, it is star one to get in the queue. We'll now take our next question from Gabriel Dechaine of National Bank. Please go ahead.

**Gabriel Dechaine, National Bank Financial**

Hi, good morning. My first question is for Ms. Llewellyn new CEO. Been in the job, I guess, a couple months now. What are your first impressions of the organization? You're moving from a big bank to a smaller bank, and you know, what do you like? What do you like about the new place and what do you think needs work?

**Rania Llewellyn, President and Chief Executive Officer**

So, it's actually six weeks officially today that I've joined the institution. So, some of my early impressions is I've had ten round tables met with hundreds of employees. And I would say that the employees and talents in the organization, they're extremely committed, extremely passionate, and are excited about a new strategic vision and direction and are craving that rallying cry. I would say the size is definitely an advantage. I've had the pleasure of running mid-size operations within the large institution that I came from, and I would say that size is an advantage where we can become a lot more agile and nimble. So, I do definitely see opportunities for us to be able to pivot faster, execute more efficiently. The commercial business is definitely a growth engine and we have deep relationships with our customers as well as the expertise in that business. So, both from a talent perspective, as well as relationships with our clients and they're highly valued. Our capital markets business has had a really good run this year under Kelsey's leadership, and so I'm optimistic in terms of managing that business. And on the personal side, the personal banking side, as I said, many of these institutions – and banking in general given what's happened, COVID has really been a catalyst to driving digital adoption. And so, the advice model is definitely the right model. So, I'm looking forward to working with the leadership team on ensuring that strategy supports that advice model. So those are kind of some of my early impressions at this point.

**Gabriel Dechaine, National Bank Financial**

That's a very, very thorough overview. I appreciate that. You had, you know – maybe some challenges regarding what I see for the organization is relevance in the market. Might be a wrong way to put it, but along those lines. I'm looking at the deposit lines. Branch raised business deposits. If I combine them and treat those as core deposits, if you will, kind of flat growth year over year. And there has also been a declining trajectory over the past few years, and this is coming at a time when, you know, we're seeing massive increases in deposits, at other banks. So that tells me that customers are not coming to you to deposit their money, and then down the road, when things get better, take the deposits and, you know, spend on stuff and borrow and things like that. Like how do you – the advice model is implemented to change that I guess. How are you planning on approaching that particular challenge?

**Rania Llewellyn, President and Chief Executive Officer**

So again, it's early days, but deposits are absolutely core to any financial institution. And so, we're going to be looking at ways to optimize it. We definitely currently have a diversified pool of deposits, and we're constantly looking to align deposits and loans to ensure that they're kind of matched up. And so, we will be looking at other opportunities, whether it be through the digital or our commercial book of business, as well as our retail network to continue to drive deposits into the institution.

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

Gabriel. If I may add – Francois here. I would like to point out that in the past year, despite the merger of some branches, we increased the term demand deposits by over 13.5% year over year. And as for the term deposits, obviously we always seek to optimize our funding. And in the past quarter you saw a decrease in term deposits, but we've increased securitization funding. So we're always on the lookout and match the assets and liabilities, as Rania mentioned. But seeking the best source of funding. So those are all elements that we manage.

**Gabriel Dechaine, National Bank Financial**

All right. Thanks.

**Operator**

Thank you. We'll now take our next question from Darko Mihelic of RBC Capital Markets. Please go ahead.

**Darko Mihelic, RBC Capital Markets**

Hi. Good morning. My first question for Rania is I totally understand the need to take time to reassess. Absolutely makes sense. But you've already announced a reorganization and that struck me as a bit odd. So, I wonder if you can speak to the reorganization, and you know, simplistically, when I think of Laurentian Bank, I think of sort of four businesses, right? I think of commercial banking, maybe equipment financing, stuff like that is in there. Then I think of the retail bank, I think of B2B bank, and I think of capital markets. Now, that's just me simplistically thinking. I'm trying to understand the rationale for the new organization and why you sort of decided to have it recognized so quickly and why it's organized in the manner that it is.

**Rania Llewellyn, President and Chief Executive Officer**

So maybe I can just kind of clarify in terms of what we're doing, but rather with Stephane's retirement, it was just really an opportunity to kind of create more focus on those two units. So, Stephane used to be, prior to being interim CEO, had both the P and C together reporting into the CEO, but to make sure that we have the focus on commercial independent of retail, that's why we decided to create two independent operating units. And so, it's not a net new strategy. It's just creating two positions of leadership there to ensure that we can set it up for success and focus on growing it going forward. So, the business units will continue to be commercial, which includes our equipment financing, our commercial real estate, our LBC Capital, as well as then personal. We'll have the B2B and digital and retail distribution, and then you've got capital markets. So those are the three distinct business units.

**Darko Mihelic, RBC Capital Markets**

Okay, fair enough. And my second question is one of the things that you've inherited with this bank is a relatively high payout ratio. And I look at the dividend payout ratio as one – I measured against reported. I don't really measure it against adjusted. Is that also up for discussion with the board over the next three or four months?

**Rania Llewellyn, President and Chief Executive Officer**

François?

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

Darko, François here. Yeah, I'll take that one. Darko, on a reported basis, our policy is 40% to 50%. This quarter on the reported base it was 51%. So, we're basically in line with our policy. And this is discussed on a quarterly basis with the board, not just because of the strategic review, but every quarter this is being discussed.

**Darko Mihelic, RBC Capital Markets**

Okay, I mean, I kind of look at it on an annual basis –

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

And we feel comfortable with that. We feel comfortable with that level today, Darko.

**Darko Mihelic, RBC Capital Markets**

Okay. All right. Fair enough. And then I think I'll save more of my strategic questions for the conference, Rania, so I'll stop there. Just a quick question – a numbers question. With respect to the net interest margin, you know, my sense is that many banks talk about excess liquidity as something that could help margin going forward. François, can you speak to that? Will there be any help, and can you quantify it for us?

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

What we see going forward, Darko, is that for the moment is for the margin to be relatively stable, but as our mix continues to change and the return of growth in business services, whether real estate or inventory financing, we see the improvement in NIM as the mix changes over the next few quarters. In terms of liquidity, we have strong liquidity. We've always maintained strong liquidity, but we manage our cost of funding well with different initiatives, and we'll continue to do this on a go-forward basis. So, we're always seeking opportunities, but the main driver next year to improve the NIM would be the growth in the business services and asset mix change.

**Darko Mihelic, RBC Capital Markets**

Okay. Thank you very much.

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

You're welcome.

**Operator**

Thank you. We'll now take our next question from Doug Young of Desjardins Capital Market. Please go ahead.

**Doug Young, Desjardins Capital Markets**

Hi, good morning. François, I've always had a lot of problems both, I guess, modeling out non – adjusted non-interest expenses and it bounced around quite a bit over the years. Just trying to get a sense in what you think is reasonable over the next few years. And I know there's a lot of variables that go on, and I know there's a lot of reviews that are being done right now, but $170M, is that's something that's reasonable? Is that something we should be thinking of a growth rate off of? And then severance and restructuring charges have always been a big part here as I look historically. When will we stop seeing that? Okay.

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

Okay. First part of the question on – you're referencing non-interest expenses we feel that the non-interest expenses level that we have at the moment would be relatively stable in the next quarter or so. And as we mentioned earlier, we're undertaking an exercise of reviewing our cost structure and optimizing our efficiency. So, you should see improvement going forward as we evolve in that analysis and move forward over the next quarters – not just one, over next quarters. That's the first bit of your question.

The second part of the question on restructuring charges, if you take this quarter, for example, we have $5.5 million of restructuring. $3.1 million are related to restructuring. And half of it is severance related to reduction of workforce that we had already announced earlier in Q2. And $1.4 million is related to termination of these of leases as we merged a few branches in this quarter. And you have $2.4 million, which is rated to business combinations. So, if I take that first portion, that $3.1 million, as we move forward and then in the strategic review, obviously we'll always look at what's our best foot print to move forward but most likely going forward it will be as leases expire. So, you will see less – we should incur less restructuring charges. In terms of the second part, that $2.4 million that we have as adjusting items, they relate to business combinations. So, they're amortization. So, there'll be there for years to come, because they're static from previous acquisitions. Does that answer your question, Doug?

**Doug Young, Desjardins Capital Markets**

Yeah, it does. It's more, it's more around the $3.1 that that has been elevated in the past, and it feels like, you know, that there could be more maybe as part of the strategic review. But that's the number that we would hope eventually, I guess, kind of comes off?

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

Yeah, the idea is it should be lower going forward for the merger of branches going down in the future.

**Doug Young, Desjardins Capital Markets**

Okay.

**Rania Llewellyn, President and Chief Executive Officer**

So, what I would add is, is again what François was saying based on our current operations. Yes, it will likely not be increasing, but as we had mentioned, we are doing a thorough review. And so you know, we'll be back to the market with what that strategic roadmap means and what impact this has.

**Doug Young, Desjardins Capital Markets**

I think François, as well, I think you've spent $250 million – I think– in terms of the new core banking system – correct me if I've got the number wrong. You're reviewing, I guess, the new system as part of the review process. Is there any risk of any of that being written down over the near term?

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

First, we're at the earliest stage. Nobody's talking about writing down or stopping or not doing any core banking. And what's been done is being used. So, what we're looking at going forward is thinking through what's not being done regarding the products that have not being loaded yet on core banking. That's what's left to be analyzed, the best way to go forward to do it. Not necessarily to revisit what has been done in the past for the products we have on T24.

**Doug Young, Desjardins Capital Markets**

Okay.

**Rania Llewellyn, President and Chief Executive Officer**

Yeah, as I mentioned in my comment, we just need to validate that the foundation we're building upon is strong. And so we just want to take the right actions to really position ourselves for future growth. And so that's part of the detailed review.

**Doug Young, Desjardins Capital Markets**

Okay, perfect. And then it's just on the stage one, stage two stage three loans. And as I look at the percentages across the different buckets, it doesn't feel, it doesn't look like there's been a huge amount of migration from stage one to stage two – and you can correct me if I'm wrong. Yeah, and I'm just trying to get a sense of how we should be thinking about that migration over the next year or so. And have you anticipated a migration in the performing loan ACLs and how will that would flow through both the performing loan ACLs, but even if you can touch on what the implications on migration could be? Well, I'll stop there.

**William Mason, Executive Vice President and Chief Risk Officer**

Thanks for the question. I think a couple of notes on this. I would note that year on year loans classes stage two have actually gone down by about 21%, and that's largely driven by better levels in the mortgage and personal sectors. If you recall last quarter, I did talk about setting up our ACLs for migration. Based on the deferrals we had taken some increased to ACL at that time. What I would say overall on our ACL levels and the stage ratings is that our ACL models are very sensitive to the expected increase in risk due to the economic outcomes, whereas our models use to transfer loans amongst the stages are more reflective of the current risk rating rather than expected increase in risk from the economic scenario. So that drives, you know, an ACL that you'll see is very sensitive, but our shifts between stages are less sensitive. It's something that's driven by our modeling approach. But I feel very comfortable with where we are. On our reserving, we feel our stages reflect where we are right now, and we're looking forward to how the pandemic will play out.

**Doug Young, Desjardins Capital Markets**

As we all are. Thank you very much for the insight.

**François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer**

You're welcome.

**Operator**

Thank you. Ladies and gentlemen, once again, if you would like to ask a question, it is star one on your telephone keypad. We'll now take our next question from Sohrab Movahedi. Please go ahead.

**Sohrab Movahedi, BMO Capital Markets**

That's my alter ego. Rania, congratulations on your appointment. When – I appreciate it's only been six weeks, but when you think about shareholder value creation at Laurentian Bank, is the opportunity more on the revenue side or on the expense side?

**Rania Llewellyn, President and Chief Executive Officer**

Thanks, Sohrab, and look forward to meeting you in person and your – did you say your alter ego? In terms of, I would say – and as we all know, there are really two levers, and there's revenue and expenses. And so we are going to be examining ways to enhance our cost discipline for sure. And that has to be part of our longer-term strategy for improving our efficiency. Efficiency is a key ratio, and it's something that we are going to have heightened focus on, particularly during the pandemic, because the pandemic is not over yet. So, it's still a long road ahead, and there's a lot of uncertainty there. So heightened cost discipline is definitely one of them, but our focus is also on organic growth. And so we need to focus on the businesses that we can grow, being cautiously optimistic depending on the outlook. But we will be looking at growth in all of our various businesses as well.

**Sohrab Movahedi, BMO Capital Markets**

So, growth of the top line, as you think about your various businesses, is that essentially just going to be an adjustment on the risk appetite, or are you looking to add new revenue line items?

**Rania Llewellyn, President and Chief Executive Officer**

So I would say for fiscal 21, it's really hard to forecast, because as I said, the pandemic is not over yet. So where we can – and Liam had mentioned in terms of where our PCLs will be, that they'll kind of level off in the first half of the year. And again, all is dependent on how this pandemic and the second wave maps out and impacts all of our customers. So, the key thing that we can focus on in the meantime is a heightened cost discipline. Now we do know that, for example, in some of our businesses, we're beginning to see an uptick, for example, in our NCF business. And so, from an inventory financing perspective, there has been a recent uptick and we do expect growth, but again, it's all dependent on how things pan out over the next few months with the pandemic.

**Sohrab Movahedi, BMO Capital Markets**

Okay, thank you.

**Operator**

Thank you. At this time, there are no further questions. I would like to turn the call back over to Mrs. Rania Llewellyn for any additional or closing remarks. Thank you.

**Rania Llewellyn, President and Chief Executive Officer**

So thank you. Wanted to thank Susan, François, Liam and Kelsey, and all of today's call participants. I want to re-emphasize a few key points before we close the call.

1. We are actively engaged in an effort to strengthen our organization, including a review of current priorities and longer-term strategic objectives. I look forward to sharing the details of our strategic plan with you when our work is completed.
2. Our cost optimization initiative will result in near-term actions on cost discipline and ongoing expense management with a view to improving our overall efficiency.
3. We are refocusing our efforts on meeting the needs of our customers and are determined to become much more customer-centric in everything we do. The creation of two operating units for commercial and personal banking will help us prioritize these businesses and position them for future growth.

Thank you again, and I look forward to meeting as many of you as possible over the next year, as well as many of our shareholders in our efforts to enhance our outreach to the investment community.

**Susan Cohen, Director, Investor Relations**

Thank you for joining us today. Should you have any further questions, our contact information is included at the end of the investor presentation. Our first quarter 2021 earnings call will be held on March 5th , and we look forward to speaking with you then. Wishing you a safe and happy holiday season.