Conference Call
Financial Results

Fourth Quarter 2021

December 10, 2021

LAURENTIAN BANK
FINANCIAL GROUP

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; 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 40 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 pages 26 and 27 of this presentation and to the Non-GAAP Financial and Other Measures section beginning on page 28 of the 2021 Annual Report, including the Management's Discussion and Analysis (MD&A) for the fiscal year ended October 31, 2021, which page is incorporated by reference herein. The MD&A is available on SEDAR at www.sedar.com.

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, 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 fiscal 2021 and fourth quarter financial results will be presented by Yvan Deschamps, Executive Vice President and Chief Financial Officer, after which we will invite questions from the phone. Also joining us for the question period are several members of the Bank's Executive Leadership Team: Liam Mason, Chief Risk Officer; Éric Provost, Head of Commercial Banking; Karine Abgrall-Teslyk, Head of Personal Banking, and Kelsey Gunderson, Head of Capital Markets.

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

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.

We have a lot to cover with both our fourth quarter results presentation and shortly thereafter, our virtual investor day where we will unveil our new strategic plan.

As a result, I will keep my remarks on this call focused on our annual and fourth quarter results and reserve more forward-looking comments and guidance for today's Investor Day.

As 2021 comes to a close, I want to express my deep thanks to the Laurentian Bank team for their tireless work in serving our valuable customers and maintaining the Bank's operations, while we continue to collectively navigate through the pandemic. Together, everyone demonstrated that we are stronger when we work as One Team.

We continue to monitor the latest COVID variant, global supply chain constraints and high inflation and their impact on the economy.

On November 23, 2021, we also announced certain charges the Bank was taking as a result of our strategic review and changes that needed to be made in order to reach our full potential. We believe they will position us for long-term, sustainable, profitability.

Turning now to our financials.

On an adjusted basis, the Bank delivered great results.

Adjusted net income for fiscal 2021 was $211.2 million or 53% higher than in 2020 and for the fourth quarter was $47.8 million or 13% higher than a year ago despite being impacted by provisions for credit losses of $19 million related to the strategic review of our investment loan portfolio. These results generated adjusted earnings per share of $4.57, up 56% from the previous year.

For the fiscal year of 2021, adjusted pre-tax pre-provision income for the Bank was $318.9 million and $86.3 million for the fourth quarter, both up 18% compared with a year earlier. These were primarily the result of a strong performance in Commercial Banking, which saw a net increase of $1.4 billion or 11% in loan growth compared to the prior year, driven by real estate financing and inventory financing. Capital Markets had a record year and solid quarter, closing its largest ever M&A advisory mandate as it continues to execute on our renewed “One Bank” approach.

On a reported basis, the Bank recorded net income of $57.1 million and a net loss of $102.9 million for the fourth quarter. Results were impacted by the previously announced restructuring and impairment charges of $209 million on a pre-tax basis, which related to our strategic review and the impairment of the Personal Banking segment.

The Bank also continues to maintain healthy liquidity levels and a strong capital position to support our strategic plan with a CET 1 ratio of 10.2%, up 60 bps year over year. With OSFI lifting capital restrictions and our confidence in our future, we announced earlier today that we have increased our quarterly dividend by $0.04 this quarter or 10% and we are launching a new 2% normal course issuer bid program that we will activate on December 15th. This is part of our shareholder value creation strategy while retaining significant flexibility to continue investing in organic and inorganic opportunities. Going forward, we will review our dividend on a semi-annual basis.

I also wanted to provide an update on our Inventory Financing business. This business is a key driver of growth and has been highly impacted by the pandemic. Although there are still pressures in supply chains globally, growth resumed in inventory financing, increasing dealer credit utilization rates from 28% last quarter to 35% this quarter. This was as a result of normal seasonal demands and our sales activities that resulted in expanding our dealer network by 20% year-over-year. While we are encouraged by these results, utilization rates continue to be lower than pre-pandemic levels and we continue to expect that supply chain disruptions and high consumer demand will remain a challenge for most of 2022.

As you know, this past year we established three strategic pillars that guided all our efforts and actions.

From those pillars, we identified and successfully achieved our three key priorities for 2021:

1. One, we renewed our senior leadership team and simplified our organizational structure;

2. Two, we identified a number of opportunities for cost savings and executed against those initiatives, reducing our overall adjusted efficiency ratio by 410 bps to 68.2% for the year and a 290 basis point improvement for the quarter; and,

3. Three, we completed a thorough review of our operations and developed a strategic plan which will position the Bank for sustainable, long-term, profitable growth by focusing on

areas where we can continue to differentiate ourselves, with a customer-first approach to drive shareholder value which we will share later on today.

Over the past two quarters we also identified shortfalls in our mortgage business and digital offering. I will first touch on our digital offering.

Last quarter we said that we had three areas of focus to improve our digital capabilities. They were to close foundational gaps, enhance digital onboarding, and improve the end-to-end digital experience.

To that end, today, I am pleased to announce the launch of the Laurentian Bank Mobile App on both iOS and Android devices.

A mobile app has been the number one requested feature from our customers and employees. The first version of this app provides customers with the most commonly used banking features including account balances, transaction history, Interac e-Transfer and bill payments, and has a simple user interface for ease of customer experience.

This app was launched in less than seven months from conception to delivery and truly demonstrated how we can make size our advantage by being agile and nimble in our development. This closes a key foundational gap for the Bank and will allow us to continue to grow our national presence and serve our customers where and when they want.

We will continue to add more features to the app in 2022, as well as introduce new capabilities to enhance and accelerate digital onboarding and improve the end-to-end digital experience, which I will cover in more detail at our Investor Day.

Over the past three quarters we have also identified shortfalls in our mortgage business, including a complex customer experience, lengthy processes and inconsistent service levels. Last quarter we identified some short-term actions to begin improving the customer experience, and this quarter we are building on those initiatives. For instance, we integrated the mortgage underwriting team into the newly created Residential Real Estate Secured Lending business unit and we strengthened our focus on retention, including the deployment of predictive analytics allowing for proactive customer management. We note there are no changes to our risk underwriting parameters as a result of these changes.

To reposition and drive growth in this business we are going to continue to improve our time to yes, further simplify processes and enhance the customer experience. We will share more details at our Investor Day later this morning.

Given our ongoing commitment to ESG, I would like to provide an overview of some key developments over this past quarter:

- We launched an ESG materiality assessment and comprehensive risk assessment, the results of which we will disclose in our first-ever 2021 ESG Report and will directly inform our ESG strategy moving forward.

- We launched our third Employee Resource Group, StrongHer. This is part of our Courageous Conversations initiative to create a safe space for employees to share, listen and learn about various aspects of diversity and inclusion.

- As part of our commitment to the BlackNorth Initiative we announced a $25,000 donation to Groupe 3737, a Montreal-based innovation hub that is making a real difference by empowering and supporting talented entrepreneurs from diverse backgrounds.

- To further empower our employees in our retail branches and Commercial Banking business centres to give back to the communities where we live and work, we launched a new grassroots initiative called "Laurentian Bank in the Community". This program resulted in almost 70 organizations receiving an additional financial boost to help them deliver on their important missions.

I am now pleased to 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 financial performance for 2021. Adjusted EPS and ROE for the year were $4.57 and 8.3%, an increase of 56% and 280 basis points respectively compared to 2020. The improvement in profitability was mainly due to the lower provision for credit losses, reflecting the economic recovery. The adjusted pre-tax pre-provision income (or PTPP income) was $318.9 million, an 18% increase compared to 2020, driven by revenue growth and strong cost discipline.

The balance of my remarks will focus on fourth quarter results.

Turning to slide 13, adjusted EPS and ROE for the quarter were $1.06 and 7.5%, an increase of 16% and 70 basis points respectively compared with the fourth quarter of 2020. Adjusted PTPP was $86.3 million, an 18% increase compared to a year ago. Higher revenues and lower adjusted expenses more than offset higher provision for credit losses which related to the impact of the strategic review on the investment loan portfolio.

Compared to the third quarter of 2021, adjusted EPS and ROE decreased by 15% and 140 basis points respectively, mainly due to higher PCL. Adjusted PTPP increased by 7% driven by lower non-interest expenses. Operating leverage was positive 4.2% compared to the third quarter and 6.4% compared to the fourth quarter of last year on an adjusted basis.

On slide 14, net interest margin was 1.83% or 1 basis point higher than a year ago mainly due to improved funding costs driven by increased utilization of secured funding. Net interest margin declined by 3 basis points sequentially due to lower prepayment penalties, partially offset by higher inventory financing volumes.

Other income, as presented on Slide 15, increased by 4% compared with a year ago mainly due to strong performance from Capital Markets, particularly in advisory services, and higher commissions from sales of mutual funds. This was partly offset by lower trading income. Sequentially, other income was 4% lower as lending fees from record high third quarter real estate financing activity softened and trading income declined. This was partly offset by improved card services revenues.

Slide 16 presents non-interest expenses. On a reported basis, the quarter over quarter and year over year increase mainly reflected restructuring and impairment charges of $189.4 million in the fourth quarter of 2021 related to the Bank's strategic review and the impairment of the Personal

Banking segment. On an adjusted basis, non-interest expenses declined by $6.2 million or 4% compared to a year ago and was mainly due to lower performance-based compensation, as well as lower amortization charges and rent expenses stemming from the strategic review and impairment.

Sequentially, adjusted non-interest expenses declined by 6% mainly due to lower performance-based compensation, as well as lower amortization charges and rent expenses for the same reasons.

The adjusted efficiency ratio stood at 65.5% in the fourth quarter of 2021, an improvement of 440 basis points year over year and 290 basis points sequentially. The impact of our strategic review and impairment, as well as our cost discipline and cost optimization initiative, contributed to improving this key metric.

Slide 17 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.

Slide 18 highlights our strong capital position. The CET1 capital ratio, which is presented under the Standardized approach, stood at 10.2% at year-end, 60 basis points higher than a year earlier and supports our strategic plan towards sustainable, profitable growth.

Slide 19 highlights the commercial loan portfolio which grew by 11% year over year, driven by growth in real estate financing of 16% and growth in inventory financing of 18%. Sequentially, the commercial loan portfolio increased by 5%, fuelled by a 33% increase in inventory financing. As we have mentioned before, our inventory financing activities are seasonal, with strength in Q1 and Q4 as inventory is built and weakness in Q2 and Q3 as inventory is sold. We expect 2022 to follow this same pattern with quarterly variations amplified by the continued pressure on supply chains and the emergence of a new variant. This may be partially offset by the expansion of our dealer network and expansion into new verticals. With respect to real estate financing, the momentum continued into the fourth quarter with 3% sequential growth.

Slide 20 presents the pan-Canadian residential mortgage loan portfolio. Residential mortgage loans grew by 1% sequentially, 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 57% and combined with a low LTV on the uninsured portfolio, contributes to reducing the overall risk of this business.

Turning to Slide 21, allowances for credit losses totaled $202.6 million. The sequential increase of $19.3 million is mostly related to the strategic review of the investment loan portfolio. Even though the economy has been recovering, we remain prudent in the face of a new variant and inflationary pressures.

As shown on slide 22, the provision for credit losses was $24.9 million in the fourth quarter of 2021, including $19.3 million related to the investment loan portfolio. PCL for commercial loans declined reflecting good credit quality. The PCL loan ratio stood at 30 basis points in the quarter, similar to a year earlier. Excluding the provision for investment loans, the ratio would have been 7 bps.

Gross impaired loans, on slide 23, decreased by $15.0 million from last quarter. New formations were more than offset by loans returning to performing status, net repayments, and write-offs. We remain adequately provisioned.

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

- Net Interest Income is expected to improve in Q1 compared to Q4 due to the strong growth of Commercial Banking. Similarly, net interest margin is expected to be a few basis points higher.
- Capital Market performance is expected to remain relatively strong but could gradually normalize. Our outlook is cautious given the recent market volatility resulting from factors including the emergence of a new variant and inflationary pressures.
- Our focus on cost discipline will continue. We aim for our efficiency ratio to remain below 68% for 2022. Non-interest expenses in Q1 are expected to trend closer to the Q3 level mainly due to an increase in salaries and benefits. Q4 was impacted by lower performance-based compensation and some favorable seasonal elements including lower payroll taxes and pension adjustments.
- The provision for credit losses remains difficult to predict on a quarterly basis. Even though economic indicators have been moving in the right direction. Uncertainty around the economic outlook remains high for the reasons I just mentioned. For 2022, we expect the PCL ratio to be in the mid-teens.

As a reminder, the semi-annual payment on the LRCN is made in Q1. This will impact EPS by 6 cents.

I will save my remarks regarding our 2022 outlook, our mid-term financial objectives and other key performance indicators for our Investor Day. We look forward to sharing those with you soon.

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. Please limit your questions to those related to the fourth quarter and fiscal 2021 performance. You will have the opportunity to ask all other questions at our Investor Day.

Operator

Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. As a reminder for participants wishing to ask a question, please remember to mute yourself once you complete the question to negate any background noise while the presenters are responding. If you have a follow up to the response, please then unmute yourself to respond. Thank you.

So, we will take a first question from Meny Grauman with Scotiabank. Please go ahead, your line is open.

Meny Grauman, Scotia Capital

Good morning. I wanted to ask about the inventory finance business, the performance this past quarter. It sounds like it was better than what you had expected, and just wanted to get a little bit more insight into why that was. Is it market dynamics that were stronger or something that you did? So a little bit more clarity on that would be helpful. Thank you.

Rania Llewellyn, President and Chief Executive Officer

Maybe I'll start off Meny and then if Eric has anything to add, we'll go from there. So thank you for the question. So our inventory financing -our utilization went up from 28% to 35% quarter over quarter. As you know, in terms of the underlying assets, we focus on primarily recreational assets, so there's a seasonal element to it. So as Yvan mentioned in his comments in Q1, there's a buildup of inventory. And so that's expected and that happens on a yearly basis. So Q4, we usually see the utilization rates increase. But what I want to put into perspective is it's only still at 35%. Pre-pandemic levels at the same time of year would have been 55% or higher. And so for every one percentage point of utilization, that generates $50 million worth of additional assets.

So there's a seasonality aspect to it. But as we've also been mentioning to the market, we have been expanding our dealer network over the last 12 months. Our dealer network has expanded by 20%. So in this instance, we've benefited from two things, the seasonal aspect, as well as the dealer expansion. But from a forecasting perspective, Meny, we're still cautious because the supply chain issues are still there. There's a new variant. And so we're optimistic. We're very, optimistic about this business, but are quite cautious about its growth in fiscal 2022.

Meny Grauman, Scotia Capital

I understand where the caution comes from. I guess we're still early days into one as you see the business developing sort of early in Q1.

Rania Llewellyn, President and Chief Executive Officer

Sorry, Meny. We can't hear you.

Meny Grauman, Scotia Capital

Just a follow up on the inventory finance, I understand the caution, but just wondering early and you see the business developing early in Q1, is the activity surprising to the upside again or is it pulling back? What are you seeing sort of in the new fiscal year as we start here?

Rania Llewellyn, President and Chief Executive Officer

So as Yvan mentioned in terms of our guidance for commercial - we've already had a strong start to Q1 and again it is a seasonal business. So Q4 and Q1 are usually stronger in the inventory financing space, which is also the margin that is mid-single digits. So that also helps with the NIM. And then the softening happens in Q2 and Q3, and that really happens on a yearly basis. At our investor day, we will talk about how we're going to try to minimize some of that seasonality and what our growth plans are for this business going forward.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

And Meny, this is this is Yvan. This is in line with the comment. I said the NII and the NIM is expected to grow a little in Q1, and it's partly because of the inventory financing that is going to keep increasing in Q1 before as mentioned, it starts a decline for Q2 and Q3.

Meny Grauman, Scotia Capital

Got it. I just wanted to ask a question about the buyback and let me know if it's a better question for later on today, but just want to understand how active you're going to be with the buyback. And when I look at it 2% buyback, definitely more than what I expected, I think, than what the street expected, your comments earlier in the year suggested that the buyback wasn't a real focus. So I'm wondering if there's any change in that view.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for your question, Meny. I guess what we mentioned last quarter is that we were waiting for the end of our strategic plan so that we could have a global view on how we want to manage the capital. So looking at it, we ended the year after the restructuring charges with strong CET1 of 10.2. We have a good internal capital generation as well, and we're pretty confident in the plan that we're going to be presenting in an hour or so. So looking at all those, we look then at what is the toolbox of managing the capital? And we announced today the increase of the dividend by 10%, which we believe is still a prudent approach of managing at the lower end of the payout ratio. And we decide to do a small and prudent share buyback program to also return some value to shareholders.

Meny Grauman, Scotia Global Banking and Market

Thank you.

Operator

We will now take the next question from Doug Young of Desjardins Capital Markets. Please go ahead. Your line is open.

Doug Young, Desjardins Capital Markets

Thank you, and good morning. Just wanted to go to the sequential increase in your residential mortgage book. I mean, can you delve into what drove this? Was it a certain geography? Was it more through the branch network or through the broker network? And can you talk about or can you quantify what your retention is and how that retention is moved, maybe sequentially or year over year to get a sense of how that has been improving?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for your question, Doug. The mortgages have been increasing, I would say slightly this quarter. It's a small increase of about point 1 billion dollars. So I think it's a reflection of the good work that Karine and our team are doing on working the mortgages, with a team that is now focusing on it. And we don't comment exactly the retention rate, but definitely retention is something that Karen is working on and we see early benefits of the work that they've been doing. So from a geographic perspective, I would say it's throughout the same channels as usual, there is nothing specific related to that.

Rania Llewellyn, President and Chief Executive Officer

So maybe Doug, I can just add to that. Over the last few quarters, we identified mortgages as a huge growth opportunity for us because we are under penetrated, and we've said that we don't have a pipeline issue. We have a throughput issue. And so we mapped out the entire end to end processes. That was our starting point. We created a whole new residential real estate secured lending unit dedicated and focused on that business and started taking all the various separate businesses within the bank and putting it under that new leadership who's extremely experienced so that that created reductions in terms of handoffs and some of the number of steps for our processes.

We also piloted a number of things. We assigned underwriters to specific files where they were accountable to track the deal from start to finish. That's improved our time to yes. And then we've also introduced a loyalty team which is focused on retention. So we've been using predictive analytics to proactively identify those clients well in advance of maturity to ensure that they can retain their mortgages with us. We've said all along it's going to be an 18–24-month journey, but we're on it and we started making some changes that we're already starting to reap benefits.

Doug Young, Desjardins Capital Markets

I guess just on the retention, is that something that you plan on potentially giving us just to get us a sense of how you're executing on this or -- when I think of retention, I always think around 90%, maybe I'm wrong. Would you be significantly different than that?

Rania Llewellyn, President and Chief Executive Officer

So we're going to be presenting our various KPIs that we're comfortable to report to the street on a quarterly basis on our Investor Day, but rest assured, there are three things that we're focused on, no matter what business it is. Number one is retaining our existing client base. Number two is deepening that client base and number three is acquiring net new customers to the bank. And that is irrelevant of business line or product.

Doug Young, Desjardins Capital Markets

Perfect, so I guess I'll wait for the Investor Day just to see some details on that. I guess on the NIM's, I guess the question really is like, are you holding more liquidity right now than you normally would? Is there plans to make any drastic changes on your liquidity? And what if you are holding more liquidity than normal, what impact does that having on your NIM's right now?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

I think, Doug, you're focusing on the portion of the liquidity related to repos and the reverse repos. But I would say generally for the bank's operations, the loans and all that stuff, we're relatively at the same level we have been. So it's really commercially driven in terms of opportunities for us. There is no real change to the bank's operations.

Doug Young, Desjardins Capital Markets

Okay. And then just lastly on the buyback, maybe I'll take the opposing kind of view of the last question. But why not be more active on the buyback given where your stock is trading?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

I would say for us, it's really a question of being prudent in this environment, so we believe that we're increasing the dividend, providing a good increase to the shareholders. And it's also something that we've not been doing over the last few years, and we're starting prudently and we're going to execute this one over the first year. And as the economic recovery continues, we can reassess the situation. But at this point, it's a prudent approach.

Doug Young, Desjardins Capital Markets

Okay. Thank you.

Operator

As a reminder to ask a question press star one. We will now take the next question from Lemar Persaud with Cormack Securities. Please go ahead. Your line is open.

Lemar Persaud, Cormark Securities

Great, thank you. So a bunch of my questions are probably more suited for the Investor Day, but this one, since you had mentioned it turning around a mobile app in just seven months really stands out to me. So how do you develop, test and ensure appropriate security in just seven months, especially since you just announce a new chief technology officer in Q3? It just seems like an overall a very quick turnaround. Digital is far from being my area of expertise, so anything you can offer to help me understand that would be very helpful. Then more broadly, and this is probably more appropriate for the Investor Day, but I'm going to throw it out there anyways. But I wonder if you could talk about Laurentian's technology strategy. Is it appropriate, to use partnerships versus the big banks? Or are you going to utilize smaller size to be an advantage?

Rania Llewellyn, President and Chief Executive Officer

That's great, Lamar. Fantastic question. Yeah, we're extremely proud to be able to create, develop and launch an app in seven months. And that really speaks to two key things, partnerships, we've said all along that we're not looking to build internally, we're looking to partner. We already had our existing online platform, digital platform that was being managed and serviced by Central One that we launched many years ago. And so Central One was our partner that we worked with here closely to develop it in less than seven months.

The other thing too, is we've been implementing an agile way of developing our technology solutions, and so digital was kind of first for us to adopt that agile mindset. We have a new leader on the digital side as well, who joined us in February under Karine's leadership. And so there's a number of things here at work, so we do believe size is our advantage. You'll have to wait to hear more about that during our Investor Day. But we've been talking about how we can leverage our size and combine that with partnership so that we can leapfrog the competition. The good thing about being late to market is it's not new, it's already out there, it's tested. Even from a security perspective, all these things have been tested. And so it just makes it a lot easier and faster for us to be able to implement it. Does that answer your question, Lemar?

Lemar Persaud, Cormark Securities

Yeah, it does. I'll probably ask more just at the Investor Day, if there's a technology section, if I have any follow ups there. And then now that you have this app, if I look at your supplement and deposits from the digital channel, is it fair to suggest that Q4 21 would be the bottom for digital deposits on both notice and demand in term, because it did decline sequentially again this quarter. So I'm just wondering.

Rania Llewellyn, President and Chief Executive Officer

So, Lemar, I think this is the first step of many steps. We have lots of foundational gaps that are missing. We're obviously extremely excited. I think we were talking yesterday 10,000 downloads, over 6500 transactions already happening without us even starting to market the app. And so we're very optimistic that that's the first step. It's currently only going to be available to our existing client base because until we fix our digital onboarding and launch that, that'll give us an opportunity to go nationally and expand our footprint for Laurentian Bank. So yes, that's definitely one of the key foundational steps for us to turning our deposits around and moving into a growth strategy.

Lemar Persaud, Cormark Securities

Great. Thanks. That's it for me.

Operator

And as a reminder, to ask a question press star one. We will now take the next question from Marcel McLean from TD Securities. Please go ahead. Your line is open.

Marcel Mclean, TD Securities

Okay. Thank you. I'm just going to ask one on PCL here, impaired PCL specifically. Lower again this quarter. They've been trending down for a number of quarters. I don't think I'm the only one that's surprised on this call to see these continue to trend down throughout 2021. Where do we see a bottom coming here? How much lower can they go before we have to start seeing them rise? And what would be the catalyst? Is it going to be once the government stops all the pandemic support? Or is there more to it?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you very much for the question. We have always had a prudent and disciplined credit underwriting and reserving process, and that's reflected in our PCLs. We expect on a go forward basis PCL to run in the mid-teens subject to the evolution of the personal commercial business mix. But I would say we're in the business of taking risk, and our focus is on risk adjusted returns. So you may see PCLs trend up, but commensurate with that, we would see the returns in excess of that.

Marcel Mclean, TD Securities

Okay. Thanks. And then just secondly, on the dividend, just wonder what the rationale there was, because in 2020, you guys did cut it by 40%, and now we're starting to see it come back. But was it just to get back to that bottom end of your target payout ratio or was there any more to it in the conversation there?

Rania Llewellyn, President and Chief Executive Officer

Maybe I'll start and then if Yvan wants to add, Really, it's two parts to it. We have excess capital of over $300 million. We, as part of our strategy of rewarding our shareholders, making sure we're optimizing our capital position is important. But I think it's a true testament to the confidence that we have in the future of this bank. We've had a great year on an adjusted basis, and so we just wanted to reward our shareholders for their patience as well as deliver a message to the street that we are confident in the future of our bank.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

And the comment I would add Marcel is that I'm pretty happy with the level where we stand. If you look at capital, internal capital generation, we generate enough, internally to support the dividends and the growth of the business. And last year or in 2020 with the environment, there was a mismatch and we acted prudently on the dividend. But as we see now, the growth and the comeback and the strength that we're putting together, we decided to just adjust the dividend and keeping in mind that we still run at the low end of our payout ratio, which is still prudent in the environment.

Rania Llewellyn, President and Chief Executive Officer

And just to manage expectations, this was definitely a catch up. And so future increases won't be in that same magnitude, but we will be reviewing it on a semi-annual basis.

Marcel Mclean, TD Securities

Okay. Thank you. I'll save the rest of my questions for an hour from now.

Operator

And once again, as a reminder, if you would like to ask a question, please press star one. And it appears there are no further questions. So I would like to turn the conference back to Rania Llewellyn for any additional or closing remarks.

Rania Llewellyn, President and Chief Executive Officer

In closing, I would like to leave you with a few key takeaways. I'm extremely proud of everything we accomplished in resetting and renewing the bank in 2021 as one winning team. We have had a very strong 12 months and are delivering value for our shareholders. On an adjusted basis, we delivered 53% growth in net income year over year. We are also returning capital to our shareholders with a dividend increase of 10% and a newly established 2% normal course issuer bid program. We continue to be prudent stewards of capital and will continue to drive shareholder value through all our actions. We have a renewed management team and employees that are focused on our customers each and every day. The commercial bank remains our growth engine. Capital markets continue to deliver solid results. And the personal bank continues to reposition for growth. We remain focused on cost management and reduced our adjusted efficiency ratio by 410 basis points year over year, contributing to a positive adjusted operating leverage of 5.8%. We have an extremely strong capital and liquidity position, which will allow us to continue to invest in the bank's future growth.

As an organization, we have never been more determined to succeed, and we are very excited to share our new strategic plan with you later this morning. I hope to see you all at 10:00 a.m. Thank you for joining the call today.

Susan Cohen, Head, Investor Relations

This concludes today's earnings call. Please visit our website, LBCFG.ca in the Investor Center under the Events and Presentation tab, to register for today's Virtual Investor Day, if you have not already done so. Looking forward to you joining us this morning at 10. Thank you.